

## Kopin Corporation

### Solid Bookings Quarter Overshadowed by Legal Judgement; Maintain Buy, PT to \$2.50

KOPN (NASDAQ)

#### Company & Market Data

Closing Price (as of 05/14/2024)	\$0.83
Rating:	BUY
Price Target:	\$2.50
Prior Price Target:	\$3.00
52 Week Range:	\$0.67 - \$2.82
Avg Daily Volume (M):	1,822.7
Shares Outstanding (MM):	118.4
Market Capitalization (MM):	\$98
Enterprise Value (MM):	\$83
Fiscal Year End:	Dec

#### Estimates

EPS	2022A	2023A	2024E
1Q	\$(0.01)	\$(0.03)	\$(0.06)A
Prior			\$(0.04)
2Q	\$(0.06)	\$(0.06)	\$(0.03)
3Q	\$(0.06)	\$(0.01)	\$(0.01)
Prior			\$0.00
4Q	\$(0.07)	\$(0.04)	\$(0.01)
Prior			\$0.01
Full Year	\$(0.19)	\$(0.15)	\$(0.11)
Prior			\$(0.05)
Revenue (MM)	2022A	2023A	2024E
1Q	\$11,578.0	\$10,758.0	\$10,033.0A
Prior			\$9,102.0
2Q	\$11,909.0	\$10,460.0	\$10,416.0
Prior			\$10,217.0
3Q	\$11,729.0	\$10,598.0	\$12,227.0
4Q	\$12,184.0	\$8,578.0	\$13,728.0
Full Year	\$47,401.0	\$40,394.0	\$46,404.0
Prior			\$45,274.0
EBITDA (MM)	2022A	2023A	2024E
1Q	\$(19,594.0)	\$(12,696.0)	\$(12,354.0)
Prior			\$(5,001.0)



Chart data: Bloomberg

**Kopin reported 1Q:24 results.** Revenue of \$10.0 million was ahead of our \$9.1 million forecast. Product revenue was nearly \$2 million ahead of our forecast while funded R&D was \$1 million below. The top line bounced back after the company took down production lines in late 2023 to get them ready for what is expected to be significant growth in 2024. Gross margins also rebounded to positive 5% on the product side (from negative 6.3% in the prior quarter) though still below our expectations due to the impact of poor inventory acquired in mid-2023. We expect gross margins to bounce back especially in the 2H when volumes are expected to ramp. Sales and marketing expense came in at \$7.3 million, though \$2.6 million was from elevated legal expense. The net result was adjusted EBITDA of negative \$6.9 million, versus our negative \$4.6 million expectation.

**A legal ruling has hampered the shares.** Shares reacted negatively to a jury verdict in late April concerning a patent dispute. This related to a feature of a short-lived, low sales volume, consumer/enterprise offering from over a decade ago. The Jury recommended awarding the Plaintiff \$5.1 million in damages and \$19.7 million in exemplary damages. The final ruling from the Judge could come in late summer, though the company has said it would likely look to appeal, which would push the final ruling back further.

**Squad weapons scope order adds to strong backlog.** The US Army is replacing the M4 and M16 rifle, with updated versions that will include a scope similar to the FWSi scope that KOPN offers for standard assault rifles. This led to a \$20.5 million order that should begin shipping in 4Q:24. This program is expected to be similar in size to the FWSi program and the two programs should drive a sustained ramp in product revenue. More upside is possible from an AI targeting systems for the Abrams tank. The current expectation around timing of an award would be 4Q:24 for 2025 production. The company has previously pointed to this program as a potential \$100 million 10 year opportunity.

**Model:** The company has pointed to double-digit top line growth in 2024 as it ships against \$55 million in backlog. We leave our top line mostly unchanged. We do lower our overall gross margin as we expect a greater percentage of revenue from product revenue as opposed to funded R&D. Still we expect gross margins to rise to the mid-30% range by YE and should have potential upside from there given better absorption of fixed costs as revenues rise. The net result is an adjusted EBITDA loss of \$12.3 million. The company ended the quarter with \$21.8 million in cash and pointed to its equity investments and some non-essential IP as potential sources of non-dilutive liquidity.

**We reiterate our Buy rating and lower our PT to \$2.50 (from \$3.00).** The lower target reflects a higher share count, and the possibility of modest dilution. That said, we think the legal issues are overshadowing solid fundamentals at the company. In the meantime, the company has potential upside from a growing set of defense contracts. Other large military contracts are also possible and so is a shifting of the product set to consumer AR/VR applications. We continue to use an EV/Sales multiple of about 6x to try and balance the potential optionality around consumer against the uncertainty of the timing of an inflection point.

Disclosures and Analyst Certifications can be found in Appendix A.

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## Our Thoughts

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Kopin has several programs underway that should sustain solid top line growth for some time. The Family of Weapons Sights program (FWS) is a major driver of revenue right now and is expected to hit the full production levels by the 2H:24 time frame. The company should also get a boost moving forward from the Squad weapons program order received in 1Q:24. The Abrams tank where KOPN was first awarded production part approval process (PPAP) orders in the summer of 2023 should see production begin in 2025. There are other significant orders possible, and the company spoke about them on this call.

The biggest of those is around the integrated visual augmentation system (IVAS) program. This is a significant initiative by the US DoD. The initial contract awarded to Microsoft was for \$21 billion. That contract has been removed as the solution proved to have too many challenges in the field though the scope of the program remains. The likely result will be that the program will show incremental gains over the coming decade.

In the meantime, KOPN has developed an IVAS now strategy to add better functionality to the Heads-UP Displays (HUD) that warfighters use today. The company has a daytime solution that can overlay data even under bright conditions. The current Enhanced Night Vision Goggles (ENVGB) systems overlay data for the soldier, however, when night turns to day that heads up awareness is lost. This solution aims to fix that problem. The company also has an offering that will allow for the attachment of IR vision systems to ENVGB goggles to show thermal images and thus augmenting night vision capabilities. In the case of the daytime data overlays, the company is targeting systems that ship 10,000 units per year, and in the case of ENVGB it's 60,000 units per year. Each of these programs has the ability to match current large contracts such as FWS.

These significant developments are being overshadowed by the recent negative recommendation by the Jury in the company's patent lawsuit. While this issue is detrimental to the company, we do believe the shares have overreacted. The process of finalizing this judgement and the appeal process will likely take a considerable amount of time. The company would be well served to enhance liquidity as a backstop, however, they have multiple options to do so in our view.

## Valuation

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We reiterate our Buy rating and lower our PT to \$2.50 (from \$3.00). The lower target reflects a higher share count, and the possibility for modest dilution. That said, we think the legal issues are overshadowing solid fundamentals at the company. In the meantime, the company has potential upside from a growing set of defense contracts. Other larger military contracts are also possible and so is a shifting of the product set to consumer AR/VR applications. We continue to use an EV/Sales multiple of about 6x to try and balance the potential optionality around consumer against the uncertainty of the timing of an inflection point.

## Risks

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Risks to our rating and price target include, but are not limited to the following:

Kopin has experienced a history of losses and has a significant accumulated deficit. In addition, it has had negative cash flow from operating activities in 2017 and 2016.

Kopin's products are targeted toward the wearable market which is still developing and we cannot predict how long the wearable market will take to develop. Success in commercializing these wearable products is very important to the company's ability to achieve positive cash flow and profitability. The company receives a large portion of current revenue from the military which is reliant on government funding.

Kopin's ability to manufacture and distribute its display products would be severely limited if the foundries that it relies on to manufacture integrated circuits fail to provide those services. The company's reliance on these foundries involves certain risks, including but not limited to: Lack of control over production capacity and delivery schedules, Limited control over quality assurance, manufacturing yields and production costs, The risks associated with international commerce, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies and political and economic instability; and Natural disasters such as earthquakes, tsunamis, mudslides, drought, hurricanes and tornadoes.

The markets in which Kopin operates are highly competitive and rapidly changing and it may be unable to compete successfully. Some of the competitors are much larger than Kopin and have significantly greater financial, development and marketing resources.

If the company's information technology security systems are penetrated and confidential and or proprietary information were taken it could be subject to fines, lawsuits and loss of customers.

Kopin's headset system is dependent on software which the company has limited experience in developing, marketing or licensing. In addition, Kopin is offering Whisper Chip which is an integrated circuit that contains software developed in-house. Kopin licenses intellectual property rights of others. Included in the headset systems is software which the company licenses from other companies. Should it violate the terms of a license, the license could be canceled. Kopin may not be successful in protecting its intellectual property and proprietary rights and it may incur substantial costs in defending their intellectual property.

Kopin products could infringe on the intellectual property rights of others. The business could suffer if the company lost the services of, or fail to attract, key personnel. Kopin generally does not have long-term contracts with its customers, which makes forecasting revenues and operating results difficult. The company may pursue acquisitions and investments that could adversely affect its business. If the company identifies an acquisition candidate, it may not be able to successfully integrate the acquired businesses, products or technologies into the existing business and products.

The stock price may be volatile in the future. The trading price of the common stock has been subject to wide fluctuations in response to quarter-to-quarter variations in results of operations, announcements of technological innovations or new products.

The company is currently involved in a lawsuit with Blueradios involving a patent dispute. An adverse ruling from this suit could affect future results and share performance. The company has filed a shelf registration which if executed upon could dilute current shareholders.

**Table 1: Kopin Income Statement**

*Dollars in thousands, except per share*

	March A	June A	Sept A	Dec A	F2021 A	March A	June A	Sept A	Dec A	F2022 E	March A	June A	Sept A	Dec A	F2023 A	March A	June E	Sept E	Dec E	F2024 E	
Revenue																					
Component revenues	8,116	6,929	6,592	8,793	30,429	6,508	9,004	8,255	8,655	32,420	7,655	6,011	5,506	6,765	25,937	9,025	8,836	9,936	11,462	39,259	
R&D revenues	3,561	2,976	4,295	4,405	15,237	5,071	2,905	3,475	3,530	14,981	3,103	4,448	5,092	1,813	14,457	1,007	1,579	2,292	2,266	7,144	
Total Revenue	11,676	9,905	10,887	13,197	45,666	11,578	11,909	11,729	12,184	47,401	10,758	10,460	10,598	8,578	40,394	10,033	10,416	12,227	13,728	46,404	
Total cost of goods sold	6,397	6,045	5,145	7,466	25,052	7,783	7,906	7,987	8,882	32,559	6,624	5,697	5,438	7,193	24,952	8,542	7,916	8,192	9,060	33,710	
Gross profit	5,280	3,861	5,742	5,732	20,614	3,796	4,003	3,742	3,302	14,842	4,134	4,763	5,161	1,384	15,442	1,491	2,500	4,035	4,668	12,693	
Research and development	3,563	3,886	3,752	5,233	16,434	5,409	5,145	3,441	4,672	18,668	2,312	3,132	3,090	2,243	10,777	2,101	2,187	2,262	2,265	8,815	
Sales and marketing	5,906	4,041	4,036	4,118	18,101	4,465	4,327	4,320	4,853	17,965	4,648	6,466	4,799	5,929	21,842	7,232	4,166	3,913	4,118	19,429	
Other															24,800						
EBIT	(4,189)	(4,067)	(2,046)	(3,619)	(13,920)	(6,078)	(5,470)	(4,019)	(6,223)	(21,790)	(2,826)	(4,836)	(2,728)	(6,788)	(17,178)	(32,642)	(3,854)	(2,140)	(1,716)	(40,351)	
EBITDA	(3,984)	(3,907)	(1,892)	(3,469)	(13,252)	(5,810)	(5,203)	(3,889)	(6,166)	(21,068)	(2,663)	(4,611)	(2,618)	(6,678)	(16,570)	(32,447)	(3,654)	(1,940)	(1,516)	(39,556)	
Adjusted EBITDA	(1,374)	(3,548)	(1,250)	(2,663)	(8,834)	(5,154)	(4,786)	(3,591)	(6,063)	(19,594)	(2,469)	(3,420)	(1,660)	(5,147)	(12,696)	(6,912)	(3,237)	(1,340)	(866)	(12,354)	
Total other income/(expense)	37	250	(51)	46	125	4,741	(141)	(2,094)	102	80	237	(3,306)	317	338	0	93	0	0	0	0	
Pretax income	(4,153)	(3,817)	(2,097)	(3,572)	(13,639)	(1,337)	(5,611)	(6,113)	(6,121)	(19,182)	(2,590)	(8,141)	(2,411)	(6,450)	(19,592)	(32,548)	(3,854)	(2,140)	(1,716)	(40,258)	
Income taxes	-33	-32	-32	-32	(129.0)	-36	-36	-36	-36	(144.0)	-39	-39	-39	-39	(156.0)					0.0	
Income (loss)	(\$4,185.7)	(\$3,848.9)	(\$2,128.7)	(\$3,604.5)	(\$13,767.8)	(\$1,372.7)	(\$5,647.2)	(\$6,149.2)	(\$6,157.2)	(\$19,326.3)	(\$2,628.6)	(\$8,180.4)	(\$2,450.3)	(\$6,489.0)	(\$19,748.2)	(\$32,548.2)	(\$3,853.8)	(\$2,139.8)	(\$1,716.0)	(\$40,257.8)	
GAAP net income	(\$4,146.2)	(\$3,832.9)	(\$2,235.7)	(\$3,608.4)	(\$13,823.2)	(\$1,372.6)	(\$5,647.2)	(\$6,149.2)	(\$6,157.2)	(\$19,326.2)	(\$2,628.6)	(\$8,180.4)	(\$2,450.3)	(\$6,489.0)	(\$19,748.2)	(\$32,548.2)	(\$3,853.8)	(\$2,139.8)	(\$1,716.0)	(\$40,257.8)	
Non-GAAP net income	(\$4,146.2)	(\$3,474)	(\$1,594)	(\$2,802)	(\$12,016)	(\$717)	(\$5,230)	(\$5,852)	(\$6,054)	(\$17,853)	(\$2,434)	(\$6,989)	(\$1,492)	(\$4,958)	(\$15,874)	(\$7,013)	(\$3,437)	(\$1,540)	(\$1,066)	(\$13,056)	
Basic shares in millions																					
Diluted weighted average shares in millions	87,378	88,815	90,517	88,613	88,831	90,121	90,301	93,516	91,739	91,419	105,036	109,911	110,361	110,597	108,976	120,115	111,000	111,250	111,350	113,429	
GAAP net income per share	(\$0.05)	(\$0.04)	(\$0.02)	(\$0.04)	(\$0.16)	(\$0.02)	(\$0.06)	(\$0.07)	(\$0.07)	(\$0.21)	(\$0.03)	(\$0.07)	(\$0.02)	(\$0.06)	(\$0.18)	(\$0.27)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.35)	
Non-GAAP net income per share	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.03)	(\$0.11)	(\$0.01)	(\$0.06)	(\$0.06)	(\$0.07)	(\$0.19)	(\$0.02)	(\$0.06)	(\$0.01)	(\$0.04)	(\$0.15)	(\$0.06)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.11)	
<b>Ratios &amp; assumptions</b>																					
Sales growth rate	48.2%	12.4%	14.4%	-5.2%	13.8%	-0.8%	20.2%	7.7%	-7.7%	3.8%	-7.1%	-12.2%	-9.6%	-29.6%	-14.8%	-6.7%	-0.4%	15.4%	60.0%	14.9%	
Component revenue growth rate	37.1%	3.9%	1.6%	-12.9%	4.3%	-19.8%	29.9%	25.2%	-1.6%	6.5%	17.6%	-33.2%	-33.3%	-21.8%	-20.0%	17.9%	42%	75%	65%	51.4%	
R&D revenue growth rate	81.7%	38.8%	42.0%	15.1%	39.1%	42.4%	-2.4%	-19.1%	-19.9%	-1.7%	-38.8%	53.1%	46.6%	-48.6%	-3.5%	-67.5%	-60%	-55%	25%	-50.6%	
Total gross margin	45.2%	39.0%	52.7%	43.4%	45.1%	32.8%	33.6%	31.9%	27.1%	31.3%	38.4%	45.5%	48.7%	16.1%	38.2%	14.9%	24%	33%	34%	27.4%	
Product development (% of rev)	30.5%	39.2%	34.5%	39.6%	36.0%	46.7%	43.2%	29.3%	38.3%	39.4%	21.5%	29.9%	29.2%	26.1%	26.7%	20.9%	21%	19%	17%	19.0%	
Sales/marketing (% of rev)	50.6%	40.8%	37.1%	31.2%	39.6%	38.6%	36.3%	36.8%	39.8%	37.9%	43.2%	61.8%	45.3%	69.1%	54.1%	72.1%	40%	32%	30%	41.9%	
Operating profit margin	(35.9%)	(41.1%)	(18.8%)	(27.4%)	(30.5%)	(52.5%)	(45.9%)	(34.3%)	(51.1%)	(46.0%)	(26.3%)	(46.2%)	(25.7%)	(79.1%)	(42.5%)	(325.4%)	(37.0%)	(17.5%)	(12.5%)	(87.0%)	
Adjusted EBITDA margin	-11.8%	-35.8%	-11.5%	-20.2%	-19.3%	-44.5%	-40.2%	-30.6%	-49.8%	-41.3%	-23.0%	-32.7%	-15.7%	-60.0%	-31.4%	-68.9%	-31.1%	-11.0%	-6.3%	-26.6%	

Source: Ladenburg Thalmann estimates, and Co. reports

# APPENDIX A: IMPORTANT RESEARCH DISCLOSURES

## ANALYST CERTIFICATION

I, Glenn G. Mattson, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report, provided, however, that:

The research analyst primarily responsible for the preparation of this research report has or will receive compensation based upon various factors, including the volume of trading at the firm in the subject security, as well as the firm's total revenues, a portion of which is generated by investment banking activities.

Additional information regarding the contents of this publication will be furnished upon request. Please contact Ladenburg Thalmann, Compliance Department, 640 Fifth Avenue, 4th floor, New York, New York 10019 (or call 212-409-2000) for any information regarding current disclosures, and where applicable, relevant price charts, in regard to companies that are the subject of this research report.

## COMPANY BACKGROUND

Kopin is a leading developer, manufacturer and seller of technologies, components and systems for the smart headset market, including for military, thermal imaging, 3D optical inspection, and simulation markets. The company's main offering is an active-matrix liquid crystal display (LCD) but it also has technology around liquid crystal on silicon (LCOS) and organic light emitting diodes (OLED). The company has also developed unique audio technology that allows a user to speak to their device in a low tone or in a loud environment called the Whisper Chip.

## VALUATION METHODOLOGY

We use a 6x Ev/sales on our 2024 forecast to achieve our price target.

## RISKS

Risks to our rating and price target include, but are not limited to:

Kopin has experienced a history of losses and has a significant accumulated deficit. In addition, it has had negative cash flow from operating activities in 2017 and 2016. Kopin's products are targeted toward the wearable market which is still developing and we cannot predict how long the wearable market will take to develop. Success in commercializing these wearable products is very important to the company's ability to achieve positive cash flow and profitability. The company receives a large portion of current revenue from the military which is reliant on government funding.

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The stock price may be volatile in the future. The trading price of the common stock has been subject to wide fluctuations in response to quarter-to-quarter variations in results of operations, announcements of technological innovations or new products. The company is currently involved

in a lawsuit with Blueradios involving a patent dispute. An adverse ruling from this suit could affect future results and share performance. The company has filed a shelf registration which if executed upon could dilute current shareholders.

**STOCK RATING DEFINITIONS**

- Buy: The stock’s return is expected to exceed 12.5% over the next twelve months.
- Neutral: The stock’s return is expected to be plus or minus 12.5% over the next twelve months.
- Sell: The stock’s return is expected to be negative 12.5% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

**RATINGS DISPERSION AND BANKING RELATIONSHIPS AS OF (May 15, 2024)**

Rating	%	IB %
BUY	72.6	57.7
NEUTRAL	26.8	35.4
SELL	0.6	0.0

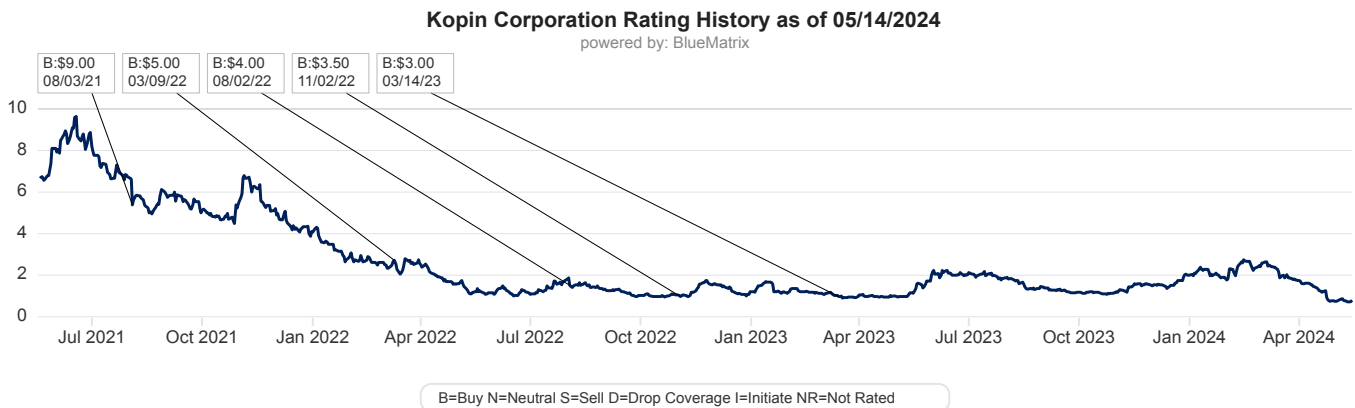
**COMPANIES UNDER GLENN'S COVERAGE**

- |   |                                     |
|---|-------------------------------------|
| The Cannabist Company Holdings Inc. (CBSTF) | Canopy Growth Corp. (CGC)           |
| Cresco Labs, Inc. (CRLBF)                   | Curaleaf Holdings, Inc. (CURLF)     |
| GrowGeneration Corp. (GRWG)                 | Green Thumb Industries Inc. (GTBIF) |
| Jushi Holdings Inc. (JUSHF)                 | Kopin Corporation (KOPN)            |
| LightPath Technologies Inc. (LPTH)          | Ondas Holdings Inc. (ONDS)          |
| SoundHound AI Inc. (SOUN)                   | Tilray Inc. (TLRY)                  |
| TerrAscend Corp. (TSNDF)                    |                                     |

**COMPANY SPECIFIC DISCLOSURES**

Ladenburg Thalmann & Co. Inc. intends to seek compensation for investment banking and/or advisory services from Kopin Corporation within the next 3 months.

**INVESTMENT RATING AND PRICE TARGET HISTORY**



**GENERAL DISCLAIMERS**

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