LaserBond

Laser focused on global growth opportunities

Company Overview

LaserBond (LBL) is an Australian heavy industrial surface engineering company that specialises in the advanced cladding of worn machine components using their proprietary laser technology. Founded in 1992, LBL's technological leadership has fostered engrained relationships with global blue-chip clients and is now well poised for accelerated US & European market growth.

Proprietary technology pivotal to LBL's sustainable growth

LBL's technology has been proven over 30 years to restore worn component surfaces to last 5-10x longer at <2x the cost of new parts. Key catalysts ahead are (1) accelerating the licensing of this technology to global OEMs, and (2) increasing sales of LBL branded high wear-resistant products, e.g. steel mill rolls. We are forecasting +14.6% sales and +34.8% EPS CAGR over the next 4 years.

Strong ROFE accretion ahead, and turbo-charged with an acquisition

With a new VIC cladding cell just installed and 2-3 tech sales expected for FY22, LBL looks fully invested and poised for strong top-line growth which we expect to drive ROFE accretion from 14.9% FY21 to 29.7% FY25. LBL is also seeking an acquisition (2H-FY22+ guidance), and if history is a guide, its balance sheet could fund +17.5% FY21 pro-forma EPS accretion via a <2x EBITDA transaction.

Key markets are increasingly ripe for disruption

Rising cost and ESG concerns are driving heavy industries to adopt sustainable solutions to their machinery wear & tear problem (~3.5%+ of GDP and ~3.0% of energy consumption globally). While LBL is in a microcosm here due to size, sector focus and geographic reach, a generational opportunity is emerging for LBL to outperform the +6.5% 5yr laser cladding global sector CAGR.

Valuation summary

We have valued LBL using a mix of DCF and peer EV/EBITDA methods. Our analysis suggests an interim fair valuation of $1.10-$1.20 per share. Given our baseline forecasts do not factor in any acquisitions, there is clear valuation upside risk should LBL deliver on an accretive 2H-FY22 acquisition.

13 September 2021

Thomas Chapman
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Company Details	
Stock Code	LBL
Last Close	79.0cps
Market Cap	$75.9m
Enterprise Value	$75.2m
Shares on Issue	96.1m
Sector	Capital Goods
Index	None

Top 5 Shareholders	
Wayne Hooper	11.52%
Diane Hooper	10.17%
Rex Hooper	7.17%
Lillian Hooper	5.79%
Lornat Pty Ltd.	5.15%

CCZ vs Consensus			
FY22	CCZ	Cons.	Var.
Revenue	32.9	36.2	-9.1%
EBITDA	8.9	9.3	-4.7%
NPAT	4.3	4.5	-5.4%

Earnings Forecasts	2020A	2021A	2022	2023	2024
P&L Brief					
Revenue	22.2	24.7	32.9	34.9	38.6
U-EBITDA	6.2	6.4	8.9	10.0	11.8
U-EBIT	4.2	3.8	6.2	7.5	9.4
U-NPAT	2.8	2.4	4.3	5.2	6.6
U-EPS (cps)	3.0	2.5	4.4	5.4	6.9
Growth					
Revenue	(2.2%)	11.2%	33.4%	6.1%	10.4%
U-EBIT	(0.6%)	(26.2%)	121.5%	20.3%	26.0%
U-EPS	(1.1%)	(14.8%)	75.7%	22.0%	27.7%

Performance Metrics	2020A	2021A	2022	2023	2024
Valuation					
P/E	26.7x	31.3x	17.8x	14.6x	11.4x
EV/EBITDA	11.8x	12.0x	8.5x	7.3x	5.9x
EV/EBIT	17.3x	20.1x	12.1x	9.7x	7.4x
EV/Rev.	3.3x	3.1x	2.3x	2.1x	1.8x
Div Yield	1.4%	1.5%	2.3%	2.8%	3.7%
Margins					
U-EBITDA	27.9%	25.9%	26.9%	28.6%	30.7%
U-EBIT	19.0%	15.5%	18.9%	21.4%	24.4%
U-NPAT	12.6%	9.8%	12.9%	14.9%	17.2%

Values in AUD'm unless otherwise stated

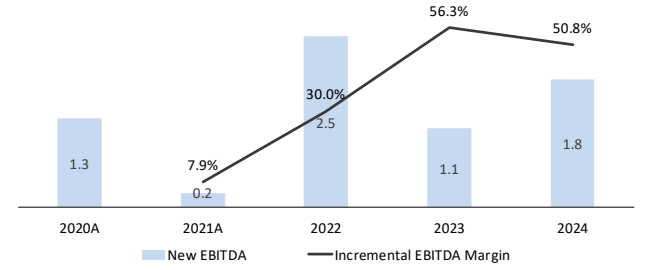
LASERBOND (LBL.AX)

Analyst: Tom Chapman e: tchapman@ccz.com.au p: 61-2-9238-8222
Values are in millions and in AUD unless otherwise expressly stated
Latest Published Forecast Date: 13 Sep 2021

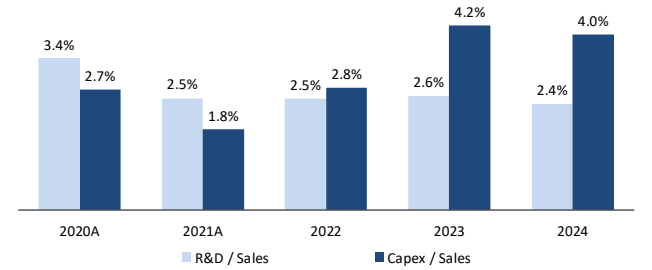
Market Capitalization	76m	Index	None	Year End	Jun	Reporting Currency	AUD
Share Price (AUD/share)	0.79	Sector	Capital Goods	Shares on Issue (m)	96.1		

Segment Performance	2020A	2021A	2022	2023	2024
Sales					
Services	12.8	11.6	13.4	15.3	16.9
Products	9.2	13.0	14.6	16.0	17.6
Technology	0.2	0.1	5.0	3.6	4.1
EBITDA					
Services	4.0	3.0	3.3	4.3	5.3
Products	3.0	4.1	4.6	5.3	5.9
Technology	(0.0)	(0.1)	1.7	1.3	1.6
EBITDA Margin					
Services	31.4%	25.7%	24.9%	28.2%	31.1%
Products	32.3%	31.5%	31.8%	32.8%	33.7%
Technology	(21.7%)	(84.6%)	34.9%	37.0%	38.9%

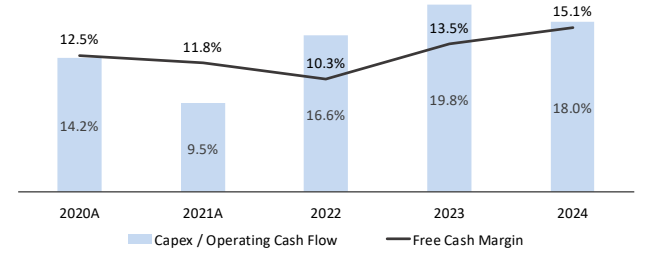
Incremental Returns



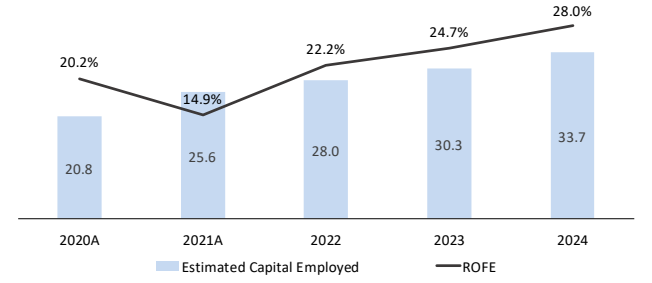
Key Spend Items



Capital Intensity



Earnings Quality



Summary	2020A	2021A	2022	2023	2024
PE	26.7x	31.3x	17.8x	14.6x	11.4x
EV/EBITDA	11.8x	12.0x	8.5x	7.3x	5.9x
EV/EBIT	17.3x	20.1x	12.1x	9.7x	7.4x
Sales Growth	(2.2%)	11.2%	33.4%	6.1%	10.4%
U-EPS Growth	(1.1%)	(14.8%)	75.7%	22.0%	27.7%
U-EBIT Margin	17.2%	11.4%	18.9%	21.4%	24.4%
ROFE	20.2%	14.9%	22.2%	24.7%	28.0%
Gearing (ND/ND+E)	(3.6%)	6.6%	(4.5%)	(19.2%)	(36.8%)
ND/EBITDA	(0.1x)	0.2x	(0.1x)	(0.3x)	(0.5x)
Dividend (cps)	1.10	1.20	1.80	2.20	2.90
Yield	1.4%	1.5%	2.3%	2.8%	3.7%
Franking	100.0%	100.0%	100.0%	100.0%	100.0%

Income Statement	2020A	2021A	2022	2023	2024
Revenue	**22.2**	**24.7**	**32.9**	**34.9**	**38.6**
U-EBITDA	6.2	6.4	8.9	10.0	11.8
D&A	(2.0)	(2.6)	(2.6)	(2.5)	(2.4)
U-EBIT	**4.2**	**3.8**	**6.2**	**7.5**	**9.4**
Net Interest	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
U-PBT	3.8	3.4	5.8	7.0	9.0
U-Tax	(1.0)	(0.9)	(1.5)	(1.8)	(2.3)
U-NPAT	**2.8**	**2.4**	**4.3**	**5.2**	**6.6**
One-offs	0.0	0.4	0.0	0.0	0.0
NPAT	2.8	2.8	4.3	5.2	6.6
U-EPS (cps)	**2.96**	**2.52**	**4.43**	**5.41**	**6.90**
Basic EPS (cps)	2.96	2.96	4.43	5.41	6.90
Wtd Avg SOI (m)	94.8	96.0	96.1	96.1	96.1

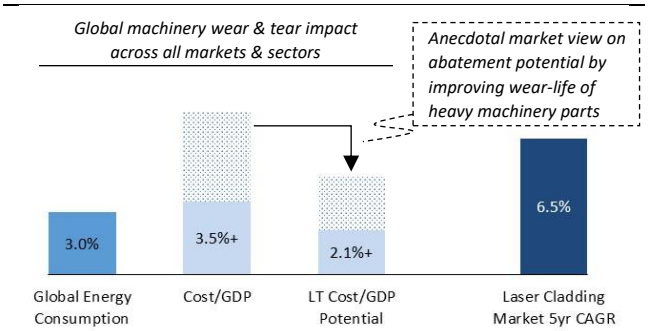
Balance Sheet	2020A	2021A	2022	2023	2024
Cash & Equivalents	4.0	4.9	6.6	9.0	12.0
Trade Receivables	3.8	5.8	7.6	8.1	8.8
Inventories	3.5	3.4	4.6	4.8	5.1
PPE	6.6	9.6	8.4	8.0	7.7
Right of Use Assets	4.7	4.4	4.4	4.4	4.4
Goodwill	0.0	0.0	0.0	0.0	0.0
Other Intangibles	0.0	0.1	0.1	0.1	0.1
Other	0.9	1.3	1.7	1.8	1.9
Total Assets	**23.6**	**29.5**	**33.4**	**36.1**	**40.0**
Trade Payables	1.2	2.4	2.8	2.9	3.1
Debt	0.8	5.9	5.9	5.9	5.9
Lease Liabilities	4.9	5.2	5.2	5.2	5.2
Total Liabilities	**11.4**	**15.3**	**16.5**	**16.9**	**17.4**
Net Assets	**12.2**	**14.3**	**16.9**	**19.2**	**22.6**
Contributed Equity	7.0	7.4	7.4	7.4	7.4

Cash Flow Statement	2020A	2021A	2022	2023	2024
Cash EBITDA	6.2	7.0	10.0	10.2	12.2
Change in Working Capital	(0.5)	(0.8)	(2.5)	(0.5)	(0.9)
Net Interest Paid	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Tax Paid	(1.0)	(1.0)	(1.5)	(1.8)	(2.3)
Other	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**4.3**	**4.8**	**5.5**	**7.4**	**8.5**
Capital Expenditure	(0.6)	(0.5)	(0.9)	(1.5)	(1.5)
Acquisitions	0.0	(0.8)	0.0	0.0	0.0
Other	0.0	(0.0)	0.0	0.0	0.0
Investing Cash Flow	**(0.6)**	**(1.3)**	**(0.9)**	**(1.5)**	**(1.5)**
Change in Debt	0.0	0.0	0.0	0.0	0.0
Change in Equity	(0.0)	(0.0)	0.0	0.0	0.0
Dividends Paid	(0.6)	(0.8)	(1.3)	(2.0)	(2.5)
Lease Payments	(1.2)	(1.7)	(1.5)	(1.5)	(1.5)
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**(1.9)**	**(2.6)**	**(2.8)**	**(3.5)**	**(4.0)**
Net Cash Flow	1.8	0.9	1.7	2.4	3.0
Ending Cash	**4.0**	**4.9**	**6.6**	**9.0**	**12.0**
Free Cash Flow	**2.8**	**2.9**	**3.4**	**4.7**	**5.8**

INVESTMENT THESIS

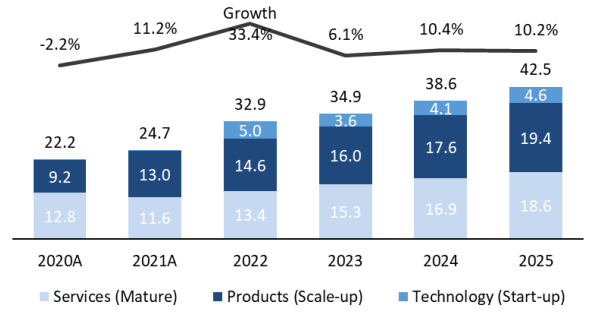
Laserbond is a proprietary laser-cladding technology enabled, who's who of blue-chip client base proven, Australian market leader that is increasingly well positioned for step-change growth in the North American and European markets via (1) the roll-out of its cost-economic and ESG leading, wear-resistant heavy industrial products, and (2) licensing of its IP to major heavy industrial businesses and global OEMs.

Escalating cost and ESG concerns are driving heavy industrial businesses globally to adopt machinery wear & tear reduction solutions…



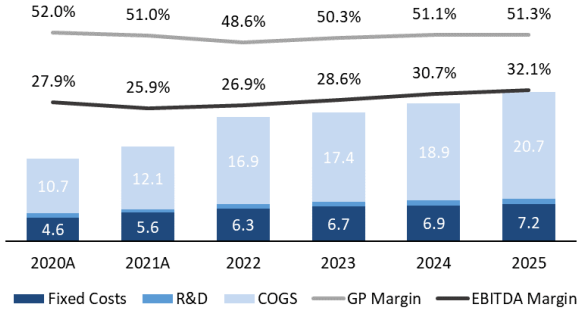
Source: Industry Data (cited in report), CCZ Analysis

… in turn creating a generational opportunity for blue-chip proven, IP-enabled, Australian laser-cladding market leader LaserBond to grow into the US and EU markets…



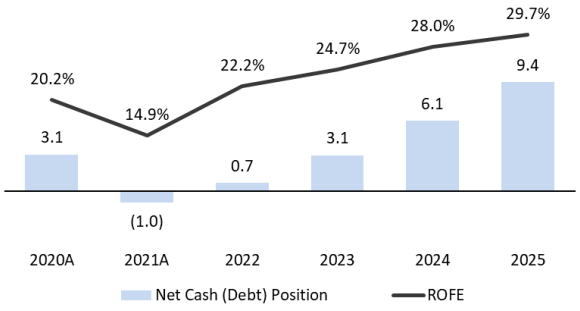
Source: Company Data, CCZ Analysis

… using a near fully invested cost base and with significant latent capacity in existing assets…



Source: Company Data, CCZ Analysis

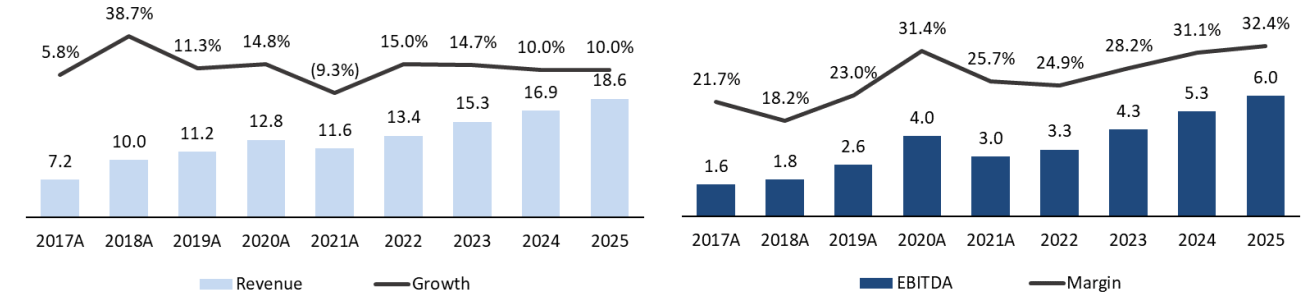
… to deliver solid ROFE uplift in the years ahead, and with a pristine balance sheet poised for accretive acquisitions.



Source: Company Data, CCZ Analysis

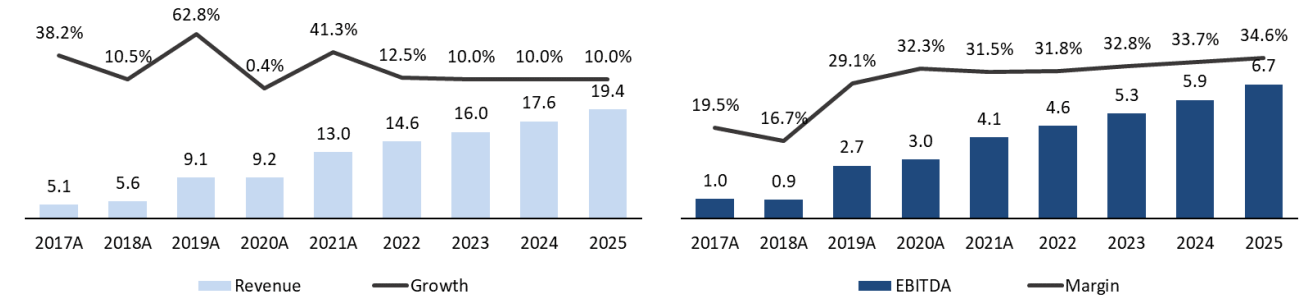
DASHBOARD

Services Segment



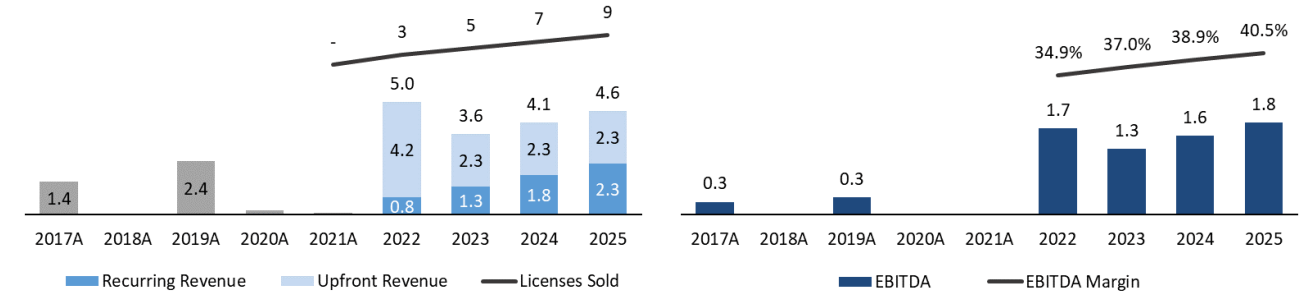
Source: Company Data, CCZ Analysis

Products Segment



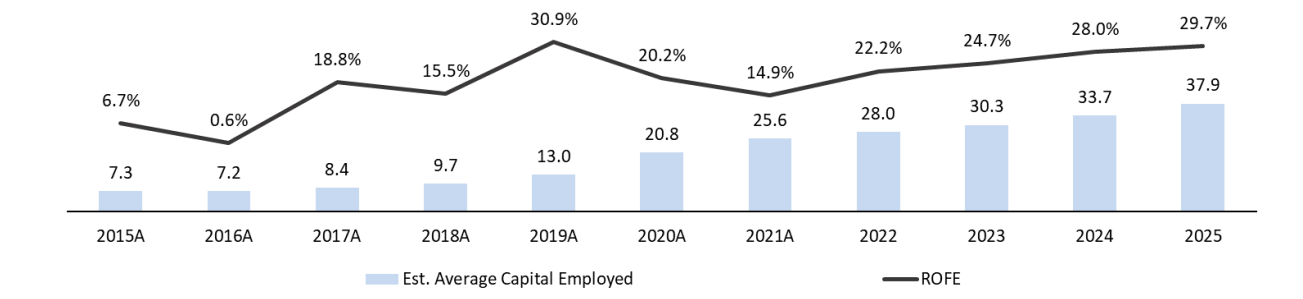
Source: Company Data, CCZ Analysis

Technology Segment



Source: Company Data, CCZ Analysis

Group ROFE



Source: Company Data, CCZ Analysis

Contents

COMPANY OVERVIEW

The Company

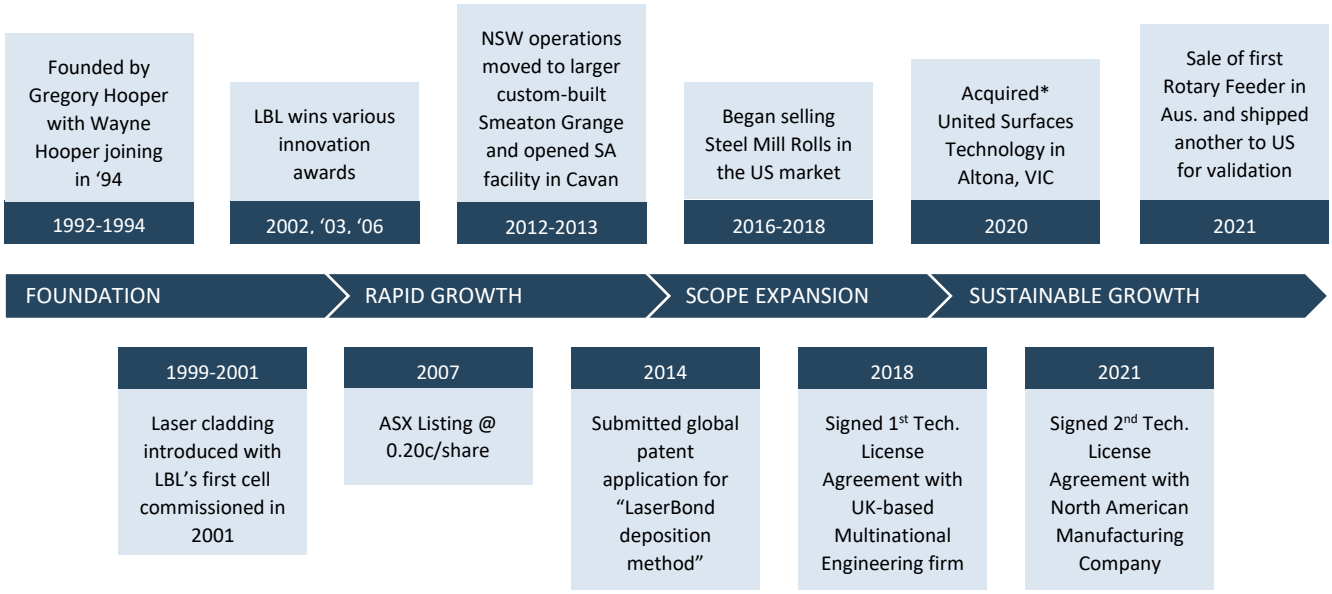
LaserBond (LBL) manufactures, repairs, reclaims, and enhances the performance of high wear critical components across capital intensive industries such as the mining, manufacturing, and agricultural sectors. Companies in such industries rely on their machines to perform for as long as, as effectively as, and as low-cost as possible. However, machinery components experience significant surface-level wear and corrosion from the consistent friction when operating, and eventually require replacement/recovery in the timeliest and cost-efficient means available. Traditionally, such components have been protected via thermal spray technologies yet wear and corrosion continues to be a leading driver of costs and inefficiencies and costing the global economy around US$2.5tn annually.

What problem is LBL addressing? Machinery component surface wear gradually reduces their efficiency and productive lifecycle, consequently increasing the costs associated to repair, replacement, and downtime of machinery. LBL's moat is driven by their proprietary laser surface engineering technology which recovers and/or replaces machinery components to a 'better-than-new' state at a fraction of the cost for a comparable new product replacement.

How is LBL solving it? LBL's reclamation technology significantly improves the resistance of these components through strengthening the bond of surface materials far greater than the traditional thermal spray cladding method. More technically, LBL's IP allows them to metallurgically bond hardened materials (e.g. tungsten, nickel alloys) with the surface substrate using their laser, which allows higher concentrations of protective carbides (carbon mixed metals) within the components surface. LBL operates 3 manufacturing locations across NSW, SA and VIC to service both its domestic clients (with advanced surface protection capabilities) and international clients (production of complete components and commissioned laser cells).

Chronological History

Gregory Hooper was a lead welding technical specialist when he discovered a new metal spray deposition technology - HP HVOF (High Pressure High Velocity Oxy Fuel) thermal spray. After his employer was not convinced to pursue it, he founded a company in 1992 (initially named HVOF Australia) with his brother Wayne joining in 1994. It has since evolved into LaserBond with the introduction of their more advanced additive laser cladding systems over time.



** Purchased for AUD$1.1m at ~1.6x EBITDA*

Operating Segments

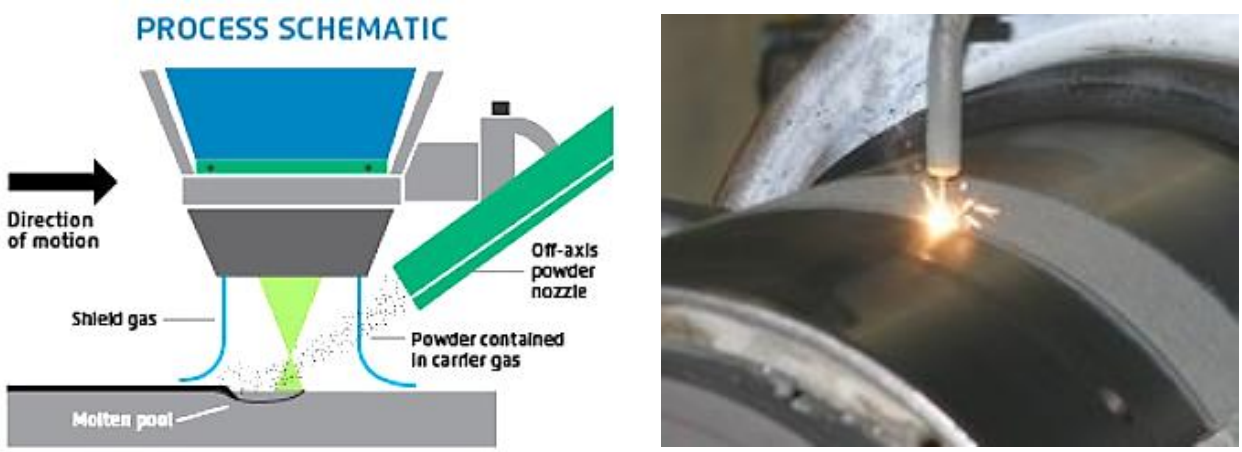
Key Segments	Overview	Historical Revenue Characteristics FY20 Actual	FY21 Actual	3yr CAGR	% of Group	EBITDA Margin
Services	• Historically dominant revenue driver • Surface engineering for component restoration and repair • Includes Laser-cladding, HVOF, Plasma and Arc Thermal Spray.	$12.8m	$11.6m	+5.1%	47.2%	25.7%
Products	• Developing complete products with laser cladding for overseas clients • Strong global growth opportunity • Includes both OEM-specific products and LBL-branded products	$9.2m	$13.0m	+32.4%	52.5%	31.5%
Technology	• Commissioned laser-cells to international OEM's • Allows client to use LBL-developed and specialised technology in house • Contracts have linked consumables sales over license lifetime	$0.2m	$0.1m	-	0.3%	-

Services Segment

This domestic focused segment can be broadly categorized into **laser cladding** (circa 65% of segment revenue) and **thermal spraying**. Compared to the other two aforementioned segments, we view the Services segment as a 'mature' growth segment in LBL's portfolio, albeit considerable growth is still anticipated via capacity expansion and improved utilisation.

The **laser cladding** process involves the pre-machining of worn areas before pure metal powder is molten onto the target surface metallurgically bonding with the original surface material under LBL's laser to structurally improve component surface resistance to wear and corrosion. Figure 1 provides a schematic overview of the laser cladding process.

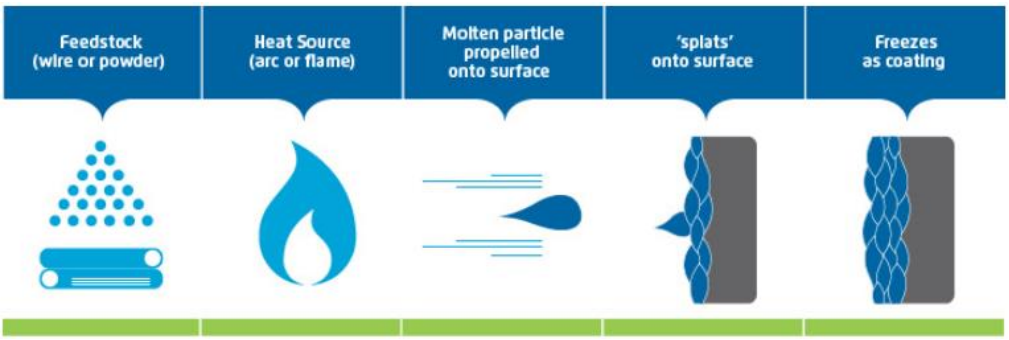
Figure 1: Laser cladding process



Source: Laserbond Website

The **thermal spraying** process on the other hand focuses (for LBL) mostly on the HP HVOF (High Pressure High Velocity Oxygen Fuel) system. This involves melting carbides within a combustion chamber that is then accelerated through a gun-like barrel towards the component surface, which then solidifies soon after landing. Figure 2 provides a schematic of the HP HVOF process. As well as other thermal spray methods, this is more a traditional cladding method that offers lower surface corrosion resistance (versus that of laser cladding) but is delivered at a lower price point.

Figure 2: Thermal spraying process



Source: Laserbond Website

Products Segment

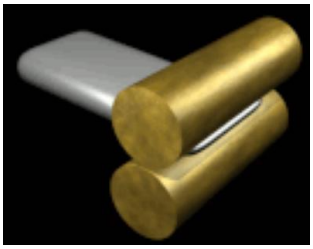
Since 2009, LBL have expanded their offering to manufacture complete components primarily for international clients using their laser-cladding technology. This segment can be split between **OEM branded products** (~95% of segment revenue) and the more emerging **LBL branded products**. We categorize this segment as the 'scale-up' growth segment within LBL's portfolio. Subject to timing of global industry demand realization, there is significant growth potential in the system.

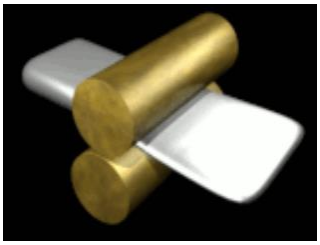
OEM branded products are LBL manufactured OEM component products used in heavy industrial settings. Examples here are mainly slurry pumps. While LBL has not publicly disclosed their OEM product clients albeit acknowledging high client concentration (with 2 OEMs accounting for circa 51% of FY21 revenue), we think the main clients are Wier Group and FLSmidth based on our own market analysis and observations.

LBL branded products are also as above but manufacturing other highly wear resistant components to sell to numerous customers globally. Examples of such products are shown in Figures 3 and 4, with the immediate opportunities being the manufacture and supply of steel mill rolls into the US market (subject to pandemic restrictions).

Figure 3: Composite carbide steel mill rolls for Nucor USA

These are used to reduce the thickness of steel as it passes through the two rolls. LBL technology has proven to increase the wear life up to 10x compared to incumbents at less than 2x the cost.

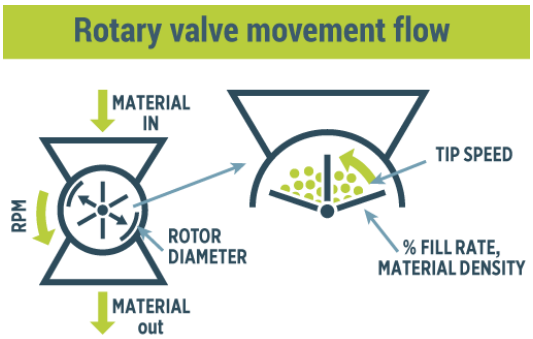




Source: Laserbond Website

Figure 4: Rotary feeders

Air-pressured conveying of mulch, soil, sand, and other aggregate. LBL's solution has proven to last 4x longer than normal feeders with no reduction in efficiency.



Source: Laserbond Website

Technology Segment

This is largely a 'start-up' segment for LBL from our perspective. Instead of manufacturing and selling products to clients, LBL is licensing its advanced technology solution to international OEMs. In physical terms, this involves the set-up and commissioning of LBL's proprietary laser-cladding cells at client sites, followed by supply of laser cladding consumables, as well as continued technology use advice.

So far, we understand two licenses have successfully been contracted – 1 in North America and 1 in UK. Management has indicated that the typical terms of such technology licenses could include a 5-7yr contract period, $1.2-$1.4m upfront payment for commissioned laser cells, $100-$200k annual license fees, plus circa $1.0m of cladding powder and other materials supply over the course of a typical contract.

Most recently LBL announced a collaborative research agreement with Curtin University for the "design, construction and supply of a LaserBond Laser Metal Deposition (LMD) system." This provides an upfront revenue of $0.96m in FY22 aswell as consumable sales over the course of the currently indefinite agreement. Whilst no license fees are involved this a significantly beneficial agreement for LBL as they seek to engrain stronger industry relationships in Western Australia showcasing their proprietary technology and the positive R&D outcomes that this agreement will deliver.

Key Assets

Location – Size and Rental Cost	Equipment – Main + Total (inc. general machinery)	Shift Staffing	Machine Utilisation
NSW – Smeaton Grange • 5,400m^2 • $700k p.a. 	2x Laser + 1 under development 2x HP HVOF Thermal Spray **Total: 40**	Day: 36 (26 machinists) Afternoon: 12 (All machinists)	Day: 65% Afternoon: 30%
South Australia – Cavan • 1,400m^2 • $120k p.a. 	2 x Lasers 1x HP HVOF Thermal Spray **Total: 12**	Day: 5 (4 machinists) Afternoon: 2 (only laser) Night: 2 (only laser)	Day: 33.3% Afternoon: 100% on laser Night: 100% on laser
Victoria – Altona (United Surface Tech. Acquisition) • 2,400 m^2 • $215k p.a. 	1x Laser (installed 31st August 2021) 4x HP HVOF Thermal Spray **Total: 20**	Day: 15 (12 machinists)	Day: 60%

Competitive Advantage

Where does LBL excel?	What does this mean?	How is this proven?
Proprietary Technology	LBL was founded on innovation and have a constant ethos of technological evolution. LBL's surface cladding IP gives them a competitive edge for quality, efficiency and innovation that flows on to further competitive advantages below	• LBL's capabilities have been sought out for customer-specific projects. However with in-house industry knowledge LBL are able to scale their capabilities beyond customer-led projects • **75% of revenue** is derived from the use of LBL's proprietary technology. • **Patent pending** approval globally
Structural Integrity	LBL's metallurgical bond significantly increases the long-term resistance of component surfaces to corrosion, far beyond traditional methods and competing applications. This ensures components last longer, perform better and increase firm productivity	• Component lifecycles have proven to **last 5 to 10x greater** than traditionally clad parts. Few instances has proven 20x, however this is not the norm.
Cost Reduction	Given structural improvements, LBL's technology significantly reduces costs associated to downtime, and frequency of repair and replacement. Whilst their laser is a more expensive solution, on a cost-benefit basis it is more efficient.	• LBL's Composite Carbide Steel Mill Rolls are **lasting 5x longer** than competing products whilst **costing less than 2x the price.**
Environmental Competitiveness	Increasing environmental awareness of customers is shifting demand to more sustainable yet expensive thermal spray solutions. Govts. globally are legislating for lower emissions and stricter environmental practices. LBL have recently developed *E-Clad,* an environmentally friendly alternative to the hazardous hard-chrome plating method.	• LBL's E-Clad **avoids harmful chemicals and requires only 25% of the energy** whilst being **price competitive** with Hard-chrome. • Typical carbon footprint of a LBL resurfaced part **is <1% of a new part**. • LBL are unsurprisingly **ISO14001 certified** with sound environmental practices.
Application Breadth	Both laser suppliers and OEM manufacturers are attempting to develop own capabilities in house. However, they cannot compete with LBL as they don't have the industry application knowledge or application scale that LBL has.	• LBL has **strong industry knowledge** across mining, drilling, marine, manufacturing, agriculture and more. • LBL's laser can service components **up to 25 tonnes, 2m diameters, and 6m lengths.**

Customers

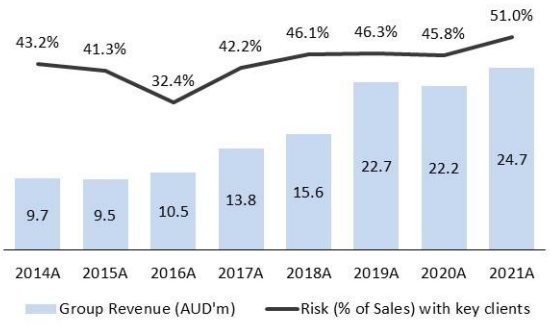
LBL has a suite of offerings that allow them to service firms of various sizes across numerous industries, both in Australia and overseas. LBL price each of their revenue segments on 2 bases. (1) The cost of time/materials used in the development or delivery of a product/service, priced to minimum margins and (2) a premium added that is associated to the comparative value of a replacement part and/or increased efficiencies in downtime and component lifetime. Figure 6 provides a snapshot of some of the key markets and blue-chip customers they have worked with.

Figure 5: Key blue-chip customers by industry groups

Source: LaserBond Annual Review 2021

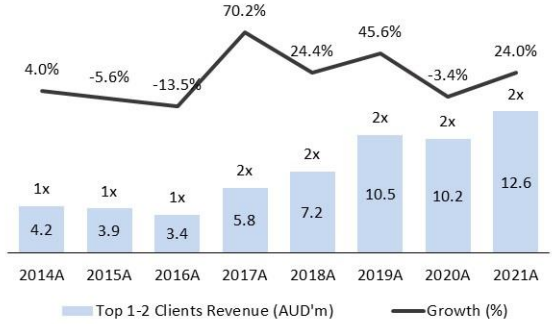
As discussed earlier, two key OEM customers have contributed on average >45% of group revenues over the past few years, and they are concentrated in the Products segment, as shown in Figures 6-7. We understand the first OEM product contract manufacturing relationship commenced in 2008, and the associated revenue from that customer in FY21 was circa $5.0m. The second OEM contract manufacturing relationship commenced around 2016, and the FY21 revenue from this customer is estimated to be $7.6m. In both these instances, LBL is manufacturing and supplying under the OEM brand, not the LBL brand.

Figure 6: Revenue concentration risk



Source: Company Data, CCZ Analysis

Figure 7: Revenue profile from key customers



Source: Company Data, CCZ Analysis

We understand LBL is currently working with 6 OEMs in the products contract manufacturing front, and we assume they are mostly listed in Figure 5. The interim challenge here is the blue-chip reputation of many of these clients were built on their respective traditional manufacturing models, and thus LBL is 'progressively' introducing its laser cladding technology into the product development process.

Services Case Study

Case No. 1	Problem	Solution
The CAT 777 is a common mid-sized off-highway dump truck used in mining.	Wheel spindles are a high wear, high-cost component. Bearing surfaces and drive splines can wear leading to spindle failures and consequent down-time of these trucks. Remanufactured spindles are also not readily found in Australia, adding to vehicle downtime, and overseas purchasing costs.	Using LBL's remanufacturing service (inc. laser cladding) the customer experienced the benefits of: • Faster component turnaround • Less service time for fleet equipment • Cost savings over OEM replacements • Less carbon footprint and waste

Cat777F Dump Truck Wheel spindle showing Journal Fretting and Spline Wear

LaserBond repaired CAT 777F Wheel Spindle Bearing and Journal

"Laserbond offers a better than new replacement part at a fraction of the cost" - LaserBond Customer

Products Case Study

Case No. 1	Problem	Solution
Steel Mini Mills Rolls are used for a variety of manufacturing activities such as the feeding, forming, and transporting of steel rebar through production lines. (Refer to Figure 3)	The movement of this rebar through various rolls at high speed and heat, causes friction and deep grooves that wear standard OEM rolls. These wear grooves then cause jams and rub back onto the rebar, damaging the end product. This results in high maintenance and downtime costs.	LBL's range of composite carbide steel mill rolls for all parts of product lines are re-engineered with proprietary deposition technology providing benefits of: • Structural integrity greater than OEM's, i.e. greater resistance to wear therefore; • Greater servicing lifetime and productivity • Reduced costs associated to downtime and maintenance

"LaserBond have met and exceeded our KPI's as a supplier at every level, including cost reduction and on time delivery"

"In every case LaserBond have far exceeded our expectations in terms of the service life we are now achieving"
- LaserBond Customers

Growth Strategy

LBL have recently extended their company strategy out to 2025 focusing on four key areas, encompassing both organic and acquisitive growth. We highlight them below, and then detail a few scenarios around what the revenue and earnings position could look like in the coming years later in the report.

Strategic Focus	Model	Description
Geographic Expansion	Organic Acquisitive	• Domestically LBL's next target is to enter QLD and/or WA through bolt-on acquisition in order to scale operations closer to existing and potential clients across Australia • Internationally LBL will work with Austrade to strategically enter new attractive markets in Europe, Asia, and North America across all segments
Capacity & Capability	Organic	• Invest in people and equipment to improve margins and productivity • Development of a national internal apprentice training program to support LaserBond specialised processes and broader trade industry needs
Product Development	Organic	• Innovate and build R&D capability to enhance market-leading competitiveness • Launch new technology E-Clad, Micro-Clad, Nano-Clad and expand product lines
Technology Licensing	Organic	• Build a suite of technologies for sale with long-term license agreements – TWO sales budgeted per year • Utilise Austrade partnership to pursue licensing agreements in Asia and Europe

The following **Industry Overview** and **Financial Analysis** sections reflect on the above growth strategies in deriving our financial forecasts for LBL.

INDUSTRY OVERVIEW

Industry Size & Characteristics

LBL offers its products and services to heavy machinery OEMs and their clients across a broad spectrum of global end markets as discussed earlier in the report. Overarching that, we note again that LBL has been providing laser cladding based surface re-engineering solutions to its clients since its inception, and since 2008 has been manufacturing products for a number of OEMs. The latter products manufacturing capability is now expected to see accelerated revenues as it expands via LBL's own branded products into a range of customer segments including steel manufacturing, agriculture, etc.

In other words, LBL's true revenue reach is quite significant albeit contingent on industry sub-segments, channels and customer focus. That, unfortunately, makes LBL relevant industry sizing and analytics quite difficult to ascertain in practice. That being said, we note the following to provide some context on LBL's possible TAM scenarios.

- **The big picture of tribology[1]:** Anecdotal industry research[2] suggests ~3.0% of global energy consumption and ~3.5%-7.8% (CCZ best guess based on accessible high-level industry research data) of normalized global GDP relates to re-manufacturing of worn parts and spare equipment in the transportation, manufacturing, mining, power generation, and residential sectors. The same industry research suggests upgrading or enhancing the wear-resistance of industrial machineries could improve related costs by up to 40% over the longer term. We estimate the wear-specific costs of the collective industry groups of manufacturing, mining and power generation (relevant verticals for LBL in this instance, but obviously well beyond its current TAM) is about 1.5%+ of global GDP or US$1.2t+ based on ~US$84.5t 2020 global GDP. Whether we look at this as an economic challenge and/or an environmental challenge, these are significant numbers! While LBL is in a microcosm of this global opportunity, the above numbers nonetheless point to a still significant growth opportunity that can be tapped into by LBL via it's own branded products & technology licensing ambitions;

- **Laser cladding materials market perspective:** There are industry reports[3] that suggest the global laser cladding materials market is currently worth ~US$117m, with a growth outlook of +6.5% CAGR over 2021-2027. Given (in simplistic terms) that laser cladding is a process of melting raw powder materials to create a bonded 'coating' to repair a worn part, we assume the material volume and cost intensity is arguably far less than the associated process and energy costs. Over the past 2 years, LBL's Services segment operated on a GP margin of ~50%, and we think no more than a third of the COGS involved is the powdered raw material. IF we can extrapolate that raw materials GP margin contribution as a normalized industry datapoint, we are looking at a global laser cladding market size of ~USD$650m. Intuitively and considering the global market tribology context discussed above, this number seems quite low on our non-scientific gut feel! However, the key point we highlight here is that if the global laser cladding materials market is stipulated to grow at +6.5% for the foreseeable future, LBL should be able to comfortably outperform that through growth in Products and its Technology licenses;

- **Laser cladding equipment market perspective:** As opposed to the laser cladding materials market discussed above, another industry report[4] suggests that the laser cladding equipment (which we assume to be the cladding cells itself) is expected to grow at +4.0% CAGR over the next few years, with nearly 41% of that growth coming from Europe. LBL is very much in its infancy with regards to the global rollout of its proprietary laser cladding cell system under the technology licensing structure. A growing equipment market expectation will only be supportive for LBL in our view;

- **Inroads into Weir Group:** A 2019 Weir Group investor day presentation appears to suggest that Weir's total addressable after-market for supply of high abrasion facing products (e.g. Warman centrifugal slurry pumps, comminution products, mill circuits, etc.) in the global mining and minerals sector is about US$7b-$8b per year. We estimate Weir Group's current market share is about 18-20% of that TAM. Weir's local Australia revenue is about £360m or ~18% of group revenue. Reviewing LBL's 2020 Capability Statement document, we note LBL provides both laser-cladding repair services and OEM component manufacturing services to Weir Minerals Australia Ltd for the Warman slurry pumps. If indeed we are correct, and Weir is LBL's current top 2 customer (generating either the $5.0m or $7.6m in FY21 customer revenue flagged earlier in this report), a linear extrapolation could imply LBL's longer term opportunity revenue with Weir alone is around the

[1] Study of friction, wear, lubrication, etc.
[2] https://link.springer.com/article/10.1007/s40544-017-0183-5
[3] https://www.digitaljournal.com/pr/laser-cladding-material-market-competitive-insights-and-global-outlook-2021-2026
[4] https://mms.businesswire.com/media/20201211005185/en/846137/5/IRTNTR41530.jpg?download=1

$28-$42m mark through growth in the OEM products line. That high level analysis also assumes Weir's own market share or revenue base does not grow any further, which is being quite cautious;

- **Hard chrome plating substitution potential:** We understand the LBL relevant global hard-chrome plating industry (with hard chrome plating being essentially a cheaper but less effective alternative to laser cladding) size is around the US$1.2b mark. With increasing health and environmental concerns with this more traditional plating industry, we can see the prospects for substitutive growth in the E-cladding segment. The substitution rate is unknown to us at this point, however LBL's ability to economically replace hard chrome plating solutions could well be another source of both domestic and international growth;

- **Steel mill rolls potential:** The sale of LBL branded steel mill rolls into the US market is one of the strategic growth pillars for LBL. We understand the company generated about $0.4m in FY21 revenue from the sale of LBL branded steel mill rolls with the significant majority of that from a US customer, which we assume is Nucor. While the pandemic and resulting travel restrictions has severely limited LBL's growth potential in the US market in the short term, the sheer scale of the US steel manufacturing market (and subsequent, ongoing demand for corrosion and wear resistant steel mill rolls both from an economic and environmental standpoint) suggests LBL could eventually see substantial growth here and possibly with the support of a local distribution partner or growth agent. High level analytics suggest the TAM potential for LBL in the steel mill rolls supply market is >$15m pa on the basis of the US market being up to 15x larger than Australia, however we suspect a linear extrapolation here may not be a definitive guide. Separately, the emerging and likely increasing demand for 'green steel' will also accentuate the need for higher wear resistant components, and we understand LBL's proprietary technology with very minute emissions could be well suited here.

In short, it should be reasonably evident from the above that there is significant underlying growth potential for LBL in the broader laser cladding industry. Following on from that, the specific addressable market size and growth for LBL would be a function of their 5yr strategic plan and how successfully they can execute on it in the coming years.

Industry Tailwinds

- **Cost efficiency and productivity:** As discussed in the aforementioned section, there is a constant economic push for greater whole-of-life, cost-effective and productive solutions for heavy industrial machineries. We do not expect this focus to change on a through-cycle view;

- **Environmental shift:** With increasing environmental awareness across heavy industries generally, the comparatively high global emissions levels associated with tribology, as well as health concerns around industry practices such as hard chrome plating, we think there is likely to be a sustained push towards more environmentally supportive laser and E-clad solutions.

Industry Headwinds

- **Financial incentives:** As we see it, a heavy industrial machine owner/operator's choice is to replace the machine (upfront capex and accelerated depreciation for tax benefits), a possibly lower-cost repair of worn components (with arguably lower short-term budget stress) but with a shorter repaired part life extension, or an arguably higher-cost repair (or parts replacement) with significantly better part life extension. The headwind here is one of economic choice and incentives that could influence decision makers towards short-term gain options;

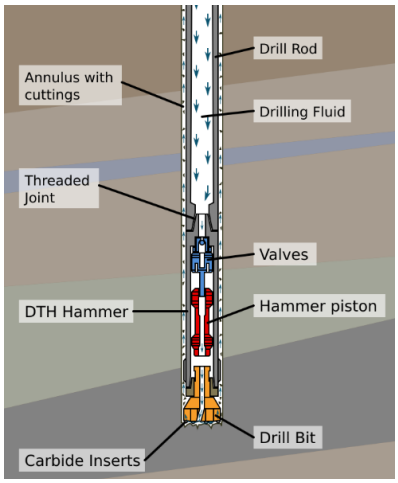
- **Slow adoption:** As discussed earlier, established/blue-chip manufacturing companies with traditional (but proven) methods can be reluctant to adopt new technologies at a rapid pace. LBL has experienced this headwind in their Products segment already, so further stagnation in terms of technology adoption is perhaps less likely;

- **Increasing competition from prospective clients:** There appears to be emerging evidence of equipment OEMs globally developing their own in-house cladding solutions. While this is a headwind, we see the possibility of this flipping to a tailwind should LBL be able to demonstrate the relative upside of clients adopting LBL's technology licenses instead of building their own;

- **Competitive response:** If competing and traditional manufacturing-based OEMs choose to adjust capacity or price-dump to sustain their products' demand, we suspect LBL might struggle to compete where clients take the 'short term economic view'. This has already been evidenced with the LBL branded DTH hammer product, where (we are advised) traditional manufacturers from China have floored their new DTH hammer prices to such an extent that there is no economic rationale left for LBL to compete, despite LBL's DTH Hammer product proposition appearing to be superior (see Figure below).

Figure 8: Down-the-hole (DTH) hammers

Air-pressured device that is used to fracture rock surfaces in mining and mineral exploration. LBL's DTH Hammer is proven to last 3.05x longer than "major brand high-performing DTH Hammers" whilst saving 60% of direct costs.



Source: Laserbond Website

Competitors

The global laser cladding market appears to be highly fragmented, regionalized and specialized to respective end-customers, and then is also limited by operating capacity and/or industry verticals. Moreover, and specific to the heavy industry operators exposed to heightened tribology risks, we have observed a general reluctance to 'switch' part/equipment cladding service providers or replacement part suppliers given the potentially enormous cost (and lost income) of unplanned equipment failure.

What this means is heavy industry customers stay with the 'tried and tested' until a proven step-change option comes to the fore. In other words, existing customer competition for laser cladding providers is mostly from same or similar other laser cladding providers, not other inferior alternative technologies.

The main laser cladding competitors for LBL in the domestic Australia market are **Hardchrome Engineering** (private; second largest operator in Australia behind LBL), **Brenco** (owned by US based Mogas, small heavy engineering sector capacity), and **Swanson Industries** (private; focused on niche markets).

Across the US, UK and European markets, there are numerous laser cladding operators, with some appearing to be vertically integrated as well. However, the competitive mix in those markets arguably irrelevant for LBL as this point in its international growth agenda, as it is starting off a largely small revenue base and competing on value-add from step-change technology e.g. composite carbide steel mill rolls or licensing of IP.

MANAGEMENT & BOARD

Key People

Board

Member		Holdings (% of Register)		Background
Wayne Hooper CEO and Exec. Director		Ord. Shares Perf Rights Options	11.1M (11.5%) - -	Current • Held position since 1994 Former • Senior Marketing and Project Management roles at Fletcher Insulation (formerly ACI Insulation) • Electrical Engineer for Electricity Commission of NSW
Philip Suriano Chairman and Non-Exec. Director		Ord. Shares Perf Rights Options	843K (<1%) - -	Current • Held position at LaserBond since 2008 • Director of Equity Capital Markets at Lempriere Capital Former • 16 years management experience in Australian Media Industry • Corporate Banking Analyst at Commonwealth Bank
Matthew Twist CFO, Exec. Director and Company Secretary		Ord. Shares Perf Rights Options	74K (<1%) - -	Current • Held CFO position since 2007 and Company Secretary since 2009 Former • 25yrs of finance experience across manufacturing companies

Other Key Management

Member		Background
Thomas Schläfer Engineering Manager – R&D Projects		Current • Held position since 2017 Former • Head of R&D for one of Europe's top manufacturers of thermal spray and laser cladding equipment

Remuneration

LaserBond has been a family-owned and ran business since its launch in 1992, with the Hooper family still holding the top four largest share holdings in LaserBond (LBL) totalling a 34.64% holding. This includes:

1. Wayne Hooper: 11.1m shares (11.52%)
2. Diane Hooper: 9.8m shares (10.17%)
3. Rex Hooper: 6.9m shares (7.17%)
4. Lillian Hooper: 5.6m shares (5.79%)

This engrained family ownership cannot be understated. The long-term commitment, innovation and sustainable growth is a testament to the quality of key management personnel and an effective remuneration policy. We understand LBL's remuneration policy is aligned to achieving strategic objectives and improving shareholder value.

Track Record

	Guidance / Priorities Flagged	Performance Summary	Result
FY17	30% FY17 revenue growth	Revenue increased +31%pcp from $10.5m to $13.8m	HIT
FY18	FY18 services revenue growth similar to FY17	Achieved 39% growth in Services over FY17-18 well above guidance of 6% growth from FY16-17	HIT
FY19	36%-45% 1H-FY19 revenue growth	Achieved upper limit of guidance with revenue increasing +45%pcp	HIT
	FY19 revenue - $21.6-$22.2m FY19 PBT - $3.2-$3.5m	Above guidance range for both with Revenue of $22.7m and PBT of $3.8m	HIT
	Management change: Thomas Schläfer replaces Gregory Hooper as Head of R&D in Feb'20		
FY20	Double-digit growth in Services	Achieved an increase +14.8%pcp in services revenue	HIT
	Double-digit growth in Products	Missed target with product revenue flat +0.4%pcp, due to a major OEM changing product specifications which delayed fulfilment	MISS
	Growth in Technology Licensing	No new tech sales but fulfilled material supply and license fee charges of current contract	Unclear
FY21	Stable revenue base from FY20 to carry into FY21 with Covid-19 expected to only impact growth	Services revenue slightly down -9.3%pcp, but larger than expected growth in product division +41.3%pcp and a new tech sale proved the robustness of LBL's revenue to increase +11.2%pcp through FY21	HIT
	Growth in Technology Licensing	International Technology License – agreed upon with North American manufacturer	HIT
FY22	Revenue target of $40m		N/A
	Bolt-on acquisition in 2H-FY22		N/A

FINANCIAL ANALYSIS

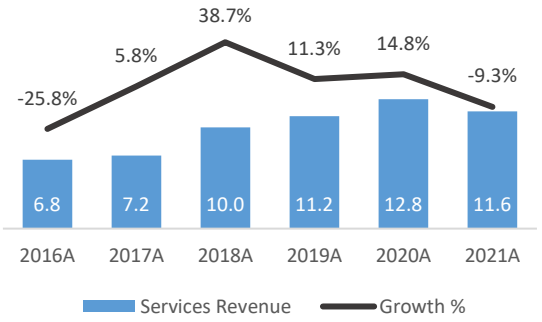
Outlook Statement

We note LBL's FY22+ outlook statement released on 23 Aug'21: *"The Board remains committed to achieving its stated revenue target of $40 million by 2022 and current forecasts indicate a revenue number very close to that target. However, a portion of that revenue target assumes the timely acquisition of a bolt-on business that can begin to contribute revenue by early 2H22 at the latest."*

Given the scale, scope and timing of the aforementioned bolt-on acquisition is unknown, our published forecasts are based on organic growth assumptions only. We discuss the FY22-FY25 financial forecasts and our underlying assumptions in the following sections.

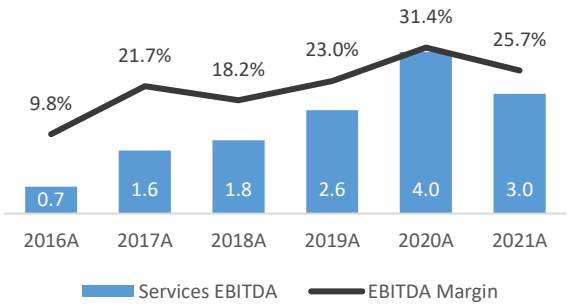
Services Segment: Revenue & EBITDA

Figure 9: Historical Revenue ($AUD'm) and Growth (%)



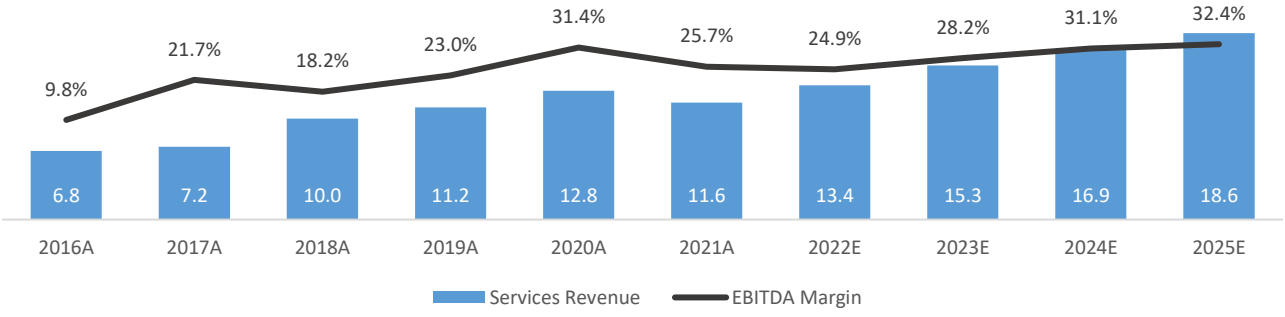
Source: Company Data, CCZ Analysis

Figure 10: Historical EBITDA ($AUD'm) and Margin (%)



Source: Company Data, CCZ Analysis

Figure 11: Forecast Services Revenue ($AUD'm) and EBITDA Margin (%)



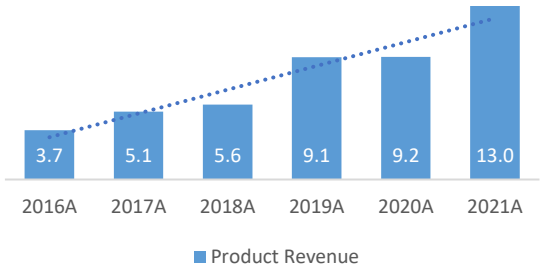
Source: Company Data, CCZ Analysis

- **Historical Data:** Traditionally LBL's stronger and more mature revenue segment that showed steady growth before Covid-19 impacts hit in FY21. Accordingly, LBL were achieving stronger EBITDA margins each year, a testament to the greater operating leverage they were achieving. FY21 Service revenue growth was impacted by Covid restrictions to 'face-to-face' sales but also customers halting non-employees on site, delaying planned maintenance schedules.

- **Forecast Assumption:** The installation of a laser cell in their Victoria facility and easing of travel restrictions should support a progressive return to pre-pandemic growth levels, reflecting our estimated 3-yr forward CAGR of 12.9%. We also expect LBL to benefit from operating leverage with EBITDA margins expanding to 31% by FY25.

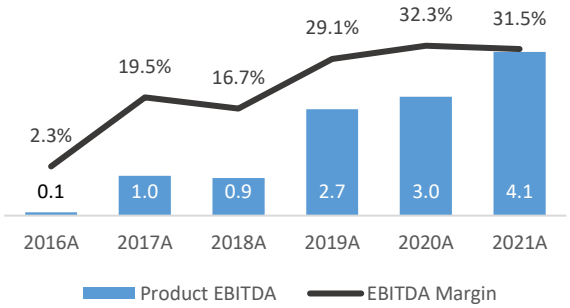
Product Segment: Revenue & EBITDA

Figure 12: Historical Revenue ($AUD'm)



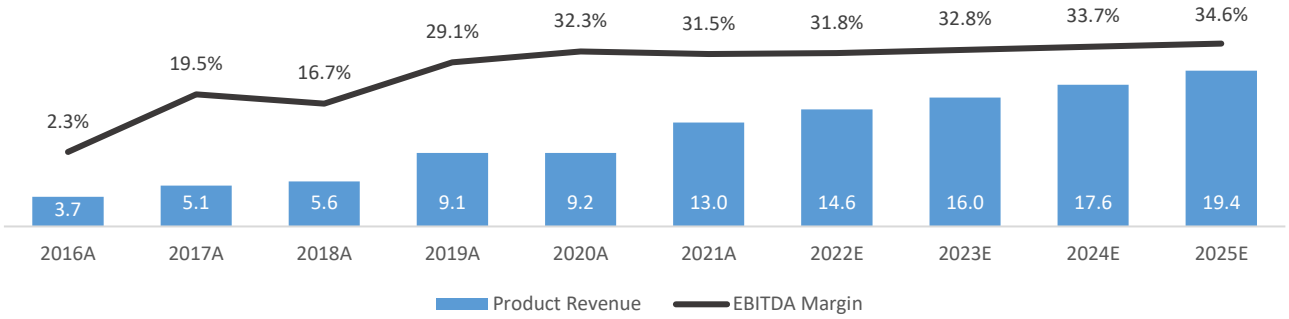
Source: Company Data, CCZ Analysis

Figure 13: Historical EBITDA ($AUD'm) and Margin (%)



Source: Company Data, CCZ Analysis

Figure 14: Forecasted Revenue ($AUD'm) and EBITDA Margin (%)



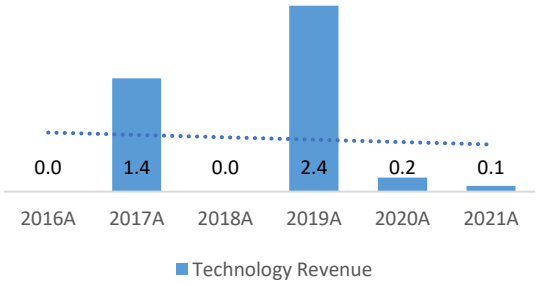
Source: Company Data, CCZ Analysis

- **Historical Data:** This segment is considered to be in a 'scale-up growth' phase, historically dominated by 2 overseas OEM's which have experienced reasonable growth as the relationship with these OEM's has matured.

- **Forecast Assumption:** We expect OEM product sales growth to be at a low single digits run rate going forward. However, the higher growth opportunity is in the sales of LBL branded products, in particular steel mill rolls which have recently commenced sales in the US. LBL also plan to leverage its relationship with Austrade and seek a sales agent abroad in order to boost sales in both the US and Asia. We have forecasted product growth at an +11% 3-yr forward CAGR, with an operating leverage enabled growth in EBITDA margins expected too.

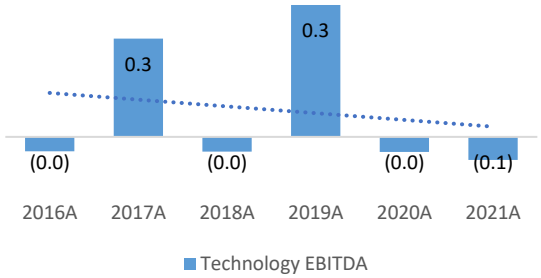
Technology Segment: Revenue & EBITDA

Figure 15: Historical Revenue ($AUD'm)



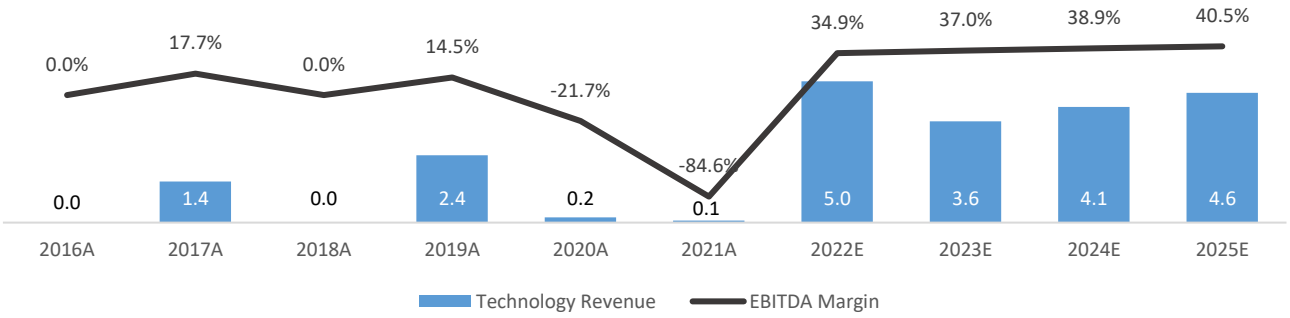
Source: Company Data, CCZ Analysis

Figure 16: Historical EBITDA ($AUD'm) and Margin (%)



Source: Company Data, CCZ Analysis

Figure 17: Forecasted Revenue ($AUD'm) and EBITDA Margin (%)



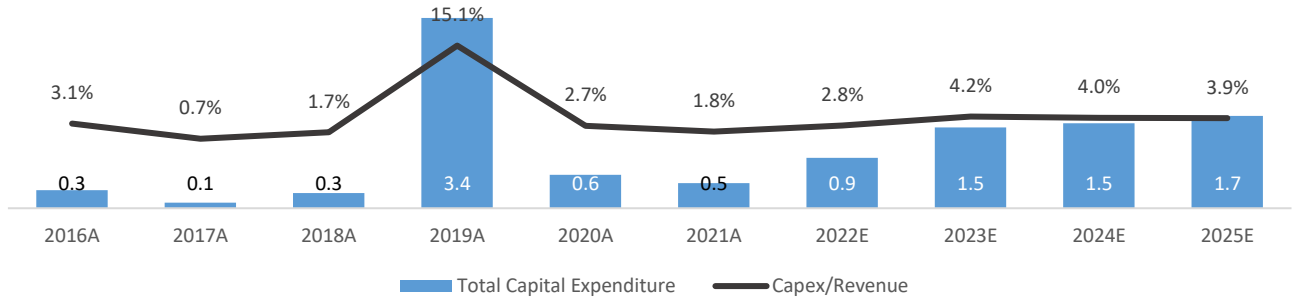
Source: Company Data, CCZ Analysis

- **Historical Data:** This segment has proved very lumpy to date, with LBL's first successful technology license sale to a UK-based multinational in FY19. The contract earnings involve an upfront fee present in 2019 and recurring annual license fees and material supply charges in the subsequent years of the contract.

- **Forecast Assumption:** A technology license sale with a North American Manufacturer was signed in late FY21 but due to travel restrictions, the contract fulfilment was delayed until FY22. This contract will see a $1.5m upfront fee and ongoing licence fee of ~$144k and ~$700k in material supply charges over the course of the 7-year contract. As previously mentioned LBL announced a collaborative research agreement with Curtin University in WA that will provide ~$0.96m from an upfront sale fee and consumables over time, but no license fee. LBL has also budgeted a further 2 license sales in FY22 and for each subsequent financial year, hence we have assumed similar terms for LBL's future sales in our forecasts.

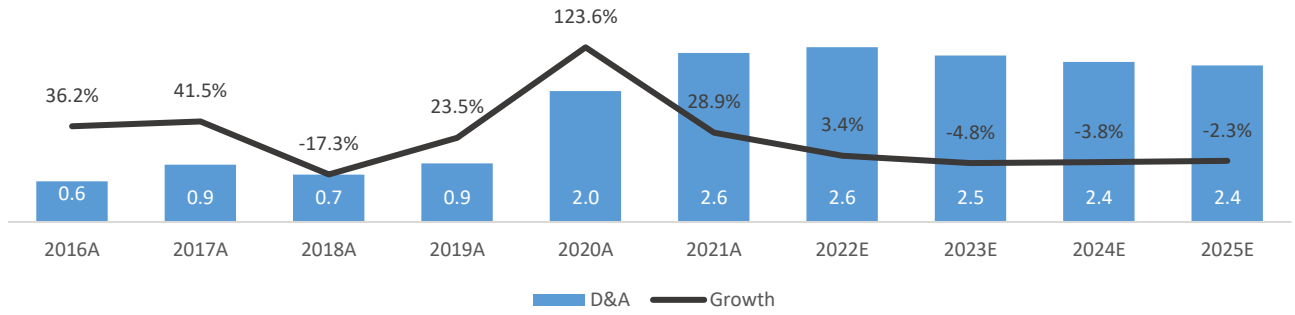
Capital Expenditure and D&A

Figure 18: Forecasted Capital Expenditure ($AUD'm) and Capex/Revenue (%)



Source: Company Data, CCZ Analysis

Figure 19: Forecasted D&A ($AUD'm) and D&A Growth (%)



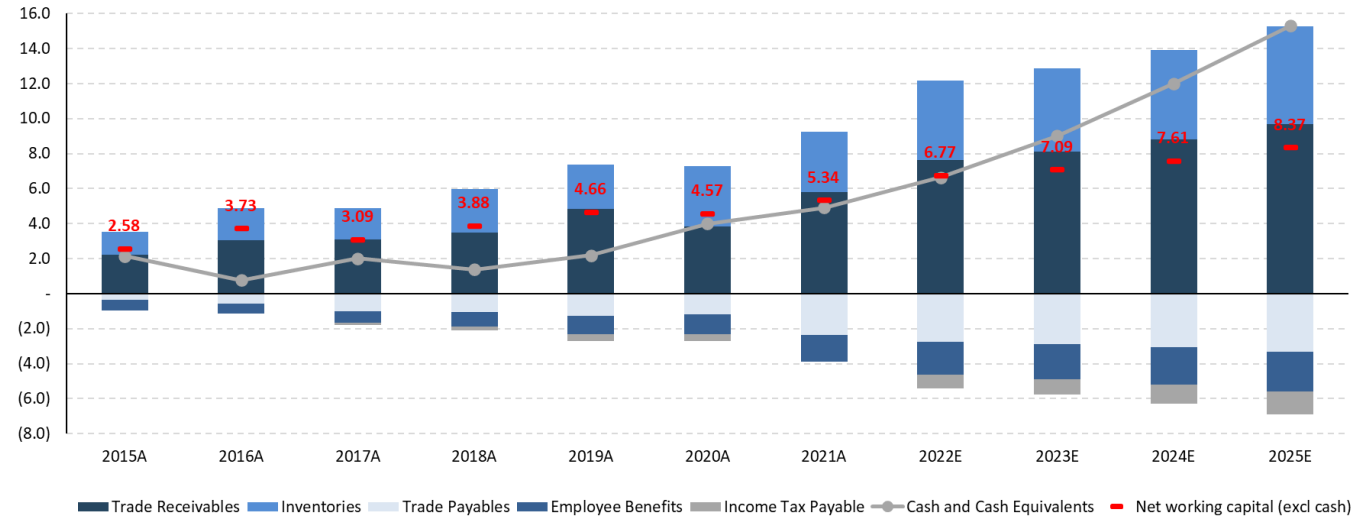
Source: Company Data, CCZ Analysis

- **Historical Data:** The key outlier for LBL is evidently in 2019 where they made significant equipment investments to increase the capacity and capability of production at both their NSW and SA facilities. This included an automated dual station high power cladding system in South Australia, as well as an additional large capacity CNC horizontal borer in NSW that doubled their capacity for this work.

- **Forecast Assumption:** Akin to the broader heavy industry manufacturing market that LBL operate in, we have conservatively forecasted LBL's capital expenditure to sit around 4-4.5% of revenue to support their growth strategy mentioned earlier in the report.

Working Capital Management

Figure 20: Forecasted working capital



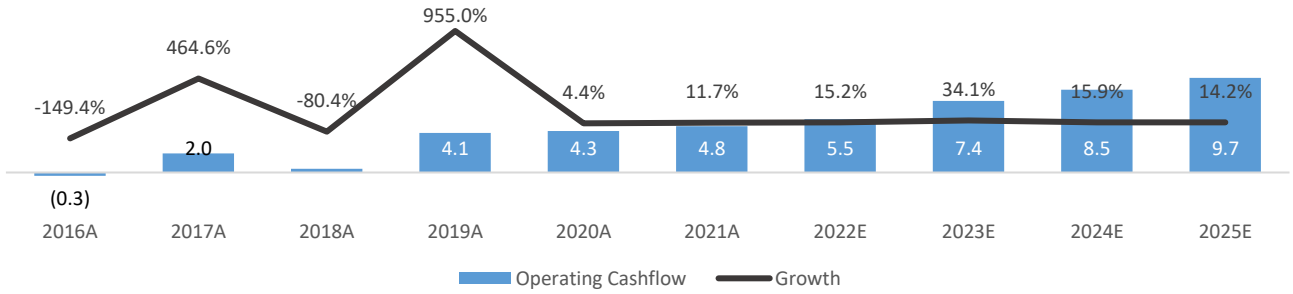
Source: Company Data, CCZ Analysis

- **Historical Data:** Excluding a challenging FY21, LBL generally have a slight skew in working capital in the first half of each financial year. This represents consistent working capital management with trade payables and trade receivables primarily settling contracts in the second half. Further, the steady growth in cashflow and net working capital can also be attributed to effective inventory turnover which is set to increase as the product segment scales up.

- **Forecast Assumption:** We have assumed historical, underlying working capital trends carry through over our forecast period to FY25.

Operating Cash Flow

Figure 21: Operating Cashflow ($AUD'm) and Growth (%)



Source: Company Data, CCZ Analysis

- **Historical Data:** LBL's operating cashflow has shown significant improvement over the last 4-5 years as a result of revenue increasing at a CAGR of +18.7% since FY15 whilst improving their EBITDA margin significantly from 5.7% in FY15 to 21.7% in FY21.
- **Forecast Assumption:** We expect LBL's operating cashflow to continue growing as they improve the scale of their services and product segments at greater margins as well as more regular license sales with both upfront high-margin and recurring components.

Acquisition Model Scenarios

Scenario 1: No Acquisition

The following table details our segment growth forecasts for LBL without the inclusion of a bolt-on acquisition that the company has flagged as a possibility from 2H-FY22. As Covid-19 restrictions, we expect the installation of a laser cladding cell in Victoria to complete and as well as the increased likelihood of greater rollout of LBL branded steel mill rolls in the US. This will facilitate organic growth in higher margin service and product segments. LBL's technology license sale announced in May will begin generating revenue, with management guiding a further 2 tech license sales in FY22 expected to deliver a similar earnings structure.

Note that the FY21 EBITDA include consolidated figures including government grants/subsidies.

			Organic			*Contracted/ Budgeted*			
Annualized AUD'm	**LBL** FY2021	+	**Services** Growth	**Product** Growth	+	**North American Tech. License**	**2x Tech. License Sales**	=	**FY2022** Forecast exc. acquis.
Revenue	24.7		1.7	1.6		1.6	3.3		32.9
Growth on pcp.	11.2%		15.0%	12.5%		N/A	N/A		33.2%
EBITDA	6.4		0.3	0.6		0.4	1.2		8.9
Margin	25.9%		17.6%	37.5%		25.0%	36.3%		27.1%

Scenario 2: Successful Acquisition (based on recent United Surfaces Technology)

LBL re-confirmed their revenue guidance of $40m for FY22 in their 2021 Annual Report, however mentioned that *"a portion of that revenue target assumes the timely acquisition of a bolt-on business that can begin to contribute revenue by early 2H22 at the latest"*. By using similar metrics from LBL's acquisition of United Surface Technologies in Victoria, we can conservatively estimate LBL to be close in achieving their revenue guidance.

			Organic + Tech. Additions			**Acquisition**			
Annualized AUD'm	**LBL** FY2021	+	**Services + Products** Growth	**3x Tech. License Sales**	+	**QLD or WA bolt-on**	=	**FY2022** Forecast inc. acquis.	**LBL FY2022** Guidance inc. acquis.
Revenue	24.7		3.3	4.9		4.5		37.4	40.0
Growth on pcp.	11.2%		13.8%	N/A		N/A		51.4%	61.9%
EBITDA	6.4		0.9	1.6		0.7		9.6	N/A
Margin	25.9%		27.3%	32.7%		15.5%		25.7%	N/A

VALUATION & RISKS

Valuation

We have valued LBL on a mix of discounted cash flow and peer-based valuation methods. Our analytics are discussed below.

Discounted Cash Flow (DCF) Valuation

Figures 22-23 summarise our forecast DCF valuation for LBL, including a range of valuation scenarios based on varying discount rates and terminal growth rates.

Figure 22: DCF valuation model

		2022	2023	2024	2025	2026
WACC	[%]	9.84%	9.22%	8.43%	7.83%	7.42%
Risk Free Rate	[%]	0.25%	0.50%	0.50%	0.50%	0.50%
Risk Premium	[%]	9.00%	9.00%	9.00%	9.00%	9.00%
Terminal Growth	[%]	6.00%	5.50%	5.00%	4.50%	4.00%
Free Cash Flow	**[AUD'm]**	**3.4**	**4.7**	**5.8**	**6.9**	**7.1**
FCF @ Year-N	[AUD'm]	184.2	189.9	206.1	212.2	206.6
Net Present Value	**[AUD'm]**	**125.4**	**141.7**	**165.8**	**181.7**	**185.7**
Shares on Issue	[m]	96.1	96.1	96.1	96.1	96.1
Valuation	**[AUD/share]**	**1.31**	**1.47**	**1.73**	**1.89**	**1.93**

Source: CCZ Analysis

Figure 23: Valuation scenarios

Terminal Growth \ *Risk Premium*	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%
7.50%	6.41	3.71	2.61	2.01	1.63	1.37
7.00%	3.91	2.73	2.09	1.69	1.42	1.22
6.50%	2.85	2.18	1.76	1.47	1.26	1.11
6.00%	2.27	1.82	1.52	1.31	1.14	1.01
5.50%	1.89	1.58	1.35	1.18	1.05	0.94
5.00%	1.64	1.40	1.22	1.08	0.97	0.88
4.50%	1.45	1.26	1.12	1.00	0.90	0.83
4.00%	1.30	1.15	1.03	0.93	0.85	0.78
3.50%	1.19	1.06	0.96	0.88	0.80	0.74
WACC Implied	*8.24%*	*8.77%*	*9.31%*	*9.84%*	*10.37%*	*10.90%*

Source: CCZ Analysis

Peer Based Valuation

We have compared LBL with a number of specialty industrial manufacturing players globally, as shown in Figure 24. A few of the companies are also direct customers of LBL. While the list remains a work in progress, and we note LBL is materially smaller in market capitalization, it is still nonetheless the case that LBL is trading at a more-than-justifiable 28%-30% discount on both EV/EBITDA and EV/EBIT metrics despite having a markedly better sales growth and free cash margin outlook. **IF we assumed a 15% discount was more reasonable, LBL's valuation would be circa $0.96-$0.98/share**.

Figure 24: LBL comparative valuation metrics versus select global peers

ADVANCED MANUFACTURING - INDUSTRIAL SPECIALTY		EV/EBITDA		EV/EBIT		Sales Growth		Free Cash Margin	
		FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2
FII-FR	LISI SA	9.0x	6.7x	20.4x	12.4x	-0.2%	14.4%	4.6%	4.9%
FLS-DK	FLSmidth & Co. A/S	10.4x	7.5x	14.4x	10.2x	1.7%	9.9%	3.6%	2.7%
FLS-US	Flowserve Corporation	11.8x	10.3x	15.3x	12.9x	-2.1%	6.8%	6.4%	7.2%
IR-US	Ingersoll Rand Inc.	19.7x	16.5x	30.4x	25.2x	3.5%	8.6%	16.3%	17.4%
PH-US	Parker-Hannifin Corporation	12.0x	10.9x	13.2x	11.8x	8.9%	5.7%	14.4%	15.1%
ROR-GB	Rotork plc	17.7x	16.1x	19.9x	18.1x	0.8%	4.8%	14.8%	16.5%
WEIR-GB	Weir Group PLC	13.0x	11.3x	16.2x	14.2x	1.3%	8.3%	7.6%	7.3%
Possible Comparables		**12.0x**	**10.9x**	**16.2x**	**12.9x**	**1.3%**	**8.3%**	**7.6%**	**7.3%**
LBL-AU	LaserBond Ltd	8.5x	7.3x	12.1x	9.7x	33.4%	6.1%	10.3%	13.5%
	LBL Discount to Comparables	**-29.4%**	**-33.5%**	**-25.3%**	**-24.6%**				

Source: CCZ Analysis, Factset (as at 13 Sep'21)

Risks

- **Risk #1:** Customer concentration – With nearly 51% of group revenue coming from two customers, there is clear customer concentration risk. We expect that as LBL achieves greater own-branded products and technology licenses rollout in the coming years, this risk profile will be progressively improved;

- **Risk #2:** Labour market shortage – Availability of appropriately skilled machinists and machine operators is a notable risk factor, and we note LBL management has been actively managing this risk through various means (as they are available), e.g. apprenticeships, skilled visas, etc.;

- **Risk #3:** OEM developing in-house laser capabilities – While this risk is fairly self-explanatory, we view this is a binary risk for LBL in that it creates a fertile opportunity to drive growth in its Technology segment; and,

- **Risk #4:** Overseas product cost-cutting – As discussed in the Industry Headwind section of this report, significant price parity between a competing new OEM component price and LBL product price (with OEM price substantially lower) could be a material roadblock for LBL's sale growth.

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