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# Laserbond (LBL)

## Initiation | Laser Focused

### KEY POINTS

- Laserbond (LBL) is a specialist surface engineering business that repairs, re-manufactures, and manufactures intensive machinery components across heavy industries to extend their useful life.
- 75% of LBL's revenue is derived from its proprietary technology in laser cladding systems – a process that extends the wear life of components up to 10x.
- LBL was the first in Australia to offer laser cladding services, and its competitive advantage lies in its extensive experience and intimate understanding of clients' needs and the wear environment of components, paired with strong IP in powder metallurgy and design of laser cladding systems. LBL is only one of a few surface engineering businesses in Australia to employ an internal R&D team.
- They are the **only** surface engineering business with a national presence, expanding beyond their home base of NSW & SA, into VIC (2020), QLD (2022), and WA (2024), with a planned brownfield expansion into the US in 2025.
- This national presence removes a key barrier to winning customer work by reducing turnaround time, and in turn customer down time.
- Management expects sustainable double-digit growth in earnings into the medium term. We believe this will be underpinned by LBL's national footprint, their brownfield expansion into the US, and growing adoption of laser cladding.

### KEY DRIVERS

- Integrating LBL's laser cladding services into WA and winning new client work with existing customers who have WA operations and an understanding of LBL's services.
- Brownfield expansion into the US reducing logistics costs of LBL's products and services, making it more economical for customers.
- The US expansion is de-risked by several large customers requesting them to have a local US manufacturing base to assist with the wear problems for their US operations, being unable to find a global alternative to LBL's solutions.
- Reduced cost of laser cladding technology over time, making the process cost effective in more manufacturing and remanufacturing use cases.
- Tightening of ESG requirements in heavy industries will lead to greater adoption of remanufacturing in supply chain processes, with the typical carbon footprint for a remanufactured part being less than 1% of a new part.
- Opportunity in additive manufacturing/3D printing.

### VALUATION

LBL is trading on 10x FY26 P/E presenting value given the growth profile ahead from recent acquisitions and planned US expansion.

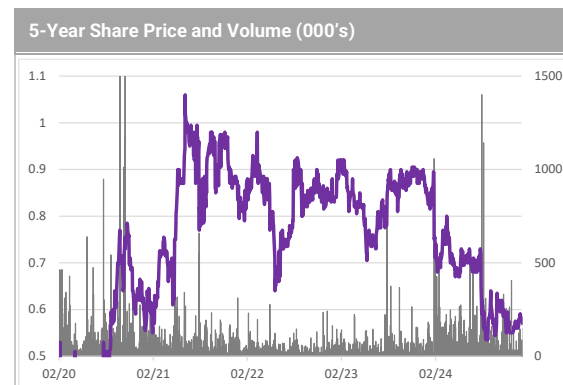
We initiate coverage with a BUY recommendation and a price target of \$0.62/share.

**Risks include but are not limited to:** loss of major customer(s), access to skilled labour, failure to adapt to new technologies, downturn in mining and O&G sectors, and failure to integrate acquisitions.

Recommendation	BUY
12 Month Price Target	\$0.62
Risk Rating	Medium
Current Share Price	\$0.41
Previous Recommendation	Initiation
Price target Methodology	DCF
Total Return (Capital + Yield)	51%
Market Capitalisation \$m	48
Liquidity \$p/d	54k

Financial Forecasts & Valuation Metrics				
Jun y/e (\$m)	FY24A	FY25E	FY26E	FY27E
Revenue	42	43	49	56
EBITDA	9	9	11	15
EBIT	6	5	8	11
NPAT	4	3	5	7
FCF	3	0	1	3
EV/EBITDA (x)	4.5	5.0	3.8	2.8
EV/EBIT (x)	7.0	8.5	5.5	3.7
P/E (x)	13.6	16.1	9.8	6.7

Source: PAC Partners estimates



Source: Iress

Expected double digit growth driven by growth in Aus and expansion into the US

There are several drivers that provides us visibility towards sustainable double-digit growth of LBL's top-line and earnings into the medium and long term – namely continued growth in Australia, planned brownfield expansion into the US in 2025, and greater adoption of laser cladding.

We see continued growth in Australia underpinned by:

- Working with current customers to develop new use cases.
- Expansion into new industries/end-customers.
- Recent acquisition of Gateway Group in WA providing further exposure to key industries of mining and O&G.
- Potential expansion into regional QLD (Gladstone) and WA (Pilbara), providing quicker turnaround times, making LBL's services more economical for customers. Proximity to customer and turnaround times are key demand drivers in the industry.

## US Expansion

LBL has spent over half a decade laying the groundwork in the US. Particularly for their steel mill roll product, which they have marketed, established relations with local steel factories and is already shipping products for. Some customers believe there is no global alternative to LBL's solutions.

The US market for steel mill rolls is roughly 25x the size of Australia.

The brownfield expansion is de-risked by several customers requesting LBL to assist with wear problems for their US operations on capital equipment components via a US manufacturing & service base. Having a local facility minimises logistics costs for customers. We note many of LBL's customers have US operations (inclusive of their two largest customers), providing ample opportunity to expand into the market, leveraging existing relationships.

LBL has a track-record of successfully bolting on acquisitions and adding value through their surface engineering expertise and services, with QLD (2022) acquisition roughly doubling revenue since being acquired. Providing us further confidence in management's capability in integrating and growing their potential US site and recently acquired Gateway business in WA.

## LBL's Competitive Advantage

We believe LBL's competitive advantage lies in their extensive practical experience in demand-side/user problems being the first in Australia to offer laser cladding services in 2001, and the only Australian surface engineering business with a national presence. The advantage of LBL's laser cladding system and process is evident in the repeat customer rate of 97%. Once LBL's process and benefits are proven to the customer, a clear business case is established.

There are two main variables that drive competitive advantage in laser cladding/surface engineering – cladding metallurgy (knowing the right mix of metals to apply), and process parameters of the laser cladding machine. Application of these two levers with understanding of the environment of the capital component when in use (wear, corrosion, and oxidation), ultimately determines the efficiency of laser cladding (ability to increase the useful life of the component) and the business case for clients.

## Drivers for Greater Adoption of Laser Cladding

We are of the view that laser cladding would gain increased recognition and acceptance in broader industries overtime and more use cases would be developed as remanufacturing becomes more prominent, employment of laser cladding in manufacturing becomes more economic, and cost of application is reduced overtime.

Demand-side drivers:

- Continued tightening of ESG requirements, leading end-users to assess their supply-chain and ways to reduce their carbon footprint. The typical carbon footprint for a remanufactured part is roughly less than 1% of a new part.
- Declining cost of laser cladding leading to more economic use cases.
- Increased adoption by industries and peers, raising awareness and recognition.
- Greater adoption of additive manufacturing techniques such as 3D printing.

Supply-side drivers:

- Continued technological improvements, reducing cracks, pores, and coating thickness issues.
- Continued decline in laser prices.
- Improvements in automation.

De-risked by request from customers for US capacity

Two levers that drive competitive advantage – metallurgy and process parameters of system

## Top Line

Strong drivers for top-line growth from FY26 onwards

Management has highlighted FY24 as a year of investment, reflected through growth of its labour force, acquisition of Gateway Group in WA, establishment of Quick Response Teams, and separation of business development and account management roles. These benefits should flow through to the top-line from 2H25 onwards.

We expect moderate growth in FY25 with revenue constrained by increased lead-time from a major customer changing their foundry from Australia to the sub-continent (South East Asia) and bottlenecks in the labour force with new skilled migrant arrivals being trained in 1Q25.

75% of LBL's revenue being generated from their proprietary technology, and a 97% customer repeat rate creates a level of 'stickiness' to their revenue.

Growth in revenue from LBL's two largest customers historically has been in-line with growth in revenue, reflecting growing use case from existing customers - with over 400 different product components (30-40 of these are high volume) manufactured for one large OEM customer - and ability to win new clients. LBL is diversifying away from the economic reliance on these two customers through their expansion nationally and into the US.

A\$m	2016	2017	2018	2019	2020	2021	2022	2023	2024
Rev from top two customers	4.62	5.80	7.22	10.50	10.15	12.59	15.00	16.79	16.49
Total Rev	10.52	13.75	15.65	22.67	22.18	24.66	30.71	38.61	41.98
% of Rev from top two	44%	42%	46%	46%	46%	51%	49%	43%	39%

We expect synergies from the Gateway acquisition to materialise in FY26, with LBL's laser cladding system to be operational from 4Q25. Gateway currently provides reclamation services and is well established in the mining sector. We see growth in Gateway underpinned by introduction of LBL's surface engineering capabilities to their existing clients and closer proximity to existing LBL clients that have WA operations. National expansion undertaken by LBL over the past few years have removed a key barrier to winning client work (closer proximity).

We expect double digit growth in LBL's top-line over the medium term as explored in our investment thesis.

## Cost Base

LBL's cost of sales mostly consists of raw materials (metals applied for reclamation and product manufacturing) and direct labour (~20% of total revenue).

LBL has been able to maintain gross margins despite the spike of raw material and labour costs during the COVID years, while other manufacturers suffered, reflecting a degree of pricing power in LBL's services and products.

	2017	2018	2019	2020	2021	2022	2023	2024
Gross Margin	52%	44%	47%	52%	51%	54%	53%	52%

## Earnings

Cross-sell opportunity from Gateway to drive earnings growth

We have not factored in significant benefits from greater utilisation rates of current fixed cost facilities as LBL increases their top-line, which may present up-risk risk to our margin estimates.

Our forecast in margin expansion is largely due to contribution of earnings from the 40% minority stake in Gateway (completed March 24).

In FY24, Gateway contributed \$500k to LBL's earnings (pre-tax, 4 months earnings).

PBT for Gateway grew from \$2.9m FY23 to \$3.5m in FY24 (22% growth), reflecting strength in the underlying business. We expect continued growth from Gateway through the medium term further supported by opportunities from offering LBL's laser cladding services and top-line synergies.

We have not accounted the optionality for LBL to take ownership of Gateway from 40% to 51% three-years from date of acquisition.

R&D for the group has historically been all expensed and not capitalised.

## Balance Sheet

LBL has a net cash position of \$6m.

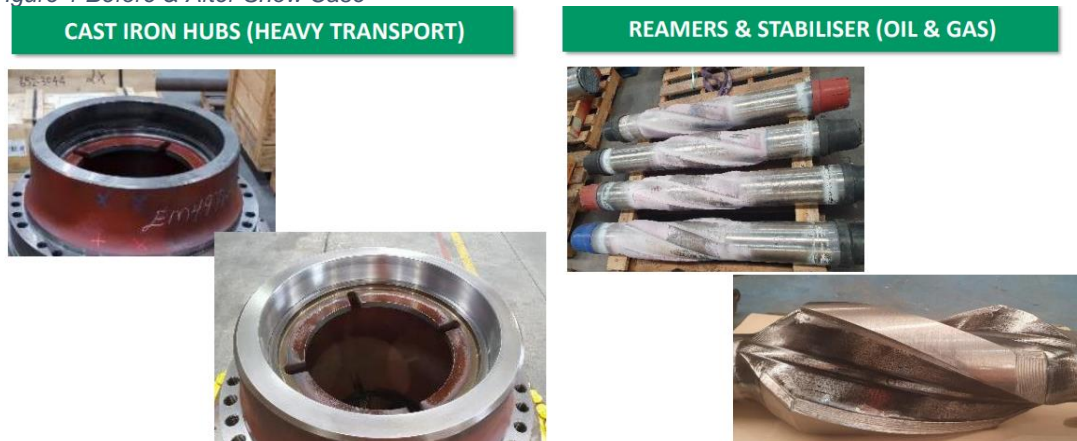
LBL partly utilises hire purchase for its PPE, with \$2.5m of hire purchase leases equipment as of FY24.

LBL is a specialist surface engineering business with operations in NSW, SA (2012), VIC (2020), QLD (2022), and WA (2024). With two business segments – Services, and Products. The company was founded in 1992 and was the first in Australia to offer laser cladding systems in 2001.

75% of LBL's revenue is derived from its proprietary technology. Revenue is split roughly equally between the two divisions.

Services and products are focused on extending wear life of intensive machinery components across heavy industries.

Figure 1 Before & After Show Case



Source: LBL

### Services

One-stop shop for repair and refurbishment of capital equipment

LBL provides a one-stop shop service for repair and refurbishment of capital-intensive equipment components across 80 defined segments. The customers for the segment are largely overhaul/maintenance shops that deal directly with end-users.

Given the one-stop shop model of the business, laser-cladding accounts for roughly 65% of segment revenue, 10% from thermal spraying, less than 10% from unclad components and the balance from other forms of cladding.

The Services segment provides a window into the needs of clients - the wear and performance of heavy industrial components. Allowing them to develop and commercialise new proprietary coating applications and products to address their needs, creating a flywheel effect.

50% of services is for reclamations/remanufacturing of components.

We expect growth in this division from drivers explored in our investment thesis.

Figure 2 Some of LBL's Blue-chip Client Base



Source: LBL

Manufacturing  
of products  
from raw  
material

Modular  
system cells  
to re-  
invigorate the  
segment

## Products

Majority of revenue in this division is currently derived from LBL's two largest customers, both are OEMs for the mineral processing sector.

Products are manufactured from raw materials/steel.

Customer acquisition in this division is a multi-year journey dependent on the level of knowledge on laser cladding by the customer. However, once the customer employs LBL as a supplier, the revenue contribution can be significant as reflected by the growth from LBL's two largest customers and would be sticky given the process of identifying and qualifying a new supplier.

We expect the global expansion into the US to drive revenue in this segment as LBL's initial plan for a US facility is to manufacture equipment for their OEM customers and steel mill rolls, with expression of interest from over 50 steel mills in the US.

Steel mill rolls contributed \$285k rev in Aus 2019 (only time they disclosed revenue for the product), and revenue doubled from FY21 to FY22. Pricing for steel mill rolls is about double off-the-shelf products but 10x the useful life.

Feedback from Aus customer on their steel mill rolls:

*"In every case the carbide composite components that are manufactured and supplied to us by Laserbond have far exceeded our expectations in terms of the service life we are now achieving."*

## Technology

LBL has over the years sold their laser cladding systems globally to multi-billion-dollar manufacturers to use in their manufacturing process and to universities for research.

We expect two of these cells to be productive in FY26 and to begin generating licensing revenue.

LBL has recently developed a modular laser cladding cell system that allows additions and removals of extra hardware to match clients' needs. All future LBL laser cladding systems would be modular going forward, with the first one to be deployed to Gateway on commercial terms. We expect the modular cell system to reinvigorate this segment.

Revenue model for the segment includes – upfront fee for sale of machine; licensing fee (near 100% margins); and consumables sales.

## R&D

LBL is one of few surface engineering businesses in Australia to have an internal R&D team.

LBL's R&D is focused on the development of new materials and the associated processing parameters for coating technologies. Finding new ways and solutions to address client needs, enabling them to stay at the forefront of laser cladding.

LBL has recently developed a cost competitive alternative to hard chrome plating a \$1.2bn market globally.

Hard chrome plating provides a cheap coating solution for products. However, it utilises hexavalent chromium, a toxic substance that has significant health and environmental risk. Regulation is moving towards phasing out hard chrome plating and encouraging utilisation of alternative surface coating methods.

Given LBL's largest industry exposures are in the mining and O&G sectors (inclusive of their two largest customers) we expect the cyclical nature of the business to be influenced by the growth rate and maintenance capex cycle of those industries.

We expect many aging equipment from the resource boom early last decade to be reaching the end of its useful life providing growth opportunities ahead. While the high spot price of oil and iron ore is driving output and activity in those sectors to all-time highs in Australia.

### Laser Cladding

Laser Cladding/Laser Metal Deposition is an advanced manufacturing process used to enhance the surface properties of components. It utilises a high-powered and highly precise laser and powder feeding system to deposit overlapping welds on a metallic substrate. The technology has long been used industrially for repair and remanufacturing, with new use cases emerging through additive manufacturing.

Used to  
produce a  
metallurgical  
bond between  
material and  
substrate

Laser cladding involves the interaction between the laser, powder and substrate (surface of component).

Laser cladding uses a laser beam as a high-energy heat source to melt the surface of the substrate and the powdered metal material conveyed by a flowing inert gas through a coaxial nozzle, and a melt pool is generated on the partial surface of the processed workpiece.

Laser cladding produces a metallurgical bond compared to some other surface engineering technologies e.g., thermal spraying which produces a mechanical bond. While laser cladding also limits the heat affected zone and is more precise than other welding techniques.

The metal deposited can either be the same or similar to the parent material, allowing a duplex set of properties i.e., a base substrate material that has particular properties while the surface has a different set of properties.

Most industries outside of resources currently are unaware of laser cladding and the benefits provided through reclamation/remanufacturing.

There are two main variables in determining the efficiency of laser cladding process – cladding metallurgy and process parameters. These coupled with extensive knowledge of the component problem at hand provides the best solution and useful life.

Process parameters of laser cladding include laser, power, laser scanning speed, powder feeding rate, spot diameter, defocus amount, overlap rate, and shielding gas flow rate.

LBL's laser cladding methods increase concentration of protective material, while also limiting heat affected zone, ensuring integrity and dimensions of the substrate.

Benefits of laser cladding:

- Wear, corrosion, and high-temperature oxidation resistance.
- High energy density.
- Small deformation.
- Metallurgical bonding.

The biggest limitations currently of laser cladding are cracks, pores, and coating thickness issues.



The below listed pairs are directly involved in surface engineering and additive manufacturing:

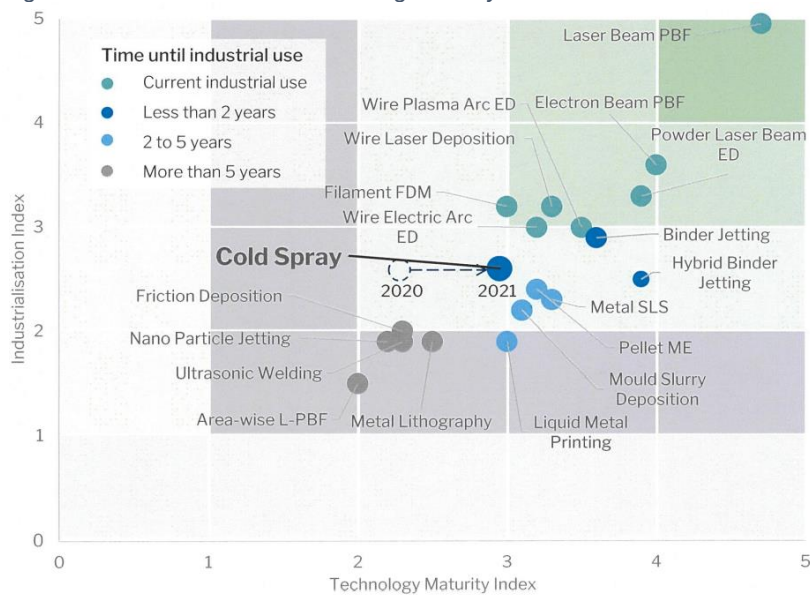
- Titomic (TTT) – specialises in cold spray technology for repairs and manufacturing.
- Amaeron (3DA) – Producer of titanium additive powders.
- AML3D (AL3) – Wire additive manufacturing.

Company	mcap (\$m)	Financial Data (\$m)								Valuation Metrics	
		Sales		EBITDA		EBIT		NPAT		P/S	
		FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
Titomic	358	14	23	(8)	(1)	(9)	(3)	(9)	(4)	26.14	15.38
Amaero	197	18	82	(15)	4	(19)	(3)	(20)	(7)	10.99	2.41
AML3D	83	13	20	(4)	(2)	(6)	(6)	(6)	(7)	6.20	4.14
<b>Laserbond</b>	<b>67</b>	<b>51</b>	<b>61</b>	<b>14</b>	<b>18</b>	<b>9</b>	<b>13</b>	<b>7</b>	<b>9</b>	<b>1.30</b>	<b>1.09</b>
Average										6.94	3.60

Source: Capital IQ, PAC Partners

Laser Beam is one of the most mature and currently widely adopted methods of additive manufacturing. We believe once the technology becomes more economical LBL will be well positioned to capitalise on the opportunity, given its existing infrastructure.

Figure 3 Metal Additive Manufacturing Maturity Index



Source: AMPower 2022

Laserbond (LBL)

Price Target \$ 0.62  
Share Price 0.41

Shares (m) 117  
Market Cap (\$m) 48

## Profit & Loss (A\$m)

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	31	39	42	43	49	56
Gross Profit	17	20	22	22	25	29
Investment In Assoc.	0	0	1	1	1	2
EBITDA	9	10	9	9	11	15
D&A	(3)	(3)	(3)	(4)	(4)	(4)
EBIT	6	7	6	5	8	11
Interest	(0)	(1)	(1)	(1)	(1)	(1)
Tax	(2)	(2)	(2)	(1)	(2)	(3)
NPAT	4	5	4	3	5	7

## Balance Sheet (A\$m)

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	6	9	6	5	5	7
Receivables	10	9	10	11	12	14
Inventory	6	7	7	7	8	9
PPE	12	12	12	11	11	11
RoU	4	7	9	7	6	5
Intangibles	6	7	7	7	7	7
Investments	0	0	11	11	11	11
Other	1	1	1	1	1	1
<b>Total Assets</b>	<b>45</b>	<b>52</b>	<b>61</b>	<b>60</b>	<b>60</b>	<b>63</b>
Payables	4	5	3	4	4	4
Lease	9	12	14	12	11	10
Other	3	4	5	6	6	6
<b>Total Liabilities</b>	<b>17</b>	<b>21</b>	<b>22</b>	<b>22</b>	<b>21</b>	<b>20</b>
<b>Total Equity</b>	<b>28</b>	<b>31</b>	<b>38</b>	<b>38</b>	<b>40</b>	<b>43</b>

## Cash Flow (A\$m)

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
EBITDA	9	10	9	9	11	15
Interest	(0)	(1)	(0)	(1)	(1)	(1)
Tax	(0)	(1)	(1)	(1)	(2)	(3)
Change in WC	(2)	(0)	(0)	(1)	(2)	(2)
Other	(2)	(0)	(1)	0	0	0
<b>Operating CF</b>	<b>4</b>	<b>8</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>8</b>
Capex	(2)	(1)	(1)	(2)	(2)	(2)
Lease	(2)	(2)	(3)	(3)	(3)	(3)
<b>FCF</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>1</b>	<b>3</b>
Dividend	(1)	(1)	(1)	(1)	(1)	(1)
Acquisition	(9)	0	(5)	0	0	0
Others	10	(0)	0	0	0	0
<b>Net CF</b>	<b>1</b>	<b>3</b>	<b>(3)</b>	<b>(1)</b>	<b>(0)</b>	<b>2</b>

## Growth Profile

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue growth (%)	25%	26%	9%	2%	15%	15%
EBIT Growth (%)	51%	20%	-14%	-16%	55%	42%
EPS Growth (%)	12%	30%	-30%	-16%	64%	46%

## Margins

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
EBITDA Margin (%)	28%	26%	23%	20%	23%	26%
EBIT Margin (%)	19%	18%	14%	12%	16%	20%
PBT Margin (%)	17%	16%	12%	10%	14%	18%
NPAT Margin (%)	12%	12%	8%	7%	10%	13%

## Key Ratios/Metrics

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
ROIC (%)	17%	21%	11%	9%	14%	20%
ROA (%)	13%	13%	10%	8%	13%	17%
ROE (%)	13%	15%	9%	8%	12%	17%
Share count (m)	109	110	117	117	117	117
EPS (cps)	3.32	4.33	3.02	2.55	4.18	6.11
Net Debt (\$m)	(6)	(9)	(6)	(5)	(5)	(7)
EV (\$m)	42	39	42	43	43	41
P/E (x)	12.4	9.5	13.6	16.1	9.8	6.7
EV/EBITDA (x)	4.9	3.8	4.5	5.0	3.8	2.8
EV/EBIT (x)	7.3	5.6	7.0	8.5	5.5	3.7
DPS (cps)	0.85	1.11	1.09	1.14	1.20	1.26
Dividend Yield (%)	1.94%	2.54%	2.65%	2.79%	2.93%	3.07%
Payout Ratio (%)	26%	26%	36%	45%	29%	21%
NTA/Share (\$)	0.19	0.22	0.27	0.27	0.28	0.31
FCF/Share (\$)	0.00	0.04	0.03	0.00	0.01	0.03

## Director Holdings

	#(m)	%
Philip Suriano - Chair	0.9	1%
Wayne Hooper - CEO	11.4	10%
Ian Neal - NED	0.1	0%
Dagmar Parsons - NED	0.0	0%
Matthew Twist - CFO	0.1	0%
<b>Total</b>	<b>12.5</b>	<b>11%</b>



CORPORATE FINANCE	RESEARCH	DEALING
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## RECOMMENDATION CRITERIA

### Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Speculative buy = We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have strong capital appreciation but also has a high degree of risk and there is a significant risk of capital loss.

### Risk Rating

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