Zacks Small-Cap Research

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Integral Technologies, Inc. (ITKG-OTC)

ITKG: Advancing Towards Commercial Launch; Raising Price Target

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/05/2014
Current Price (10/28/14)	$0.63
Six- Month Target Price	**$1.25**

OUTLOOK

Integral's ramp-up in revenue, strengthening balance sheet, new agreements such as the one with East Penn and the company's steps to uplist ITKG shares portend well for growing operating momentum, in our view. We believe fiscal 2013 results underscore the strides the company has made to commercialize and monetize ElectriPlast. These results and the recent agreement with East Penn offer proof of concept that the company's business model – to generate revenue from licensing, engineering and sales of ElectriPlast – is valid, in our opinion.

SUMMARY DATA

52-Week High	**$0.79**
52-Week Low	**$0.24**
One-Year Return (%)	**70.3**
Beta	**1.04**
Average Daily Volume (sh)	**221,751**
Shares Outstanding (mil)	**100**
Market Capitalization ($mil)	**$63**
Short Interest Ratio (days)	**0.4**
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 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Elec-Misc Compn**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in thousands of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	0.0 A	0.05 A	0.04 A	0.02 A	0.10 A
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	85.2 E	59.6 E	89.4 E	107.3 E	341.5 E

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

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	-$0.00 A	-$0.00 A	-$0.00 A	-$0.00 A	-$0.01 A
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 E	-$0.01 E	-$0.01 E	-$0.01 E	-$0.04 E

Zacks Projected EPS Growth Rate - Next 5 Years %	**N/A**
Disclosures begins on page 15	**N/A**

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KEY POINTS

- Integral's (OTC: ITKG) growing financial and operating momentum is illustrated, we believe, by ramping revenue, a strengthening balance sheet, new agreements such as the one with East Penn and the company's positioning to uplist ITKG shares to the Nasdaq.

- We believe the Hanwha and anticipated East Penn revenue offer proof of concept that the company's business model – to generate revenue from licensing, engineering and sales of ElectriPlast – is valid. Moreover, we also anticipate that revenue streams are likely to ramp substantially, as the company makes further strides to extract value from ElectriPlast.

- We are raising our price target from $0.45 to $1.25, as we expect further multiple expansion on improving sentiment about ElectriPlast's potential. Our revised price target equates to 4.3x projected Year 5 revenue post-commercial launch of ElectriPlast. A prospective Nasdaq uplisting could be a catalyst for the shares, in our view.

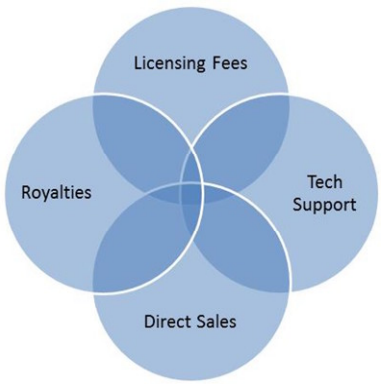
- We are encouraged by management's comments on the FY14 call about the opportunities with Delphi and BASF, which are both large, publically traded multinational companies with access to multiple products for potential ElectriPlast use and to a myriad of customers. Near-term, Hanwha has already opened a manufacturing line dedicated to ElectriPlast.

- Integral has strengthened its balance sheet in recent months, with deleveraging measures and capital structure improvements. Including elimination of convertible debt and redeemable preferred shares, the company pared total debt from $1.2 million at March 2014 to $480,833 at June 2014. This increases Integral's financial flexibility, in our view, and enhances the company's prospects with future licensing partners and customers.

OVERVIEW

Integral's **growing financial and operating momentum** is illustrated, we believe, by improving financial results, a strengthening balance sheet, new agreements such as the one with East Penn and the company's positioning to uplist ITKG shares to the Nasdaq. **Fiscal 2013 results underscore the strides the company has made to monetize ElectriPlast,** in our view, and subsequent announcements reflect continued advancements towards this goal. For example, earlier this month, Integral announced that it had engaged a Beijing based agent to assist with its efforts in China, a key target market for ElectriPlast, we believe. The company also relocated Integral Technologies Asia to Seoul, Korea where partner Hanwha is headquartered.

Integral Strategy: Multiple Revenue Streams



Source: Company reports.

We believe the Hanwha and anticipated East Penn revenue offer proof of concept that the company's business model – to generate revenue from licensing, engineering and sales of ElectriPlast – is valid. Moreover, we also anticipate that revenue streams are likely to ramp substantially, as the company makes further strides to extract value from ElectriPlast.

We are raising our price target to $1.00 from $0.45, as we expect further multiple expansion on improving sentiment of ElectriPlast's potential. Our revised $1.25 price target represents an 11x multiple of expected Year 3 revenue, but only 4.3x Year 5 projected revenue. Given the company's anticipated growth, we believe the shares can attain this multiple in the short-term, on the anticipation of significantly higher revenue in the medium term.

FY 2014 RESULTS UNDERSCORE STRIDES TOWARDS COMMERCIALIZATION

Integral reported results for its fiscal year ending June 2014 on September 30, 2014, with $29,167 in licensing revenue. This reflects the amortization of a $500,000 payment from Hanwha for a 10-year license granted to Hanwha in 2013. After years of recording little or no revenue, the company has finally begun to generate revenue from ElectriPlast. It is a significant step forward in the company's goal of monetizing ElectriPlast, in our view, and underscores the strides Integral has made towards this. We expect a substantial, albeit lumpy, revenue ramp-up, as Integral forms new relationships with additional partners and once ElectriPlast is commercially launched.

Management has also taken steps to contain its operating costs, even as it drives revenue. For example, when Integral consolidated its technology support resources into one Tech Center and strategically moved the facility to Detroit near the automotive industry, the company concurrently closed its Pennsylvania location. As a result, the Detroit facility is essentially neutral on a recurring cost basis, although Integral incurred a one-time $675,000 termination charge related to the Pennsylvania office closure. Excluding the termination charge, total fiscal 2014 expenses of $3,527,900 were roughly flat year-over-year versus $3,571,313. In fact, S,G&A was down slightly to $3,460,272 versus $3,482,115. The company recorded an adjusted operating loss of ($3,498,733) excluding the termination fee, essentially flat with fiscal 2013's ($3,571,313).

INITIATIVES TO POSITION ELECTRIPLAST FOR STRONG GROWTH

We believe over the past 18 months Integral has made significant strides towards monetizing ElectriPlast, a resin-based, electrically-conductive material that can be molded into a wide variety of shapes and sizes, is non-corrosive and is roughly 40-60% lighter than metal. Under CEO Doug Bathauer's leadership, the company has prioritized four sectors for licensing of ElectriPlast: **automotive, consumer electronics, cable and wire**, and **telecommunications.**

To **expedite the commercial launch**, Integral has sought development and commercialization partnerships with companies that are well-capitalized and have extensive customer relationships. In 2013 Integral signed important agreements with **Hanwha, Delphi** and **BASF** Corporation. Management believes these could be the first of many potential liaisons with suppliers, Tier1 manufacturers and OEMs. For example, recently the company signed an agreement with Pennsylvania based East Penn, which produces lead-acid batteries and wire and cable for the telecommunication, automotive and other sectors.

Engineering

The company has also put key personnel in place to support its expected growth. In February 2014, Integral added Slobodan Pavlovic to its Detroit Tech Center engineering team. He brings extensive industry experience, most recently from Lear Corporation. A veteran of the auto and aircraft industry, he adds more than 34 years of experience in advanced engineering to the company. Integral describes him as “an industry leader in conductive plastic applications.” Mohamad Zeidan, the company’s Chief Technology Officer (CTO), was formerly CTO of the Electrical Division for Lear Corporation. Leveraging the new Tech Center, Integral’s engineering team can help customers move from the development stage on products incorporating ElectriPlast to design, prototyping and implementation of commercial applications. With three engineers on-board, Integral intends to add more engineering capability, as revenue ramps.

In January 2014, the company opened a new Tech Center strategically located in Detroit near the auto industry. The company expects the Tech Center to address what it believes will be rising demand for Integral’s technical expertise in conductive plastics as its customer base grows. The center also enables internal testing, engineering and product development, allowing Integral to conduct material testing itself rather than relying on outside consultants. Management also expects that the Detroit Tech Center will help further its goal of expanding its strategic relationships with BASF, Delphi Automotive and Hanwha, as well as with future partners. The Tech Center could also play an important role in helping OEMs and the automobile industry assess the reliability and flexibility of ElectriPlast, we believe.

Earlier this month, the company also announced two new materials focused on the high performance shielding market and applications that will use ElectriPlast as a conductor. The company can address a lower cost solution for applications that require lightweight, EMI shielding, particularly in the consumer electronics space.

Manufacturing

Integral entered into a manufacturing agreement with Indiana based Jasper Rubber in 2006. Founded in 1949, privately-held Jasper Rubber is a leading developer of rubbers and plastics. It manufactures a full range of products for customers in the major appliance, oil filter, and automotive industries. Integral has worked with Jasper to oversee the manufacturing and molding process of ElectriPlast. The Jasper facility has sufficient production capacity to meet the company’s current and near term projected needs and can add capacity in a relatively short time. We believe Integral will be well positioned to meet expected demand.

Financial

The company aspires to a Nasdaq uplisting. Integral is fully reporting and earlier this year, hired a new CFO who has public company experience. He joined the company on February 20, 2014, having formerly served as CFO of IBM Australia, as well as of several privately-held companies including terrestrial and satellite wireless network provider Motient Corp. from February 1999 - July 2002 and publishing services company Aptara Corp. from June 2004 - September 2007. In June, 2014, the company changed its auditors from a relatively small firm, Smythe Ratcliffe, and hired Baker Tilly Virchow Krause, a top-12 domestic accounting and advisory companies, according to its website, with offices throughout the country. We also like that the company hosts quarterly conference calls with investors.

KEY PARTNERSHIPS

Hanwha L&C Corp.

On June 21, 2013, Integral signed a 10-year licensing agreement with South Korea-based Hanwha L&C Corp. granting Hanwha an exclusive license to manufacture and sell ElectriPlast, in South Korea, as well as a non-exclusive license in Japan, Taiwan and China. Hanwha L&C is part of the Hanwha Group, one of the largest conglomerates in South Korea. Established in 1952, the Hanwha Group generated **consolidated revenue of $35 billion in 2013.**

Hanwha is headquartered in Seoul, South Korea. Its various businesses include chemicals, munitions, plastics and materials for aerospace, automotive and consumer goods industries, as well as solar, pharmaceuticals, financial services, renewable energy, manufacturing and construction. In addition, Hanwha entered the touch screen panel market in 2012 and has become a supplier of components for smart mobile devices such as ITO (Indium Tin Oxide) glass and ITO film. Parent company Hanwha Group's shares trade on the Korean Stock Exchange and are valued at over $2.1 billion.

Integral views Hanwha as the cornerstone of its strategy to penetrate markets in the overall region. Integral can leverage this relationship to fulfill orders from China, Japan and other countries in the Pacific Rim. In fact, management believes that recent introductory discussions that it has had with potential partners in the Pacific Rim might not have even occurred without the Hanwha relationship. Using Hanwha as its supplier of ElectriPlast for this region is more cost efficient, we believe, than producing out of Indiana at its Jasper Rubbers facility and shipping product to the Pacific Rim. The Hanwha relationship is therefore key to ElectriPlast's potential in what is anticipated to be a rapidly growing market for automobiles.

Delphi Automotive PLC

In June 2013, the company entered into a co-development agreement with Delphi Automotive PLC. Delphi Automotive is a leading global supplier of electronics and technologies for automotive, commercial vehicle and other market segments. The two companies will jointly develop wire and cable insulation applications using ElectriPlast. Integral and Delphi will focus their combined efforts on replacing the copper braiding in wire and cable applications with the lighter and non-corrosive ElectriPlast.

Delphi has a global footprint, with technical centers, manufacturing and customer support facilities in 32 countries. It also has large wire and cable customers. Integral hopes to leverage Delphi's distribution channels to drive commercial adoption of ElectriPlast in the sector.

The wire and cable industry is roughly a $115 billion industry. Integral's application is to replace the metal shielding around the cable. The company believes that ElectriPlast has competitive advantages versus the metal that is currently used, including that the manufacturing process is more efficient and that it is lighter weight. The company expects the bulk of cable and wire demand to eventually come from higher voltage cables in transportation and consumer electronics.

BASF Corporation

In June 2013, the company signed a Letter of Intent with BASF Corporation to jointly explore opportunities and product development of ElectriPlast. Headquartered in Germany, BASF is a leader in the chemical sector, with 2013 revenue of €74.0 billion ($100 billion). BASF's product portfolio ranges from chemicals, plastics, performance products and crop protection products to oil and gas. *Chemical & Engineering News* magazine ranked it #1 among the world's chemical players. Along with BASF, the company intends to approach key OEMs and Tier 1 manufacturers with opportunities for conductive thermoplastics as a lightweight material alternative to metals.

East Penn

Integral recently signed a contract with Lyon Station, Pennsylvania based East Penn Manufacturing. Founded in 1946, East Penn East Penn operates what it describes as the world's largest single-site, lead-acid battery manufacturing facility and is a leader in custom wire and cable solutions. The company produces lead-acid batteries, wire & cable and other products for the telecommunication, automotive and other sectors that are distributed under private label and the East Penn proprietary *Deka* brands. Under the terms of the contract, ElectriPlast will provide engineering and design services, materials and finished products to East Penn.

While it is still early days for ElectriPlast, **we are impressed with the alliances Integral has already formed and believe that it reflects well on ElectriPlast's commercial viability. Delphi Automotive, BASF and Hanwha** are large, publically traded multinational companies that have access to multiple products that potentially could incorporate ElectriPlast and to a myriad of customers. Although we believe that Delphi and BASF are still evaluating and testing ElectriPlast to determine what commercial applications it could have for their product lines, we are encouraged by management's recent comments on the latest Integral call. We are optimistic about the Delphi and BASF relationships in the medium term.

Agreement Formed	Partner	Home Country	Ticker	Partner Specialty	Annual Revenue
2014	BASF	Germany	BASFY (NR)	Chemicals, plastics, crop protection prods., oil & gas	$100 Billion
2013	Delphi Automotive	U.K.	DLPH (NR)	Electronics & technologies for automotive and other markets, wire & cable	$4 Billion
2014	East Penn	U.S.	Private	Batteries	NA
2013	Hanwha	Korea	000880.KS	Conglomerate	$35 Billion
2006	Jasper Rubber	U.S.	Private	Rubber	NA

Source: Company reports NR = not rated

Nearer-term, Hanwha has already opened a manufacturing line dedicated to ElectriPlast. Management believes that Hanwha could bring ElectriPlast products to market within the next 12-18 months. Moreover, Integral received an upfront payment from Hanwha that we believe underscores the potential value Hanwha sees in ElectriPlast. If Hanwha launches products using ElectriPlast, in our view it could provide further proof of concept of ElectriPlast's commercial viability and serve as a catalyst for ITKG shares.

We concur with management's view that the East Penn deal validates the company's strategy to provide engineering and design support to customers. ElectriPlast is a new product and although it is expected to have a myriad of uses, customers need technical guidance and design assistance in order to maximize its use. This is one reason, management believes, that the Detroit Tech Center is a valuable asset in showcasing and assisting existing and potential customers. East Penn is expected to generate both engineering and commercial sales revenue for Integral and, importantly, has already begun to generate revenue.

MARKET OPPORTUNITY FOR ELECTRIPLAST

The company is targeting several sectors to launch ElectriPlast, as noted, with consumer electronics among the priority sectors. Management has indicated it likely will be faster to go to market in consumer electronics. In addition, the automotive sector offers strong opportunity and management believes the company's strengths are well suited to meet demand. Moreover, if Integral begins to develop ElectriPlast uses for automotive invertors, it would be a fairly simple process to adapt that for use in inverters for other industries.

Significant Demand Expected from Auto Industry

Fueled by government mandates to drive energy efficiency and the corollary need to substitute lighter weight materials in the automotive and other industries, coupled with more competitive pricing as raw material costs decline, ElectriPlast could be poised for considerable growth, we believe. Macroeconomics factors expected to drive demand for alternate materials such as ElectriPlast include government regulations requiring the automotive industry to reduce CO_2 emissions. In 1975, Congress passed CAFÉ (Corporate Average Fuel Economy) legislation that was originally intended to reverse a downward trend in gas mileage per gallon (mpg), which had fallen to 12.9 miles in 1974. The 1975 legislation mandated that cars reach 18 mpg by 1978 and 27.5 by 1985. The government has mandated that by the year 2025 auto manufacturers comply with CAFÉ standards to reach 54.5 mpg in order to become more energy efficient.

In 2009, cars averaged 32.5 CAFE mpg and trucks averaged 24.5, according to *Car and Driver Magazine*. The Obama administration's mandate is expected to nearly double fuel efficiency by 2025. According to the U.S. Transportation Secretary Ray LaHood, "new standards are expected to promote innovation and the development of new technology."

To help the industry reach these goals, on May 21, 2010, President Obama asked the EPA and NHTSA to jointly develop a national program that would "produce a new generation of clean vehicles," to lower energy usage. According to the Center for Automotive Light weighting (NCAL), **light weighting** or incorporating lightweight materials in automobile production as substitutes for traditional, heavier materials will boost fuel efficiency and lower emissions substantially. For this reason, "OEMs are still searching to develop strategies and technical solutions for cost-effectively integrating lightweight materials into multi-material vehicles and securing lightweight materials and components on a global platform," according to the GALM (Global Automotive Lightweight Materials).

Several auto manufacturers are already producing lines of lighter weight vehicles. These include the Mercedes S-class or Lamborghini Aventador lines. The BMW i3 "is the first production vehicle to use an all carbon fiber passenger cell," according to *High-Performance Composites* magazine. Both GM (GM-not rated) and Ford (F-not rated) have indicted their intentions to light weight their vehicles in order to comply with the mandates.

McKinsey estimates that "the overall lightweight market in automotive will increase from €70 billion to €300 billion" and "carbon fiber, which we have seen as essential components of the moderate and the extreme lightweight packages, will experience two decades of strong growth, with carbon fiber reaching a CAGR of almost 20 percent."

The reduction of weight of a vehicle's body has corollary benefits of reducing the weight of other vehicle properties. Some 25% to 30% of the weight a car is made up of its metal body. Reductions in the weight of the body can also lead to further weight savings in other components such as the powertrain, braking, and suspension systems. This has lowered the percentage of steel used in a car's production, as manufacturers substitute plastics and other lighter weight materials. Since the 1970s, the share of mild steel in a car has declined roughly 30% by weight, while the share of aluminum has tripled, and the use of plastics has increased by more than 80%, according to IHS. Even so, plastics still only comprise

approximately 11% of the weight of an automobile. Components such as doors, hoods and fenders that were traditionally produced from steel are more frequently being manufactured using lighter weight materials.

Electronic Automobiles

In 2011, Integral forged a deal that seemed as if it could finally **provide proof of concept of ElectriPlast's value** for the automotive sector, specifically the green automotive sector. The company entered into an OEM supplier agreement with Lear Corp. to incorporate ElectriPlast in the manufacture of electrical connectors to be installed on all Fisker Karma electric vehicles. The Fisker Karma was an electric car that was designed and engineered in California. It was a four-door, four-passenger plug-in hybrid. In 2012, Fisker began to manufacture its first electric cars using ElectriPlast; connectors using ElectriPlast went into production and were used on the Fisker Karma.

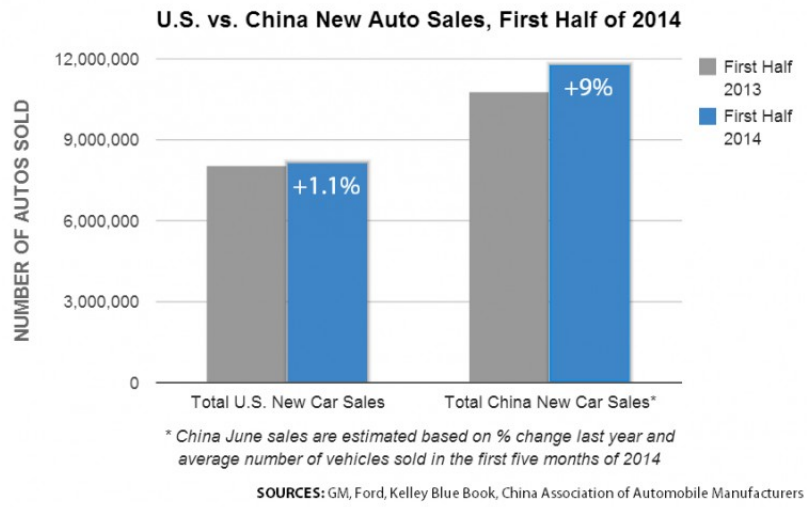
While this could have been a milestone in Integral's growth strategy, the car had a short commercial life. Fisker Automotive's battery supplier, A123 Systems, declared Chapter 11, forcing Fisker itself to terminate production in July 2012, having generated minimal revenue for Integral. Shortly after this, Integral's former CEO William Robinson resigned on November 8, 2012 and Doug Bathauer replaced him as CEO. In conjunction with this, Integral's board also appointed an independent director, Richard Blumberg, who has an extensive and varied background that includes degrees in engineering and law.

Nevertheless, we believe the nascent electronic vehicle sector offers substantial prospects for ElectriPlast. Consumer adoption of electric vehicles (EVs) is outpacing those of earlier hybrids, according to IHS. The Toyota's Prius had cumulative sales of more than 52,000 cars four years after its 2000 launch. Conversely, four years after the debut of the Nissan Leaf EV, its cumulative sales are approaching the 100,000 mark. Cumulative sales of the Chevrolet Volt/Ampera plug-in hybrid electric vehicle (PHEV) were almost 70,000 four years after its debut.

WELL POSITIONED IN PACIFIC RIM

China is an Important Market

China is the largest automobile market in the world, a position it has held since 2009, according to *Business Insider*. There were 19 million new vehicles sold in 2012 and 18% per annum growth in 2006-2012. According to McKinsey, the source of automotive industry profits has changed dramatically over the past few years. McKinsey notes that in 2012, the BRIC markets and RoW accounted for 55% of global automotive industry profits, up from only 30% in 2007. Sales in these markets grew 65%, outperforming growth in Europe, North America, Japan, and South Korea, with more than 50% of the growth coming from China alone. In the first half 2014, sales of new cars grew 9% in China compared to a 1.1% domestic increase, according to the *International Business Times*. McKinsey forecasts that by 2020, global profits for automotive OEMs could grow by nearly 50%, generated primarily from emerging markets. If Integral can target China and other markets in the region with Hanwha, it could represent significant potential for ElectriPlast, in our view.



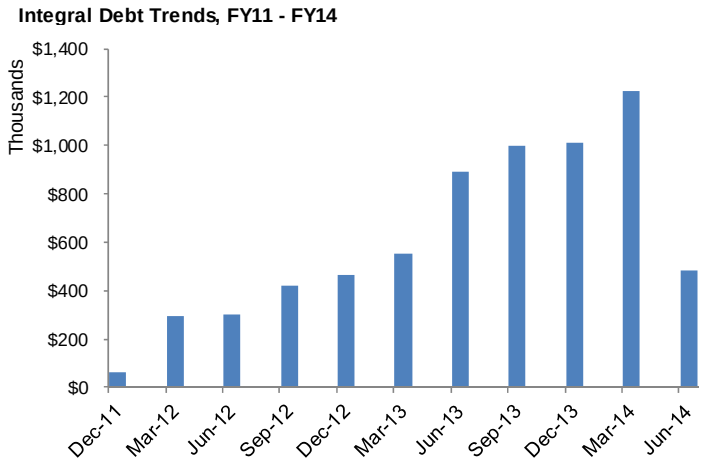
Hanwha is Key

In April 2014, the company announced that Hanwha had launched its production line dedicated to ElectriPlast and together, the two companies target penetrating the South Korean CE (consumer electronics) market, as well as China's automotive market. Integral also moved its subsidiary in the region, Integral Technologies Asia to Seoul, Korea, where partner Hanwha is located. Earlier this month, the company also announced that Chang Rim Eng, its Asian molding partner, has successfully completed its prototype phase for a motor casing for the automotive industry and that it had engaged a Beijing, China based agent with extensive industry experience to further expand efforts in China.

STRENTHENING THE BALANCE SHEET

Similar to many other companies at their early stage of development, Integral has funded its working capital and CapEx needs through a combination of private placements of equity, convertible instruments and debt issuances. During fiscal 2014, Integral issued shares and warrants through four private placements, raising a total of $1.4 million at an average of $0.17 per share. In fiscal 2013, the company completed nine private placements, raising $2.4 million at an average of $0.24 per share. Management estimates that Integral will need $3.0 million of financing in fiscal 2015 and much or all of that could come from the exercise of warrants that have already been issued and therefore will not increase the fully diluted share count.

Integral has focused on **strengthening its balance sheet** in recent months, with deleveraging measures and capital structure improvements**.** Integral has eliminated convertible notes that it had issued to Asher Enterprises in 2012. On May 1, 2014, Integral repaid a $96,681.70 outstanding convertible promissory note to Asher Enterprises and converted $55,120.00 into 342,035 ITKG shares. Integral also has eliminated convertible notes outstanding to JMJ Financial, as well as all preferred shares outstanding. The company also has reduced its Accounts Payable position from a high of $2.4 million at December 2012 to $0.97 million at June 2014. Even with all the debt extinguishment and the reduction of Accounts Payable, the company had $199,777 in cash on its balance sheet as of June 30, 2014.



Source: Company reports

FINANCIAL OUTLOOK AND PRICE TARGET

Fiscal 2015 Financial Outlook

On the back of the strong momentum and recent East Penn deal, we believe Integral could generate revenue of $341,522 in fiscal 2015. We believe revenue could be lumpy over the next several quarters. Moreover **our forecasts could prove conservative or aggressive on a quarterly basis, depending on the timing of projects.** Other than adding engineering capabilities, we estimate that Integral's current infrastructure can support near-term growth and anticipate no meaningful increase in operating expense.

Management has identified a $30 billion to $38 billion opportunity for ElectriPlast. We believe the base case scenario is that ElectriPlast garners a 10% market share of that, with a substantially higher percentage under the bull case scenario. The bear case is that, for a variety of reasons including costs or competition, ElectriPlast does not gain traction as an alternate material for light weighting. In our base case scenario, we project that once ElectriPlast is past the prototype and development stage and actually launched commercially, revenue ramps quickly and substantially. We project $1.5 million in Year 1 post-commercial launch, climbing to $29 million by Year 5. Our revised $1.25 price target represents an 11x multiple of expected Year 3 revenue, but only 4.3x Year 5 projected revenue. Given the company's anticipated growth, we believe the shares can attain this multiple in the short-term, on the anticipation of significantly higher revenue in the medium term.

Conclusion risk/ reward

Integral remains a "show me" story at this early stage, in our view. Nevertheless, we believe that at the current share price, the risk / reward ratio is attractive for investors who can assume higher than average risk. We believe the shares represent a speculative opportunity that the company successfully executes its strategy to commercialize ElectriPlast. In our view, the early signals are positive that management is on-track to achieve its goals for ElectriPlast.

RECENT NEWS

- On October 20, 2014, Integral announced the development of two new materials for the high performance shielding market and for applications using ElectriPlast as a conductor.
- On October 10, 2014, the company announced that it had hired a Beijing based agent to facilitate its efforts in Asia and that it had relocated Integral Asia to Seoul, which is where partner Hanwha is headquartered.

- On October 8, 2014, the company issued a press release stating that its Asian molding partner had as completed its prototype phase for a motor casing for the automotive industry.

- On September 25, 2014, Integral announced that it had signed a contract with East Penn Manufacturing. On its recent FY14 conference call, management indicated that the contract is already generating both engineering and product revenue.

RISKS

- The biggest risk, in our view, is that the commercialization strategy for ElectriPlast with Hanwha, Delphi and BASF fails to materialize and Integral needs to seek new partners to implement its strategy.

- 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.

- Similar to many other developing companies, Integral is under-capitalized and will likely need to seek additional short-term funding until it reaches a certain revenue level. While the company intends to minimize the impact on its fully diluted share count largely through warrants, Integral could require more funding than management currently anticipates.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Integral Technologies, Inc. Income Statement & Projections

($)	Sep-13	Dec-13	Mar-14	Jun-14		Sep-14	Dec-14	Mar-15	Jun-15	
	1Q14	2Q14	3Q14	4Q14A	FY14A	1Q15	2Q15	3Q15	4Q15E	FY15E
Licensing revenue	6,413	6,309	6,306	10,139	29,167	85,168	59,617	89,426	107,311	341,522
R&D	27,196	16,432	9,616	14,384	67,628	15,000	15,000	15,000	15,000	60,000
S,G&A	1,162,950	819,170	560,353	917,799	3,460,272	900,000	900,000	900,000	900,000	3,600,000
Non-recurring	-	-	675,000	-	675,000					-
Other	-	-	-	-	-	-	-	-	-	-
Total operating expense	1,190,146	835,602	1,244,969	932,183	4,202,900	915,000	915,000	915,000	915,000	3,660,000
Operating income	**(1,183,733)**	**(829,293)**	**(1,238,663)**	**(922,044)**	**(4,173,733)**	**(829,832)**	**(855,383)**	**(825,574)**	**(807,689)**	**(3,318,478)**
Other income net				(49,129)	(49,129)	(50,000)	(50,000)	(50,000)	(50,000)	(200,000)
Bank charges & interest	62,088	174,688	154,853	10,275	401,904	75,000	75,000	75,000	75,000	300,000
Fair value derivatives	103,842	(93,270)	15,205	(25,777)	-					-
Conv. debentures gain/ chg		(32,432)	-		-					-
Gain/ (loss) debt exting.	(75,429)	27,142	(150,367)		-					-
Financing fees	-	-	-	-	-	-	-	-	-	-
	90,501	76,128	19,691	(64,631)	352,775	25,000	25,000	25,000	25,000	100,000
Net Loss	(1,274,234)	(905,421)	(1,258,354)	(857,413)	(4,526,508)	(854,832)	(880,383)	(850,574)	(832,689)	(3,418,478)
Preferred stock dividends	(3,865)	(3,865)	(3,865)	(3,865)	(15,460)	-	-	-	-	-
Loss for common sharehol	(1,278,099)	(909,286)	(1,262,219)	(861,278)	(4,541,968)	(854,832)	(880,383)	(850,574)	(832,689)	(3,418,478)
Loss Per Share	($0.02)	($0.01)	($0.02)	($0.01)	($0.05)	($0.01)	($0.01)	($0.01)	($0.01)	($0.04)
Avg. shares out	77,057,027	77,738,310	81,015,996	83,475,729	85,935,461	86,835,461	87,435,461	88,035,461	88,635,461	87,735,461

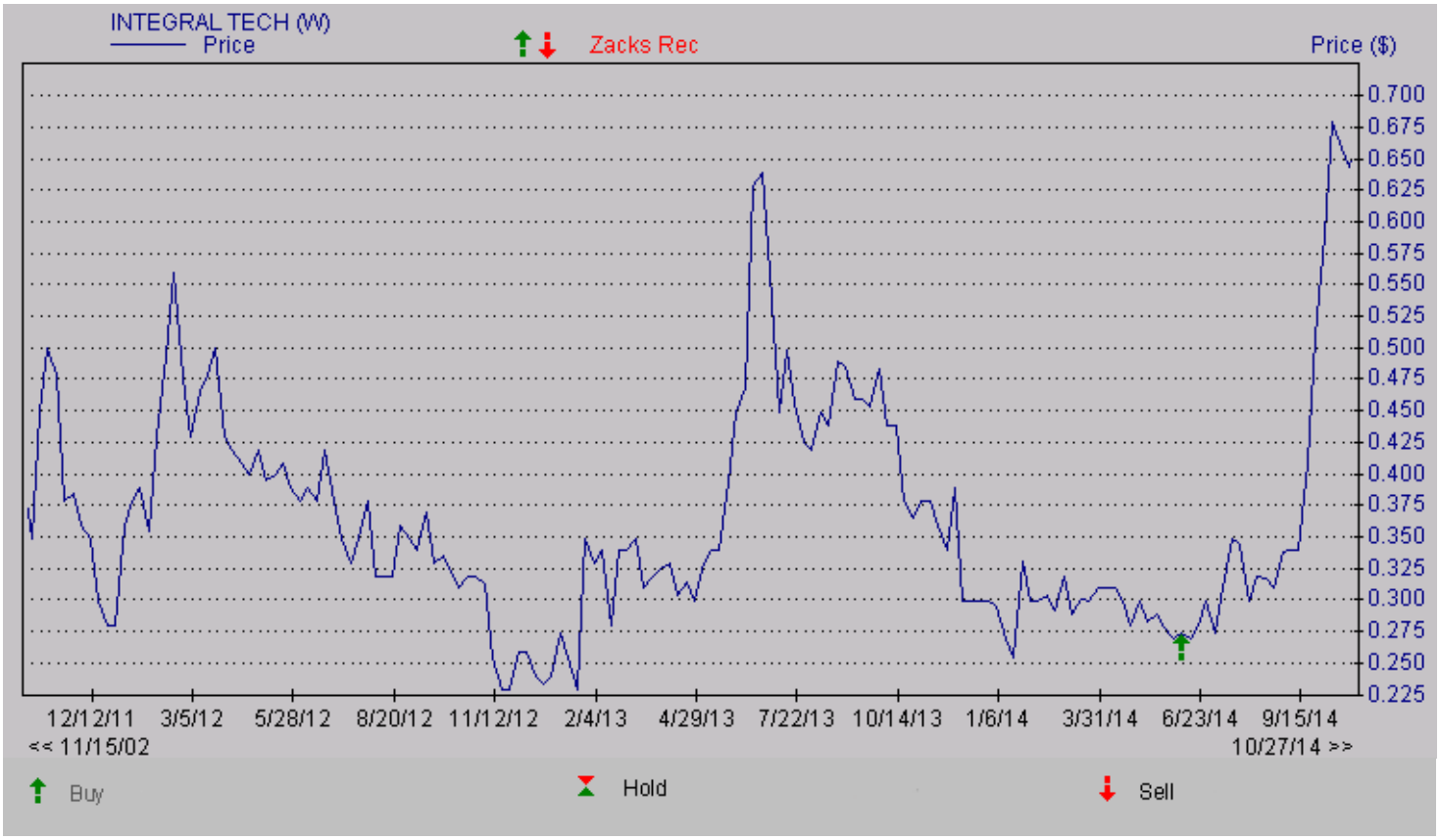
	Estimates - Post Commercial Launch of ElectriPlast				
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	1,500,000	6,000,000	11,400,000	19,380,000	29,070,000
Other income	40,000	100,000	150,000	250,000	500,000
Total revenue	1,540,000	6,100,000	11,550,000	19,630,000	29,570,000
COGs	270,000	1,080,000	2,052,000	3,488,400	5,232,600
Gross profit	1,270,000	5,020,000	9,498,000	16,141,600	24,337,400
Total op'g exp	2,114,733	2,135,880	2,157,239	2,178,811	2,200,600
Op'g (loss) income	**(844,733)**	**2,884,120**	**7,340,761**	**13,962,789**	**22,136,800**
Fin'l exp	(150,000)	(125,000)	(100,000)	(75,000)	(50,000)
Net (loss) income	(994,733)	2,759,120	7,240,761	13,887,789	22,086,800

Integral Technologies, Inc. Balance Sheet

($)	June 2012	Sept 2012	Dec 2012	March 2013	June 2013	Sept 2013	Dec 2013	March 2014	June 2014
Cash	172,173	321,890	284,222	169,064	532,308	309,784	41,878	755,971	199,777
Prepaid expense	19,723	111,276	80,928	50,580	20,232	30,227		46,106	23,831
Account receivable	-	-	-	-	250,000	-	-	-	-
Property & equipment	-	-	-	-	-	-	-	-	27,821
Total Assets	**$191,896**	**$433,166**	**$365,150**	**$219,644**	**$802,540**	**$340,011**	**$41,878**	**$802,077**	**$251,429**
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
Loan payable				31,708				52,323	60,000
Promissory note payable	123,696	79,461	60,529	-	-	53,950	60,000	65,000	
Deferred revenue	-		67,273		25,000	25,000	25,000	25,000	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	
Derivative financial liabilities	84,718	105,610	56,426	107,616	414,102	517,109	300,117	271,957	
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**
Deferred revenue	-				225,000	218,750	212,500	206,250	229,500
Redeemable Preferred Stock	-		180,000	150,000	120,000	90,000	60,000	-	
Notes payable	-	-	-	-	-	-	215,000	450,000	420,833
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**
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)**
Total Liabilities and Stockholders'	**$191,896**	**$433,166**	**$365,150**	**$219,644**	**$802,540**	**$340,011**	**$41,878**	**$802,077**	**$251,429**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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