



25th January 2011

Independent Microcap research firm Microequities Pty. Ltd. has published a comprehensive investment research report on LaserBond Ltd. Microequities was established in 2005 as a dedicated investment research house in Australia solely focused on Microcap companies.

This is a purely independent report by Microequities, with LaserBond providing no input to forecasts or valuations.

Report follows.

Kind Regards,

A handwritten signature in black ink that reads "MTWist".

Matthew Twist
Company Secretary

LaserBond Limited

24th January 2012

GICS: Industrials – Commercial & Professional Services

Laser-focused innovation

COMPANY DESCRIPTION

LaserBond Limited [ASX:LBL] operates a portfolio of surface engineering technologies for the fortification of industrial machinery operating in hostile environments, such as aluminium and steel processing, mining, civil works and power generation. The application of LaserBond's wear-resistant technologies extends machinery life by 4 to 5 times its original service life on average, at a fraction of the cost of purchasing new equipment.

INITIATING COVERAGE

Event

- **FY11 result:** EPS was up 154% to 1.8c (FY10: 0.7c), continuing a strong growth trend of 68% p.a. CAGR of EPS since listing in FY08. Revenue grew by 27% to \$13.3m, and a maiden dividend of 0.5c fully franked was declared.
- **Gladstone back to profitability:** The Queensland division acquired in 2008 returned to profitability after prior year loss, on successful cost cutting measures and customer relationship management.

Our view

- **FY12 forecasts:** We forecast continued solid earnings growth for LBL (59% growth in EPS to 2.8c in FY12), driven by 24% growth in revenue to \$16.4m and EBIT margin improvement to 18% from 16% in FY11.
- **Exposure to resources boom:** Approx. 45% of LaserBond's revenue is related to resources extraction and processing. Continued growth in mining investment in FY12-13 will drive increase in revenue.
- **Resilient performance through cycles:** LaserBond boasts a notable record of 17 years of continuous profitability since commencement in 1993 to FY11. An economic downturn positively impacts on customers' demand to repair equipment instead of new capital expenditure.

Valuation | Recommendation

We are forecasting a record NPAT (FY12) result for LaserBond as a listed entity. LaserBond is trading at a significant discount to its peers, and a 27% discount to our DCF valuation. We are initiating coverage on LaserBond with a BUY recommendation and a price objective of \$0.28. The price objective is based on a combination of the DCF valuation of \$0.26 and our relative peer valuation of \$0.305.

LBL

BUY

Price Objective:

\$0.28

Last traded	A\$	\$0.205
Market Cap	A\$m	15.4
N ^o of Shares	m	75.1
2011A EPS	¢	1.8
2012F EPS	¢	2.8
2012F PE	x	7.0
2012F EV/EBIT	x	5.0
2012F DPS	¢	0.5
Div Yield gross	%	3.6
Sales 2011A	m	13.3
Sales 2012F	m	16.4
EBIT 2011A	m	2.1
EBIT 2012F	m	2.9
NPAT 2011A	m	1.3
NPAT 2012F	m	2.1

Share Price | 12month



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COMPANY PROFILE

BACKGROUND

LaserBond Ltd specialises in 'advanced surface engineering', the fortification of metallic surfaces for industrial and mining applications. The company commenced trading in 1993 operating a single thermal spraying technology, known as HP HVOF, from a workshop in Ingleburn (southwest Sydney). Developing the technology through an in-house metallographic laboratory, the company pioneered the use of the HP HVOF thermal spray for coating the surface of industrial machinery with a wear-resistant layer that extends the life of the machinery and reduces maintenance costs. In 2001, the company commissioned its proprietary Laserbond® process, a metallurgical bond forming part of the substrate, instead of an additional coating on part surfaces to achieve greater strength and cause fewer side effects to the surface.

LaserBond specialises in the fortification of surfaces for industrial and mining machineries

In 2008, LaserBond expanded into the mining region of Gladstone (Central Queensland) through acquiring Peachey's Engineering. In addition to the ability to service the growing industrial and resources market in Gladstone, the acquisition also added a portfolio of manufacturing and fabrication technologies to broaden LaserBond's capabilities.

The technology restores worn industrial parts to original quality at a fraction of the cost of new parts

Advanced surface engineering

Surface engineering refers to the application of a broad range of technologies to improve the resistance of industrial components to wear and corrosion. The technology is applicable to both renew worn industrial parts to better than original quality at a fraction of the cost of a new part, or to strengthen new equipment to extend its service life. Surface engineering is typically applied to equipment used in hostile environments, such as drilling heads, earthworks, aluminium smelters, or construction equipment. For LaserBond's customers, the economics are often strongly in favour of reclaiming worn industrial parts rather than ordering new equipment, as reclamation not only saves explicit capital expenditure but also minimises the implicit cost of revenue lost through downtime.

KEY MANAGEMENT PERSONNEL

Timothy McCauley | Non-Executive Chairman

Tim brings to the Board extensive management experience from senior executive roles at multinational companies, with a portfolio of responsibilities over developing business channels, strategic development and finance. Tim is currently the owner and Managing Director of Artiana Imports and previously served as a Managing Director of Auto One Limited. Tim began his career with KPMG as an accountant and graduated with an MBA.

Wayne Hooper | Executive Director

Wayne is a professional engineer with experience in both technical and management roles within the engineering and manufacturing industries. Prior to joining LaserBond in 1994, Wayne held senior roles in marketing within BTR Nylex. He began his career within the electricity generation industry, and branched into high volume manufacturing. Wayne holds degrees in Science and Engineering (Honours Class 1) and an MBA. His responsibility at LaserBond includes technology development, engineering and administration of the company.

Gregory Hooper | Executive Director

Greg founded the Company assisted by other members of the Hooper family in late 1992 to commercialise the potential applications of the HVOF coating technology. He has a mechanical engineering background with extensive hands on and sales experience in the engineering, welding and thermal spray industries. Greg focuses on sales, the ongoing research and development of laser and thermal spray technologies, and training of LaserBond's staff in these technologies.

Philip Suriano | Non-Executive Director

Mr Suriano has been a Director since 2008. Other Directorships include Adavale Resources Limited, BBX Holdings Limited and Resources & Energy Group Limited. Mr Suriano began his career in corporate banking with the Commonwealth Bank. Mr Suriano spent 16 years in senior

positions within the Australian Media Industry. Mr Suriano has gained wide knowledge & experience to give him a strong background in operations, sales and marketing in such roles as National Sales Director, MCN (the subscription TV joint venture company between Austar and Foxtel) and Group Sales Manager at Network Ten. Prior to joining MCN, Mr Suriano was employed within the Victor Smorgon Group of Companies. He was also a former Director of Microview Limited (Australian Power Gas Limited). For the past 8 years Mr Suriano has been working with Arthur Phillip, a boutique investment house where he is Division Director, Equity Capital Markets.

Mathew Twist | Financial Controller & Company Secretary

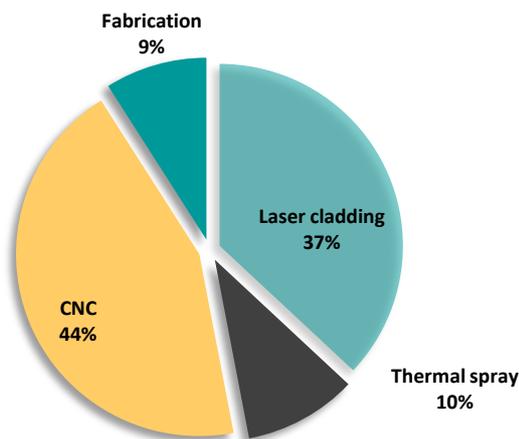
Matthew holds the position of Financial Controller since March 2007 and Company Secretary since 30 March 2009. He brings over 16 years of financial management experience, encompassing financial and operational control and systems development in manufacturing companies.

BUSINESS OVERVIEW

PRODUCTS

Committed to continuously expanding its portfolio of technologies through a combination of in-house research and acquisition, LaserBond currently operates four primary product categories: thermal spray and laser cladding (coating technologies), in combination with computer numerical controlled (“CNC”) machining and fabrication. The CNC machining and fabrication capabilities were acquired through investment in new equipment as well as the purchase of Peachey’s Engineering (Queensland) in 2008 and the assets of C&B Engineering (located in Minto in the vicinity of LaserBond’s existing Ingleburn facility) in early 2011, enabling LaserBond to offer manufacturing capabilities to supplement its surface engineering expertise. This allows the company to restore damaged machinery where coating on its own would not suffice, as well as to sell new custom-designed industrial parts. The strategic rationale for adding manufacturing capabilities is to allow LaserBond to offer a “one-stop shop” solution instead of subcontracting functions to other engineering shops, and hence improve control of the overall service quality.

Figure 1. FY11 sales by product type



On average, laser-cladded equipment will last 4 to 5 times longer than its original intended service life

Source: Company data, Microequities estimates

Laser cladding

Laser cladding fortifies the surface of an industrial part essentially by coating the surface with a layer of metal alloy. A more familiar analogy is the use of scratch-resistant paint to protect the metallic surface of a car. Overlaying materials commonly used in laser cladding are tungsten carbide, stainless steel, hardened nickel alloys and cobalt alloys. The overlaying material is welded onto the base surface with a laser beam. Laser is an effective welding technology as the overlaying material actually combines with the base material in a permanent metallurgical bond, such that in high impact situations

(for example, a drilling head), the overlay will not spall or separate. On average, laser-cladded equipment will last 4 to 5 times longer than its original intended service life.

The precision of a laser beam enables a high degree of control of energy and heat transfer to the base material, such that no undesirable heat will deform temperature sensitive components such as hardened shafts or gears. LaserBond's technology can apply a coating from as thin as 0.3mm to 20mm depending on the customer's requirement. It is sufficiently flexible to coat very small components up to large rolls of 1.6m diameter and 6m length, as well as hard to reach areas such as the inside of pipes.

The thermal spray application is lower cost than laser cladding and sufficiently strong for an aircraft landing gear

Thermal spray

Thermal spraying performs a similar function as laser cladding to coat a surface with a wear-resistant layer. The primary difference between thermal spraying and laser cladding is that the former uses heat to fuse the coating material onto the base material to achieve a mechanical, rather than metallurgical bond. As such, the coating is not as optimal for high impact applications. However, the thermal spray application is lower cost than laser cladding, and sufficiently strong for larger scale stationary applications such as an aircraft landing gear. LaserBond continues to develop both thermal and laser technologies, as customers find one technology more economical than the other depending on the degree of fortification required.

CNC (computer numerical controlled) machining

LaserBond operates a range of CNC component manufacturing equipment in both the NSW and Queensland facilities. The machine shops manufacture a variety of new components (from one offs to large batches) for sale, in addition to restoring and reclaiming damaged components. LaserBond purchases CNC machines off the shelf, such as CNC Lathes, Mills, and Borers, and as such, this product line is more resemblant of conventional high technology engineering services offered by LaserBond's competitors, compared to its more proprietary laser technology.

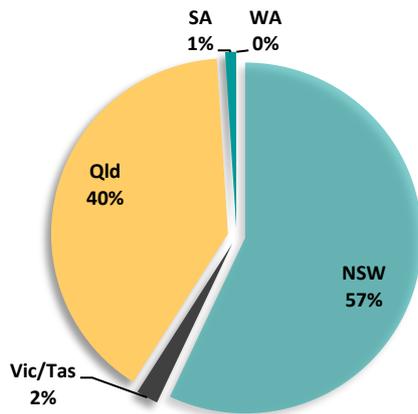
Fabrication

In 2008, the company built a fabrication facility in its Queensland division with the capacity to handle large fabrication projects. A range of materials can be fabricated, including stainless steel and aluminium alloys, utilised in heavy-duty metal applications such as pipe work and structural steel work.

REGIONAL SEGMENT

Operating out of two facilities in NSW and Queensland, LaserBond’s revenue sources are highly localised, with 97% of revenue derived from these two states.

Figure 2. FY11 sales by region

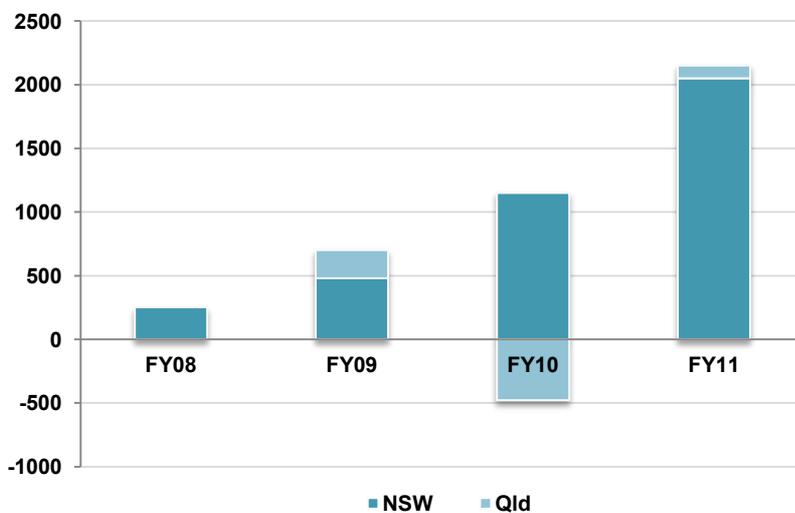


Source: Company data

The Queensland division was established in 1981 as Peacheys Engineering, focused on providing manufacturing and machinery breakdown repair services to the industrial Central Queensland region. Although its addition to the LaserBond group through acquisition in 2008 almost doubled the group’s revenue at the time, the revenue growth in Queensland has lagged behind the NSW division. Revenue from Queensland grew at a compounded annual rate of 18% p.a. since acquisition to FY11, while the NSW revenue grew at 22% p.a.

A comparison of the Earnings Before Interest and Tax (EBIT) between the two divisions reveals a starker contrast. Queensland contributed a loss of just under \$500,000 in FY10 before returning a marginal profit in 2011, while the NSW division continues to post a robust compounded annual growth rate of 23% p.a. in the four years to FY11.

Figure 3. FY11 EBIT by region



Source: Company data

Microequities' discussion with management noted that the Peachey's acquisition in 2008 was a strategically sound, but ill-timed acquisition immediately preceding a dramatic decline in industrial and mining activity in the resource-dependent Gladstone region during the depths of the financial crisis. The macroeconomic headwinds were compounded by a human resourcing challenge following the retirement of a dominant figure in the Peachey's business due to health reasons. In addition to the explicit financial losses, management noted that the acquisition also cost a significant investment of time from top management to turn the division around, which distracted it from pursuing growth initiatives in NSW and other states. Management believes that the Queensland division is well on its way to full recovery, and anticipates the company to benefit from management's renewed focus on growth.

CUSTOMERS PROFILE

LaserBond's management identified six key industries, which account for 84% of the company's revenue:

- Pumping Equipment
- Aluminium and Alumina Processing
- Mining Equipment
- Concrete Products and Cement Manufacture
- Energy and Utilities
- Engineering and Maintenance Service Companies

Although mining operators currently comprise of a minority of LaserBond's direct customers, a substantial proportion of the industrial users of LaserBond's technology service the mining industry as the end customer, such as such as the Pumping Equipment and Mining Equipment industries. Management estimated that mining end users account for approximately 45% of revenue, and anticipates that proportion to grow on the back of Australia's resources boom. LaserBond services a relatively small group of large blue-chip clients who maintain a long-term relationship with LaserBond for the repair of their machinery. The company's top 20 customers account for 75% to 80% of revenue. This list is comprised of leading ASX 200 resources, utilities and industrial companies and their international peers.

The Peachey's acquisition in 2008 was a strategically sound but ill-timed

Non-discretionary spending

The majority of LaserBond's business is not sourced from an order book and is not contracted. Management characterises its repair services as non-discretionary maintenance expense. When a customer's equipment breaks down, the customer often has little choice but to have it repaired, as purchasing new equipment – typically overseas-manufactured – involves significant time delay for delivery. Maintenance services are estimated to account for approximately 70% of LaserBond's revenue, while the remaining 30% reflects budgeted capital expenses where a customer purchases new industrial parts, or invests in laser cladding its machinery to extend useful life. Maintenance expenditures tend to be stable for LaserBond's major customers who typically own an extensive portfolio of industrial equipment, while capital expenditure is more correlated to the customer's growth plans.

Mining end users account for approximately 45% of revenue

COST STRUCTURE

Tradesmen and administrative employee expenses, totalling between 25%-40% of revenue, primarily drive LaserBond's cost structure. This is followed by raw materials and workshop

equipment at approximately 20%-30% of revenue. LaserBond operates a relatively high margin business, with cost of sales steadily comprising 50% of revenue in the 3 years to FY11. Operating expenses are more volatile, with erratic EBIT margins in the past three years partly attributable to investment in efforts to turn around the Gladstone division. The improved EBIT margin in 2011 is reflective of significant revenue growth in NSW without corresponding increase in operating expenses.

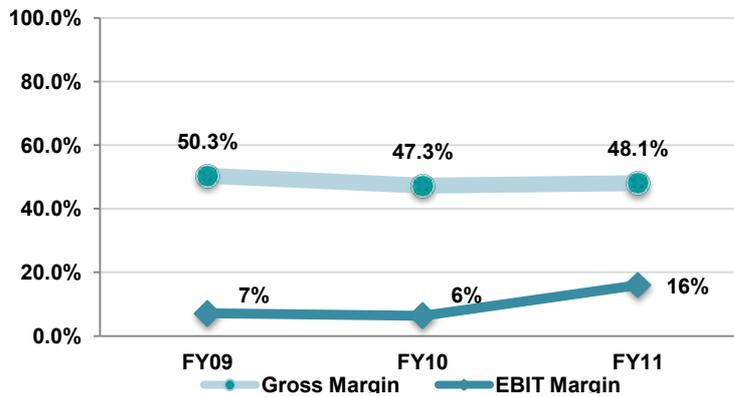
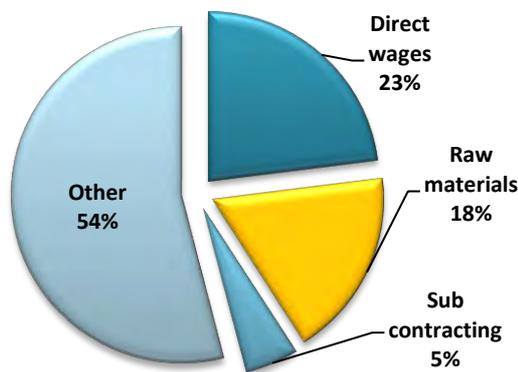


Figure 4. Margins

Source: Company data

Direct employee wages constitute the majority of LaserBond’s cost of sales (FY11:23%), followed by raw materials – the metal alloys that are used to coat surfaces (FY11:18%). LaserBond subcontracts a small proportion of conventional repair services that are occasionally required alongside the laser/thermal coating. The remaining balance consists of energy bills, tools, transportation of machinery, workshop equipment and other costs. LaserBond has shown an ability to maintain cost of sales at a consistent proportion of revenue, including tradesmen hours, which are managed according to work available.

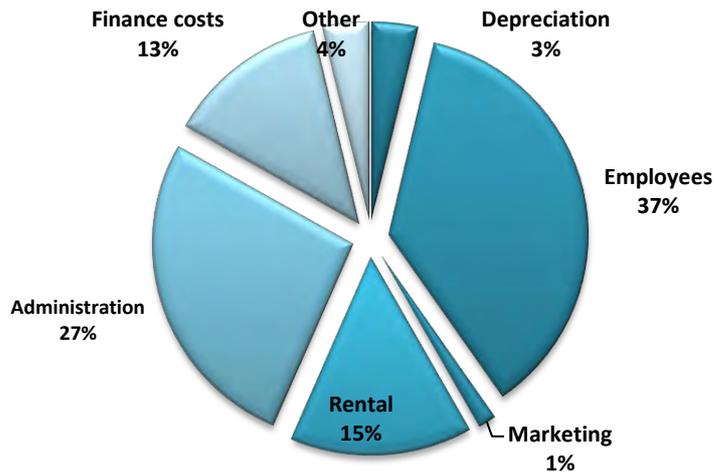
Figure 5. FY11 cost of sales breakdown



Source: Company data

The largest contributor to operating expenses is also employment costs, including sales staff, administrative staff and management. Notably, although LaserBond operates in what appears to be a capital-intensive industry, depreciation is not a significant expense. LaserBond does not keep significant plant & equipment on its balance sheet as it finances a majority of its equipment through finance leases. Its equipment expenditure is also modest relative to revenue, with cash payments for plant & equipment plus lease payments totalling to less than \$500,000 p.a. for the 4 years to FY11 (excluding the Gladstone acquisition), against revenues of \$4m-\$12m. Although LaserBond operates sophisticated equipment, the low cost is attributable to significant in-house development and assembly of off-the-shelf parts.

Figure 6. FY11 operating expenses breakdown



Source: Company data

Capacity management

A problem commonly faced by comparable engineering services businesses is managing capacity to meet cyclical demand without unnecessary overheads. This challenge is less significant for LaserBond as approximately 70% of its revenue relates to “maintenance” services where customers require immediate repair of a broken down machines, which tend to occur with a degree of regularity compared to engineering contractors servicing large tendered projects. On the flip side, however, this market segment involves more short-term volatility in the form of urgent repair jobs with required turnaround time of several days. The company’s core laser equipment in NSW was, on average, 70% utilised in FY11, while in Gladstone 50% utilised. The company also has the capacity to increase its facilities’ operating hours to double the standard working hours through overtime.

DISTRIBUTION MODEL

LaserBond drives sales primarily through building long-term relationships with its key customers. Although LaserBond prides its ability to help its customers avoid the need to return to LaserBond for further maintenance on the same equipment, the size of its customers’ equipment portfolio is such that they will regularly return to LaserBond with a new equipment to be cladded. LaserBond relies more on service quality than an outsized marketing force to generate recurring sales and grow revenue per customer by cross-selling new applications of the company’s technologies. To win new customers, LaserBond relies on word of mouth from satisfied customers in addition to cold approaches. The company has three sales managers who have a technical background in LaserBond’s products.

HUMAN RESOURCES

LaserBond’s primary value driver is its engineers. While the company’s value proposition is the provision of leading surface engineering technologies, it does not use a patented technology or develop its own secretive technology that cannot be replicated by its competitors. Its competitive advantage is derived from the innovative application of technologies that are otherwise available to

The company competes for engineers and tradesmen with the well-remunerated resources sector

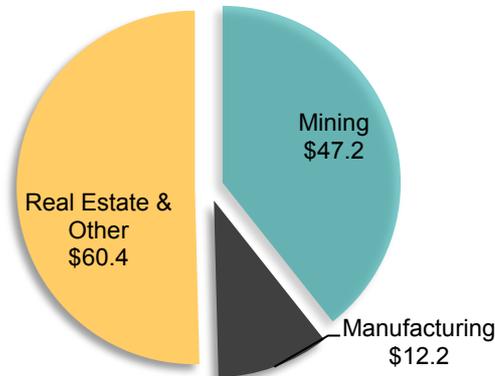
other players, and to maintain that advantage, the company relies on high quality engineers continuing to identify new best practices and new applications before similar services are widely offered by other engineering shops. It appears that much of the company's technological success to date is attributable to the innovative drive of its founder, Greg Hooper. For continued success as the company expands, it is essential to institutionalise the innovation, and to have robust processes to attract and retain key talent.

LaserBond's management identified recruiting high quality engineers as one of its top challenges. The company competes for engineers and tradesmen with the booming resources sector, which is generally able to offer more attractive remuneration packages for entry level positions than LaserBond. For a talent management initiative, LaserBond has in place a successful apprenticeship program where LaserBond would recruit technical staff before they graduate tertiary education (there are currently 12 apprentices, amongst a total of 75-80 permanent staff). LaserBond's management generally does not have a problem retaining staff once recruited, as the company is able to offer attractive working conditions.

MARKET OVERVIEW

Demand for LaserBond’s technologies is derived from both maintenance and growth capital expenditure budgets of customers in the resources, civil and manufacturing industries. Within the context of total CAPEX in Australia, Laserbond is small player. In FY11, the Australian Bureau of Statistics estimated total capex spending to be \$120 billion, primarily from the manufacturing, mining and construction industries.

Figure 7. FY11 Australian capital expenditure by industry (\$ billions)



Source: Australian Bureau of Statistics

Capex spending tends fluctuate in 5-10 year cycles. In the past 5 years, ABS data indicates that capex in manufacturing and building sectors has been relatively stable, while mining capex is on a strong growth trajectory, having risen by 258.4% in the 5 years from 2005 to 2010 or a CAGR of 20.9%. Capex spending across all industries took a pause during the financial crisis, the mining sector showing the most severe decline of 7-8% in FY10, but resumed robust growth in FY11.

Capex spending tends to fluctuate in 5-10 year cycles.

Within the broader engineering and professional services sector benefiting from industrial capex, LaserBond belongs to a subsector of specialist providers of niche surface optimisation technologies. The specialisation serves both to limit direct competition with engineering majors such as Transfield Services or Downer EDI, as well as confining the maximum share of total industrial capex spending that LaserBond can participate in. Although LaserBond offers a differentiated product, to some extent various engineering services are substitutes of each other, as LaserBond has demonstrated in diverting capex budget to its laser cladding technology in place of other methods of reparation or purchasing new equipment.

Mining capex rose by 20.9% CAGR in 2005-10

In our view, demand for LaserBond’s products is likely to follow the industry-wide fluctuations in aggregate industrial capex. The 30% of LaserBond’s business that manufactures surface-optimised new parts will have a close to 1:1 relationship with the growth in capital budgets of its customers. The remaining 70% of LaserBond’s business in the maintenance and reparation of worn parts may in fact benefit from shrinking capital budgets, as reparation is a fraction of the cost of a new purchase. However, over the longer term, if customers are not growing the portfolio of equipment that they operate, LaserBond will be deprived of a source of organic growth in revenue.

OUTLOOK FOR FY12-13

Resources boom

Leading indicators appear in favour of continuation of the high growth rates in mining investment in FY12-13. The Department of Mines and Petroleum of the WA government records \$138 billion of projects, either currently under construction or committed past final investment decision, and a further \$169 billion of planned or possible projects.

The bulk of the committed/under construction projects are in LNG (Browse, Gorgon) and iron ore, the equipment for which are ideal to benefit from laser cladding. The Gladstone Regional Council recorded \$32 billion of LNG projects under construction, excluding the probable Origin/Conoco APLNG project, in addition to \$12 billion of minerals extraction and processing projects under construction.

Increase in mining investment is likely to directly translate to revenue growth, as LaserBond's surface optimisation technology is particularly applicable to equipment operating in the harsh conditions of minerals extraction and processing. Beyond FY13, it is not yet foreseeable whether the expansionary phase of the mining investment cycle will continue. Resource companies are reporting substantial resource and reserve upgrades, however whether projects will be developed in line with a timetable will depend on the ability of companies to source scarce labour and financial backing.

Energy efficiency

A secular factor in favour of LaserBond's surface optimisation technologies is the increasing pressure to reduce the energy intensity of industrial processes across all sectors of the Australian economy, both from substantial price inflation of conventional energy sources such as oil, coal and electricity, in addition to emission reduction targets. The ability of LaserBond's technologies to multiply the service life of industrial components by 4-5 times presents significant opportunity for energy savings. For example, the steel industry estimates that around 30GJ of energy is required to produce one tonne of steel, in comparison to only 1GJ of energy consumed to reclaim a worn industrial part with laser cladding. In recognition of the company's potential, LaserBond was awarded \$0.5m by the Federal Government under a climate change related scheme. The demand to increase energy efficiency is likely to increase the share of industrial capex spent on surface optimisation technologies in the short to medium term.

COMPETITIVE ANALYSIS

Amongst various methods of surface optimisation treatment, LaserBond's core laser cladding product is at the forefront of contemporary material engineering technology. Compared to conventional hardchrome plating, heat-based treatment, or abrasive blasting, laser cladding is a competitive technology that is gradually replacing older technologies for a share of industrial capex spending. Major players in the maintenance and manufacture of industrial parts such as UGL Limited or Transfield Services are more likely to be purchasers of LaserBond's niche technology through subcontracting large projects, rather than compete with their own laser cladding technology.

LaserBond's direct competitors are other providers of laser cladding and computer numerical controlled machining technologies. Such competitors tend to be small players of similar size to LaserBond, privately owned by the founding family or core group of engineer-managers, and confined to a particular regional area. While LaserBond invests substantially in continuous innovation of its trademarked laser cladding technology, our survey of LaserBond's competitors highlighted that virtually all providers of laser cladding services claim they are a leading provider of a proprietarily developed application of laser cladding. Some players carve out a further niche in serving a particular industry such as aerospace, or specialise in micro-application of laser cladding to very small metal parts.

Notable providers of laser cladding include:

- **Brenco Surface Engineering** operates in Brisbane, Melbourne and Canning Vale (Perth). Brenco offers a complete set of surface engineering technologies, in addition to specialisation in aerospace, and counts Qantas, Rolls Royce, the Australian Department of Defense and Australian Civil Aviation Safety Authority as customers.
- **Hardchrome Engineering** (Hardwear Pty Ltd) operates in North Clayton, Melbourne, offering on-site laser cladding and plating services.
- **Laserweld** is based in Sydney, specialising in micro laser welding producing welds as small as 0.5mm in diameter.
- **Jarvie Engineering** is based in Newcastle with additional facility in Queensland. Jarvie offers the trademarked LaserWeld® treatment and specialises in hydraulic and pneumatic cylinder manufacturing and repairing.

Notably, a laser cladding treatment requires a customer to transport bulky equipment to the engineering shop's facility, with the exception of Hardchrome who is willing to instead transport their bulky laser diodes to the customer's site. Limited transportability in either case generally confines competition to a local region, as a miner in the Pilbara is unlikely to transport a drilling rig to Ingleburn even for higher quality treatment. Consequently, the evident trend is that one or two players will emerge as a regional leader.

The competitive landscape in which LaserBond operates can be characterised as monopolistic competition, whereby competitors offer slightly differentiated products due to geographical proximity, industry specialisation, existing relationships, or reputation for quality of service and quick turnaround of repair jobs. Laser cladding offered by each of the players are available in substitute of each other, however the players each maintain a degree of pricing power over their specific clientele. To establish a new laser cladding business, the upfront capital requirement is relatively low, as evident in LaserBond's own low capex budget. The technology itself, although requires some in-house assembly of off-the-shelf parts, is relatively widely available. The more significant barrier to entry is that in opening a new shop in a region that is already serviced by an incumbent player, the aspiring entrant faces slow revenue growth in early years as it will have to win customers from the existing player. LaserBond's similarly sized competitors may not pose a substantial competitive threat given the balance sheet pressure of several years of early losses, however an acquisition by one of

the engineering majors, or the entrance of one of the well-funded international pioneers of laser cladding such as Texas-based Gremada Industries in Texas or Trumf Laser from Germany, may be a game-changer.

Technology comparison

The laser cladding service providers appear to rely on similar basic technologies. LaserBond and Brenco, for example, both purchased high power diode laser (HPDL) manufactured by German-based Laserline GmbH from Australian distributor Raymax Lasers. Information from Raymax Lasers indicated that LaserBond and Brenco purchased different customisations in the form of the diameter of the HPDL's optical fibre and power intensity; however, they are otherwise of a similar basic function. From discussion with LaserBond's management, Microequities noted that LaserBond performs further in-house customisation of the HPDL to optimise performance. We anticipate that Brenco and other players would undergo a similar process. This customisation is where various players may gain or lose a degree of competitive advantage.

LaserBond's previous use of CO2 laser technology was highly bulky and incapable of being transported, in contrast to Hardchrome which instead uses two 4kW lasers (1 Fibre and 1 Diode) which is transported to the client's site. In our view, the ability to transport the laser equipment is a significant competitive advantage as it allows Hardchrome to treat physically anchored parts such as a planted wind turbine, hydroelectric generator, or steel blast furnace. The competitive advantage Hardchrome may have enjoyed has been narrowed with LaserBond's customised 8kW HPDL single diode which may achieve better performance for particular applications and can be just as easily transported to customer site.

LaserBond operates an in-house metallographic laboratory equipped with a Scanning Electron Microscope, to attempt to maintain a technological lead over competitors. The success of this initiative is demonstrated by its role in facilitating LaserBond's transition from its previous HVOF thermal spray to the more advanced laser cladding in early 2000s, and more recently its expansion to surface-optimised new parts which grew to 30% of revenue. However, a successful research function is not unique amongst the leading regional competitors, with Brenco operating two lab facilities in Melbourne and Perth, and Hardchrome advertising to be an outsourced researcher for a customer's R&D projects.

FY11 RESULT

LaserBond posted robust a result for the year ended 30 June 2011. Highlights:

- Revenue yoy growth of 27.4% from \$10.4m to \$13.3m
- EBIT yoy growth of 219% from \$0.67m to \$2.14m
- EPS yoy growth of 154% from 0.7c/share to 1.8c/share
- Maiden dividend of 0.5c from operating cash flows
- NSW EBIT contribution grew 78% from \$1.2m in FY10 to \$2.1m in FY11
- Queensland turned around EBIT loss of \$485k in FY10 to \$82k profit in FY11

The FY11 return to profitability was achieved through a change in the business model to bring in line with the NSW operations

GLADSTONE BACK TO PROFITABILITY

Fiscal 2011 saw the Gladstone division turning a nominal profit compared to EBIT loss of \$485k in the prior year. Notably, the EBIT of \$82k is still but a fraction of the EBIT of \$1.4 million reported by Peachey's Engineering for fiscal 2008 prior to being acquired by LaserBond. We believe that some aspects of the earning capacity of the old Peachey's business, which LaserBond acquired for \$2.5m cash and \$0.5m scrip at 15c/share, have secularly dematerialised with the departure of the founding Mr Peachey. The Peachey's business is inherently more cyclical than the NSW division, as the manufacturing and fabrication facilities acquired in 2008 primarily catered to customers' capital expenditure projects, instead of the more stable reparation services of the NSW surface engineering facilities. The division benefited from the pre-2008 investment boom; however, a repeat performance based on the same manufacturing and fabrication businesses does not appear likely in the near term.

The FY11 return to profitability was achieved through a change in the business model to bring in line with the NSW operations. The LaserBond cladding and thermal spraying technologies were installed and commenced operation during the year, and top management team from NSW spent significant time in Gladstone to put in place cost cutting measures and stronger customer relationship management processes.

While the transformation of the Gladstone business to date is showing early signs of success, the current EBIT margin of 1% still has substantial room for further improvement. The return to profit at Gladstone has had negligible impact on the overall company's bottom line this year, however, we believe that it represents a promising sign for the division to replicate the performance of the NSW business in the long-term.

STRONG NSW REVENUE GROWTH

The strong +154% yoy increase in earnings per share is primarily attributable to the \$2.27m or 39% of additional revenue achieved by the NSW division. This revenue increase was achieved while operating expenses remained steady. Management believes that three drivers are responsible for the revenue growth:

- **Growth in CNC machining.** A comparatively new product line, fiscal 2011 saw a significant boost in revenues from the sale of new parts manufactured using the CNC machines and reinforced with laser cladding or thermal spray.
- **Lackluster macroeconomic conditions.** While the resources and banking sector rebounded strongly from the 2008 financial crisis, manufacturing and industrial services businesses have not benefited from a similar rebound in demand, compounded by lower export revenues due to the high AUD. As a result, companies are more inclined to refurbish their machinery using LaserBond's technologies than purchasing new parts, or by investing in parts that will last longer.

- **Increase in mining activity.** Increase in mining activity and the demand for LaserBond’s services in the treatment of new parts and reclamation of worn parts for the mining and pumping equipment manufacturers.

Figure 8. LBL – Historical performance summary

Figures in \$Am	FY08	FY09 ^(a)	FY10	FY11
Sales Revenue	3.59	9.09	10.42	13.28
Sales Growth		153.0%	14.7%	27.4%
EBIT	0.10	0.65	0.66	2.12
EBIT Margin	2.7%	7.1%	6.4%	16.0%
NPAT	0.24	0.27	0.52	1.34
NPAT Margin	6.7%	3.0%	5.0%	10.1%
Operating Cash Flow	0.12	0.07	0.09	0.90
Payments for PP&E	(0.00)	(0.41)	(0.40)	(0.12)

Source: Company Data

(a) Revenue increase in FY09 was substantially driven by the Peachey’s acquisition

EBIT MARGIN IMPROVEMENT

LaserBond’s operating expenses in FY11 remained unchanged from pcp at approximately \$4m, consisting primarily of administrative/sales staff’s salaries and office overheads. Additional recruits in FY10 enabled the company to sustain more activity in FY11 without additional head office capacity, hence delivering an exceptional EBIT margin improvement from 6% in FY10 to 16% in FY11. We note that the quantum of future EBIT margin improvement, if any, will be tempered by the company’s requirement for additional admin/sales hires as its sales activities continue to grow rapidly.

RETURNING CASH GENERATING CAPACITY

The company’s revenues, primarily related to reparation and manufacturing services, should in theory be readily convertible to cash. LaserBond purchases parts of its technologies off the shelf but assembles its equipment in-house, and in addition, funds the purchase of high-value tools with finance leases. This business model is capable of generating strong annual cash flows with modest capital expenditure requirements. Operating cash flows during FY09 and FY10, however, were low in comparison to EBIT, and cash reinvested for the purchase of plant and equipment were multiples of cash generated by operations. A substantial contributing factor to the poor net cash inflows was the investment made in upgrading the Gladstone facility with laser and thermal equipment, and additional staff recruits. Cash inflows improved substantially in FY11, showing signs that the company is returning to normal levels of investment in line with FY08 prior to the acquisition.

OUR FORECASTS

Figure 9. LBL – financial forecast summary

\$Am	2011A	2012E	2013E
Revenue	13.5	16.5	19.4
Cost of sales	(7.1)	(8.5)	(10.1)
Operating expenses	(4.1)	(5.3)	(5.8)
EBITDA	2.3	3.1	4.0
% EBITDA margin	17%	19%	20%
% Change yoy	161%	36%	27%
Depreciation & amortisation	(0.2)	(0.2)	(0.2)
EBIT	2.1	2.9	3.8
% EBIT margin	16%	18%	19%
Net interest expense	(0.1)	(0.1)	(0.1)
Profit before tax	2.0	2.8	3.7
Tax	(0.7)	(0.6)	(0.9)
NPAT	1.3	2.1	2.7

Source: Company data, Microequities estimates

REVENUE

Revenue is forecast to grow at approximately 18% p.a. for FY12-13. Putting this growth forecast in a historical perspective; the organic revenue growth in the NSW division was 39% in FY11 compared to pcp, and revenue CAGR of 23% p.a. for the 4 years to FY11 (overall company's revenue growth is distorted by the acquisition). We believe that the factors driving the >20% p.a. historical growth are likely to continue for FY12-13:

- Pressure to reduce costs and energy intensity of industrial processes will motivate industrial and resources firms to repair machinery or purchase surface-engineered parts that will last 4-5 times longer, instead of purchasing new equipment.
- Growth in mining investment will grow the size of available inventory of machinery with the potential to benefit from LaserBond's technologies.
- LaserBond has a strong research team with track record of developing new innovative applications of surface engineering technologies.

Assisting the organic growth factors above, LaserBond also acquired the assets of C&B Engineering located at Minto, nearby the company's existing Ingleburn facility, to take advantage of the planned retirement of C&B's proprietor. The acquisition included a portfolio of large vertical and horizontal borers and larger CNC lathes, which will boost LaserBond's capacity and enable it to offer new capabilities. Management estimates the acquisition to add to sales by a minimum of \$1.2m p.a. from FY12 (contributing ~8.8%) to revenue.

Installation of laser facilities in Gladstone were completed in FY11 and upgrading of thermal spray is almost complete, mirroring the existing capabilities in NSW. This is likely to enable the Gladstone division to substantially boost revenue by offering laser/thermal services in addition to the

Revenue forecast to grow at ~18% p.a. for FY12-13

predominantly CNC machining and fabrication services from the old Peachey's business that it currently offers. Gladstone has a vibrant industrial market that is as receptive, if not more so, to LaserBond's technologies as the Sydney area. In our view, the company is likely to be successful in exporting its technology and managerial expertise from NSW to Gladstone, and over the long term the performance of the two divisions will converge towards the higher performance of the NSW division.

Although LaserBond's maintenance business is unlikely to be materially affected by volatility in capex spending, continued double-digit growth is likely to require underlying expansion of the inventory of machinery available to be serviced by LaserBond. Past growth in LaserBond's revenue has been achieved on the back of remarkable growth in mining investment. Beyond FY13 we have limited visibility around the sustainability of our growth forecast. While resources companies are reporting a backlog of proposed and planned projects, whether such projects will proceed to construction in line with timetable will depend on the ability to source increasingly scarce labour and financial backing. Noting that capex spending historically fluctuates in 5-10 year cycles, we do not perceive sufficient evidence to warrant assuming a continuation of above-normal growth rates beyond a foreseeable forecast horizon of 2 years. Hence, revenue growth is assumed to revert to a neutral long-term average of 5% from FY14. An upward adjustment to our forecast revenue growth assumption is possible if future earnings announcements in closer proximity to FY14 reveal continuing favourable growth trend in capex spending.

EXPENSES

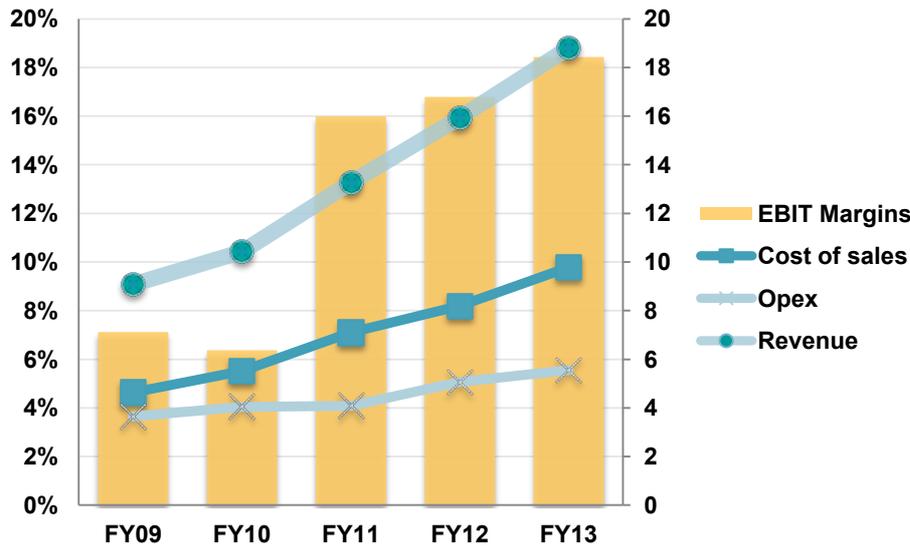
Cost of sales

LaserBond has an excellent track-record of maintaining cost of sales at close to 50% of revenue for the 3 years to FY11 (it is likely that gross margins were equal or higher throughout the company's 18-year history, however, quality accounting data with reliable segregation between admin/cost of sales were only available after listing in FY08). The high gross margins appear to reflect both LaserBond's cost discipline, as well as operating the bulk of its business in providing reparation services where the price is not fixed in competitively priced long-term tendered contracts. Direct wages consistently comprise of 23-25% of revenue, and the remainder of cost of sales comprise of raw materials, workshop tools etc. Gross margin is assumed to remain at 47-48% for our model, in the absence of any indication to the contrary.

Opex

The largest composite of operating expenses is the salary packages of admin, sales and management staff, in addition to general administrative costs relating to the head office. Other expenses, such as marketing, depreciation, rent, repairs and maintenance are not material by comparison. The head office generally reflects revenue growth but with a time lag; for example, the recruitment of a receptionist may occur 1-2 years after substantial growth in revenue. However, it appears that LaserBond is able to achieve benefits of scale such that the average quantum of growth in opex is substantially lower than growth in revenue, as the company had achieved by consolidating the NSW and Gladstone head offices. Following discussion with management on employee budgets for FY12 and other planned expenditures, opex appears likely to grow in line with revenue in FY12 primarily to compensate for the static opex in FY10 to FY11. From FY13 onwards, opex is expected to grow slower than revenue such that EBIT margins will improve from the current 16% approaching a long-term average of ~20%.

Figure 10. Margins estimate



EBIT margin is anticipated to improve from the current 16% toward a long-term average of 20%

Source: Company data, Microequities estimates

CAPEX

Capital expenditure is projected to grow in line with LaserBond’s requirement to purchase components for its workshop equipment. Although LaserBond is a high technology business, it only purchases the laser diodes and other basic components at a relatively low cost, and assembles the parts in-house. In addition, LaserBond procures high value equipment through hire-purchase agreements and finance leases (expenses associated with leasing equipment are included in operating expenses). As such, up-front capital investment during the past 3 years to FY11 amounted to only \$100-500k against revenues of \$9-14m. The historical ratio of capex to revenue is expected to remain broadly in line with our forecast period.

BALANCE SHEET & DIVIDEND

The company’s free cash flow is on an upward trend as it recovers from the requirement to invest in the Gladstone division. In FY11, operating cash inflow was \$902k or 67% of NPAT, much of which was available for capacity expansion or to be returned to shareholders as the company has neither substantial capex requirements nor an outsized receivables book.

LaserBond’s liquidity position is strong with cash position of \$444k net of all outstanding interest-bearing debt as at the end of FY11. The company carries low debt on its balance sheet of just over \$500k, as the majority of high value equipment is funded through non-recourse finance leases. At the time of writing, the company has approximately \$900k of undrawn lease facilities.

In lieu of the strong cash position, LaserBond declared its maiden dividend of 0.5c per share fully franked, representing approximately 40% of operating cash flows. We note that LaserBond has substantial capacity to finance acquisitions with free cash flow, as demonstrated in the acquisition of the assets of C&B Engineering at the end of FY11 for \$500k payable over 5 years from operating cash flow. In the 2011 Annual Report, the company stated that it is “considering options for expansion of the

business to Western Australia”, which could be substantially funded through existing cash flows and undrawn facilities.

Convertible notes

In 2010, LaserBond issued convertible notes with \$350,000 face value, convertible at the option of the holder at the lower of either 15 cents per share or 85% of VWAP over the last 5 days that trades were recorded prior to the conversion date. The notes pay an interest rate of 9.5% p.a. In our opinion, the convertible notes are dilutive given the discount on the conversion price; however, notably they were issued to ensure liquidity during a difficult funding environment. From discussion with management, we believe that a repeat of such issuance is unlikely given that Gladstone is now cash flow positive.

We anticipate outstanding notes to be converted in FY12 adding 1.6m shares or 2.2% of share capital

At the time of writing, \$240,000 of notes are outstanding with expiry date of 30 June 2012. Given the deep discount of the conversion price to share price, we anticipate that the notes would be converted during FY12 adding 1.6 million shares or 2.2% of LaserBond's share capital. The dilutionary impact has been factored into our model.

INVESTMENT CASE

Benefiting from boom in resources

LaserBond is operating in an industry conducive to growing revenues and stable margins, benefiting from:

- The resources boom and trend towards energy efficiency, which will drive organic growth in demand.
- Geographically fragmented competition resulting in limited price competition

In our opinion, the industry is sufficiently large to accommodate more than one thriving competitor.

Track record of high growth

LaserBond's management has shown commitment to meeting ambitious growth targets, through acquisition of businesses (Peachey's), assets (C&B), or entering new business lines (CNC machining) to supplement organic revenue growth in existing products. In a fragmented industry populated by single-shop, regionally confined, and family-operated players, the occasional unwillingness of a current generation of proprietors to pass on the business to the next generation is likely to continue to present opportunities for acquisition to LaserBond on favourable terms.

Strong cash flow generation

The company manages its working capital and fixed asset investment effectively such that the business generates high levels of cash earnings with relatively low upfront capex requirements. The availability of cash places LaserBond in a favourable position to make earnings accretive investments, both through developing internal capability for a new product or through acquisition.

Recurring Revenue

Approximately 70% of LaserBond's business is funded out of the customers' maintenance capex spending, which is usually non-discretionary – broken core equipment will need to be repaired immediately – therefore mitigating the company's exposure to the capex spending cycle. Unlike contracted mining services or capital goods firms, a decline in customers' capex spending will have a negative impact on the ability to write new business, but existing revenue is likely to remain stable in the short to medium term. As of FY11, the company has had 17 years of continuous profit.

Strong balance sheet

LaserBond has no net debt on its balance sheet. It has significant operating lease commitments, however the timing of lease payments is matched to revenue, and the finance is secured against the equipment.

Innovative team

Two of the three key management personnel have a strong technical background in surface engineering (Greg and Wayne Hooper). LaserBond has shown a predisposition to continually improve the application of existing technologies in its laboratory, and develop new applications from existing capabilities, which will translate to revenue growth and a more defensible competitive position in the long term.

Valuation

LaserBond is trading at a discount to our valuation, with possibility for upgrades if the expansionary phase of the mining capex cycle continues beyond FY14.

RISK ANALYSIS

While the majority of LaserBond's revenue is in the form of relatively stable repair services, the experience from the Gladstone acquisition highlighted that unexpected events may give rise to earnings surprises. In spite of relatively stable historical revenues and rapid growth in earnings per share in 4 years to FY11, the company's changing business mix and appetite for acquisition-driven growth presents different risks in the future than it has weathered in the past. LaserBond is increasingly exposed to the resources sector or intermediary firms ultimately servicing the resources sector. It has also substantially grown the manufacturing business in relative size to the core surface engineering business, and if the current trend continues, the company will continue to expand into new products in order to achieve its growth targets. In our view, risks relevant to LaserBond include, but are not limited to, the following.

-  **Contraction in mining projects development.** The resources sector currently accounts for approximately 45% of revenue. Adverse macroeconomic events may cause a sudden and sharp contraction in development of new projects or a halt to existing ones, such as a significant decline in commodity prices, changes in taxation or royalties, or regulatory changes (particularly relevant to controversial coal seam gas developments in Gladstone). Such events are likely to impact LaserBond's repair business with a time lag, but impact the manufacturing of new parts business directly (currently accounting for 32% of revenue).
-  **Capital expenditures cycle.** Manufacturing and mining industries serviced by LaserBond generally invest in capital equipment over cycles spanning several years. The 2-3 years to FY11 appear to represent the expansionary phase of the current cycle, as reflected in the expenditure profile of several industrial firms and by the substantial revenue growth posted by LaserBond. A transition to the contractionary phase is likely to decelerate LaserBond's revenue growth. The company's exposure to the capex cycle is likely to grow in the future as it expands into fabrication and manufacturing of surface-engineered materials.
-  **Secular decline in Australian manufacturing.** The manufacturing sector in Australia may be undergoing a secular decline in competitiveness due to higher labour costs, lower productivity, higher energy prices (including the carbon price), and high currency compared to neighbouring Asian countries. This trend is indicated by the continuing decline of bellwethers such as the Australian business of Bluescope Steel and the planned sale of Rio Tinto's aluminium smelters, currently significant customers of LaserBond. Although cost pressures benefit LaserBond in the short-term by increasing the propensity to repair rather than purchase new equipment, in the long-term, reduced manufacturing activity will require LaserBond to find new customers to maintain current revenues.
-  **Price competition.** While there is a degree of service differentiation between LaserBond and its competitors, substantial price difference may induce LaserBond's customers to divert business to other engineering shops offering comparable laser cladding or CNC machining capabilities. A new entrant or existing players wishing to increase market share, in particular larger engineering firms with a substantial balance sheet, may pursue a low price strategy which would depress margins for all players in the industry. Overseas competitors with existing laser-cladding capabilities, such as a subsidiary of Gremada Industries in Texas and Trumf Laser in Germany, may wish to establish an Australian presence to participate in the resources boom.
-  **Substitute technology.** Alternative technologies superior to LaserBond's laser cladding or CNC machines may be developed. The engineering services industry does not typically rely on major patented breakthroughs, but instead relies on marginal improvements to existing technologies. Thus, LaserBond's competitiveness over a 5 to 10 year timeframe relies on the ability to consistently outpace rivals' innovation. The company is particularly at risk to a well-funded competitor such as Transfield Services, Worley Parsons or Downer EDI deciding to invest in the

development of a superior laser cladding capability. A relative decline in LaserBond's research capability may induce customers to prefer competitors' products.



Key equipment breakdown. The company relies on key machinery, including a single laser in each of NSW and Gladstone and a small number of CNC machines. Any malfunction will force the company to halt operations, costing both lost revenue and potentially damage the perceived reliability of the company to complete repairs in a timely manner.



Loss of key customers. LaserBond's five largest customers constitute more than half of the company's revenue. If one of the key customers defect to a competitor or discontinue business for any reason, the revenue impact to LaserBond will be significant.



Key management personnel. LaserBond relies substantially on members of the founding Hooper family (Greg for technology and Wayne for management). Any departure, retirement or temporary absence of either one could lead to an adverse effect on the company's earnings.



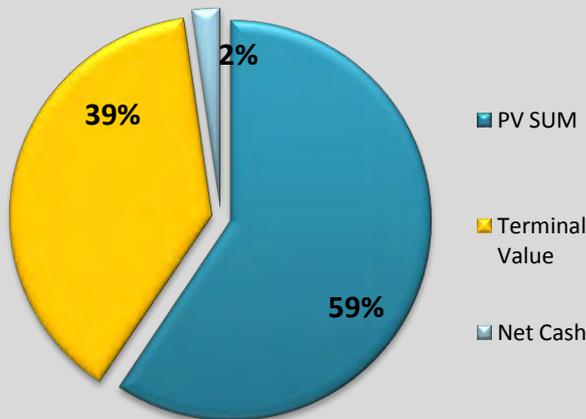
Disappointing acquisition. To meet its ambitious growth targets, LaserBond continually seeks to expand interstate or develop a new capability to complement organic growth from existing products. From discussion with management, we note a predisposition to growth by acquisition over green field expansion, as an acquisition brings an existing book of customers and is less time consuming for key management personnel. Management thus far has had a mixed track record in integrating and meeting planned earnings targets from acquired businesses. Future acquisitions, in particular relating to management's stated ambition to establish a presence in WA, may not be as earnings accretive as anticipated.

VALUATION | RECOMMENDATION

DCF Valuation

In our DCF model, we have used a fundamental BETA of 1.2 and a WACC of 12.82%. We have assumed a long-term growth rate of 2% and Capex to be circa \$0.3m in FY12 and \$0.4m in FY13. This provides us with a \$0.26 per share valuation for LaserBond which is a premium of 26.9% over the last traded price of \$0.205

DCF Valuation Break Up



Key assumptions			
Equity Beta:	1.20	Net cash:	\$0.44m
Risk free rate:	3.87%	K _d :	10.8%
ROE:	12.9%	WACC:	12.82%
LT Growth Rate:	2.00%		

Relative EV/EBIT Valuation

LaserBond is the only ASX listed laser cladding and CNC machining player. We have undertaken a relative valuation using the most appropriate peer comparisons available that include other specialist engineering service providers and materials manufacturers with exposure to the mining and industrials sectors. Using a forecast FY12 EV/EBIT multiple of 7.7x we have derived a relative valuation of \$0.305 per share, representing a 48.81% premium to the last traded price of \$0.205

Peer group financial summary (as at 23/01/2012)



Investment Opinion

We initiate coverage on LaserBond with a BUY recommendation and a price objective of \$0.28. The price objective is based on a combination of the DCF valuation of \$0.26 and our relative peer valuation of \$0.305.

Top 20 Shareholders as at 16 August 2011

		SHARES HELD	ISSUED CAPITAL
1.	Ms Diane Constance Hooper	7,728,395	10.719%
2.	Mr Wayne Edward Hooper	7,728,395	10.719%
3.	Ms Lillian Hooper	7,712,395	10.697%
4.	Mr Rex Hooper	7,712,395	10.691%
5.	Ms Loretta Mary Peachey	4,943,344	6.856%
6.	Mr Gregory John Hooper	4,611,175	6.396%
7.	Mr Gregory John Hooper (Grendy Super Fund A/C)	3,388,889	4.700%
8.	Wantune Pty Ltd (Trumbull Super Fund A/C)	1,815,000	2.517%
9.	Mr Keith Knowles	1,385,476	1.922%
10.	Mr Antony Philip Plunkett	1,008,575	1.399%
11.	Alliance Business Group Pty Ltd (McCauley Super Fund A/C)	921,000	1.277%
12.	W&D Hooper Investments Pty Ltd	663,028	0.920%
13.	Fortitude Enterprises Pty Ltd	611,599	0.848%
14.	Mr David Webster & Mrs Janine Florence Webster	573,988	0.796%
15.	Mrs Edna Knowles	497,122	0.689%
16.	Mr Simon William Tritton (Investment A/C)	400,000	0.555%
17.	Fortitude Enterprises Pty Ltd (Fortitude Super Fund A/C)	395,000	0.548%
18.	Mr Michael Richard Hamm	393,200	0.545%
19.	Mr Nicholas Eaton Crocker Barham	360,000	0.499%
20.	Mr Oscar Joseph Horky	331,000	0.459%
TOTAL FOR TOP 20 SHAREHOLDERS:		53,175,976	73.753%

FINANCIAL SUMMARY

PROFIT & LOSS SUMMARY (\$m)			
Year Ending June	2011A	2012F	2013F
Revenue	13.5	16.5	19.4
Cost of sales	(7.1)	(8.5)	(10.1)
Operating expenses	(4.3)	(5.3)	(5.8)
+ Depreciation & amort.	0.2	0.2	0.2
+ Net interest expense	0.1	0.1	0.1
EBITDA	2.3	3.1	4.0
% EBITDA margin	17%	19%	20%
% Change yoy	161%	36%	27%
Depreciation & amort.	(0.2)	(0.2)	(0.2)
EBIT	2.1	2.9	3.8
% EBIT margin	16%	18%	19%
Net interest expense	(0.1)	(0.1)	(0.1)
Profit before tax	2.0	2.8	3.7
Tax	(0.7)	(0.7)	(0.9)
NPAT	1.3	2.1	2.7

PROFITABILITY RATIOS			
Year Ending June	2011A	2012F	2013F
Sales (\$'m)	13.3	16.4	19.4
Price/Sales (x)	1.1	0.9	0.8
EPS (cents)	1.8	2.8	3.6
% Change YoY	159.0%	59.4%	27.9%
P/E (x)	11.2	7.0	5.5
Enterprise Value (\$'m)	14.6	14.6	14.6
EV/EBIT (x)	6.9	5.0	3.9
EV/EBITDA (x)	6.4	4.7	3.7
DPS Net (¢)	0.50	0.50	0.50
DPS Gross (¢)	0.71	0.71	0.71
Gross Dividend Yield (%)	3.6%	3.6%	3.6%
ROE (%)	19.1%	24.0%	24.5%
ROA (%)	12.9%	16.5%	17.3%

BALANCE SHEET SUMMARY (\$m)			
Year Ending June	2011A	2012F	2013F
Cash	1.0	2.5	3.9
Receivables	3.3	3.7	4.5
Inventories	1.5	2.0	2.6
Total current assets	5.8	8.3	11.0
Plant & equipment	0.7	0.8	0.9
Intangible assets	3.6	3.6	3.6
Deferred tax assets	0.3	0.3	0.3
Other assets	0.0	0.0	0.0
Total non-current assets	4.5	4.6	4.8
TOTAL ASSETS	10.3	12.9	15.8
Payables	1.1	1.6	1.8
Provisions	0.7	0.8	0.9
Interest-bearing liabilities	0.1	0.1	0.1
Current tax liabilities	0.8	0.8	1.1
Total current liab.	2.7	3.3	3.9
Interest-bearing liabilities	0.5	0.5	0.5
Provisions	0.2	0.3	0.3
Total non-current liab.	0.7	0.7	0.8
TOTAL LIABILITIES	3.3	4.0	4.7
Net Assets	7.0	8.9	11.1
Net Tangible Assets	4.0	6.1	8.5

CASH FLOW SUMMARY (\$m)			
Year Ending June	2011A	2012F	2013F
EBITDA	2.3	3.1	4.0
Decr/(incr) in working cap	(0.9)	(0.5)	(1.0)
Net interest received	0.0	0.0	0.0
Taxes paid	(0.7)	(0.7)	(0.9)
Incr/(decr) in provisions	0.2	0.2	0.1
Cash from Operations	0.9	2.2	2.1
CAPEX	(0.1)	(0.3)	(0.4)
Disposals/(acquisitions)	(0.2)	-	-
Other invest. cashflows	-	-	-
Loans to/from other ent.	-	-	-
Cash from Investing	(0.3)	(0.3)	(0.4)
Incr/(decr) in equity	-	0.2	-
Incr/(decr) in debt	-	(0.2)	-
Dividends paid	-	(0.4)	(0.4)
Other fin cash flows	(0.1)	-	-
Cash from Financing	(0.1)	(0.4)	(0.4)
Net incr/(decr) in cash	0.6	1.5	1.4

IMPORTANT DISCLOSURE INFORMATION:

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RECOMMENDATION GUIDE

Recommendation	Market Price undervalued/overvalued to Microequities price objective
Strong Buy	Above 40%
Buy	20 to 40%
Hold	0 to 20%
Sell	0 to -20%
Strong Sell	Greater than 20%

ADDITIONAL VOLUNTARY DISCLOSURE BY MICROEQUITIES*

Investment Banking	Staff Interest	Analyst personal Interest	Equity Stake By Microequities	Disclosure to Company	Business Relationship
NO	NO	NO	NO	✓	✓

* To promote transparency, Microequities voluntarily discloses potential conflict of interests covered by this research document.

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- Microequities Pty Ltd has a research distribution agreement with LaserBond Limited.