LASERBOND
PRODUCTIVITY | INNOVATION | CONSERVATION

ASX Release

23 August 2024

WA acquisition proves positive; attention moves to North America.

FY24 key performance metrics

Revenue	EBITDA	NPBT	Safety
8.7% on pcp	(7.3%) on pcp	(18.1%) on pcp	62.5% on pcp
41.98M*	9.45M	5.22M	Improvement in LTI performance

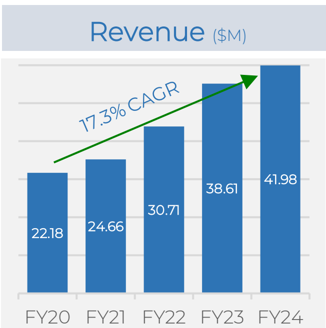
* Revenue would total $56.6 million If our WA equity acquisition revenue was able to be consolidated since purchase.

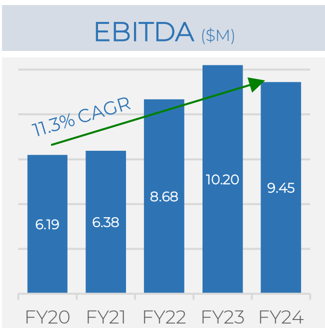
The year for LaserBond Limited (ASX: LBL) has been one of investment in expanding our capacity and capabilities to support our continued growth. The Company has achieved its national footprint with an equity purchase in the Gateway Group in Western Australia. North American offshore expansion plans are progressing, and the design of standardised modular laser cladding cells for technology licensing are complete.

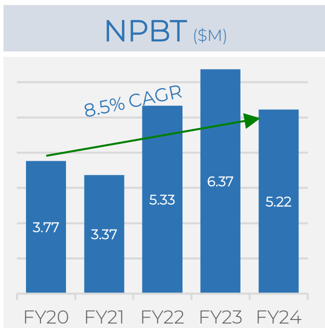
While LaserBond's reported revenue increased moderately, if Gateway's revenue for the four months since our acquisition was able to be consolidated, our revenue would have totalled $56.6 million in 2024. By implementing our technology in Gateway, combined with our organic growth and overseas expansion plans, we aim to continue the strong growth of the business.

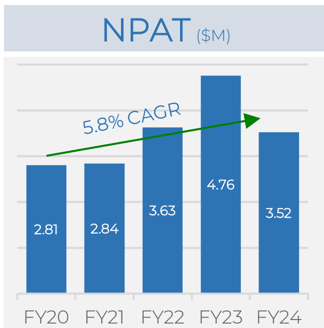
Chief Executive Officer and Executive Director, Wayne Hooper, said "FY24 can be best characterised as a year of achievement in some sizeable, long-term initiatives that progress important expansion and innovation aspirations. These initiatives are the building blocks needed to secure the technical and commercial success of the business in the longer-term, creating a more diversified, relevant and valuable organisation for a wider geographic footprint and customer base."

Financial Performance





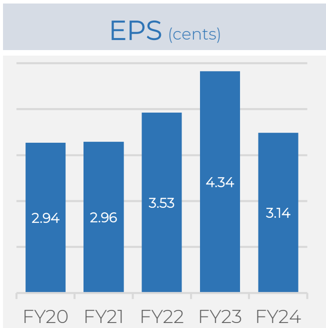


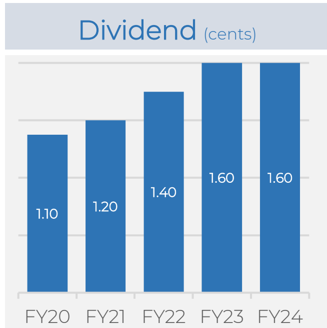


LaserBond's earnings were impacted by increased employee costs, an issue with a large OEM product parts supplier exiting the market at short notice, and a higher tax rate at the group level. This increased tax resulted from an ATO requirement to consolidate the accounts of the new Gateway acquisition, hence recognising a higher level of profit. Contrary to this requirement are the accounting standards which prevent the consolidation of subsidiary businesses in which there is not a controlling stake. Thus, LaserBond must report consolidated accounts to the tax office and increase its tax liability, whilst being unable to recognise the fully consolidated contribution from the Gateway operations in its reporting. However, upon the third anniversary of the acquisition, LaserBond has the right to acquire a controlling stake in Gateway Group and will then be permitted to consolidate the accounts for both tax and reporting purposes.

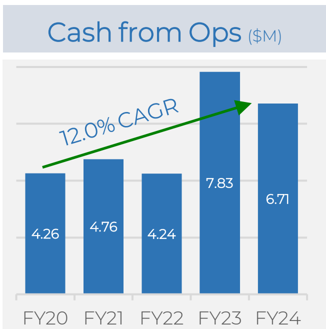
Revenue increased by 8.7% to $41.98 million, with strong contributions from the Services and Technologies Divisions, and despite a lower contributions from the Products Division. EBITDA declined by 7.3% on FY23 to $9.45 million due to increased employee costs and planned costs for plant and equipment improvements. These results led to a lower profit before tax result of $5.22 million before the impact of the higher tax rate resulted in a drop of 26.0% in after tax profit.

The Board has resolved to pay a final fully franked dividend of 0.8 cents, bringing the full-year dividend to 1.6 cents per share. Earnings per share decreased by 27.7% due to lower earnings and increased shares on issue resulting from the issue of new shares for the scrip component of the Gateway Group acquisition.

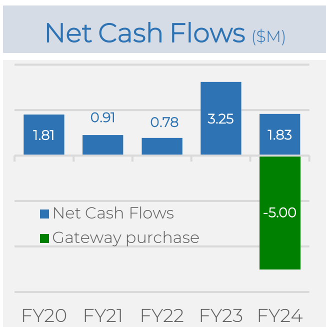


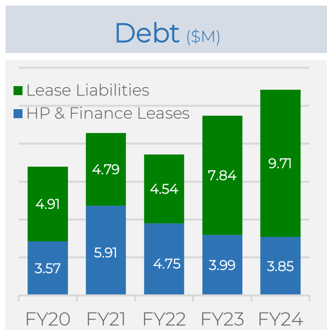


Lower revenue in the Products Division and higher payments to employees impacted cash flows from operations. The planned $5 million cash payment for the Gateway acquisition underpinned a decrease in working capital, but working capital remains appropriate to support ongoing operational requirements.



Equipment financing has decreased by a marginal 3.5%, while the renegotiation of the lease for the Altona facility in Victoria caused an increase in total lease liabilities.





Impact of Gateway Acquisition

A 40% stake in Gateway Group was acquired in early March 2024. Gateway is a larger and higher calibre business than had originally been contemplated, which will serve LaserBond well in several attractive market sectors in WA into the future. Our initial stake, however, means that LaserBond's accounts cannot be consolidated with those of Gateway without a controlling share of 51%. This means that LaserBond's reported revenue will not include revenue from this WA acquisition as was originally intended. More specifically, it does not translate into a lesser revenue performance by the company. In taking this path, the Board determined that the longer-term benefits of gaining a larger and more sophisticated business significantly outweigh the desire to reach short-term revenue targets.

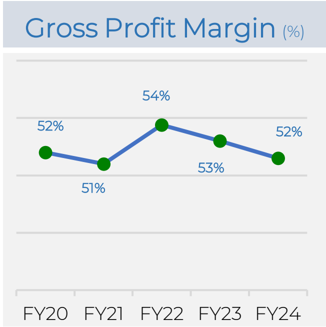
Strategy

LaserBond's strategy remains firmly founded on expanding into new markets, both locally and offshore, building the right people and equipment resources to support that growth, maintaining its market leadership position in innovation and gaining wider benefits from its technology expertise with licensing agreements that build subscription revenue over time. Over the year, much investigative work was undertaken to inform the concept of a North American LaserBond facility. While the initial approach was made by the US division of a large OEM customer who wanted closer and more efficient access to LaserBond's Products Division, the attractiveness of the region for the Services Division has also become apparent, giving rise to further consideration of what the optimum operating model in that region might look like in the context of a larger LaserBond offering.

Other initiatives and activities were undertaken to advance the strategy, such as the introduction of a further group of skilled visa workers late in the year, additional training programs, careers presentations to secondary school students, increased resources to protect and extend the business's market leading position in innovation, and further work on new technologies to address market gaps and customer problems.

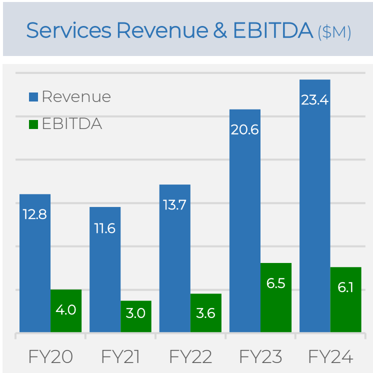
Operational Performance

LaserBond's operations performed strongly, achieving some significant milestones and solving problems with a strategic and creative approach. Gross profit margin was maintained above 50% across the operations despite operational challenges and the broader inflationary environment, while risk identification and mitigation were a focus, with further consideration given to a wider range of potential business risks and strategies to manage them.



Safety performance was also strengthened with a 62.5% reduction in LTIs and a 65.3% reduction in LTIFR. The safety culture at LaserBond has been successfully transferred to new sites as the business has expanded into new regions with regular health hazard testing, widely promoted prevention measures and a focus on mental health.

The Services Division performed well, with a solid increase in revenue of 13.3%. A small decrease in EBITDA of 5.8% was largely attributable to increased employee costs. Over the past four years, the business unit has achieved a revenue growth rate of 16.2%, reflecting the superiority of its technologies and excellence in application combined with strong demand across heavy industry market sectors.

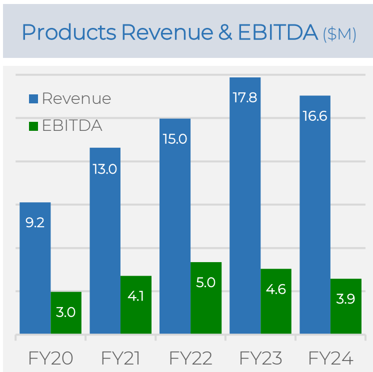


The strong performance is also despite the later than expected arrival of the next group of skilled visa workers, who, after induction and training, were allocated to various sites to boost capacity and productivity in the last quarter of the year.

Strong performances were returned in the QLD and NSW operations, and plans are underway for a larger QLD site fit to handle the strong and growing demand in that region. This site is expected to be operational by FY26.

The Victorian operations has been strengthened with new business development resources, and the impressive performance of the new WA acquisition will be further enhanced by the first set of modular laser cladding cells, currently under manufacture in the NSW facility, that have been purchased under a commercial arrangement from LaserBond.

The Products Division experienced challenges relating to unflagged changes in supply availability for parts needed to manufacture products for an OEM customer. This change occurred late in the first half year, triggering a race to find an appropriate alternative source for componentry without impacting production schedules. As an alternative supplier could not be sourced until the second half of the year, revenue declined slightly in the first half, with a greater impact in the second half caused by capacity constraints, resulting in a 7.2% decrease against FY23.

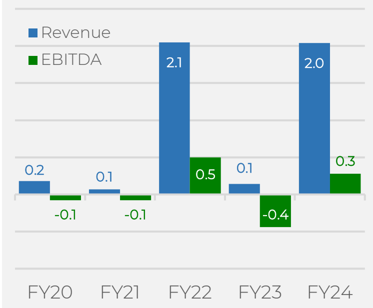


The issue was also exacerbated by the OEM introducing new software in their operations, causing further constraints in the flow of orders. Strategies to mitigate customer dependencies with greater revenue diversification have been augmented with increased business development plans and new monitoring and reporting processes.

Encouragingly, the business unit experienced a 38% increase on orders for steel mill rolls for international customers, as well as some margin improvements flowing through from FY23 price increases.

The Technology Division was able to recognise revenue from several customers. These included bespoke laser cladding cells for Swinburne University in Melbourne and Curtin University in Perth, a cladding cell under license to an Indian customer, and ongoing licensing fees and consumables for UK and NZ licensees. The revision to the operational scope for the North American licensee has progressed to a solution developed by LaserBond, which is now progressing to the customer conducting production trials. Factory acceptance will be gained on successful production trials, resulting in revenue recognition for this equipment. As a result of the conclusion of most of these agreements, revenue increased by $1.91 million and $0.3 million in EBITDA was achieved.

Technology Revenue & EBITDA ($M)



The business unit's future direction is founded on servicing internal requirements for replacement, additional, or upgraded laser cladding cells across all sites.

The other focus will be in manufacturing the newly designed modular cells built for speed to market on a lower cost base with more standard application processes. The first of these cell sets is currently being manufactured for the WA operations.

Innovation

The design of the modular laser cladding cells was, in fact, a highlight of the year. Completed during the year, they are oriented towards meeting market demand from smaller surface engineering businesses needing a standardised, lower-cost option that can become operational in a significantly reduced timeframe. Three modular cells are designed to handle the different needs of smaller service providers, providing enhancement capability when used in a modular fashion to accommodate broader customer applications.

LaserBond also increased its investment in R&D by 77.6% over FY23, spending $0.81 million on people and projects to accelerate an ambitious development program directed at a range of international and local customers.

Outlook

While Australia's economic health continues to defy predictions, inflation is yet to fall to an acceptable level, cost of living pressures persist, and the labour market is forecast to soften. On the upside, however, commodities and other exports remain buoyant, and growth has merely slowed rather than sliding into negative growth. As a service provider to large heavy industry organisations that are driven by these economic factors, as well as the widening sustainability regulatory and compliance landscape, LaserBond continues to experience strong and increasing demand for its products, services and technologies across all sectors in which it operates.

Mr Hooper also said, "The opportunities in front of LaserBond are substantial and exciting, with much vital activity in preparing and progressing our strategic objectives to capture the value they offer. Increased capacity and capability with the introduction of the new skilled migrant workers and higher calibre management and business development capability at senior levels combine with the unrelenting demand across the customer base, both in Australia and increasingly overseas, to enable the level of growth that LaserBond intends to achieve."

~ ENDS ~

Authorised for release by the Board of LaserBond Limited.

Further information about the company's financial and operational performance can be found in the Appendix 4E and FY24 Annual Report also lodged with the ASX today.

Further Information:

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About LaserBond

LaserBond focuses on developing and applying materials, technologies, and methodologies to increase the operating performance and wear life of capital-intensive machinery components.

Within these industries, component wear can profoundly affect the productivity and total cost of ownership of capital equipment. As almost all components fail at the surface due to material removal through abrasion, erosion, corrosion, cavitation, heat and impact, and any combinations of these wear mechanisms, tailored surface metallurgy will extend their life and enhance their performance.