

LaserBond

Resilient business model delivering organic and acquisitive growth

Event: 1H22 result & commentary

LBL reported \$13.4m in 1H-FY22 revenue (+13.4%pcp), \$3.2m in U-EBITDA (+26.2%pcp) and \$1.5m in U-NPAT (+28.1%pcp). On the backdrop of Covid disruptions, Wayne Hooper and LBL have re-enforced the quality and sustainability of LBL's core business and continued acquisitive growth post 1H22.

24 February 2022

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Proving business resilience in difficult operating environment

An excellent Products division result (+18.5%pcp) underpinned by strong demand from OEM customers for self-branded products, and steel mill roll momentum has offset the Services division hindered by lockdowns and border closures (+6.1%pcp). With technology contracts booked in for 2H22, the strength of LBL's primary divisions proves the resilience of LBL's model.

Australian reach enhanced by strategic QLD Acquisition

LBL completed the acquisition of QLD-based QSP Engineering at the end of Jan, expecting to earn revenues in excess of \$2.0m for the remaining of FY22. A full suite of thermal spray and 2 new laser systems, a strong blue-chip client base, and historically stronger NPAT margins of ~31% indicates a highly complementary and strategic acquisition for LBL's services segment in Australia.

FY22 Outlook

Whilst the FY22 revenue target was revised to \$35.0m amidst to Covid impacts, LBL's strong track record of integrating bolt-on acquisitions, the recent instalment of VIC's first laser cell and sizeable markets overseas re-opening for LBL product sales agents, positions LBL very positively for even greater growth in 2H22. We note that LBL have also set a revenue target for >\$60m by FY25.

Valuation Summary

Our investment thesis and valuation remain unchanged since our last reported upgrade in December 2021. We have valued LBL on a blended DCF and peer EV/EBITDA method, implying a 12-month valuation of 130-140cps, a 62.7% upside to LBL's last close.

Company Details

Stock Code	LBL
Last Close	83.0cps
Market Cap	\$90.5m
Enterprise Value	\$85.8m
Shares on Issue	109.1m
Sector	Capital Goods
Index	None

Top 5 Shareholders

Wayne Hooper	10.26%
Diane Hooper	9.06%
Rex Hooper	6.39%
Lillian Hooper	5.16%
Universal-Investment-Gesellschaft mbH	5.11%

LBL Actuals vs CCZ Estimates

1H22	LBL	CCZe.	Var.
Revenue	13.3	13.7	-2.1%
U-EBITDA	3.2	3.1	+4.2%
U-NPAT	1.5	1.1	+41.2%

Earnings Forecasts

	2020A	2021A	2022	2023	2024
<i>P&L Brief</i>					
Revenue	22.2	24.7	33.8	37.7	42.4
U-EBITDA	6.2	6.4	9.1	11.6	14.1
U-EBIT	4.2	3.8	6.4	8.9	11.5
U-NPAT	2.8	2.4	4.6	6.3	8.2
U-EPS (cps)	3.0	2.5	4.5	5.7	7.5
<i>Growth</i>					
Revenue	(2.2%)	11.2%	37.2%	11.3%	12.7%
U-EBIT	(0.6%)	(26.2%)	129.5%	38.6%	29.1%
U-EPS	(0.4%)	(14.6%)	77.1%	28.5%	30.7%

Values in AUD'm unless otherwise stated

Performance Metrics

	2020A	2021A	2022	2023	2024
<i>Valuation</i>					
P/E	28.1x	32.9x	18.6x	14.5x	11.1x
EV/EBITDA	14.1x	14.3x	9.8x	7.4x	5.8x
EV/EBIT	20.8x	23.9x	13.8x	9.6x	7.1x
EV/Rev.	3.9x	3.7x	2.6x	2.3x	1.9x
Div Yield	1.3%	1.4%	2.5%	2.8%	3.9%
<i>Margins</i>					
U-EBITDA	27.9%	25.9%	26.9%	30.7%	33.1%
U-EBIT	19.0%	15.5%	19.0%	23.7%	27.2%
U-NPAT	12.6%	9.8%	13.5%	16.6%	19.3%

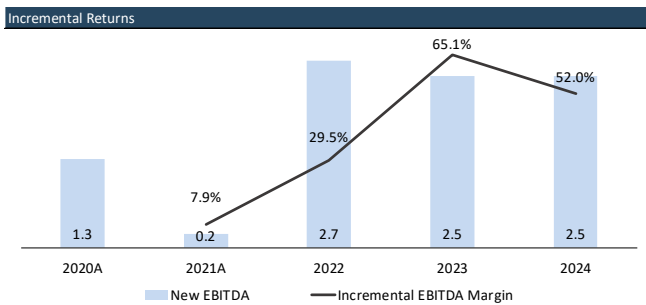
LASERBOND (LBL.AX)

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 Values are in millions and in AUD unless otherwise expressly stated
 Latest Published Forecast Date: 24 Feb 2022

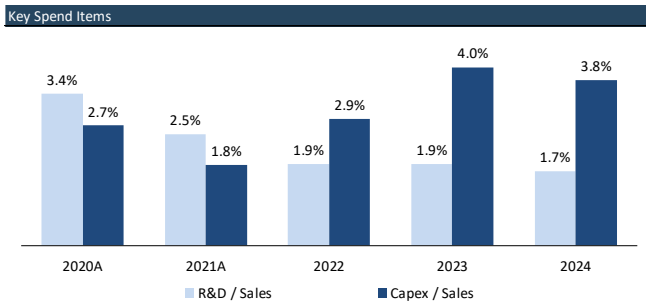
Market Capitalization	91m	Index	None	Year End	Jun	Reporting Currency	AUD
Share Price (AUD/share)	0.83	Sector	Capital Goods	Shares on Issue (m)	109.1		

Segment Performance	2020A	2021A	2022	2023	2024
Sales					
Services	12.8	11.6	13.8	16.2	17.8
Products	9.2	13.0	15.4	17.8	20.4
Technology	0.2	0.1	4.6	3.7	4.2
EBITDA					
Services	4.0	3.0	3.5	4.7	5.7
Products	3.0	4.1	4.6	6.2	7.4
Technology	(0.0)	(0.1)	1.5	1.4	1.6
EBITDA Margin					
Services	31.4%	25.7%	25.6%	29.3%	32.1%
Products	32.3%	31.5%	29.5%	34.8%	36.4%
Technology	(21.7%)	(84.6%)	33.5%	36.6%	38.7%

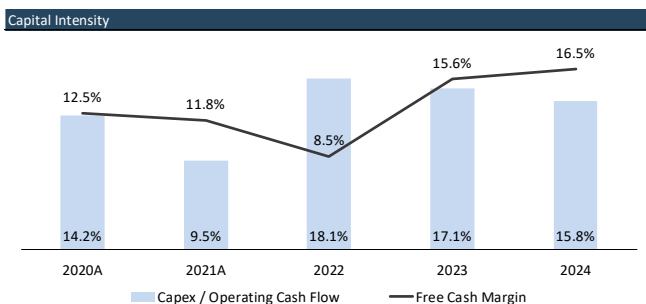
Summary	2020A	2021A	2022	2023	2024
PE	28.1x	32.9x	18.6x	14.5x	11.1x
EV/EBITDA	14.1x	14.3x	9.8x	7.4x	5.8x
EV/EBIT	20.8x	23.9x	13.8x	9.6x	7.1x
Sales Growth	(2.2%)	11.2%	37.2%	11.3%	12.7%
U-EPS Growth	(0.4%)	(14.6%)	77.1%	28.5%	30.7%
U-EBIT Margin	17.2%	11.4%	19.0%	23.7%	27.2%
ROFE	20.2%	14.9%	22.6%	29.3%	33.4%
Gearing (ND/ND+E)	(3.6%)	6.6%	(11.3%)	(32.6%)	(55.8%)
ND/EBITDA	(0.1x)	0.2x	(0.2x)	(0.4x)	(0.6x)
Dividend (cps)	1.10	1.20	2.10	2.30	3.20
Yield	1.3%	1.4%	2.5%	2.8%	3.9%
Franking	100.0%	100.0%	100.0%	100.0%	100.0%



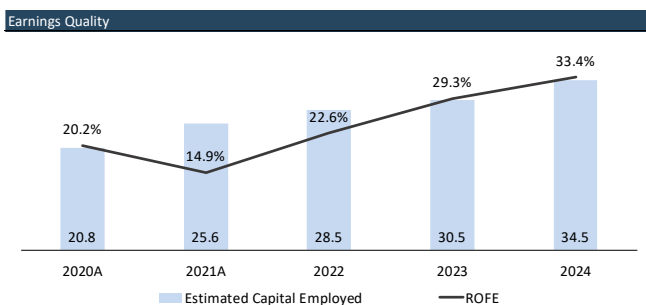
Income Statement	2020A	2021A	2022	2023	2024
Revenue	22.2	24.7	33.8	37.7	42.4
U-EBITDA	6.2	6.4	9.1	11.6	14.1
D&A	(2.0)	(2.6)	(2.6)	(2.6)	(2.5)
U-EBIT	4.2	3.8	6.4	8.9	11.5
Net Interest	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
U-PBT	3.8	3.4	6.0	8.5	11.1
U-Tax	(1.0)	(0.9)	(1.4)	(2.2)	(2.9)
U-NPAT	2.8	2.4	4.6	6.3	8.2
One-offs	0.0	0.4	0.1	0.0	0.0
NPAT	2.8	2.8	4.7	6.3	8.2
U-EPS (cps)	2.95	2.52	4.46	5.74	7.50
Basic EPS (cps)	2.95	2.96	4.60	5.74	7.50
Wtd Avg SOI (m)	95.0	96.0	102.6	109.1	109.1



Balance Sheet	2020A	2021A	2022	2023	2024
Cash & Equivalents	4.0	4.9	7.7	10.7	14.3
Trade Receivables	4.4	5.8	7.8	7.6	8.5
Inventories	3.5	3.4	4.8	4.3	4.8
PPE	6.6	9.6	9.0	8.5	8.2
Right of Use Assets	4.7	4.4	3.9	3.9	3.9
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	2.0	2.0	2.2
Total Assets	23.6	29.5	35.4	37.2	42.0
Trade Payables	1.2	2.4	3.4	3.2	3.4
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	17.8	18.6
Net Assets	12.2	14.3	17.4	19.4	23.4
Contributed Equity	7.0	7.4	18.1	18.2	18.2



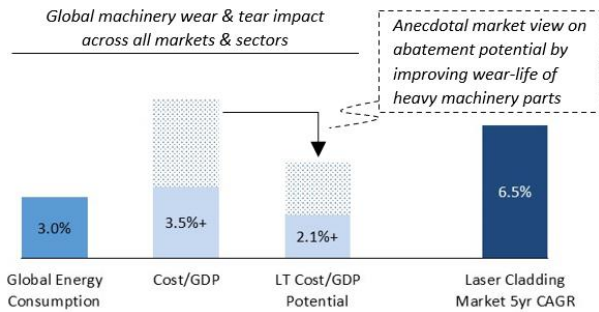
Cash Flow Statement	2020A	2021A	2022	2023	2024
Cash EBITDA	6.2	6.4	9.6	11.1	14.5
Change in Working Capital	(0.5)	(0.2)	(2.4)	0.5	(1.0)
Net Interest Paid	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Tax Paid	(1.0)	(1.0)	(1.5)	(2.2)	(2.9)
Other	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	4.3	4.8	5.4	8.9	10.1
Capital Expenditure	(0.6)	(0.5)	(1.0)	(1.5)	(1.6)
Acquisitions	0.0	(0.8)	(9.3)	0.0	0.0
Other	0.0	(0.0)	0.0	0.0	0.0
Investing Cash Flow	(0.6)	(1.3)	(10.2)	(1.5)	(1.6)
Change in Debt	0.0	0.0	0.0	0.0	0.0
Change in Equity	(0.0)	(0.0)	10.5	0.0	0.0
Dividends Paid	(0.6)	(0.8)	(1.0)	(2.6)	(3.1)
Lease Payments	(1.2)	(1.7)	(1.8)	(1.8)	(1.8)
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	(1.9)	(2.6)	7.6	(4.4)	(4.9)
Net Cash Flow	1.8	0.9	2.8	3.0	3.6
Ending Cash	4.0	4.9	7.7	10.7	14.3
Free Cash Flow	2.8	2.9	2.9	5.9	7.0



INVESTMENT THESIS

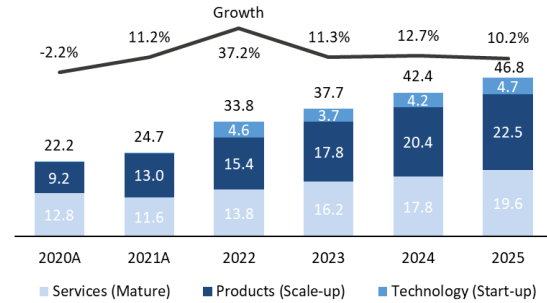
LaserBond is a proprietary laser-cladding technology enabled, Australian market leader (proven by its blue-chip client base) that is increasingly well positioned for step-change growth in the North American and European markets via (1) the roll-out of its cost-economic and ESG leading, wear-resistant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



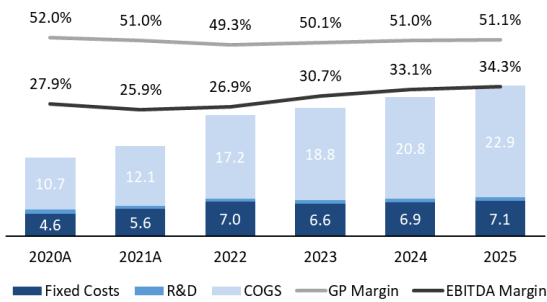
Source: Industry Data (see Initiation Report), CCZ Analysis

... 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...



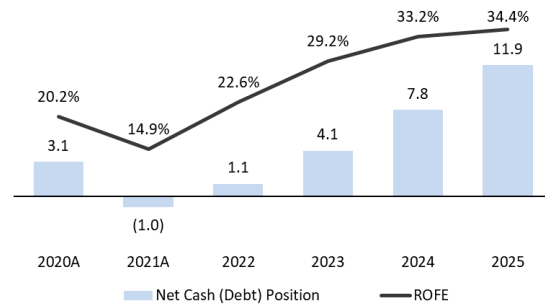
Source: Company Data, CCZ Analysis

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



Source: Company Data, CCZ Analysis

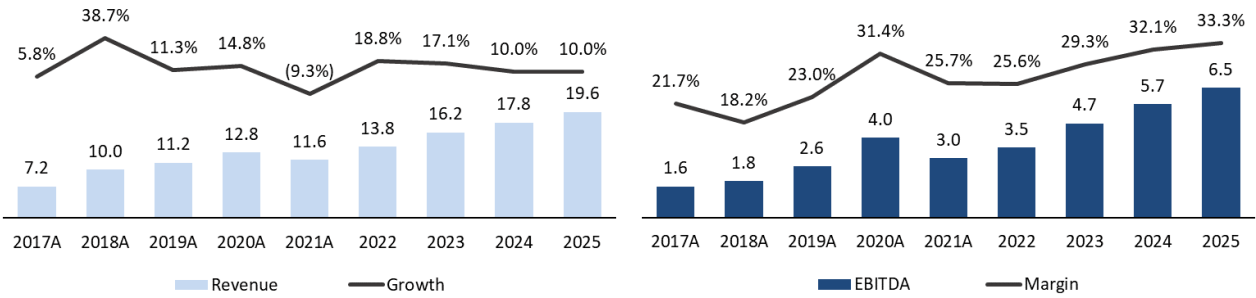
... to deliver solid ROFE uplift in the years ahead, and with a pristine balance sheet poised for accretive acquisitions.



Source: Company Data, CCZ Analysis

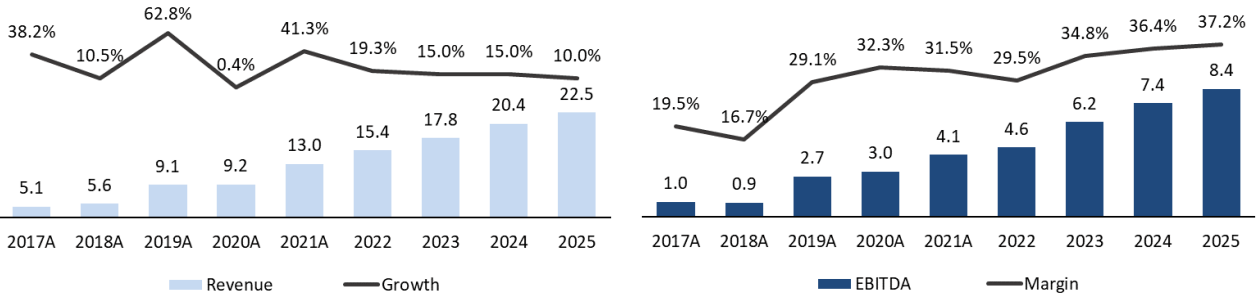
DASHBOARD

Services Segment



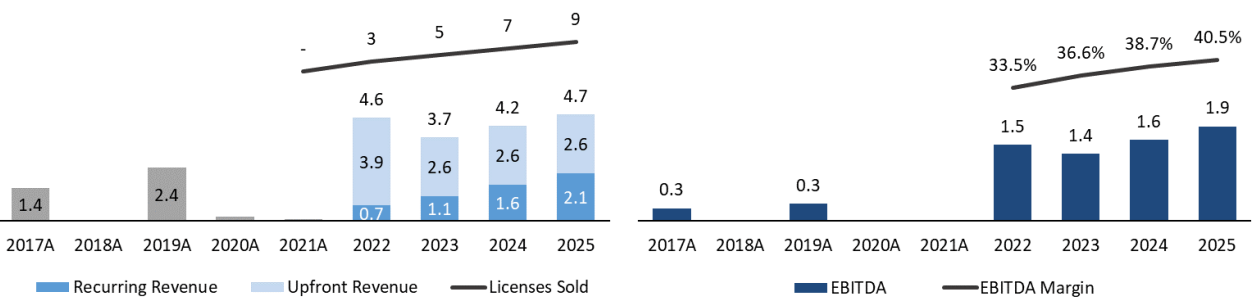
Source: Company Data, CCZ Analysis

Products Segment



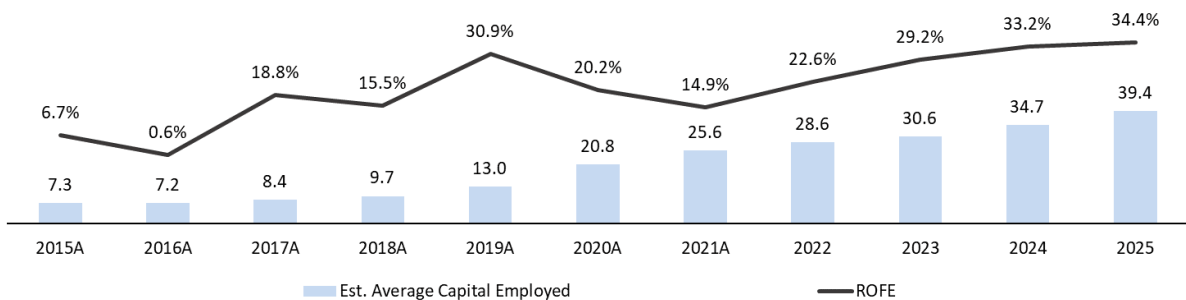
Source: Company Data, CCZ Analysis

Technology Segment



Source: Company Data, CCZ Analysis

Group ROFE



Source: Company Data, CCZ Analysis

ACQUISITION SUMMARY

QSP Engineering Snapshot

An established specialised surface engineering company servicing QLD and northern NSW:

- Located in Bethania (QLD), north-west of Gold Coast.
- Full suite of thermal spraying equipment and 2 near new laser systems.
- Established blue-chip client base over a range of sectors including mining, earth moving and heavy engineering.

Acquisition Metrics

Key pre- and post-acquisition metrics are:

- QSP have generated revenue in excess of \$3.5m and approx. \$1.1m NPAT in each of the past 3 years representing materially stronger NPAT margins to LBL at this stage
- Acquisition impact on FY21 pro-forma would be to increase NPAT \$0.9m (33%), EBITDA by \$1.6m (+25%) and revenue by \$3.8m (16%)
- Acquisition consideration of \$9m cash payment – represents 5.7x FY21 EBITDA and 9.6x NPAT

Acquisition Rationale for LBL

The acquisition provides LaserBond with numerous operational synergies as they expand into QLD:

- Bethania base allows LBL to supplement further Northern NSW clients whilst also access new untapped central and northern regions of QLD.
- LBL intends to immediately leverage and upgrade the 2 existing laser systems with LBL's IP and system technology, therefore requiring minimal capital expenditure to be completely operational.
- Expecting all staff to continue employment through LBL, unlocking critical expertise and headcount to service new markets.

CCZ Commentary

- Strategic bolt-on acquisition delivered as guided by the company with strong existing asset and client base requiring minimal capital expenditure given current technology present. This allows for immediate start of business and growth.
- Acquisition is more expensive than VIC but as expected given the size and profitability of the business as well as the current asset base.

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 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	[%]	9.92%	9.09%	8.21%	7.54%	7.02%
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]	2.8	5.9	7.0	8.4	9.8
FCF @ Year-N	[AUD'm]	251.0	274.6	307.3	324.4	325.9
Net Present Value	[AUD'm]	166.8	202.5	245.6	277.2	293.8
Shares on Issue	[m]	109.1	109.1	109.1	109.1	109.1
Valuation	[AUD/share]	1.53	1.86	2.25	2.54	2.69

Source: CCZ Analysis

Figure 2: Valuation scenarios

		Risk Premium					
		8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Terminal Growth	7.50%	6.44	4.08	2.98	2.34	1.92	1.62
	7.00%	4.22	3.07	2.41	1.97	1.67	1.45
	6.50%	3.17	2.48	2.03	1.72	1.49	1.31
	6.00%	2.56	2.09	1.77	1.53	1.34	1.20
	5.50%	2.16	1.82	1.57	1.38	1.23	1.11
	5.00%	1.87	1.62	1.42	1.26	1.14	1.03
	4.50%	1.66	1.46	1.30	1.17	1.06	0.97
4.00%	1.50	1.34	1.20	1.09	1.00	0.92	
3.50%	1.37	1.23	1.12	1.02	0.94	0.87	
WACC Implied		8.40%	8.91%	9.42%	9.92%	10.43%	10.94%

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 24%-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 \$0.92-\$1.00/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	7.4x	5.9x	15.2x	10.9x	15.5%	13.3%	4.0%	4.8%
FLS-DK	FLSmith & Co. A/S	6.3x	5.1x	8.3x	6.4x	9.0%	7.0%	3.2%	3.9%
FLS-US	Flowserve Corporation	11.9x	10.2x	15.9x	12.9x	-4.1%	7.2%	6.2%	6.2%
IR-US	Ingersoll Rand Inc.	19.1x	15.9x	29.6x	23.6x	5.0%	11.5%	15.6%	17.3%
PH-US	Parker-Hannifin Corporation	12.8x	11.2x	13.8x	12.1x	10.1%	6.2%	14.3%	15.7%
ROR-GB	Rotork plc	17.4x	14.8x	19.7x	16.9x	-4.3%	9.3%	12.4%	15.3%
WEIR-GB	Weir Group PLC	13.2x	10.5x	16.6x	13.1x	-0.9%	12.5%	7.0%	7.3%
Possible Comparables		12.8x	10.5x	15.9x	12.9x	5.0%	9.3%	7.0%	7.3%
LBL-AU	LaserBond Ltd	9.7x	7.3x	13.6x	9.5x	37.2%	11.3%	6.6%	15.6%
LBL Discount to Comparables		-24.3%	-30.1%	-14.2%	-26.1%				

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

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