

OZEQUITIES NEWSLETTER

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FEATURE

Week's Special

LBL: PORTFOLIO OF TECHNOLOGIES THAT RESTORE HIGH COST MACHINERY REQUIRING OPTIMISED SURFACE PROPERTIES - HUGE COST SAVINGS FOR COMPANIES, PLUS LOWERING CARBON EMISSION VS MACHINERY BOUGHT NEW - MAJORITY OWNED BY FOUNDER FAMILY, BACK IN PROFITS AND SEEING RISING DEMAND - STRONG BALANCE SHEET WITH NO NET DEBT
By Jenny Prabhu and Gerald Stanley

LaserBond, with a portfolio of technologies to restore heavy machinery to their original efficiencies, with established workshops in Sydney and Adelaide, is seeing strong and rising demand not only from the mining industry where cost control is currently in sharp focus, but from all industries, since cost savings drive up profits. Heavy machinery currently routinely sold off cheap as it becomes unreliable or uneconomic to run, replaced by new, could instead be restored to "as good as new" for several years more of reliable service - a huge cost saving opportunity for companies.

Refurbishing expensive heavy machinery not only improves a company's bottom line quite dramatically, but also translates into reducing a country's GDP deficit as well as reducing national carbon emissions. Because a component originally manufactured from one tonne of steel may typically be reclaimed and placed back into service for only 1 gigajoule of energy consumed, vs the steel industry estimate of around 30 gigajoules of energy required to produce each tonne of steel - and many of these products are imported at high cost - higher as the \$A falls.

While there are competitors for LaserBond in Australia, the market is vast and barely tapped. There are some 40 different industries that currently discard fatigued or worn machinery as a matter of course but who could instead benefit by having their machinery surfaces re-engineered or laser clad, reclaiming it for 2/3x its original life. The case studies below on LaserBond's re-engineering speak for themselves.

LaserBond's in-house laboratory is used to carry out testing and examination including metallographic characterisation, harness testing and chemical analysis. All Laserbond workshops are quality certified to ISO 9001:2008.

LaserBond, established in early 1993 by mechanical engineer Greg Hooper, assisted by his brother Wayne was consistently profitable and dividend paying for some years after listing in 2007, before a downturn in its Queensland operations saw it fall into losses in 2013. LBL is back in profits and with a positive outlook for the year ahead. The balance sheet is strong with no net debt. LaserBond remains a majority family owned company, with all of a family company's inherent strength and resilience.

LASERBOND LTD - A SNAPSHOT

Laserbond Ltd, listing on December 17 2007 at 20c was founded by engineer Greg Hooper, and commenced trading in early 1993 as HVOF Australia after a significant technology development in thermal spraying known as *High Pressure High Velocity Oxy Fuel* (HP HVOF) that increases the quality and performance of thermally sprayed coatings and as a consequence greatly broadens the range of potential coating applications.

In 2001 LaserBond commissioned its first *laser cladding system* to further broaden its capabilities, and to provide customers with access to coatings and overlays with a full metallurgical bond. This technology permits the deposition of precision layers of material, with minimal heat input and no unfavorable metallurgical side effects.

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LaserBond can reclaim fatigued and worn industrial parts at a fraction of the cost of a replacement part while improving resistance to wear and corrosion, increasing reliability and service life. New components and replacement parts can also be surface engineered to provide extended service life in a range of challenging environments and applications.

Also, a component originally manufactured from one tonne of steel may typically be reclaimed and placed back into service with only 1 gigajoule of energy consumed, dramatically reducing total carbon emissions. (The steel industry estimates that around 30 gigajoules of energy is required to produce one tonne of steel).

LaserBond serves almost all industries, resurfacing and prolonging the life of machinery used in almost every industry, from agriculture to plastic and film manufacture, glass manufacture, timber and chipboard, steel making, water and waste water treatment.

It currently operates throughout New South Wales and South Australia. In July this year it closed its Queensland workshop following the wind down of operations after two years of losses. The Queensland operation was acquired through the purchase of Peachey's in 2008

THREE CASE STUDIES:

BlueScope Steel maintenance costs have been dramatically reduced by including LaserBond clad rolls in the Coupled Pickle Cold Mill (CPCM) at the Spring Hill works, that produces steel strip for the COLORBOND, ZINCALUME and GALVABOND steel brands.

John Hefko, responsible for mechanical maintenance planning on CPCM said, "We trialed two LaserBond clad rolls in the processor leveller. Here rolls are exposed to greatest load and wear is most severe. After an eight week trial there was no visible wear on the LaserBond clad rolls, but there was plenty of wear on the standard rolls.

"We used to change a cartridge of seven leveller rolls every three months, but now we only have to change them every nine months.

"Further along the machine are the welder carry-over rolls which must maintain their shape to ensure quality welds and eliminate breaks and scrap in the downstream rolling processes.

"We used to change welder carry over rolls every six weeks, but after 54 months, the original LaserBond clad rolls are still going strong with negligible wear".

Anglo American Drayton open cut coal mine in the Upper Hunter Valley of NSW is processed through the Drayton Coal Handling and Preparation Plant (CHPP). This facility has a capacity of up to 2000 tonnes per hour. Efficient dewatering of washed coal is essential and the CHPP includes large centrifugal screening equipment. It is estimated that maintenance accounts for over 40% of the total costs of washing coal and the frequent replacement of **Centrifuge Screens** constitutes a large proportion of the maintenance costs.

Geoff Bettens, Planning Superintendent for Drayton CHPP had been searching for ways to increase the life of centrifuge baskets for some time. He said, "The LaserBond coated fine coal centrifuge baskets, which we have trialed so far have lasted 3 times what we were previously getting. There was no obvious change in dewatering performance. I want to wash coal without hassles, and these coated baskets will help".

Visy Paper's Tumut Mill produces 250,000 tonnes per year of kraft pulp and high quality brown packaging paper. According to Visy's woodyard operations manager Tony Quinnell, accurate wood chipping is necessary to allow extraction of the maximum amount of new fibre.

The wood chipping machinery is set to clearances which have to be continually maintained to maximise fibre and paper production. "The anvil and the knife must have very tight clearance to give the greatest recovery and best size distribution" Mr Quinnell said. He asked LaserBond and two other companies with coating processes to prepare surfaces of test anvils.

"We chose the LaserBond anvil because it lasted three times longer than its two competitors. The anvil without cladding only lasted three shifts.. prior to LaserBond we needed to change them every 2,500 tonnes. With the anvils provided by LaserBond the mill can accurately chip 90,000 tonnes of timber before replacement".

THE LASERBOND TECHNOLOGIES:

HP HVOF : The High Pressure High Velocity OxyFuel process applies coating material at supersonic velocities, resulting in surfaces of the highest possible quality and performance.

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LaserBond approved HP HVOF coatings include Tungsten Carbide, Chrome Carbide, Nickel based alloys such as Inconel 625 and 719, cobalt alloys such as Stellite, Stainless Steel and copper based alloys.

Plasma thermal spray is used to apply higher melting point materials such as ceramics. Applications include high temperature thermal barrier coatings and wear resistant coatings where thermal and electrical resistance are also desired. These include Chrome Oxide, Zirconia, Aluminium Oxide and other ceramic blends. Other thermal sprays can also be applied on request.

New components incorporating surface enhancing technologies: LaserBond also manufactures new components, incorporating surface enhancing technologies where appropriate.

An in house laboratory carries out testing and examination including metallographic characterisation, harness testing and chemical analysis.

It is seen as a leader in its field.

All Laserbond workshops are quality certified to ISO 9001:2008.

R&D spend has been below the \$500,000 mark for the last two years, put virtually on hold because of the Queensland (Gladstone) problem. However now that the Queensland operation has been closed and the start up Adelaide business has progressed to growth - with more staff being recruited - the company has been able to return to its historic focus on R&D. A material scientist has been recruited to assist Greg Hooper who will be able to spend more time in the laboratory in Sydney.

The company is well aware that it needs to continue to develop new products and technologies to maintain growth and higher margins.

Recent R&D results have been positive in early field trials.

MARKETING

LaserBond has also recently set up a division to market its products in industries other than mining - miners currently make up about 65% of its clientele - where it sees huge potential. Many companies routinely replace heavy equipment without even realising they can be resurfaced to provide 2/3 times their original life.

LaserBond actively tenders for applications where its technology can be used to extend the working life of components of high value machinery, as well as projects requiring the use of its significant engineering facilities.

THE COMPETITION

For HP HVOF there a number of small competitors (with varying levels of expertise) because equipment is off the shelf and affordable.

Laser cladding equipment is costly and not off the shelf. There are 5/6 companies including LaserBond that offer laser cladding.

LaserBond Financials:

Code:	LBL
Last Traded price	11c.
Shares Issued	87.4m.
Market Cap	9.6m.

Year ended June 30, Values in \$m's

INCOME	2014	2013
Op Revenue	9.67	9.39
Op Profit (loss)	1.07	(3.35)
Net profit (loss)	0.74	(3.46)
(Loss)PS (Cents)	0.73	(5.07)

2013 Net Profit was charged with Goodwill impairment of \$3.6m.

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BALANCE SHEET	2014	2013
Current Assets	6.35	6.40
Non Current Assets..	2.59	3.25
Current Liabilities	1.80	2.47
Non Current Liabilities	0.88	1.33
Net Assets & Shareholders' Funds	6.26	5.85
Intangibles	0.21	0.02
Net Tangible Assets	6.05	5.83
Gearing (Net of Cash) %	.nil	.nil
NTA per share (cents)	6.9	6.8
Shares Issued (m's)	87.4	86.1

Cash Flows:	2014	2013
Cash on hand (at open)	1.99	2.78
Operating Activities	1.10	0.11
Investing	0.36	(1.23)
Financing Activities	(0.89)	0.33
Cash on hand at Year end	2.56	1.99

Directors:

Allan Morton , Non Exec. Chairman

Appointed March 18 this year. Allan holds degrees in engineering (BE Mech 1st class hons, business management and is a graduate of Harvard Business school (Exec MBA (PMD) and as a company director.

His career commenced with 16 years with CSR, working within their Sugar division in Australia and NZ. In 1990 he founded a media replication and distribution company, later listed.

Through his consultancy group Allan works with a number of SME's to effect successful business turnarounds and strategic growth initiatives.

Phillip Suriano, non exec director since 2008.

Mr Suriano began his career in corporate banking with the Commonwealth Bank in 1988. He spent 16 years in senior positions within the Australian Media Industry in such roles as National Sales Director MCN (Austar and Foxtel TV sales j/v) and Group Sales Manager at Network Ten.

Prior to joining MCN Mr Suriano was employed within the Victor Smorgon Group of Companies. For the past ten years he has been working in corporate finance. He is currently working with Lempriere Capital Partners as Director, Equity Capital Markets.

Greg Hooper , founder, executive director. Greg is a mechanical engineer, founding the company in late 1992, assisted by other members of the Hooper family. Greg, utilising the in-house laboratory developed the application parameters for the HVOF and LaserBond processes. His focus within the group includes sales and marketing, production , training and the ongoing R&D of applications for laser materials processing and thermal spray technology.

Wayne Hooper, executive director. Wayne is a professional engineer with significant experience in the engineering and manufacturing industries. Prior to joining the company in 1994 he held senior roles in marketing and sales management within a large manufacturing organisation. He holds degrees in Science and Engineering (Honours Class 1) and completed his MBA in 1994. He is involved in the technology development, engineering and administration of the group.

Substantial shareholders:

Hooper family with about 45.9%

The Top 20 hold 70.318% of the company