

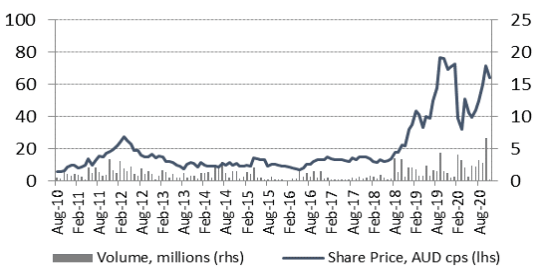
11 November 2020

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Laserbond Limited (LBL)

Australian industrial company going global

Recommendation: BUY		Target Price: 108cps		Market Capitalization: \$71.6m	
Index: None		Share Price: 75cps		Sector: Industrials	
<i>Values in AUD'm unless otherwise stated</i>					
YE Jun	2020A	2021A	2022E	2023E	2024E
Revenue	22.2	32.3	38.1	44.7	54.0
EBITDA	6.2	8.4	10.7	12.7	15.2
U-NPAT	2.8	4.2	5.6	6.6	8.1
U-EPS (cps)	3.0	4.5	5.9	7.0	8.5
U-EPS growth	1.7%	48.1%	32.7%	19.2%	21.3%
U/PE	25.0x	16.9x	12.7x	10.7x	8.8x
EV/EBIT	17.4x	12.7x	9.5x	7.7x	6.2x
Div Yield	1.5%	1.8%	2.4%	2.8%	3.4%



Report HY	2H-20	1H-21	2H-21	1H-22
U-NPAT	1.7	2.0	2.2	2.6
Div (cps)	0.6	0.7	0.7	0.9

- Initiating Coverage - Laserbond (LBL):** LBL's products and services reduce the maintenance costs for critical machinery, with maintenance largely determined by corrosion and abrasion as key determinants in the useful life of machinery parts. The process known as laser cladding, enables parts and machinery to be protected from harsh conditions thus improving wear life. These services/products maintain mission critical parts used in manufacturing and minerals extraction, with life improvements ranging between 2x-20x a standard part. The cost to buy and maintain such machinery is a considerable cost, whilst downtime experienced during replacement compounds this expense. LBL's laser clad products and services protect machinery from this wear.
- Significant Industry Potential:** Abrasion wear is estimated to cost up to 4% of GDP, with estimates of circa \$30B pa across Australian industry alone. Industry research have found that even a modest improvement in wear life of critical components is crucial to improve the efficiency of capital-intensive industries. The applications for LBL's technology are far reaching, across multiple industries and applications, with many avenues yet to be explored. LBL's products have proven to significantly increase wear life, offering a cost-effective alternative to discarding parts once worn.
- High Barriers to Entry and Strong Growth:** LBL's heat diffusion process reduces the temperature required when laser cladding, resulting in a harder and longer lasting surface finish compared to traditional cladding methods. The company's IP, a 'methodology around surface application' has been built over two decades of experience. Combination of expanding sales in the US and imminent R&D technology commercialisation could see LBL increase sales 2x within 5-7 years.
- Significant profit growth forecast in Fy21:** Strong organic revenue for Services and Products (CCZ forecasts 11% & 20% vs ~10% & 20% from LBL) in Fy21, combined with the 12-month integration of United Surface Technologies will accelerate revenue growth (CCZ forecast \$32.3M Fy21, up 45% on Fy20). CCZ estimates the company will execute 1 Technology sale per annum (vs ~LBL 1 in Fy21 & 2 thereafter), aided by the recurring support and services.

LASERBOND (LBL.AX)

Market Capitalization	71m	Index	None	Year End	Jun
Share Price (AUD/share)	0.75	Sector	Industrials	Shares on Issue (m)	94.5
Recommendation	BUY	LBL.AX Investment Thesis	Manufacturing business set to double revenues over the next five years as R&D products reach commercialisation. Achieving strong growth both domestically and the US.		
Target Price (AUD/share)	1.08				
Total Shareholder Return	+46.2%				

Returns Analysis	2020A	2021	2022	2023	2024	Balance Sheet	2020A	2021	2022	2023	2024
Underlying EPS (AUD cps)	3.00	4.44	5.90	7.03	8.53	Cash & Equivalents	4.0	1.9	4.9	8.3	12.6
Growth	1.7%	48.1%	32.7%	19.2%	21.3%	Trade Receivables	4.4	7.1	8.4	9.8	11.8
Wtd Avg SOI	94.5	94.5	94.5	94.5	94.5	Inventories	3.5	4.9	5.1	6.0	7.3
PE	25.0x	16.9x	12.7x	10.7x	8.8x	Other	0.0	0.0	0.0	0.0	0.0
PEG	14.4x	0.4x	0.4x	0.6x	0.4x	Total Current Assets	11.8	13.8	18.4	24.1	31.7
EV/EBITDA	32.2x	14.5x	11.8x	9.1x	6.9x	PPE	11.4	14.7	15.4	16.1	16.9
EV/EBIT	17.4x	12.7x	9.5x	7.7x	6.2x	Goodwill	0.0	0.6	0.6	0.6	0.6
Dividend	1.10	1.33	1.77	2.11	2.56	Intangibles	0.0	0.0	0.0	0.0	0.0
Div Yield	1.5%	1.8%	2.4%	2.8%	3.4%	Other	0.4	0.6	0.8	0.9	1.1
Franking	100%	100%	100%	100%	100%	Total Non-Current Assets	11.8	15.9	16.7	17.6	18.6
Payout Ratio	36.7%	30.0%	30.0%	30.0%	30.0%	Total Assets	23.6	29.7	35.1	41.7	50.4
ROFE	34.6%	39.4%	41.0%	39.1%	37.9%	Trade Payables	1.3	2.8	3.2	3.7	4.5
ROE	23.2%	27.7%	29.2%	28.0%	27.4%	Debt	8.5	9.6	10.5	11.6	13.5
ROA	12.0%	14.1%	15.9%	15.9%	16.0%	Provisions	0.7	0.7	0.7	0.8	0.0
Gearing (ND/ND+E)	(49%)	(14%)	(35%)	(54%)	(7%)	Other	0.9	1.4	1.6	1.9	3.2
ND/EBITDA	(0.6x)	(0.2x)	(0.5x)	(0.7x)	(0.1x)	Total Liabilities	11.4	14.5	16.0	18.0	21.1
EBITDA Interest Cover	14.1x	20.9x	26.8x	31.6x	38.0x	Net Assets	12.2	15.2	19.1	23.7	29.4
Cash Conversion	91%	74%	92%	88%	69%	Contributed Equity	7.0	7.0	7.0	7.0	7.0
Free Cash Yield	3.4%	(2.8%)	5.4%	6.2%	7.5%	Retained Earnings	5.2	8.2	12.1	16.7	22.4

Income Statement	2020A	2021	2022	2023	2024	Cash Flow Statement	2020A	2021	2022	2023	2024
<u>Underlying</u>						Cash Received	26.9				
Revenue	22.2	32.3	38.1	44.7	54.0	Cash Paid	(21.2)				
Underlying EBITDA	6.2	8.4	10.7	12.7	15.2	Cash EBITDA		8.4	10.7	12.7	15.2
D&A	(2.0)	(2.4)	(2.9)	(3.4)	(4.1)	Working Capital Change		(2.1)	(0.9)	(1.5)	(2.1)
Underlying EBIT	4.2	6.0	7.8	9.3	11.1	Net Interest Paid	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net Interest	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	Tax Paid	(1.0)	(1.4)	(1.9)	(2.2)	(2.7)
Underlying PBT	3.8	5.6	7.4	8.9	10.7	Other		0.0	0.0	0.0	0.0
Tax	(1.0)	(1.4)	(1.9)	(2.2)	(2.7)	Operating Cash Flow	4.3	4.4	7.6	8.6	10.1
Underlying NPAT	2.8	4.2	5.6	6.6	8.1	Capital Expenditure	(0.6)	(4.3)	(2.8)	(3.2)	(3.7)
<u>Statutory</u>						Net Acquisitions	0.0	(1.1)	0.0	0.0	0.0
Underlying PBT	3.8	5.6	7.4	8.9	10.7	Other	0.0	0.0	0.0	0.0	0.0
One-offs	0.0	0.0	0.0	0.0	0.0	Investing Cash Flow	(0.6)	(5.4)	(2.8)	(3.2)	(3.7)
PBT	3.8	5.6	7.4	8.9	10.7	Change in Debt	0.0	1.2	0.8	1.0	1.4
Tax	(1.0)	(1.4)	(1.9)	(2.2)	(2.7)	Change in Equity	0.0	0.0	0.0	0.0	0.0
NPAT	2.8	4.2	5.6	6.6	8.1	Dividends Paid	(0.6)	(1.3)	(1.7)	(2.0)	(2.4)
Basic EPS (AUD cps)	3.00	4.44	5.90	7.03	8.53	Other	(1.2)	(1.0)	(1.0)	(1.0)	(1.0)
Sales Growth	(2.2%)	45.8%	17.8%	17.2%	20.9%	Financing Cash Flow	(1.9)	(1.1)	(1.8)	(2.0)	(2.0)
Underlying NPAT Growth	1.7%	48.1%	32.7%	19.2%	21.3%	Starting Cash	2.2	4.0	1.9	4.9	8.3
Basic EPS Growth	1.7%	48.1%	32.7%	19.2%	21.3%	Net Cash Flow	1.8	(2.1)	3.0	3.4	4.3
EBITDA Margin	28.0%	25.9%	28.1%	28.3%	28.1%	Ending Cash	4.0	1.9	4.9	8.3	12.6
EBIT Margin	19.1%	18.6%	20.5%	20.7%	20.6%	Free Cash Flow	2.4	(2.0)	3.8	4.4	5.3
Underlying NPAT Margin	12.8%	13.0%	14.6%	14.9%	14.9%						

Interim Expectations	2H-20A	1H-21E	2H-21E	1H-22E	2H-22E	Valuation	2021E	2022E	2023E	2024E	2025E
Revenue	10.9	15.0	17.3	17.5	20.6	NPV of FCF & TV	102.0	114.8	129.0	144.4	160.2
EBITDA	3.5	3.9	4.4	5.0	5.7	Number of Shares	94.5	94.5	94.5	94.5	94.5
EBIT	2.4	2.8	3.2	3.6	4.2	DCF Valuation per Share	1.08	1.22	1.37	1.53	1.69
Underlying NPAT	1.7	2.0	2.2	2.6	3.1						
NPAT	1.7	2.0	2.2	2.6	3.1	Substantial Shareholders					
Basic EPS (AUD cps)	1.78	2.13	2.34	2.70	3.20	Ms Diane Constance Hooper		10.2%			
Dividend (AUD cps)	0.60	0.67	0.67	0.88	0.88	Mr Wayne Edward Hooper		10.2%			
Gearing	-48.5%	-19.2%	-14.4%	-22.8%	-34.7%	Mr Rex John Hooper		7.6%			
Cash Conversion	106.2%	79.2%	71.4%	97.3%	87.0%	Ms Lillian Hooper		6.5%			
Sales Growth	9.4%	33.3%	61.4%	16.7%	18.9%						
EBIT Margin	22.4%	18.4%	18.3%	20.8%	20.3%						

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INVESTMENT THESIS

LBL is set to continue strong revenue growth which will support an increase in share price. We initiate coverage with a \$1.08 share price target, offering 44% upside to the current share price. **Evidence supporting the investment thesis include:**

- **Manufacturing Business Geared for International Growth** - Growing international orders for LBL's product division, particularly from the United States continues as increased marketing drives awareness for its wear-life products. Services and products are forecast to grow strongly in Fy21 (11% and 20%, CCZ forecasts), underpinned by increasing orders from longstanding customers such as Weir Minerals and FLSmidth
- **New products through R&D** - LBL's dedication to R&D was supported by the launch of the Wearlife Performance CRCP in 2017, a collaboration between LBL, Boart Longyear and the University of South Australia¹. Such relationships between government, research institutions and industry has enabled the company to innovate and bring new products to market. Over the coming 12 months, the company is set to expand its range of products, an example being rotary feeders (used to discharge bulk solid material from hoopers/bins – a significant market opportunity) and Eclad® (hard chrome replacement technology) both set to revolutionise their respective industries
- **Orders from OEM clients to rebound Fy21** - Orders from one of LBL's large OEM customers declined in Fy20 with these orders likely to return in Fy21. The company reported an 18% increase in its order book (between 2H20 & 1H20) and we expect new OEM customers to come onboard as brand recognition increases
- **Strong Earnings Growth in Fy21** - Management has targeted \$40M revenue by Fy22 (CCZ assumes \$38.1M, Fy22) with CCZ numbers slightly lower than managements forecasts (CCZ assumes 1 tech sale per annum over the next few years ~LBL 2 sales from Fy22 onward). The products division is the company's most lucrative opportunity long term, given the size and scope of the opportunity, leveraging existing relationships in international markets such as the United States
- **Strong Organic Growth Supported by Acquisitions** – Group organic growth is expected at 15+% over the next two years as management increases utilisation at Smeaton Grange, an additional laser is commissioned at United Surface Tech and an increased workforce in South Australia. The company also operates with a conservative capital structure affording them the ability to make bolt-on acquisitions, if and when they arise

¹ TWO LEADING INTERNATIONAL SURFACE ENGINEERING RESEARCHERS TO JOIN 'WEARLIFE PERFORMANCE CRCP' TEAM IN SOUTH AUSTRALIA
<https://laserbond.com.au/blog/123-two-leading-international-surface-engineering-researchers-to-join-%E2%80%98wearlife-performance-cr-cp%E2%80%99-team-in-south-australia.html>

LASERBOND TIMELINE



INTRODUCTION

Laserbond (LBL) are a market leader in **advanced surface engineering (tribology)**, an engineering science focused on improving the resistance of components to wear and corrosion. LBL's reclamation technology enables it to prolong the life of machinery components, that experience wear and corrosion. It does this by metallurgically bonding hardened metals (e.g. tungsten, nickel alloys) with a substrate (covered material) at a lower heat than other methods (welding, PTA). This allows higher concentrations of protective carbides (carbon mixed metals) within the substrate, to form a fine coating on the parts surface. Put simply, the bond is tighter meaning the structural integrity is higher, increasing wear resistance of the reclaimed product compared to traditional coating methods.

First developed for surface engineering in the late 1990s, laser cladding offered a better finish than contemporary surface engineering techniques, a finish that would deliver even longer component life. As development and understanding of the application increased so did the products it could be applied to. Today, LBL's laser cladding is applied to a raft of machinery wears, including slurry pump parts, drag lines, drill tips and steel mill rolls. Its applications are wide ranging across industry, just think of scenario there is intensive wear, laser cladding can extend the life of critical machinery components.

In practice however, LBL must go beyond simply proving the technology works, it must prove economically justifiable grounds to use its products/services against supply habit, that is to throw out and buy new. The value proposition from LBL relies on three parameters, firstly the increase in wear life using Laserbond's services must exceed, by some margin, the additional costs incurred reclaiming a part, secondly, and most importantly, that downtime costs from shutdown and maintenance are minimised, as the cost to shut down large manufacturing plants and machinery is often many times greater than the additional expense incurred reclaiming a small part. Thirdly, turnaround times must be comparable with spare parts shipped from low-cost countries (LBL services turnaround in 4-5 weeks). In Australia for instance, LBL's Cavan South Australian location, offers mining companies on the west coast, the most westerly *significant* cladding business for tier one mining/mining services clients (with significant expertise), a locational and cost advantage over competitors located in Victoria. A move to the West Coast & QLD would entrench this advantage.

The company has three divisions which include:

Services - Extends the wear life of machinery through reclamation services on behalf of clients. Used to repair and refurbish worn or damaged machine parts back to working order. Services include laser cladding, thermal spraying and general machining.

Products - Manufacture of OEM (Original Equipment Manufacturers) parts to specification, that require extended wear life (e.g. parts for slurry pumps) and Own-branded proprietary products for specific applications within manufacturing and minerals extraction (e.g. steel mill rolls).

Technology - Laser cladding technology, via an upfront sale of a laser cladding cell, requiring ongoing maintenance and consumable materials supplied by LBL.

Proven by multiple research papers², the improvement achieved by LBL's products and services greatly outweigh the additional expense incurred. LBL's products and services are 2x-3x the cost of a replacement part on average, whilst increasing wear life up to 2x-20x (depending on the application), excluding the additional expense associated with maintenance and shutdown. Alongside the economic utility of LBL's proprietary processes, the company's technology aligns with the broad shift to environmentally sustainable practices across industry. With companies such as Rio Tinto aligning with MissionZero³ by 2050, LBL is set to benefit as companies look for innovative ways to reduce their carbon footprint (LBL's products/services emit 1% of the carbon required to make a new part)

² <https://laserbond.com.au/blog/122-laserbond-s-observations-from-the-2017-international-thermal-spray-conference.html>

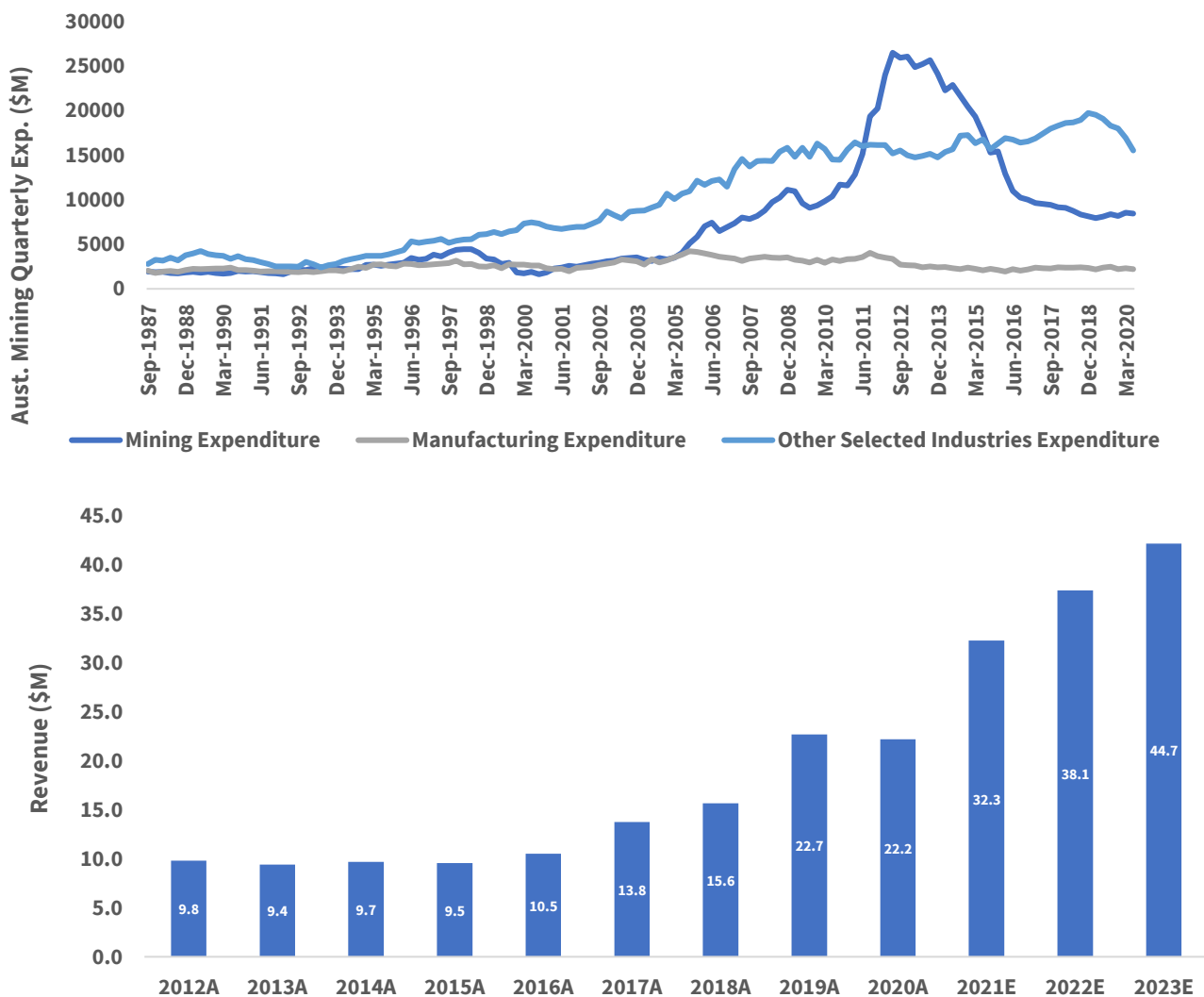
³ *MissionZero* is an initiative to reduce carbon emissions to zero. Rio Tinto has pledged to reach this target by 2050. <https://www.riotinto.com/en/sustainability/climate-change>

INDUSTRY

To date, the vast majority of Laserbond's products and services have been demanded by mining capex & replacement (85% of revenues are linked to minerals extraction). However, **it would be inaccurate to conclude that LBL's revenues are linked to mining's fluctuating market cycles. LBL's income is largely recurring in nature**, a function of maintenance programs required by large mining and mining services operations, during all conditions. This became apparent over the last decade, as the largest mining boom in Australia's history⁴, driven by China's hunger for raw material (shown in Figure 1) was followed by a fall, a fall which impacted most mining operations. Interestingly enough, throughout this period, LBL's revenues remained relatively stable (excluding revenues from the disposed Peachey's business in 2014), as large mining outfits maintained their operations, placed them into shutdown and maintenance in some instances, and waited for more favourable conditions to return which subsequently occurred post 2016.

Regardless of industry conditions, the size of LBL relative to its total addressable market is a fraction of its potential (<1% of Total Addressable Market (TAM)), **a potential being realised through market share gains across a number of industries**. This is being accelerated by management's determination to develop new products increasing exposure to industries outside of the company's historical markets.

Fig 1 & 2: Australian Quarterly Mining Expenditure⁵ & Laserbond Revenue (exclucing Peachy's⁶)



⁴ Mining Booms and The Australian Economy <https://www.rba.gov.au/publications/bulletin/2010/mar/pdf/bu-0310-10.pdf>

⁵ Source: Australian Bureau of Statistics – 5625003b

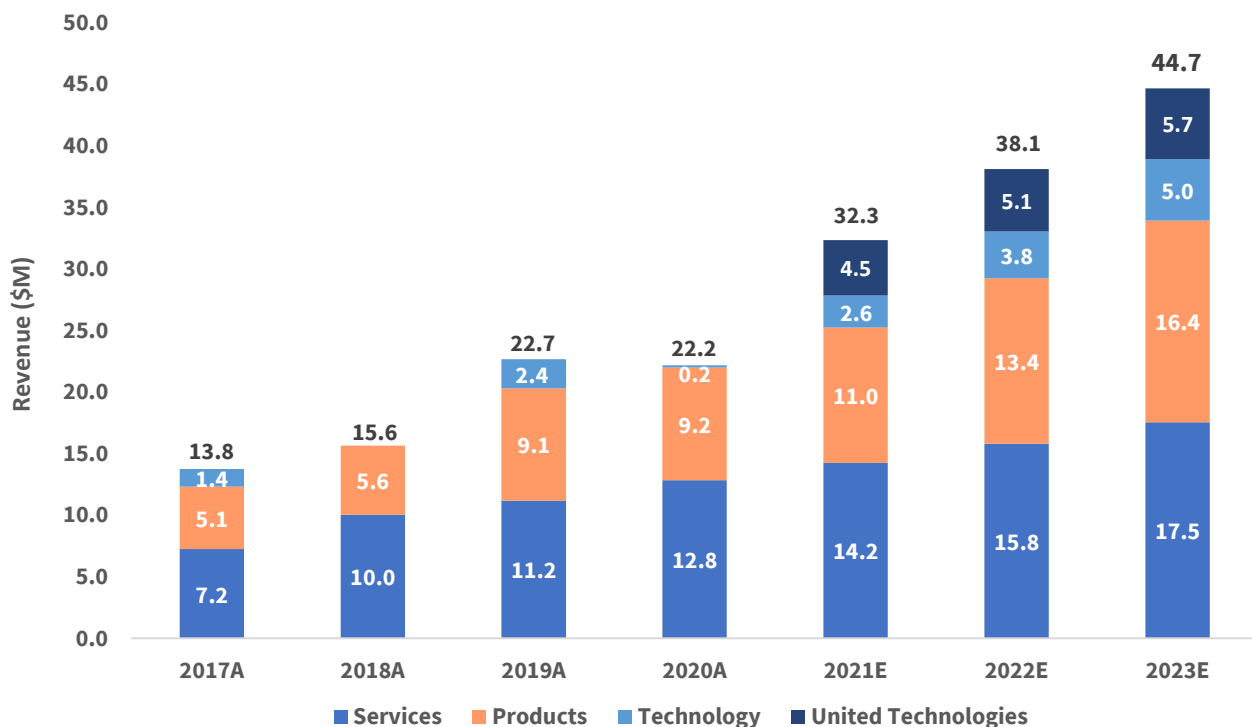
⁶ Peachey's was disposed of in 2014. This has been excluded to show the stability of LBL's revenue throughout and after the mining boom.

COMPANY OVERVIEW

Laserbond provides surface coating and reclamation (recovery) products and services for mining, agricultural, manufacturing and minerals machinery. It operates under three key segments shown in Figure 3⁷ (We have broken out United Surface Technologies, an acquisition made in Aug 20, to present organic earnings growth):

- **Services (44% of revenue):**
 - provision of laser cladding and thermal spray services to preserve metal surfaces either in advance or for recovery. **~65% of Service revenues are linked to Laser Cladding** (the other 35% is a combination of thermal spray and machining)
 - Use cases: slurry pumps, mining drills etc
- **Products (34% of Revenue):**
 - Sale of OEM products and own branded products **~100% of revenues linked to Laser Cladding**
 - OEM products (95% of product sales) - Surface engineering for OEMs before their sale to market.
 - Use cases: stainless steel sleeves used in pump repairs
 - Own branded products (5% of product sales) - Sale of steel mill rolls⁸ and drilling tools (down-the-hole hammers and drill bits)
- **Technology (8% of revenue, sales traditionally lumpy):**
 - Providing off the shelf and customised 'solutions' to customers (which includes installation, training, and consumables for its laser cladding technology)
- **United Surface Technologies (14% of revenue):**
 - Acquired in August 2020. Laser cladding customers in power generation, oil and gas, mining and general manufacturing

Fig 3: Laserbond Business Segments⁹



⁷ CCZ 2021 Forecast Revenue

⁸ These are like rolling pins through which steel is passed through and made uniform / reduced in thickness by the mill rolls.

⁹ Laserbond Annual Reports & CCZ Forecasts

Locations

NSW (Smeaton Grange)

- Address: 2/57 Anderson Road, Smeaton Grange NSW 2567
- Size: 5,400 m² premises, equipment 2 laser systems, 3rd one under development (laser cladding cell fully automated) and a High-Pressure High Velocity Oxy Fuel (HP HVOF) thermal spray setup, but the majority of the space is used for machining
- Thirty-five on day shift, twelve on afternoon shift, (afternoon shift under-utilised).
- Recently expanded the factory to include an Okuma CNC lathe model for larger projects¹⁰
- Location is rented, approx. \$700K per year (not expensed due to AASB 16)

Fig 4: Laserbond's Smeaton Grange Facility¹¹



South Australia (Cavan)

- Address: 112 Levels Road, CAVAN, SA 5094
- 1,400 m² facility, equipment 2 lasers, 1 thermal spray booth, 1 HVOF (high velocity air fuel system)
- 12 pieces of equipment
- 12 employees - 8 machinists
- SA running two shifts, afternoon only for laser usage, laser usage at 60% day and afternoon capacity. Actively recruiting in SA
- Location is rented, approx. - \$120K per year (not expensed AASB 16)

Victoria (United Surface Technologies)

- Address: 26-32 Aberdeen Rd, ALTONA, VIC 3018
- 2400m² facility, laser commissioned, to be productive by March 2021. operational
- 4 spray booths terminals
- HVOF plasma, arc and PCI ceramics coating
- 20 pieces of equipment
- 18 employees - 10 machine operators.
- Single day shift - No laser currently
- Location is rented - \$215K per annum (not expensed AASB 16)

¹⁰ <https://amtil.com.au/okuma-laserbond-machining-australia-dec2019/>

¹¹ Laserbond 2019 Annual Report

SEGMENT ANALYSIS

Fig 5: Laserbond Segment Analysis and Forecast (CCZ Forecasts)

Segment Revenue Growth	2018A	2019A	2020A	2021E	2022E	2023E
Services	39%	11%	15%	11%	11%	11%
Products	10%	63%	0%	20%	22%	22%
United Technologies	0%	0%	0%	-	13%	13%
Technology	-100%	-	-92%	1343%	46%	32%
Segment Revenue	2018A	2019A	2020A	2021E	2022E	2023E
Services	10.0	11.2	12.8	14.2	15.8	17.5
Products	5.6	9.1	9.2	11.0	13.4	16.4
United Technologies	0.0	0.0	0.0	4.5	5.1	5.7
Technology	0.0	2.4	0.2	2.6	3.8	5.0
Total	15.6	22.7	22.2	32.3	38.1	44.7
Organic Earnings Growth	27%	30%	8%	15%	15%	16%
Total Revenue Growth	14%	45%	-2%	46%	18%	17%

SERVICES

The services division provides repairs and improvements to existing machinery parts. This primarily involves the provision of surface coatings (laser cladding, thermal spray) but also extends to other processes such as welding, machining, and manufacturing parts, determined suitable for cladding as part of maintenance and shutdown. Parts are generally trucked in from neighbouring states (e.g. WA), worked upon and sent back to the mine site/manufacturer in 4-5 weeks.

The Services division customers include large mining/mining services, manufacturing, defence and agricultural companies. Competition ranges from supply habit to other domestic laser cladding businesses (detailed later on in the report). Locational advantages are important, given the significant weight of some of these parts and the turnaround time back to the customer, particularly in the mining industry where parts are trucked in, often from remote locations.

Assumptions

Since 2017, services revenue and EBITDA have demonstrated strong growth which is expected to continue. Services Revenue and EBITDA assumptions have been provided below:

Services Revenue

- CCZ forecast +11% organic revenue growth from 2021-23, down to increased utilisation at Smeaton Grange and United Tech's implementation of a laser cladding cell (set to be implemented March 2021).

Services EBITDA

- Ebitda forecast to increase 10% in 2021 and between 10%-13% thereafter to Fy23 as EBITDA margins settle circa 31%-32%% (post AASB 16).
- Number of factors driving/ sustaining margins in the Services segment:
 - Increased utilisation of the NSW facility
 - Increased utilisation at SA facility

Fig 6: Services Revenue

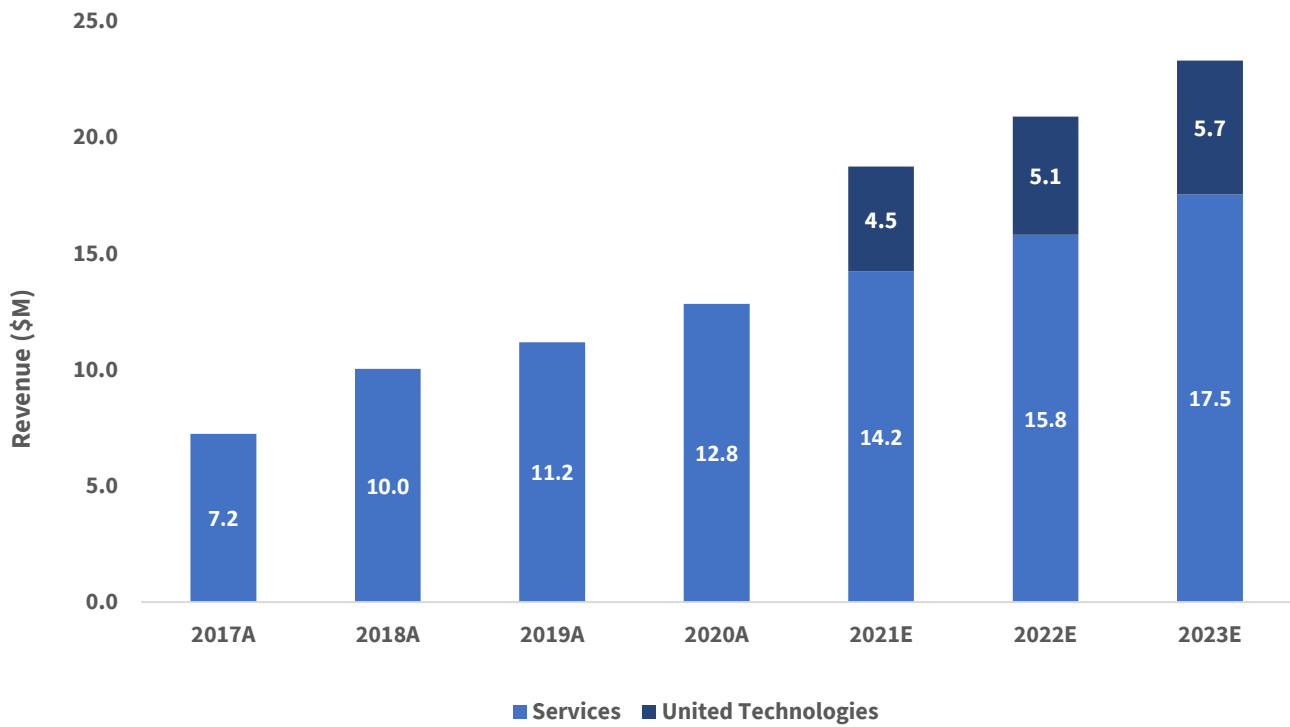
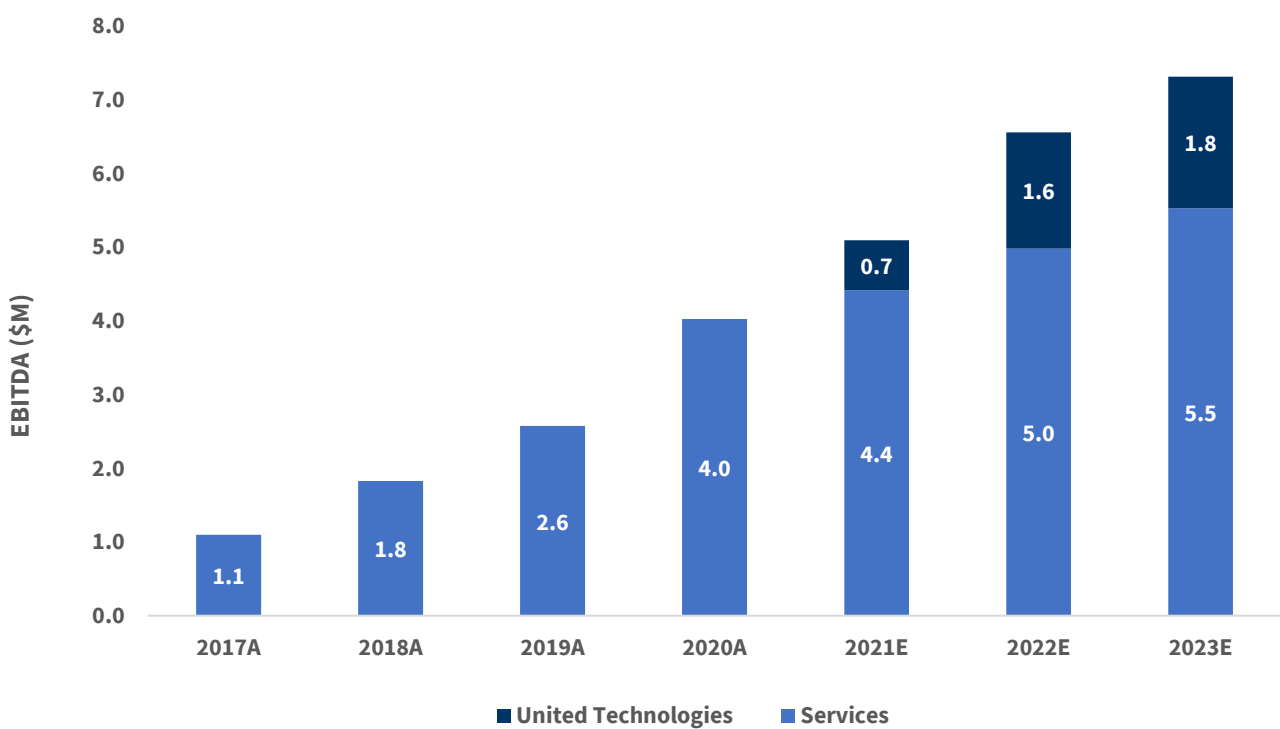


Fig 7: Services EBITDA¹²



¹² Laserbond Annual Reports and CCZ Forecasts

Value Proposition

Customers choose LBL services after an assessment of the value proposition.

- Typical customer considerations:
 - **Does the service work?** 28-year track record delivering solutions for the largest mining and mining services globally. LBL has delivered value for their customers supported by research from educational institutions (UNISA) showing the benefits of LBL's technology
 - **How reliable is it?** The company has a <1% failure rate
 - **How much does it cost?** Cost varies due to the amount of wear and the size of the area worn. For instance, a large part might cost \$50k to replace and only \$5k to repair a small section of the part that is damaged
 - **Is surface coating better than competitors?** LBL's heat diffusion process enables a uniform coating of tungsten carbide across the surface level which leads to lower defects and increased wear life. LBL are LFL on price with competitors cladding systems whilst achieving longer wear life
 - **Does your location make it logistically viable to service customers vs purchasing a lower quality product which can be replaced?** LBL has sites in NSW, Victoria and SA affording them the ability to service different customers in different states. Currently, they are winning business in the states where they are located, however there are significant opportunities to open in locations with no physical presence (WA and QLD) which will increase turnaround times and accessibility
 - **On a cost benefit analysis, if the product is so useful and saves from downtime, why doesn't everyone use LBL?**
 - Logistics: cost of transporting large equipment
 - Scrapping parts and replacing may be cheaper
 - Minimal downtime costs in replacing part, does not warrant additional expense

Unit Economics – Services Division

UNIT REVENUE

Everything is variable, depends on how far the product has worn, how much material is being applied, what material is being applied. Revenue is determined on the surface area to be repaired – They have agreements with customers stipulating that if the product is between x – y worn it will cost \$A, and if it is between y – z worn it will cost \$B. LBL have employed two quoting specialists that determine time and materials required to repair a part/s and provide a quote to the end customer. The customer pays for trucking costs, most of the time.

COGS

- Raw materials - 15% of COGS: metal powders, carbides, kerosene, gas and oil
- Employment expenses - 22% of COGS. Employee intensive process– raw materials include powdered metals applied during application. Tungsten carbide is the largest component of material COGS

OPEX

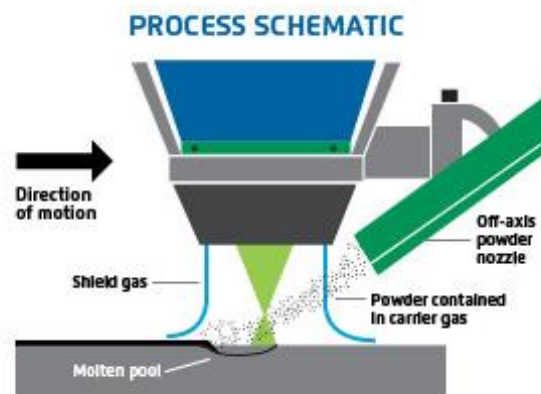
- Variable Expenses:
 - Indirect Labour/Admin expenses - apportioned based on proportion of revenue generated by the segment
- Fixed assets:
 - Lasers - 4 lasers in total. 2 in NSW (Laser 1 and 3), 3rd being developed - much greater capacity automated cell. Victorian Laser being commissioned at an estimated \$800-\$900K cost approx.
 - Laser 2 & 5 in SA – Lasers are finance leased, depreciated over 5-6 years. (WDV of Lasers Laser 1 \$20K, Laser 2 \$105K, Laser 3 \$390K and Laser 5 \$505K)
 - All other fixed costs allocated based as a proportion of revenue, specific cost for that division, (e.g. marketing program will be allocated to a specific segment)

Laser Cladding

The Process

- Parts are separated during shutdown and maintenance. Parts are taken apart and trucked to LBL's facilities. LBL is not involved in the strip down of parts and the customer generally pays for trucking/shipping
- The worn area can be variable, LBL do some pre-machining of the worn area in preparation for laser cladding.
- Parts are put through one of the 4-owned laser systems
- Laser cladding adds a pure metal or an alloy in its powder form to a remanufactured component to protect against wear, corrosion or abrasion as shown in Figure 8
- Post laser cladding, the treated area is machined to specification and sent back to the customer

Fig 8: Laser Diffusion Process¹³



Difference in Laser Cladding process relative to Normal Laser Cladding Process (under the microscope)

- **Image 1:** Normal 'laser cladding' methods are limited to carbide concentrations of about 60% and particles of 75 micron, (shown blue). Wear-life performance in particularly erosive and abrasive applications is affected by dilution of base material (red coloured), porosity and areas of low concentration of carbides (multicoloured and green).
- **Image 2:** Contrasting this is Laserbond's method, which contains higher concentrations of protective carbide (blue), smaller particles and dramatically reduced dilution. Also, there is almost no heat affected zone, which ensures structural integrity and dimensions of the substrate and ensures no breakdown or reduced performance of the carbide component.

Fig: 9 Laser Bond Deposition Technology Improving higher structural Integrity¹⁴

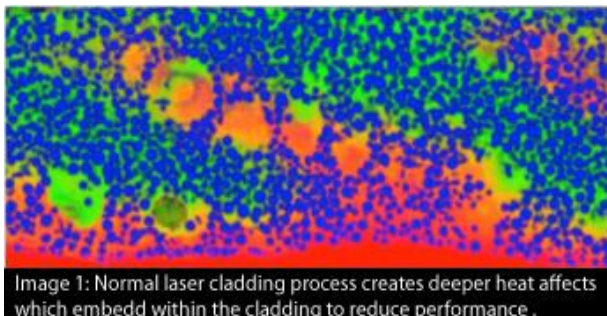


Image 1: Normal laser cladding process creates deeper heat affects which embed within the cladding to reduce performance .

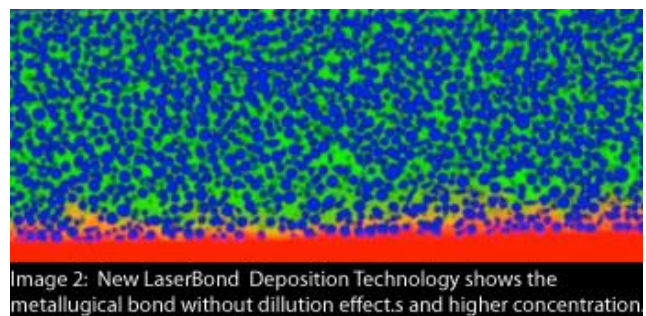


Image 2: New LaserBond Deposition Technology shows the metallurgical bond without dilution effects and higher concentration

¹³ Laserbond website

¹⁴ Laserbond Website

Performance Implications: First pass of laser cladding material onto substrate forms the metallurgical bond. Until this new LaserBond method, thicker layers and/or multiple passes were used to reduce the dilution effects on the wearing surface.

Commercial Benefits: The new LaserBond® laser cladding method offers further improvements to wear-life, thinner coatings and better economics for customers. **Generally speaking, Laserbond's coatings are on par with competitors in terms of pricing for coating, however the part has significantly improved wear life.**

Materials Used

- **Tungsten is the most common material used in Laser cladding** as it allows Tungsten carbide to be diffused with the substrate.
- **Why is Tungsten used?** Tungsten is a hard-wearing metal, the only other harder wearing material is diamond. It is used in hard wearing conditions where the additional cost is justified by the improvement in wear life achieved during service.
- Tungsten is expensive, surface coating is used to achieve hardened properties using a tiny coating, less than millimetre thick to reduce cost. LBL also use nickel alloys, cobalt alloys, copper alloys, bronzes and stainless steels. Material used is determined by a combination of price and effectiveness. Base metal and environment are considered in this process. Other materials used include nickel alloys, cobalt alloys, copper alloys, bronzes and stainless steels.
- **Material problems with tungsten carbide**, it doesn't like 'heat', so LBL's technique reduces decarbonisation, and increases the density
- Laser cladding utilises controlled energy from a laser source to bond a surfacing material to a metallic component. Laser cladding utilises the energy of a laser beam to form a metallurgically bonded layer on the metal base.
- Laser based systems provide a number of advantages over the techniques including highly variable energy adjustment, strong metallurgical bonds lower dilution with the base metal, smaller heat affected zones and high heating and cooling rates resulting in relatively fine microstructures.

LaserBond® laser cladding parameters

- LBL's laser cladding capabilities are continually expanding as is the range of materials cladded. Weight parameter ranges from a few grams up to 25t; diameters from 5mm up to 2000mm, and lengths up to 6 metres.
- The company has expanded the applications it can laser clad e.g. Own branded products

Thermal Spray (HVOF)

- Thermal Spray includes HVOF and traditional thermal spray
- **Why is Thermal used if Laser cladding is a better system?** In some environment's laser cladding is not warranted, the cost benefit from laser cladding is not compelling. In lesser wearing environments, customers are more likely to use thermal spray, as it is less expensive

The Process (Thermal Spray)

- Thermal Spraying includes normal Thermal spraying and High Velocity Oxy Fuel (HVOF)
- Think of the process like spraying a metal sheet with a gurney gun
- An injected powder, containing (most commonly) carbides¹⁵, is injected into a machine which is heated in a combustion chamber using liquid kerosene and oxygen. This process melts the metal at 2,700-3,300 degrees Celsius
- The melted metal is then accelerated (hence high pressure) through a gun like barrel at (1000m/sec) towards the substrate
- As the melted compound comes into contact with the substrate (the metal part being coated), it solidifies as a layer as thin as 0.3mm (in LBL's case), creating a mechanical bond

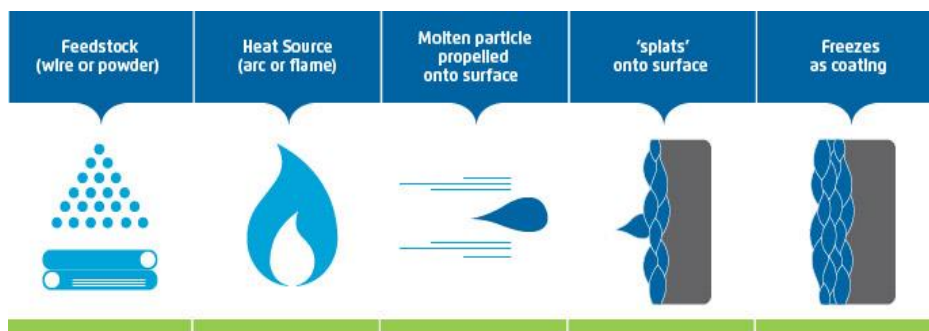
¹⁵ In chemistry, a carbide usually describes a compound composed of carbon and a metal. In metallurgy, carburizing or carbiding is the process for producing carbide coatings on a metal piece.

- The method uses the ‘highest particle velocity’, using speed and heat, which creates a high-level of adhesion¹⁶, which is resistant to corrosion and wear
- The combination of high bond strength, wear and corrosion resistance coatings are a superior alternative to the hard chrome plating (HCP)
- It can be sprayed from OEM thickness of 0.003” to rebuild thickness 0.250” inches without compromising the strength, making it possible to restore and re-build worn component surfaces.¹⁷
- Thermal Spraying is used as a cost-effective solution (relative to laser cladding). Laser cladding is appropriate in low wearing environments

Fig 10: Thermal Spraying Process¹⁸



Fig 11: Thermal Spray - HVOF Process¹⁹



Competing methods

Chrome plating

- Chrome plating is the technique of applying a thin layer of chromium onto a metal object
- Increases the hardness, durability and corrosion resistance of the surface, creates smooth surface, which is easy to clean²⁰
- Cost effective - cheaper than laser cladding and HVOF, however wear life not as durable. **Hardchrome is cheaper, ignoring the environmental implications.**
- Used for hydraulic cylinders and pistons, shafts and rotors for pumps, mining and agricultural equipment, press punches and tooling
- **Chromium contains Hexavalent chromium which is a known carcinogen**

¹⁶ Bond strength of 12,000psi

¹⁷ <https://hydroil.com.au/hvof/>

¹⁸ <https://hydroil.com.au/hvof/>

¹⁹ <https://hydroil.com.au/hvof/>

²⁰ <https://hcsplating.com/finishes/hard-chrome-plating/industrial-benefits-hard-chrome-plating/>

- **Environmental and OHS issues** - high risk of contamination to surrounding areas in wastewater if not treated properly. Employees have a high risk of exposure, causing cancer
- Number of chrome plating plants in Australia, significant number of chrome plating factories abroad. Australian examples include Sterling Plating Heidelberg, Victoria & Hardchrome Engineering Clayton, Victoria
- LBL has developed a higher speed more cost-effective solution, a product called Eclad©. Set to take market share in hard chrome market, no environmental issues with the technology
- See efficacy of three different coating methods shown in Figure 12. Note that the application applied depends on the parts environment/wear.

Figure 12: 1) HVOF, 2) Tibaloy 400 & 3) Hard Chrome. Coated Steel plates after 18 months of atmospheric exposure and weekly spraying with salt water. ²¹



General Machining

The Process

- No surface engineering applications
- Beyond thermal spray (15%) and laser cladding (65% services), clients use the 'body shop' for manufacturing small parts
- Machining parts. OEM clients also require non surface engineering machining for some applications

²¹ <https://hydroil.com.au/hvof/>

PRODUCTS

Background

- 95% of Products revenue come from 2 major clients (OEM1 & OEM2)
- +90% of sales are international

Two sub-segments

Own products Manufacturing of parts which undergo laser cladding to extend useful life.

- Approximately 5% of product revenues circa \$800K (2021, CCZ) from own products - 100% steel mill rolls (TAM - 15x times Australia) – generally recurring revenues. Starting to market rotary feeders
- Products Process - Base material is cut, sent to the CNC machine, products roughing stage to even out the surface area, laser cladding is applied to the effected-area, manual machining is required, back to CNC machinery to be machined back to specification
- Future products - Launching hard chrome replacement in 1H21. Sales will be similar to Technology division, Sale of chrome cell for an upfront fee, licensing fee and supply raw materials to customers
- Trials for own branded products are generally for extremely high wearing applications, so lead times for products varies from 8 weeks up to 12 months. In rare instances, LBL have provided guarantees to the customers, LBL's products have exceeded guarantees by some margin

OEM Products Laser cladding OEM's parts to increase useful life

- Approximately 95% of revenues in the product division come from other OEM products, (circa \$10.2M in 2021 CCZ)
- There is a strong reliance on OEM1 & OEM2 customers, 46% (2020) of total revenues (less in Fy21 with the acquisition of United Surface Technologies – will reduce to circa ~30%). We believe these clients to be **Weir Minerals and FLSmidth** (based on product orders to the United States and the fact that +90% of product revenues are sold to two OEM customers)
- **Weir Minerals (OEM1 – CCZ assumption)** – owns the largest ferrous foundry in Australia, located in Artarmon, Sydney²². Short distance from LBL's Smeaton Grange facility. Based on circumstantial evidence, we believe LBL supplies Weir manufacturing facilities with products that are manufactured in Australia and sent to subsidiaries globally. Products OEM Centre delivers to the distribution centre, using Weir's freight accounts. LBL supplies 400 different products to OEM 1, this customer which has high volume for 50-100 parts, and much smaller volumes for the remaining 300-350 parts. Low product concentration risk, for Weir. **In 2009 LBL released an announcement, signed a contract with Weir for \$3.2M pa²³. LBL likely to have increased revenues over the last decade**
- **FLSmidth (OEM2 – CCZ assumption)** – Premium market focus. Australia - Service centre Beresfield, Hunter Valley (coal mining region), no significant manufacturing presence in Australia. Product orders to FLSmidth slowed in Fy20 due to a reconfiguration of product in manufacturing plant in Tucson Arizona – which saw a reduction in sales of laser clad wear rings
- Slowdown in revenues due to reconfiguration of product specification change, write down moving inventory, this will come back in Fy21

After further investigation, LBL's two OEM customers are using products for spare parts in pumps. This is a large potential market for the business as an example, the slurry pump market alone is expected to be worth \$1.3Trillion²⁴ (USD) by 2026. Note that pump manufacturers make the majority of their margins in spare parts and services. Top global manufacturers for slurry pumps include Metso (Wear X -LBL has conducted work for Metso previously) & Weir Group (current customer)

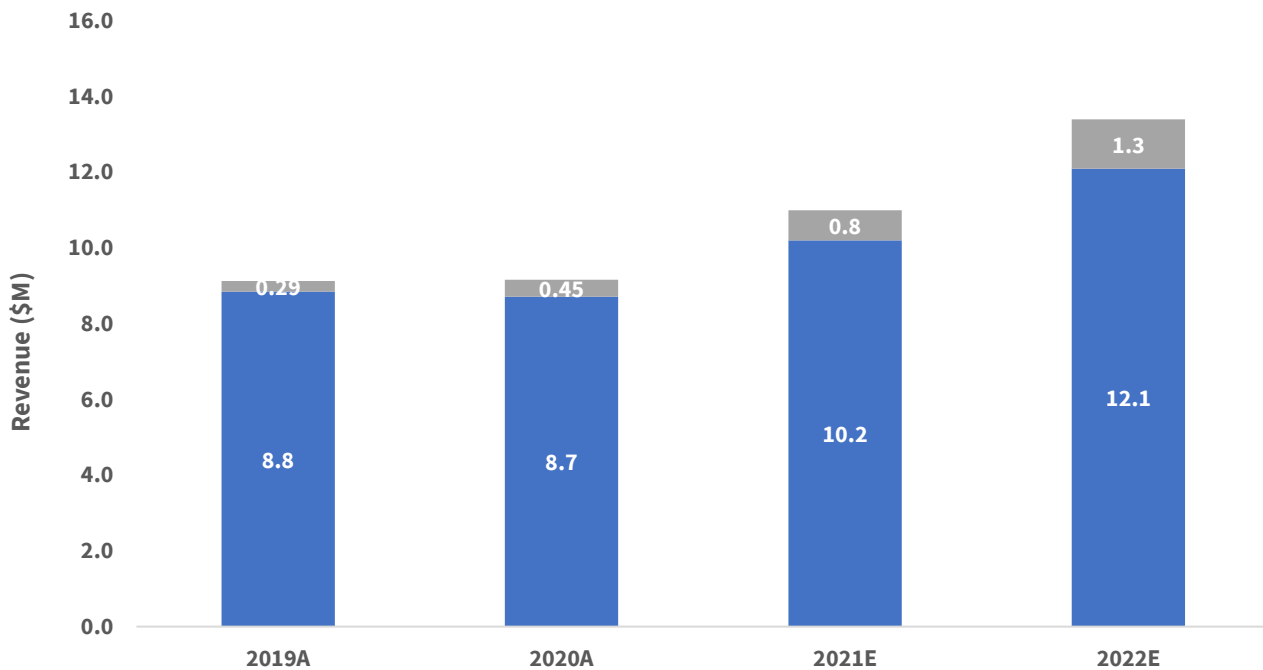
²² <https://www.linkedin.com/company/weirminerals/>

²³ https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2995-00939206-6A441785?access_token=83ff96335c2d45a094df02a206a39ff4

²⁴ <https://www.marketwatch.com/press-release/slurry-pump-market-size-2020-global-industry-trends-growth-share-and-2026-forecast-research-report-2020-08-25>

The proportion of Own product to OEM Sales is low as shown in Figure 13. As marketing of own products increases, strong growth in Own branded products is expected.

Fig 13: LBL Products to OEM Sales²⁵



OEM to Own Product Sales	2019A	2020A	2021E	2022E
OEM Sales	8.8	8.7	10.2	12.1
OEM Sales Growth		-1%	17%	19%
Own Branded Sales	0.29	0.45	0.8	1.3
Own Branded Sales Product Growth		58%	78%	63%
Total Product Sales	9.1	9.2	11.0	13.4
Reconciliation to Products Revenue	9.1	9.2	11.0	13.4
Total Product Growth		0%	20%	22%

Assumptions

Products Revenue

- Own branded Products - expecting ramp up in sales from steel mill rolls and other products (market rotary feeders) over next 3 years
- Expecting strong growth - from both OEM1 & OEM2 in the coming financial year. Order book ahead 18% on pcp (June 20 relative to June 19), expansion of product range and adding sales to other OEM's outside of the top two a key priority

²⁵ Management and CCZ Forecasts

Products EBITDA

- Have maintained Products EBITDA growth +20% from 2021 onwards. Products EBITDA margins sustained at circa 30% (post AASB 16). Commentary from management has been target of 50% GM. Assumed EBITDA margins from Own branded products in line with OEM branded products.

Fig 14: Product Revenue²⁶

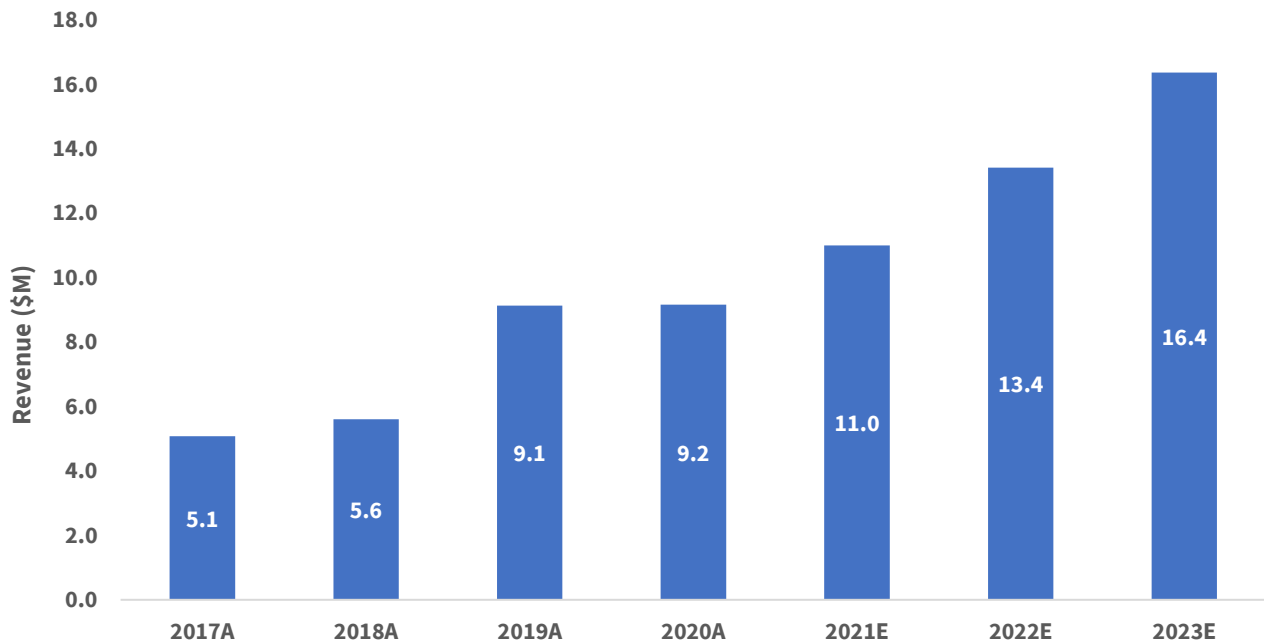
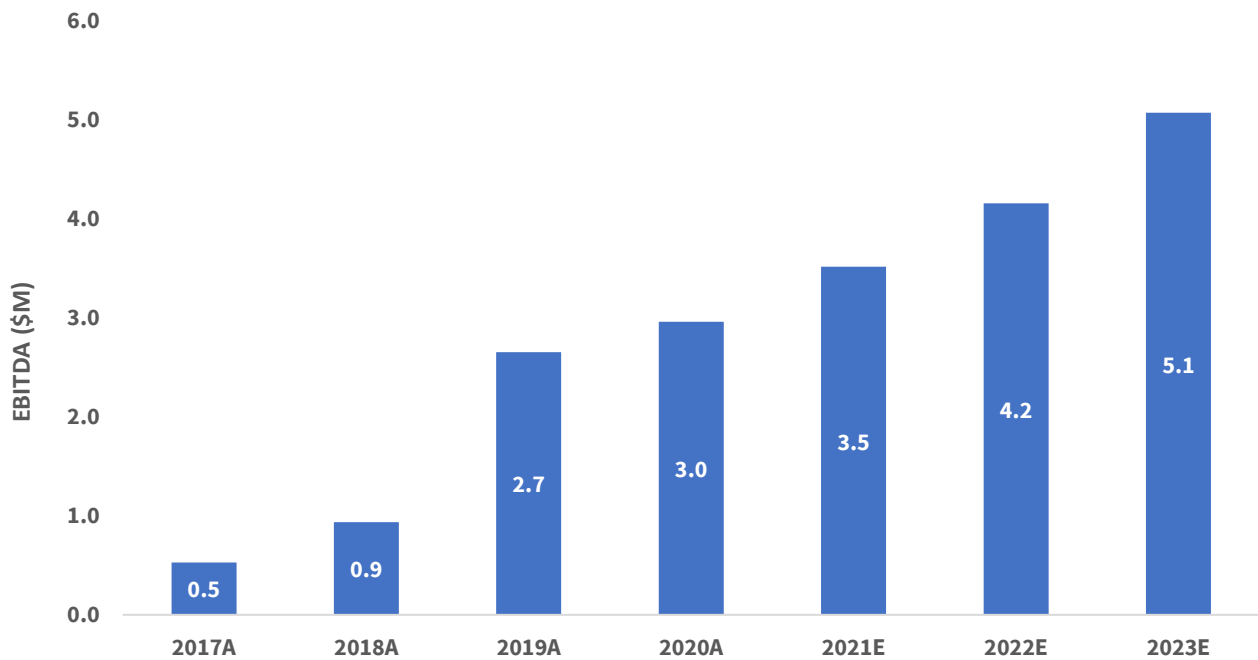


Fig 15: Products EBITDA



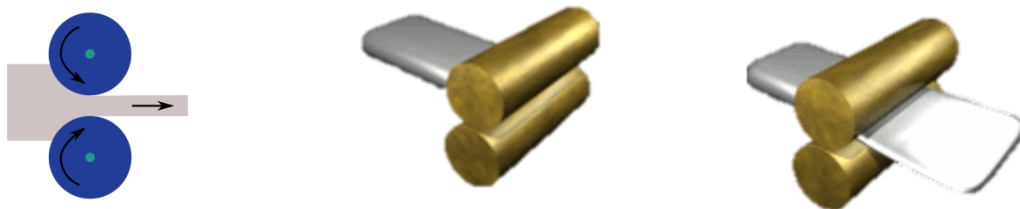
²⁶ Laserbond Annual Reports and CCZ Estimates

Examples of Own Products

Steel roll mills

- [Composite Carbide Steel Mill Rolls](#)
- Overall, the steel market is 10x-15x the size of the Australian market. 3m-4m tonnes per annum in Australia compared to over 90 million tonne per annum in the US (general industry information not to be extrapolated to target market for LBL's steel mill rolls)
- Range in size from 50kg to 2.5 tonnes
- Customers include Steel Dynamics (Indiana), Nucor Steel (Nebraska) and Gerdau Ameristeel (Texas)
- Targeting mini-mills – not integrated steel mills which have arc furnaces and work in a limited range of products
- High usage product, fail rate 8-10 weeks for some parts
- LBL can increase the wear life up to 5x compared to normal products
- Surface engineering costs (are proportionate to the size of the roller)
- Used to reduce the thickness of steel passing through two steel mill rolls (as seen in Fig 16)

Fig 16 & 17: Producing Steel using Steel Mill Rolls & Laserbond Steel Mill Rolls²⁷



Key Attributes, Steel Mill Rolls market

- Allegedly last 5x longer than competing parts at less than double the price
 - *"Our Composite Carbide Steel Mill Rolls are lasting more than 5 times longer than competing parts and are less than double the price. This development would be regarded as step-change within the steel industry and addresses a costly wear issue that has been a problem for many decades. The manufacturing of our Composite Carbide Steel Mill Rolls utilises our Patent Pending Laser deposition method."*²⁸
- No apparent competing products

²⁷ Laserbond Website

²⁸ <https://ethicalequities.com.au/blog/laserbond-impressions-from-a-site-visit/>

Fig 18: Steel Milling Process²⁹



Unit Economics – Products Division

UNIT REVENUE

OEM Revenue

- **OEM 1** - hold inventory stock for max orders, lead time is quick, generally 1-2 days from order to delivery. Order confidence high from OEM 1 (points to local manufacturing base). Supply total of 400 different parts, 50-100 hold inventory for producing stock, 300-350 products are from low volume irregular orders, make to order agreement. Some items, depending on the specification, lead times can take up to 3-4 weeks
- **OEM 2** - ship in 4 weeks based on LBL keeping inventories of raw materials (both base and metals powders). Don't traditionally hold finished goods, for this customer

Own Products Revenue

- Steel Mill rolls - Turnaround time 4-5 weeks, with LBL delivering 8 weeks door to door
- Orders are received and fulfilled within relatively short timeframe

COGS

- Raw materials - 22% of COGS: metal powders, carbides, kerosene, gas and oil– raw materials include powdered metals applied during application
- Employment expenses - 15% of COGS

OPEX

- Variable Expenses:
 - Indirect Labour/Admin expenses - apportioned based on proportion of revenue generated by the segment
- Fixed assets:
 - Lasers- 4 lasers (2 in development)
 - Overheads - Rent, Insurance, Electricity are allocated based on the proportion revenue generated from the division relative to revenue

²⁹ Laserbond Website

TECHNOLOGY

Unit Economics – Technology Division

UNIT REVENUE

- Technology Sales are in three parts 1) equipment sale 2) recurring licence fee for support services and 3) materials supplied
- To date, LBL have sold two 'laser clad cells' one in the UK the other in China. The UK is operational, the Chinese agreement was nullified by mutual consent (due to the customer not upgrading to required spec. for laser cladding cell)
- **Core Laser Cell** - \$1.2mil to \$1.7mil per sale upfront fee (equipment sale), \$200K in licensing for support and service fees and \$1M on consumables pa
- **Hard Chrome Cell** - \$0.9M - \$1.1m equipment sale, \$100k-\$200k
- CCZ estimate 1 tech sale this year (2H21).
 - Supply, installation and training on equipment
 - Build the equipment to unique specifications
 - E.g. 3m diameter, 11m tonnes
- Contracts are signed on 5+ years length (UK contract for 7 years)
- UK guarantee licensee
 - 40% GM on Core Laser Cell for the initial sale, CCZ estimates 10% EBITDA margin
- Charge for support revenue
 - Margins circa 80%, 0 overhead costs associated
 - Circa \$200K in revenues, recurring
- Charge for consumables
 - Low margin (CCZ estimates 10%)
 - LBL can purchase more consumables at lower prices because they use the same consumables as their licensees (volume discount)
 - Consumables revenues circa \$1M per annum, depends on consumption used by the client (variable)

Fig 19: Laser Cladding Cell – UK Customer³⁰



³⁰ Laserbond 2019 Annual Report

Assumptions

Since 2017, Technology has demonstrated infrequent sales. Sales are determined by one off large capital equipment sales (laser cladding cells). Technology Revenue and EBITDA assumptions provided below:

Technology Revenue

- CCZ forecast 1 technology sale per annum (in the 2nd half of 21) and one tech sale going forward for the next few years. Management expectations will make 1 tech sale in Fy21 and 2 tech sales p.a. going forward.
- Fy21 Sale of tech (\$1.2M), Support sales (\$400K) from previous tech sale (UK), and consumables \$1M (UK)

Technology EBITDA

- EBITDA Margin Tech sale 10% (circa \$120K EBITDA contribution)
- EBITDA Margin Support Services 80% (circa \$320K EBITDA contribution)
- EBITDA Margin Consumables 10% (circa 100K EBITDA contribution)
- Total EBITDA circa \$520K

Fig 20: Technology Revenue

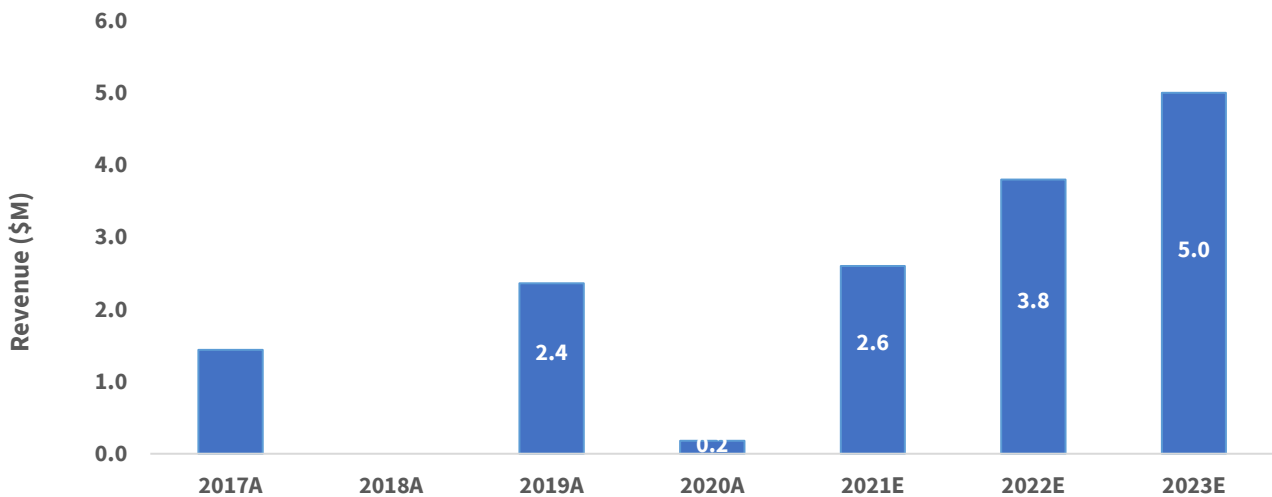


Fig 21: Technology EBITDA

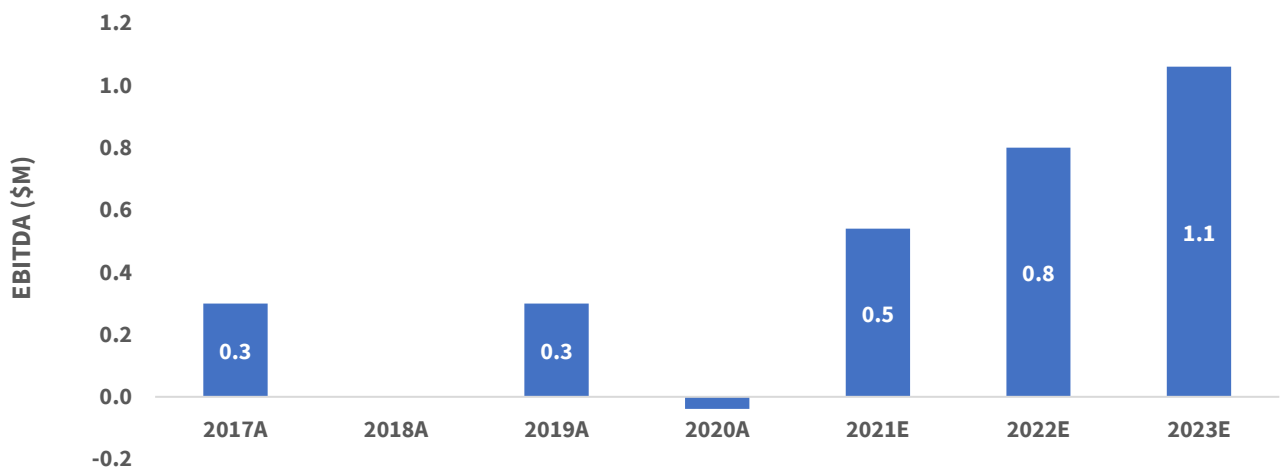


Fig 22: CCZ Technology Assumptions

Technology Sales	2019A	2020A	2021E	2022E	2023E
Technology Revenue (\$M)	1.2	0.0	1.2	1.2	1.2
Tech Sales EBITDA (\$M)	0.12	0	0.12	0.12	0.12
Tech Sales EBITDA Margin	10%	10%	10%	10%	10%
Support Services Revenue (\$M)	0.1	0.0	0.4	0.6	0.8
Support Services EBITDA (\$M)	0.1	0.0	0.3	0.5	0.6
Support Services EBITDA Margin	80%	80%	80%	80%	80%
Consumables Revenue (\$M)	1.1	0	1	2	3
Consumables EBITDA (\$M)	0.11	0.0	0.1	0.2	0.3
Consumables EBITDA Margin	10%	10%	10%	10%	10%
Total Revenue (\$M)	2.4	0.2	2.6	3.8	5.0
Total EBITDA (\$M)	0.3	0.0	0.5	0.8	1.1

Large Potential for New Markets in Technology

- *'Game Changer'* in chrome replacement cells. Laserbond created a technique whereby the chrome plating process is sped up thus reducing cost. LBL's process does not use hexavalent chromium, a known carcinogen
- Laser cladding solutions previously worked to replace chrome plating, however price differential too great to become marketable. Hard chrome replacement (Eclad©) has significant potential in the Hard chrome market worth an estimated \$1.2B USD globally

CUSTOMERS

Laserbond's key customers include some of the biggest mining companies such as BHP, Rio Tinto, Weir and FLSmidth as shown below. Two key customers made up 46% of revenues in 2020. With the acquisition of United Surface Technologies, concentration of customers will fall in Fy21 (estimate circa ~30%).



COMPETITORS

Victoria

Hardchrome Engineering

Location: 175 Wellington Road North Clayton, Victoria 3168

Website: <https://www.hmg.net.au/>

Established: 1968

- Second biggest laser cladding company in Australia after LaserBond.
- In addition to laser cladding the company also offers nickel and chrome plating and hydraulic repairs
- No scanning electronic microscope for R&D

Brenco (Bought out by Mogas)

Website: <http://brenco.com.au/>

Location: 171-173 Fairbairn Road Sunshine VIC 3020 Australia

- Acquired by Mogas Industries in July 2019 for an undisclosed sum
- Valve manufacturer and heavy industrial equipment servicing company based in Houston, Texas.
- Rationale for the acquisition was “to bring the next generation of patented laser cladding technology in-house” according to Business Wire
- Brenco has less capacity for heavy engineering (i.e. mining applications) than LaserBond

Jarvie Engineering (Purchased by Swanson Industries Australia)

Website: <https://swansonindustries.com/au/>

Location: Newcastle, NSW and Queensland

- Purchased by Swanson Industries in 2014
- Own laser cladding machines for niche markets, mainly servicing the hydraulics market
- Site locations in Newcastle and Queensland
- Located close to Hunter Valley coal fields

South Australia

Hydroil³¹ - (thermal spray internally)

Website: <https://hydroil.com.au/hvof/>

Location: 64 Audley Street, Woodville North SA 5012, Australia

- Focused on manufacture and repair hydraulic cylinders to the highest quality for industrial clients in Australia and overseas

Western Australia

Harford's Surface Technologies

Website: <https://www.harfords.com.au/>

Location: 36 Coulson Way Canning Vale Western Australia 6155

- Thermal Spray, Precision Machining, White metal Bearings, HVAF/HVOF

³¹ <https://hydroil.com.au/hvof/>

KEY RISKS

- **Customer concentration** - 46% of revenues from 2 customers (2020)
- **Key man risk** - CTO Greg Hooper retiring in June 2020
- **Exposure to mining industry** - downturn in the mining industry may cause a reduction in demand for LBL's products and services

Consideration around Risks:

- **Customer concentration** - - set to reduce post acquisition of United Surface Technologies (reduce to circa~30%). Further, development of Own branded products and other acquisitions will increase diversification of customer revenues
- **Wayne Hooper (CEO)** sees himself in the business for more than 5 years
- **Greg Hooper (CTO) will still be available on a consulting basis** – post retirement
 - The R&D team is 'across the technology'. Succession put in place, **Materials scientist appointed in NSW and Dr Thomas Schäfer to lead R&D projects** Succession planning has been well thought out.

MANAGEMENT AND BOARD

Fig 23: – Management & Board³²

Executive	Description
Greg Hooper (CTO - retiring to advisory role)	Founded the company in 1992, and is responsible for the research, integration and development of the company's materials, Thermal Spray and LaserBond cladding processes. Currently CTO of Laserbond. In Office Since April 1994. <i> Holding 0 shares (sold due to retirement). E: GregH@laserbond.com.au</i>
Wayne Hooper CEO	Wayne is a professional engineer with significant technical and management experience within the surface engineering, general engineering and manufacturing industries. His engineering experience includes design, maintenance and project management. He started his career within the electricity generation industry, followed by high volume manufacturing. Prior to joining the company in 1994, Wayne also held senior roles in marketing within the building products industry. Wayne holds degrees in Science, Engineering (Honours Class 1) and an MBA. In Office Sept. 1991. <i> Holding 9.8M shares. E: WayneH@laserbond.com.au</i>
Philip Suriano Chairman	Philip has been a Director since 2008. He began his career in corporate banking with the State Bank of Victoria (Commonwealth Bank). He holds a degree in banking & finance (B.Bus. (Bkg & Fin)). He spent 16 years in senior positions within the Australian Media Industry. Philip has gained wide knowledge & experience to give him a strong background in operations, sales and marketing in such roles as National Sales Director, MCN (Austar and Foxtel TV sales JV) and Group Sales Manager at Network Ten. Prior to joining MCN, Philip was employed within the Victor Smorgon Group. For the past 14 years he has been working in corporate finance. In Office since 6th May 2008. <i> Holding 776K shares. E: Phils@laserbond.com.au</i>
Matthew Twist CFO	Matthew Twist has over 25 years' financial management experience, encompassing financial and operational control and systems development in manufacturing companies. Matthew has been the company's Chief Financial Officer since March 2007, and was appointed Company Secretary on 30 March 2009. Matthew has a Certificate in Governance Practice, and is an affiliated member of the Governance Institute of Australia. In Office since 30th March 2009 (as Company Secretary) & CFO since 30th June 2020. <i> Holding 72K Shares. E :Mathewt@laserbond.com.au</i>
Thomas Schäfer R&D	Engineering Manager - R & D Projects. Previously Head of R&D at GTV Verschleißschutz GmbH in Germany. In Office since September 2017. <i> Holding Shares Unknown.</i>

³² Laserbond 2020 Annual Report

FINANCIALS

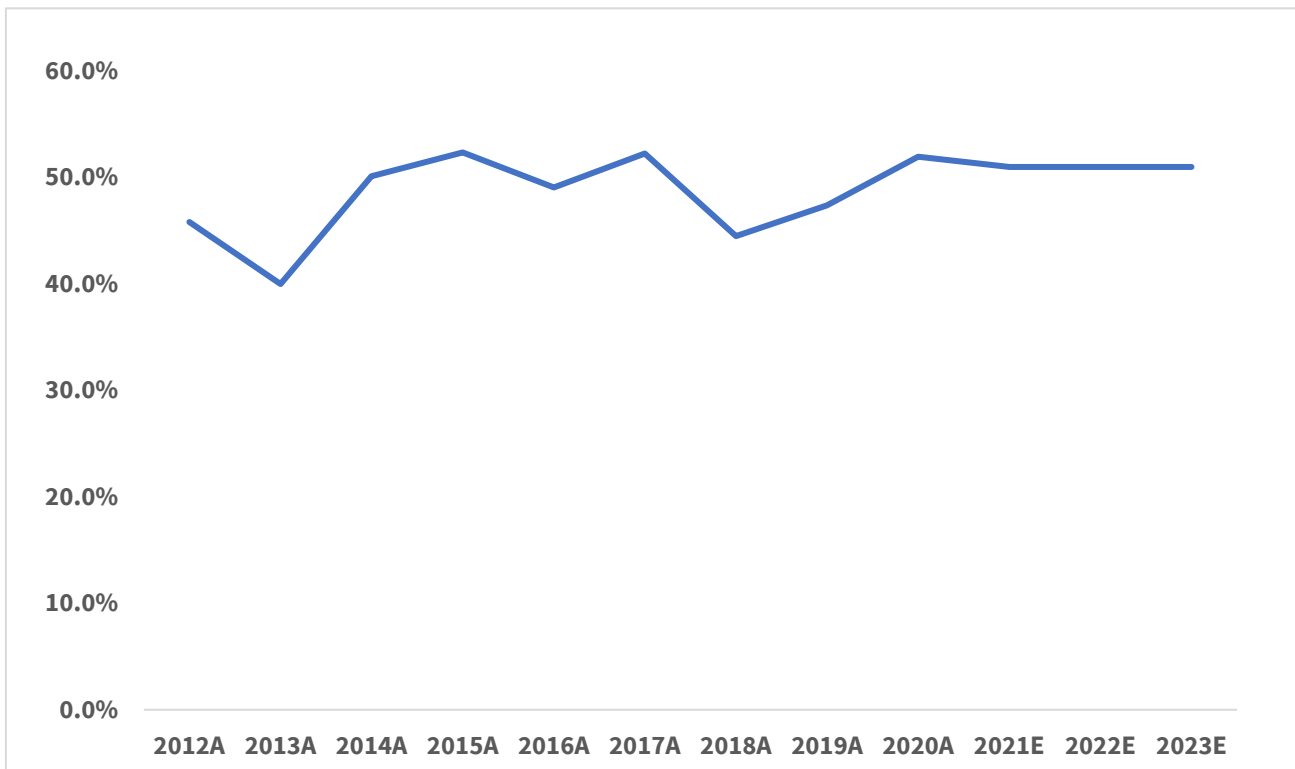
Laserbond's Gross Margins are circa 50%, depending on:

- Types of products sold
- AUD/USD exchange rate. LBL have US dollar bank account for \$US AR deposits \$US AP payments. No hedging \$US. Other currencies are minimal so no need for hedging practices in these currencies

Gross Profit

- Management Target is 50%. CCZ projects GM of 51% (2H20 GM circa 54%)
- Services and Products are both circa ~50% margin

Fig 24: Historical & Forecast Gross Profit Margins³³

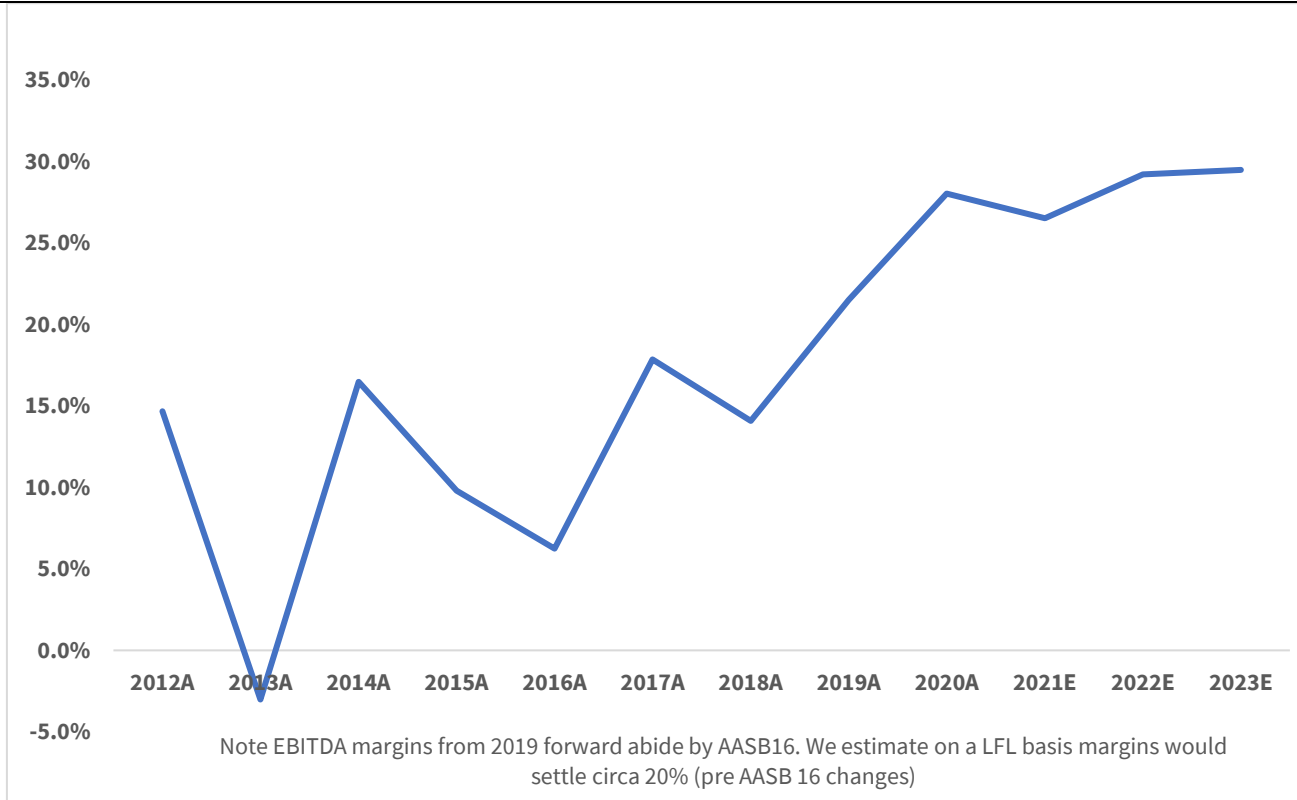


Capex

- **Fy21:**
 - Capex: \$3.9m
 - Key item:
 - Next Generation manufacturing Improvement Program. To be partially funded by government grants, to be located at Smeaton Grange
 - Laser developed for United Surf. Tech (Victoria) and NSW Automated Laser Cladding Cell
- **Generally:**
 - 75%-80% is growth (brand new equipment)
 - 20%-25% is maintenance (upgrades)
- **Going forward**
 - Have assumed circa ~\$3m capex going forward – enabling maintenance of capital stock and investment in new machines

³³ Laserbond Annual Reports

Figure 25: EBITDA Margins ³⁴



VALUATION

Discounted Cash Flow Analysis

We have used a DCF Valuation to reach a valuation of \$1.08 (2021). This values the business at \$103M in 2021 (+44% to current share price).

DCF Valuation

Forward Guidance FY21

- Discount Rate 9%
- Long Term Growth Rate 3%

Management \$40m revenue target by 2022. CCZ Forecast of \$38.1M

- Services:
 - Increase in equipment and people in NSW & SA
 - Nominal growth p.a. = ~11%
 - Domestic expansion – VIC, NSW and SA expansion. Possible WA and QLD expansion.
 - Additional utilisation of employees in NSW, Laser commission in March quarter 21 to aid growth

³⁴ Laserbond Annual Reports

- Products:
 - More growth opportunities
 - ~22% revenue growth Fy21 - increasing OEM orders and greater penetration of own-branded products into international markets
 - Fy22 onwards expecting strong traction in steel mill rolls and new products such as market rotary feeders.
- Technology report
 - CCZ forecasts 1 equipment sale p.a. to 2023
 - \$1.2M to \$1.7M per sale upfront fee - Have assumed 1 sale per year + recurring service fees
 - Supply, installation and training on the equipment
 - and build the equipment to unique specifications
 - E.g. 3m diameter, 11m tonnes
 - Contracts are on average 5+ years
 - Charge for consumables
 - Low margin

Fig 26: CCZ DCF Valuation

Discounted Free Cash Flow Valuation										
Discount Rate/Required Return	9.0%									
Long Term Growth Rate	3.0%									
Number of Shares	95									
Current Share Price	0.75									
Free Cash Flows (FCF)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Periods	1	2	3	4	5	6	7	8	9	10
Operating Cashflows	4.4	7.6	8.6	10.1	12.4	13.6	15.0	16.5	18.2	20.0
CAPEX (subtract)	(4.3)	(2.8)	(3.2)	(3.7)	(4.3)	(4.7)	(5.2)	(5.7)	(6.3)	(6.9)
Lease Expense (subtract)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Operating Free Cashflow	-	0.9	3.8	4.4	5.3	7.1	7.9	8.8	9.8	10.8
DCF Calculation										
Periods	1	2	3	4	5	6	7	8	9	10
FCF	(0.9)	3.8	4.4	5.3	7.1	7.9	8.8	9.8	10.8	12.0
Terminal Value					119	132	146	163	181	200
Total Value	-	0.9	3.8	4.4	5.3	125.7	139.5	155.3	172.6	191.6
		2021E	2022E	2023E	2024E	2025E				
NPV of FCF & TV		102	115	129	144	160				
DCF Per Share Valuation		1.08	1.22	1.37	1.53	1.69				

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