

May 9, 2022

## Ultralife Corporation (ULBI)

**Update 1Q:22: Beat, Backlog Up 45%, Battery Exposure to Attractive End-Markets Oil & Gas, Medical, Defense, IoT**

### Change in Earnings Forecast

Rating:	Buy
Current Price	\$4.71
Price Target	\$12.00
52-Wk Range	\$4.24 - \$11.78
Shares Outstanding (mm)	16.1
Market Cap (mm)	\$76
Average Volume (000s)	14
Sector Weight	Overweight

► Net, net 1Q22 beat expectations with forward momentum in backlogs, ULBI offers exposure to attractive verticals in the current macro conditions (Oil & Gas, Medical, Defense and IoT), is trading below book value, and the company has adapted to operating in the current supply chain. Sales in 1Q22 increased 17% y/y to \$30.4M with Battery & Energy Product sales up 32% y/y including a 31% increase in Industrial verticals, 20% increase in oil & gas and 9% increase in medical. Defense sales were impacted by supply chain constraints lengthening component lead-times. ULBI's 2021 acquisition of Excell appears to have been extremely well timed as it increases battery storage solutions for oil & gas players recapitalizing existing equipment. Backlogs increased to \$92M from \$63M, up sequentially 45%, and was evenly across the portfolio. We expect ULBI to continue to improve throughout the year as the company has several new battery solutions launching in comparatively strong end-markets, growing backlog and has learned how to operate with supply chain disruptions. Reiterate Buy.

► **Results.** ULBI reported 1Q:22 adj EBITDA of +\$1.1M vs. our estimate for a loss of \$0.7M.

► **Book Value.** ULBI is currently trading well below book value of \$7.30 and only slightly above tangible book value of \$3.70. Given ULBI has existing contracts, growing backlogs, and ramping products we believe this is a historic time to get involved.

► **Oil & Gas.** Energy represents 22% of TTM revenues but will grow substantially. Baker Hughes US rig count is up 57% y/y to above 700. These rigs require specialized batteries for remote and harsh operations which are now in a recap cycle. Energy drillers are first looking to go back to existing holes and opportunities before spending on new capex. However, specialized batteries runout and need to be recapped based on operational tempo. Further, ULBI has increasing exposure to deep sea drilling and the electrification of oil and gas equipment.

► **Medical.** Medical sales now represent 28% of TTM sales as ULBI has invested in design of next generation products and expanded relationships through COVID with large medical device players.

► **Defense.** Defense represents 29% of TTM sales. Government and Defense sales declined 38% y/y due to supply chain disruptions with lead times for components extending. However, given these are government customers the counter party is strong and will eventually be realized. ULBI has invested in inventory and expanded relationships to manage supply chain disruptions going forward.



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FY Dec		Q1	Q2	Q3	Q4	Prior	Total
EBITDA	2020A	\$2.5A	\$3.3A	\$1.7A	\$2.2A	--	\$9.7A
	2021A	\$2.0A	\$2.2A	\$(0.2)A	\$(0.6)A	--	\$3.4A
	2022E	\$1.1A	\$1.0E	\$2.8E	\$3.6E	\$7.5E	\$8.5E
Revenue (m)	2020A	\$26A	\$29A	\$24A	\$29A	--	\$108A
	2021A	\$26A	\$27A	\$22A	\$24A	--	\$98A
	2022E	\$30A	\$32E	\$33E	\$37E	\$124E	\$132E

**Figure 1: Model**

(\$ In Millions, Except As Noted)															
(Fiscal Year Ends Sep. 30)															
ULBI	2021					2022E					2023E				
	Q1	Q2	Q3	Q4	TOTALS	Q1	Q2E	Q3E	Q4E	TOTALS	Q1E	Q2E	Q3E	Q4E	TOTALS
Battery & Energy Products (B&EP)	22.1	22.9	20.0	22.1	87.1	29.2	30.0	31.0	32.0	122.2	26.0	29.0	30.0	33.0	118.0
Year-to-Year Growth	6.5%	-4.8%	-8.3%	-12.7%	-5.2%	31.8%	31.1%	54.9%	44.9%	40.3%	-10.8%	-3.3%	-3.2%	3.1%	-3.4%
Communication Systems (CS)	3.9	3.9	1.8	1.7	11.2	1.2	1.5	2.0	5.0	9.7	4.0	4.5	4.5	5.5	18.5
Year-to-Year Growth	-23.6%	-13.9%	-31.1%	-54.6%	-29.2%	-68.3%	-61.5%	14.1%	198.7%	-13.1%	227.1%	200.0%	125.0%	10.0%	90.3%
<b>TOTAL REVENUES, Continuing Operations</b>	<b>\$26.0</b>	<b>\$26.8</b>	<b>\$21.8</b>	<b>\$23.8</b>	<b>\$98.3</b>	<b>\$30.4</b>	<b>\$31.5</b>	<b>\$33.0</b>	<b>\$37.0</b>	<b>\$131.9</b>	<b>\$30.0</b>	<b>\$33.5</b>	<b>\$34.5</b>	<b>\$38.5</b>	<b>\$136.5</b>
Year-to-Year Growth	0.6%	-6.3%	-10.7%	-18.0%	-8.8%	16.9%	17.7%	51.6%	55.7%	34.2%	-1.2%	6.3%	4.5%	4.1%	3.5%
Battery & Energy Products	16.7	16.9	15.2	17.3	66.0	22.4	22.8	22.3	23.4	90.9	18.2	20.3	21.0	23.1	82.6
Year-to-Year Growth	75.4%	73.7%	76.0%	78.2%	75.8%	76.9%	76.0%	72.0%	73.0%	74.4%	70.0%	70.0%	70.0%	70.0%	70.0%
Communication Systems	2.3	2.6	1.4	1.2	7.6	1.0	1.1	1.4	3.5	7.0	2.7	3.0	2.9	3.3	11.9
Year-to-Year Growth	60.1%	67.9%	82.0%	71.9%	68.0%	80.6%	75.0%	70.0%	69.0%	71.6%	67.0%	67.0%	65.0%	60.0%	64.4%
<b>Cost of Revenues</b>	<b>19.0</b>	<b>19.5</b>	<b>16.7</b>	<b>18.5</b>	<b>73.6</b>	<b>23.4</b>	<b>23.9</b>	<b>23.7</b>	<b>26.8</b>	<b>97.9</b>	<b>20.9</b>	<b>23.3</b>	<b>23.9</b>	<b>26.4</b>	<b>94.5</b>
% of Revenues	73.1%	72.9%	76.5%	77.7%	74.9%	77.1%	76.0%	71.9%	72.5%	74.2%	77.0%	76.0%	76.0%	75.5%	69.2%
<b>GROSS EARNINGS</b>	<b>\$7.0</b>	<b>\$7.3</b>	<b>\$5.1</b>	<b>\$5.3</b>	<b>\$24.6</b>	<b>\$7.0</b>	<b>\$7.6</b>	<b>\$9.3</b>	<b>\$10.2</b>	<b>\$34.0</b>	<b>\$9.1</b>	<b>\$10.2</b>	<b>\$10.6</b>	<b>\$12.1</b>	<b>\$42.0</b>
Gross Margin	26.9%	27.1%	23.5%	22.3%	25.1%	22.9%	24.0%	28.1%	27.5%	25.8%	30.4%	30.4%	30.7%	31.4%	30.8%
<b>Research and Development</b>	<b>\$1.6</b>	<b>\$1.9</b>	<b>\$1.7</b>	<b>\$1.6</b>	<b>\$6.8</b>	<b>\$1.9</b>	<b>\$1.7</b>	<b>\$1.8</b>	<b>\$2.0</b>	<b>\$7.4</b>	<b>\$1.7</b>	<b>\$1.7</b>	<b>\$1.7</b>	<b>\$1.9</b>	<b>\$7.0</b>
% of Revenues	6.3%	6.9%	7.9%	6.7%	6.9%	6.1%	5.5%	5.5%	5.5%	5.7%	5.5%	5.0%	5.0%	5.0%	5.1%
<b>Selling, general and administrative expense</b>	<b>\$4.4</b>	<b>\$4.3</b>	<b>\$4.2</b>	<b>\$4.9</b>	<b>\$17.8</b>	<b>\$5.4</b>	<b>\$5.7</b>	<b>\$5.4</b>	<b>\$5.4</b>	<b>\$21.9</b>	<b>\$5.7</b>	<b>\$5.4</b>	<b>\$5.5</b>	<b>\$6.0</b>	<b>\$22.5</b>
% of Revenues	16.9%	16.1%	19.1%	20.7%	18.1%	17.8%	18.0%	16.5%	14.5%	16.6%	19.0%	16.0%	16.0%	15.5%	16.5%
<b>Other/Amortization</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
% of Revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>TOTAL COST OF OPERATIONS</b>	<b>\$25.0</b>	<b>\$25.7</b>	<b>\$22.5</b>	<b>\$25.0</b>	<b>\$98.2</b>	<b>\$30.7</b>	<b>\$31.3</b>	<b>\$31.0</b>	<b>\$34.2</b>	<b>\$127.2</b>	<b>\$28.2</b>	<b>\$30.4</b>	<b>\$31.2</b>	<b>\$34.3</b>	<b>\$124.0</b>
<b>TOTAL OPERATING EARNINGS</b>	<b>\$1.0</b>	<b>\$1.1</b>	<b>-\$0.8</b>	<b>-\$1.2</b>	<b>\$0.0</b>	<b>-\$0.3</b>	<b>\$0.2</b>	<b>\$2.0</b>	<b>\$2.8</b>	<b>\$4.7</b>	<b>\$1.8</b>	<b>\$3.2</b>	<b>\$3.3</b>	<b>\$4.2</b>	<b>\$12.5</b>
Operating Margin	3.7%	4.1%	-3.6%	-5.2%	0.0%	-1.0%	0.5%	6.1%	7.5%	3.6%	5.9%	9.4%	9.7%	10.9%	9.1%
Interest expense, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous income	-0.1	-0.0	-0.0	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
<b>TOTAL PRETAX EARNINGS</b>	<b>\$0.9</b>	<b>\$1.1</b>	<b>-\$0.8</b>	<b>-\$1.1</b>	<b>\$0.1</b>	<b>-\$0.4</b>	<b>\$0.1</b>	<b>\$2.0</b>	<b>\$2.7</b>	<b>\$4.4</b>	<b>\$1.8</b>	<b>\$3.2</b>	<b>\$3.3</b>	<b>\$4.2</b>	<b>\$12.5</b>
% of Revenues	3.4%	4.0%	-3.6%	-4.7%	0.1%	-1.4%	0.4%	6.0%	7.4%	3.3%	5.9%	9.4%	9.7%	10.9%	9.1%
<b>TAXES</b>	<b>\$0.2</b>	<b>\$0.2</b>	<b>-\$0.2</b>	<b>\$0.3</b>	<b>\$0.6</b>	<b>-\$0.3</b>	<b>\$0.0</b>	<b>\$0.5</b>	<b>\$0.7</b>	<b>\$0.9</b>	<b>\$0.4</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$1.0</b>	<b>\$3.0</b>
Tax Rate	24.2%	23.2%			841.8%		24.0%	24.0%	24.0%	20.5%	24.0%	24.0%	24.0%	24.0%	24.0%
Net earnings attributable to non-controlling	-0.0	\$0.0	\$0.0	\$0.0	-0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>NET EARNINGS</b>	<b>\$0.7</b>	<b>\$0.8</b>	<b>-\$0.6</b>	<b>-\$1.4</b>	<b>-\$0.5</b>	<b>-\$0.2</b>	<b>\$0.1</b>	<b>\$1.5</b>	<b>\$2.1</b>	<b>\$3.5</b>	<b>\$1.3</b>	<b>\$2.4</b>	<b>\$2.5</b>	<b>\$3.2</b>	<b>\$9.5</b>
% of Revenues	2.6%	3.1%	-2.8%	-5.9%	-0.5%	-0.5%	0.3%	4.5%	5.6%	2.7%	4.5%	7.1%	7.3%	8.3%	6.9%
<b>Diluted EPS</b>	<b>\$0.04</b>	<b>\$0.05</b>	<b>-\$0.04</b>	<b>-\$0.09</b>	<b>-\$0.02</b>	<b>-\$0.01</b>	<b>\$0.01</b>	<b>\$0.10</b>	<b>\$0.13</b>	<b>\$0.24</b>	<b>\$0.08</b>	<b>\$0.15</b>	<b>\$0.17</b>	<b>\$0.20</b>	<b>\$0.61</b>
Year-to-Year Growth															
Adjustments	\$0.2	\$0.2	-\$0.2	\$0.0	\$0.1	\$0.2	\$0.3	\$0.4	\$0.4	\$1.3	\$0.2	\$0.3	\$0.4	\$0.4	\$1.3
<b>Diluted EPS (Adjusted)</b>	<b>\$0.05</b>	<b>\$0.06</b>	<b>-\$0.05</b>	<b>-\$0.09</b>	<b>-\$0.01</b>	<b>\$0.00</b>	<b>\$0.02</b>	<b>\$0.12</b>	<b>\$0.15</b>	<b>\$0.31</b>	<b>\$0.10</b>	<b>\$0.17</b>	<b>\$0.18</b>	<b>\$0.22</b>	<b>\$0.68</b>
Year-to-Year Growth															
<b>Diluted Shares Out. (Millions of Units)</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.1</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.1</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>
<b>EBITDA</b>	<b>\$2.0</b>	<b>\$2.2</b>	<b>-\$0.2</b>	<b>-\$0.6</b>	<b>\$3.4</b>	<b>\$1.1</b>	<b>\$1.0</b>	<b>\$2.8</b>	<b>\$3.6</b>	<b>\$8.5</b>	<b>\$2.6</b>	<b>\$4.0</b>	<b>\$4.1</b>	<b>\$5.0</b>	<b>\$15.7</b>
% of Revenues	7.7%	8.2%	-0.9%	-2.7%	3.4%	3.6%	3.1%	8.6%	9.7%	6.5%	8.6%	11.8%	12.0%	13.0%	11.5%
<b>B&amp;EP (Gross Earnings)</b>	<b>\$5.4</b>	<b>\$6.0</b>	<b>\$4.8</b>	<b>\$4.8</b>	<b>\$21.1</b>	<b>\$6.7</b>	<b>\$7.2</b>	<b>\$8.7</b>	<b>\$8.6</b>	<b>\$31.2</b>	<b>\$7.8</b>	<b>\$8.7</b>	<b>\$9.0</b>	<b>\$9.9</b>	<b>\$35.4</b>
% of Revenues	24.6%	26.3%	24.0%	21.8%	24.2%	23.1%	24.0%	28.0%	27.0%	25.6%	30.0%	30.0%	30.0%	30.0%	30.0%
<b>CS (Gross Earnings)</b>	<b>\$1.5</b>	<b>\$1.3</b>	<b>\$0.3</b>	<b>\$0.5</b>	<b>\$3.6</b>	<b>\$0.2</b>	<b>\$0.4</b>	<b>\$0.6</b>	<b>\$1.6</b>	<b>\$2.8</b>	<b>\$1.3</b>	<b>\$1.5</b>	<b>\$1.6</b>	<b>\$2.2</b>	<b>\$6.6</b>
	39.9%	32.1%	18.0%	28.1%	32.0%	19.4%	25.0%	30.0%	31.0%	28.4%	33.0%	33.0%	35.0%	40.0%	35.6%

Source: The Benchmark Company, LLC

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As of March 31, 2022

	All Covered Companies		Investment Banking Clients	
<b>Buy</b>	277	82.4%	79	23.5%
<b>Hold</b>	58	17.3%	1	0.3%
<b>Sell</b>	1	0.3%	0	0%

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**Buy:** Stock is expected to outperform the analyst’s defined Sector/Industry Index\* over the following 6 to 12 months.

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### Benchmark Disclosures as of May 9, 2022

Company	Disclosure
Ultralife Corporation	1, 3

**Investment Risk**

Risks include: ULBI uses contract manufacturers around the global to supply products. Any global disruption to supply chains could adversely impact results. Batteries contain potentially hazardous materials. Should a product defect lead to failure there is a potential for reputational and legal risk. ULBI designs and markets new battery chemistries and form factors. Should new products fail to gain market traction the business model could suffer. ULBI operates in the highly competitive battery space. Many competitors and customers are significantly larger with more resources. ULBI competes in highly regulated markets where government regulations are subject to change which could adversely impact the business model. ULBI has large government contracts which are difficult to know the exact timing of award. Therefore, changes in the budgetary environment could adversely impact results.

**Valuation Methodology**

Our \$12 price target is based on 10.8x our FY23 EV/EBITDA estimate. Over the last five years ULBI has traded as high as 19x LTM EV/EBITDA and as low as 7x. ULBI's peer analysis cuts across several industries including defense, energy storage, devices, and IoT.

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