

LaserBond

Supercharging growth post-lockdown and positioned well globally

Site Tour Update

CCZ and clients visited LaserBond's Smeaton Grange facility on Thursday the 9th of Dec, with a tour led by Wayne Hooper (CEO) and Matthew Twist (CFO). Whilst LaserBond's key value driver is their laser cladding application IP, the site tour revealed how pivotal LaserBond's auxiliary machinery capabilities and staffing are to deliver LaserBond's market leading quality.

14 December 2021

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Re-enforced confidence in key FY22 operating milestones

Management restated the \$34-\$35m revenue expected under existing facilities (FY21 AGM), emphasising how Victoria's laser cell installation is boosting service revenues in both VIC and NSW. 3 tech sales are set to stimulate high margin top-line growth in 2H22, and management remain confident in a 2H22 bolt-on acquisition set to contribute towards their original \$40m revenue target.

Expanding suite of in-house laser cells are stimulating efficiency gains

LBL have installed their first laser cell in Victoria, with NSW's 3rd laser (first semi-automatic laser) expected to begin operating in mid-January. VIC can now acquire unserved local demand and VIC customers originally serviced in NSW. This will improve lead times for both facilities, allowing NSW to more efficiently allocate product manufacturing to their semi-automatic laser.

Product segment ripe for strong post-lockdown growth

The immediate US opportunity for LBL to supply steel mill rolls to Nucor, is yet to be captured. Lockdown release enables LBL to resend sales agents to validate LBL's growing product suite to specific US customers and promote work with Austrade in Asia and Europe. After QLD and WA, LBL may consider expansion in the US through distribution capability and ultimately localise production.

Valuation summary

The AGM update, more certainty on tech sales, and our site tour Q&A on services and product growth have led to a 17.4% upgrade to our previous valuation. We have valued LBL on a blended DCF and peer EV/EBITDA method, implying a 12-month valuation of 130-140cps, a 41.4% upside to LBL's last close.

Company Details

Stock Code	LBL
Last Close	95.5cps
Market Cap	\$92.0m
Enterprise Value	\$92.1m
Shares on Issue	96.3m
Sector	Capital Goods
Index	None

Top 5 Shareholders

Wayne Hooper	11.49%
Diane Hooper	10.14%
Rex Hooper	7.15%
Lillian Hooper	5.79%
Lornat Pty Ltd.	5.13%

Earnings Forecasts

	2020A	2021A	2022	2023	2024
<i>P&L Brief</i>					
Revenue	22.2	24.7	34.1	38.1	42.9
U-EBITDA	6.2	6.4	9.0	11.6	14.1
U-EBIT	4.2	3.8	6.3	9.1	11.7
U-NPAT	2.8	2.4	4.3	6.4	8.3
U-EPS (cps)	3.0	2.5	4.5	6.6	8.6
<i>Growth</i>					
Revenue	(2.2%)	11.2%	38.3%	11.8%	12.6%
U-EBIT	(0.6%)	(26.2%)	125.1%	43.4%	28.7%
U-EPS	(1.1%)	(14.8%)	78.9%	46.9%	30.3%

No acquisition included in forecasts; Values in AUD'm unless otherwise stated

Performance Metrics

	2020A	2021A	2022	2023	2024
<i>Valuation</i>					
P/E	32.3x	37.9x	21.2x	14.4x	11.1x
EV/EBITDA	14.4x	14.6x	10.2x	7.6x	5.9x
EV/EBIT	21.1x	24.3x	14.4x	9.7x	7.2x
EV/Rev.	4.0x	3.8x	2.7x	2.3x	1.9x
Div Yield	1.2%	1.3%	2.0%	2.8%	3.9%
<i>Margins</i>					
U-EBITDA	27.9%	25.9%	26.3%	30.4%	32.8%
U-EBIT	19.0%	15.5%	18.5%	23.8%	27.2%
U-NPAT	12.6%	9.8%	12.7%	16.7%	19.3%

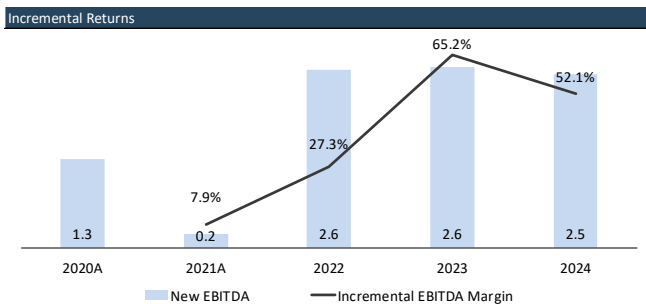
LASERBOND (LBL.AX)

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 Values are in millions and in AUD unless otherwise expressly stated
 Latest Published Forecast Date: 14 Dec 2021

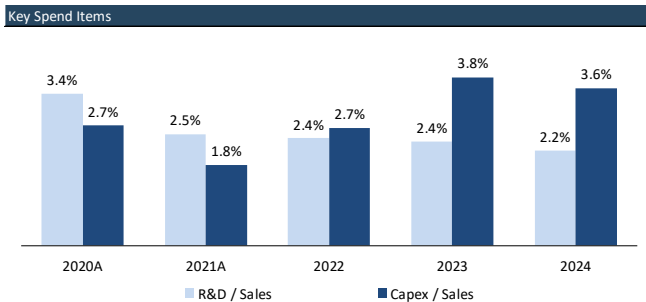
Market Capitalization	92m	Index	None	Year End	Jun	Reporting Currency	AUD
Share Price (AUD/share)	0.96	Sector	Capital Goods	Shares on Issue (m)	96.3		

Segment Performance	2020A	2021A	2022	2023	2024
Sales					
Services	12.8	11.6	14.6	17.1	18.8
Products	9.2	13.0	15.1	17.3	19.9
Technology	0.2	0.1	4.5	3.7	4.2
EBITDA					
Services	4.0	3.0	3.9	5.2	6.2
Products	3.0	4.1	4.4	6.0	7.2
Technology	(0.0)	(0.1)	1.5	1.4	1.6
EBITDA Margin					
Services	31.4%	25.7%	26.7%	30.3%	33.0%
Products	32.3%	31.5%	29.0%	34.3%	36.0%
Technology	(21.7%)	(84.6%)	34.3%	36.6%	38.7%

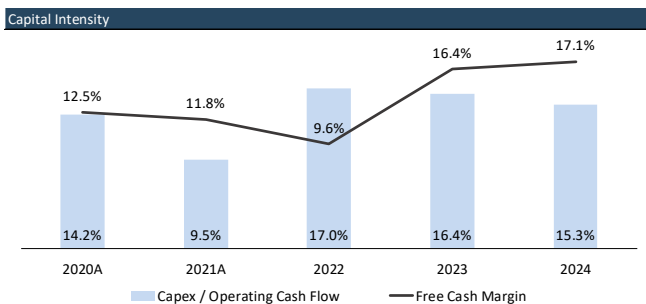
Summary	2020A	2021A	2022	2023	2024
PE	32.3x	37.9x	21.2x	14.4x	11.1x
EV/EBITDA	14.4x	14.6x	10.2x	7.6x	5.9x
EV/EBIT	21.1x	24.3x	14.4x	9.7x	7.2x
Sales Growth	(2.2%)	11.2%	38.3%	11.8%	12.6%
U-EPS Growth	(1.1%)	(14.8%)	78.9%	46.9%	30.3%
U-EBIT Margin	17.2%	11.4%	18.5%	23.8%	27.2%
ROFE	20.2%	14.9%	22.3%	29.5%	33.1%
Gearing (ND/ND+E)	(3.6%)	6.6%	(6.0%)	(28.1%)	(52.1%)
ND/EBITDA	(0.1x)	0.2x	(0.1x)	(0.4x)	(0.6x)
Dividend (cps)	1.10	1.20	1.90	2.70	3.70
Yield	1.2%	1.3%	2.0%	2.8%	3.9%
Franking	100.0%	100.0%	100.0%	100.0%	100.0%



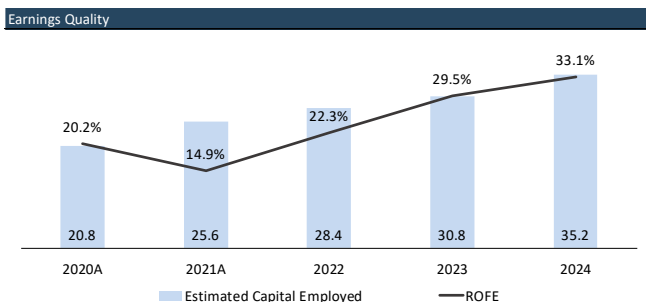
Income Statement	2020A	2021A	2022	2023	2024
Revenue	22.2	24.7	34.1	38.1	42.9
U-EBITDA	6.2	6.4	9.0	11.6	14.1
D&A	(2.0)	(2.6)	(2.6)	(2.5)	(2.4)
U-EBIT	4.2	3.8	6.3	9.1	11.7
Net Interest	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
U-PBT	3.8	3.4	5.9	8.6	11.2
U-Tax	(1.0)	(0.9)	(1.5)	(2.2)	(2.9)
U-NPAT	2.8	2.4	4.3	6.4	8.3
One-offs	0.0	0.4	0.0	0.0	0.0
NPAT	2.8	2.8	4.3	6.4	8.3
U-EPS (cps)	2.96	2.52	4.51	6.63	8.63
Basic EPS (cps)	2.96	2.96	4.51	6.63	8.63
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	6.9	10.2	14.2
Trade Receivables	4.4	5.8	8.5	8.3	9.2
Inventories	3.5	3.4	4.9	4.4	4.8
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	0.4	1.3	2.1	2.0	2.3
Total Assets	23.6	29.5	35.3	37.4	42.6
Trade Payables	1.2	2.4	3.4	3.2	3.5
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	18.0	17.7	18.5
Net Assets	12.2	14.3	17.3	19.7	24.1
Contributed Equity	7.0	7.4	7.4	7.4	7.4



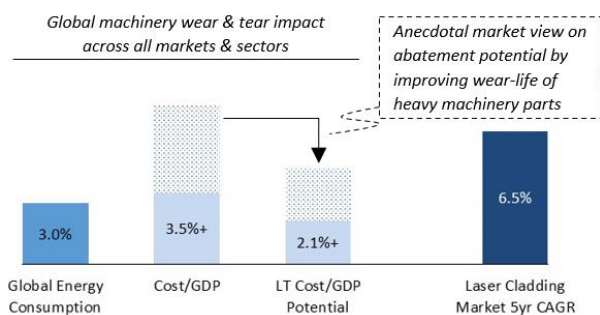
Cash Flow Statement	2020A	2021A	2022	2023	2024
Cash EBITDA	6.2	6.4	10.4	11.1	14.5
Change in Working Capital	(0.5)	(0.2)	(3.1)	0.5	(1.1)
Net Interest Paid	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Tax Paid	(1.0)	(1.0)	(1.5)	(2.2)	(2.9)
Other	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	4.3	4.8	5.3	8.9	10.1
Capital Expenditure	(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)	(1.0)	(2.6)	(3.1)
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)	(2.5)	(4.1)	(4.6)
Net Cash Flow	1.8	0.9	2.0	3.3	3.9
Ending Cash	4.0	4.9	6.9	10.2	14.2
Free Cash Flow	2.8	2.9	3.3	6.3	7.3



INVESTMENT THESIS

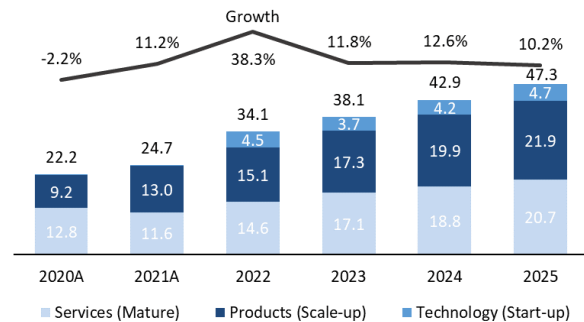
LaserBond is a proprietary laser-cladding technology enabled, Australian market leader (proven by its blue-chip client base) that is increasingly well positioned for step-change growth in the North American and European markets via (1) the roll-out of its cost-economic and ESG leading, wear-resistant 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...



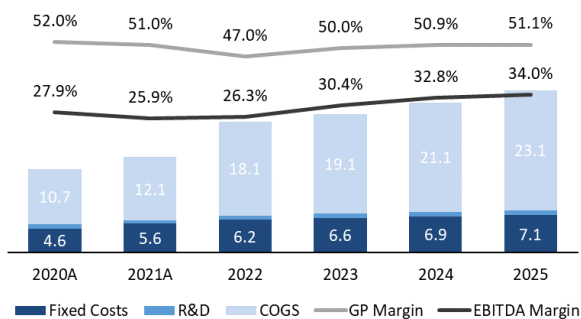
Source: Industry Data (see Initiation Report), CCZ Analysis

... 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...



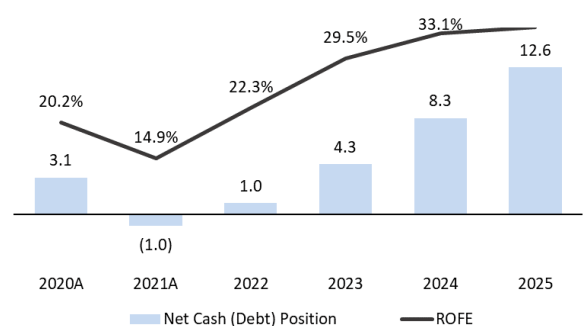
Source: Company Data, CCZ Analysis

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



Source: Company Data, CCZ Analysis

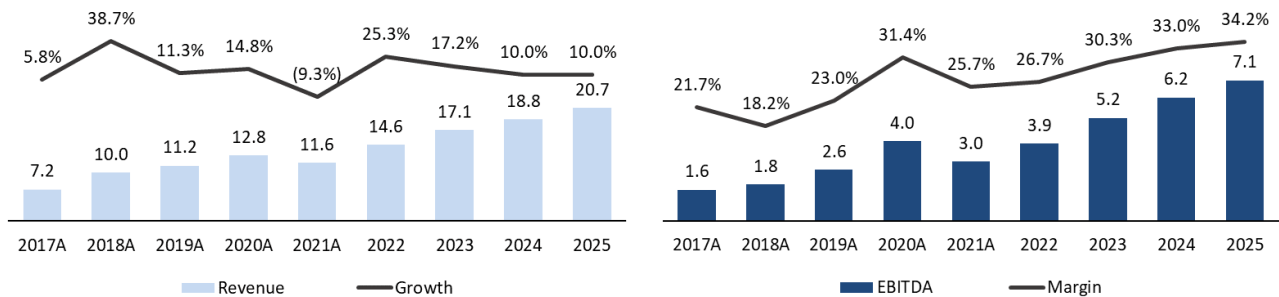
... to deliver solid ROFE uplift in the years ahead, and with a pristine balance sheet poised for accretive acquisitions.



Source: Company Data, CCZ Analysis

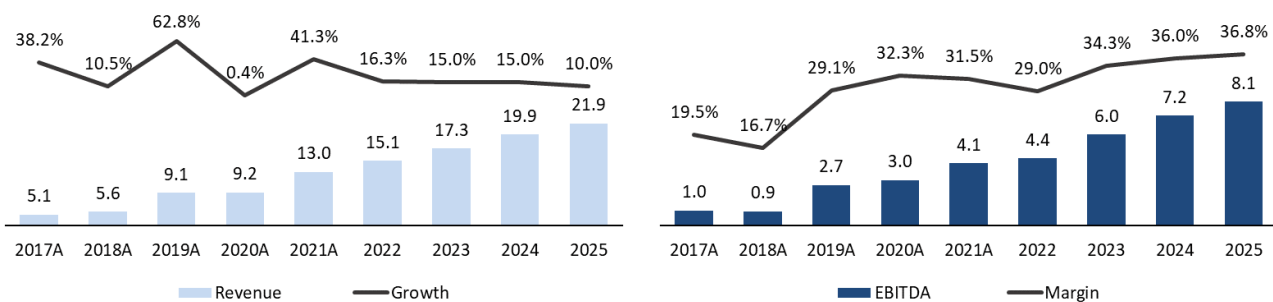
DASHBOARD

Services Segment



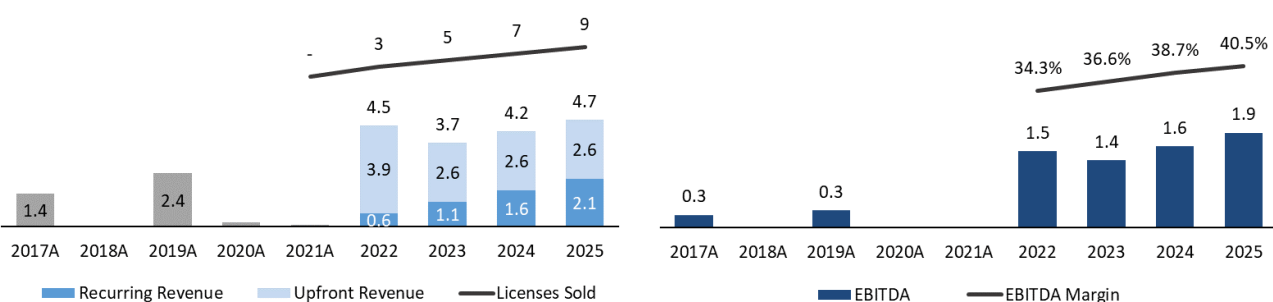
Source: Company Data, CCZ Analysis

Products Segment



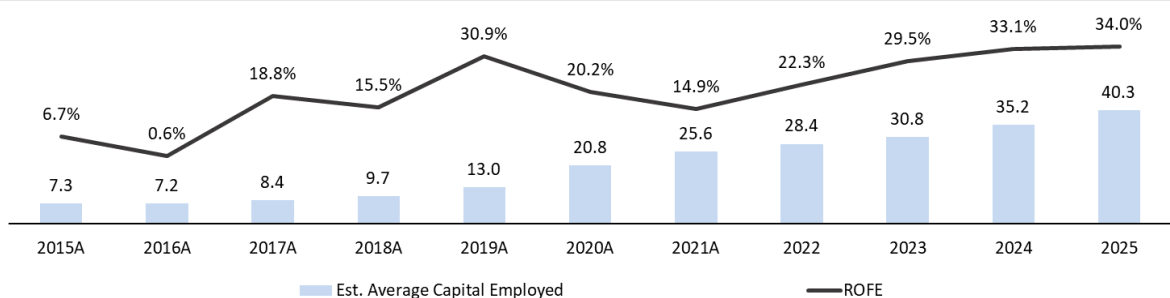
Source: Company Data, CCZ Analysis

Technology Segment



Source: Company Data, CCZ Analysis

Group ROFE



Source: Company Data, CCZ Analysis

SCENARIOS & VALUATION

Acquisition Model Scenarios

Scenario 1: No Acquisition

The following table details our updated segment growth forecasts for LBL excluding any bolt-on acquisition that LaserBond has flagged as a priority for 2H-FY22. Covid-19 restrictions are subsiding, and so Victoria have finally received and installed their laser cell, which will attract a greater proportion of Victorian customers who could not afford the lead time of sending components to be serviced in NSW. Further to this, LBL's semi-automatic laser cladding cell expected to go-live in NSW this January, and the greater capacity available from Victorian customers redirecting orders to LBL's VIC facility, will allow LBL's NSW facility to improve the efficiency of product manufacturing and the lead times for service customers respectively. Since travel restrictions have improved, we also expect solid opportunity for sales agents to focus on steel mill roll sales in the US market primarily in 2H-FY22 at slightly lower gross margins given increased steel supply costs. Lastly, LBL have signed and plan to recognise upfront, license and consumables revenue for 3 tech sales in North America, New Zealand and Curtin University in 2H-FY22.

Annualized AUD'm	LBL FY2021	+	Organic		+	Contracted	=	FY2022 Forecast exc. acquis.
			Services Growth	Product Growth		3x Tech Sales (N. America, NZ, Curtin University)		
Revenue	24.7		2.9	2.1		4.5		34.1
Growth on pcp.	11.2%		25.3%	16.3%		N/A		38.3%
EBITDA	6.4		0.9	0.6		1.5		9.0
Margin	25.9%		30.7%	13.8%		34.3%		26.3%

Scenario 2: Successful Acquisition

LBL announced at their AGM (5th Nov '21) that they expect revenue from existing facilities to achieve \$34-35m and re-stated that "to achieve \$40m relies upon the timely acquisition of a bolt-on business that can begin to contribute revenue by early 2H22". After our site tour it was discussed, QLD is a more realistic first target for acquisition and that it would most likely be purchased at a more expensive multiple to UST in Victoria. Hence, assuming a similar business is purchased in 2H22 that contributes revenue for half the financial year, we can conservatively forecast LBL to near achieve their \$40m target.

Annualized AUD'm	LBL FY2021	+	Organic + Tech. Additions		+	Acquisition	=	FY2022 Forecast inc. acquis.	LBL FY2022 Guidance inc. acquis.
			Services + Products Growth	3x Tech. License Sales		QLD or WA bolt-on			
Revenue	24.7		5.1	4.5		3.0		37.1	40.0
Growth on pcp.	11.2%		20.5%	N/A		N/A		56.3%	61.9%
EBITDA	6.4		1.2	1.5		0.5		9.6	N/A
Margin	25.9%		23.6%	34.3%		15.5%		25.8%	N/A

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 1-2 summarise our forecast DCF valuation for LBL, including a range of valuation scenarios based on varying discount rates and terminal growth rates.

Figure 1: DCF valuation model

		2022	2023	2024	2025	2026
WACC	[%]	10.27%	9.25%	8.30%	7.61%	7.08%
Risk Free Rate	[%]	0.25%	0.50%	0.50%	0.50%	0.50%
Risk Premium	[%]	9.50%	9.50%	9.50%	9.50%	9.50%
Terminal Growth	[%]	6.00%	5.50%	5.00%	4.50%	4.00%
Free Cash Flow	[AUD'm]	3.3	6.3	7.3	8.7	10.2
FCF @ Year-N	[AUD'm]	238.9	271.5	308.5	327.3	331.0
Net Present Value	[AUD'm]	158.6	200.1	246.5	279.5	298.2
Shares on Issue	[m]	96.1	96.1	96.1	96.1	96.1
Valuation	[AUD/share]	1.65	2.08	2.57	2.91	3.10

Source: CCZ Analysis

Figure 2: Valuation scenarios

	Risk Premium					
	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
7.50%	5.72	3.93	2.99	2.40	2.01	1.72
7.00%	4.10	3.10	2.49	2.08	1.78	1.55
6.50%	3.23	2.58	2.15	1.84	1.60	1.42
6.00%	2.68	2.22	1.90	1.65	1.46	1.31
5.50%	2.30	1.96	1.71	1.51	1.35	1.22
5.00%	2.03	1.76	1.55	1.39	1.25	1.14
4.50%	1.82	1.60	1.43	1.29	1.18	1.08
4.00%	1.66	1.48	1.33	1.21	1.11	1.02
3.50%	1.52	1.37	1.25	1.14	1.05	0.97
WACC Implied	8.68%	9.21%	9.74%	10.27%	10.79%	11.32%

Source: CCZ Analysis

Peer Based Valuation

We have compared LBL with several specialty industrial manufacturing players globally, as shown in Figure 3. 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 25%-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 \$1.05-\$1.15/share.**

Figure 3: 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	8.8x	6.6x	20.9x	13.3x	-4.5%	15.9%	4.2%	3.9%
FLS-DK	FLSmidth & Co. A/S	10.0x	7.8x	13.5x	10.1x	3.9%	10.7%	3.4%	3.4%
FLS-US	Flowserve Corporation	11.5x	9.8x	15.4x	12.4x	-4.0%	6.5%	6.2%	6.7%
IR-US	Ingersoll Rand Inc.	21.3x	17.9x	23.2x	19.3x	5.3%	11.8%	15.5%	17.1%
PH-US	Parker-Hannifin Corporation	13.3x	11.8x	14.5x	12.7x	8.9%	6.5%	14.8%	15.2%
ROR-GB	Rotork plc	19.9x	16.9x	22.6x	19.2x	-3.9%	8.6%	12.4%	15.7%
WEIR-GB	Weir Group PLC	13.9x	11.3x	17.4x	13.6x	-1.1%	13.4%	6.2%	7.2%
Possible Comparables		13.3x	11.3x	17.4x	13.3x	-1.1%	10.7%	6.2%	7.2%
LBL-AU	LaserBond Ltd	10.3x	7.7x	14.6x	9.8x	38.3%	11.8%	6.3%	16.5%
LBL Discount to Comparables		-22.7%	-32.1%	-16.4%	-26.3%				

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

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