

### Stronger result with good momentum

AML3D Ltd (ASX:AL3) was established in 2014 to commercialise the patented WAM (Wire Additive Manufacturing), an additive manufacturing technology for the cost-effective production of large, high-performance metal components and structures. The company has reported a positive outlook with Q3 results and forecast a strong revenue and cashflow quarter in Q4. AL3 is currently building three machines for delivery in FY22 and expects another sale in Singapore. The company has orders for two more machines to be delivered before December. AL3 is focused on expanding acceptance of the WAM process for fast, high-quality, on-demand manufacturing. AL3 continues to invest in R&D to increase machine capacity, speed and strength. Similarly, partnerships with Deakin University in advanced materials will likely allow lighter, stronger products to be manufactured using AL3's patented WAM process and likely provide additional commercial opportunities in supply of welding materials.

### Business model

AML3D generates revenues from contract manufacturing of components using its WAM process, sales of the patented ARCEMY WAM modules and licensing revenue from these sales after the first year. The company has a manufacturing facility in Adelaide, additional capacity under development in Singapore, and a strong level of interest in machine purchases due to the large scale possible using the WAM technology. AL3 is developing three revenue streams: contract manufacturing in Adelaide, machine manufacturing and sales globally, and potentially supply of high-tech welding media for additive manufacturing and other uses.

### Cashflow growing contingent on order delivery

The quarterly result was captive to order timing with expenses slightly increased but revenues lower. However, business development showed promising trends with strong interest in ALM3D's ARCEMY machines and WAM technology. Test products manufactured for the oil and gas sector have borne fruit with manufacturing on demand agreements recently signed with two large OEMs. The company is focused on moving through the exploratory phase with large companies in as many large sectors as possible. AL3 aims to move the patented process from an investigative stage to a core part of logistics and production planning in some of the biggest engineering sectors. We adjust our FY22 full-year estimates to match guidance of circa \$2m revenues and adjust our expectations for FY23 accordingly.

### Base-case DCF valuation of \$65m

We've used the discounted cashflow methodology to value AML3D due to the company's early stage of development. Valuation has remained unchanged with a roll-forward of one year. Using a WACC of 11.7% (beta 1.5 vs measured beta of 0.21, terminal growth rate of 2.2%) we derive an equity value of \$65.3m or \$0.43/share on the current issued capital of 150.4m shares. As we highlighted in our 13 October Initiation Report, **Additive manufacturing matures**, our base case remains premised on announced agreements and customer interest levels with a conservative conversion rate of customer enquiries to manufacturing and machine sales. We have additionally modelled a better and worse profile of future sales based on estimates of market penetration over time. We feel there is considerable upside possible in this valuation with our high valuation still at \$0.75/share. This valuation will be adjusted when risk-free rates rise.

#### Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Sales revenues	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)
06/20a	0.3	0.2	(3.2)	(3.2)	n.a.	46.6
06/21a	0.6	0.3	(5.1)	(5.5)	(3.8)	23.6
06/22e	2.0	0.8	(4.0)	(4.1)	(2.5)	4.1
06/23e	4.6	1.4	(3.1)	(2.7)	(1.6)	3.0

Source: Company data; RaaS estimates for FY22e and FY23e

### Additive Manufacturing

3rd May 2022

#### Share Details

ASX code	AL3
Share price (2-May)	\$0.07
Market capitalisation	\$10.4M
Shares on issue	150.4M
Net cash 31-Mar-22	\$3.2M
Free float	~54%

#### Share Performance (12 months)



#### Upside Case

- Strong customer interest leads to further machine orders
- Manufacturing contracts ramp up from latest agreements
- First-mover advantage is maintained through R&D in manufacturing and materials

#### Downside Case

- Slow conversion of customers
- Further delays in expansion due to COVID
- Manufacturing orders slow to arrive

#### Catalysts

- Sales of ARCEMY modules
- Contract wins with Boeing and other clients
- Ongoing evidence of operational momentum
- Commercialisation of wire research

#### Board of Directors

Andrew Sales	Founder/MD/CEO
Sean Ebert	Interim Chairman
Leonard Piro	Non-Executive Director

#### Company Contacts

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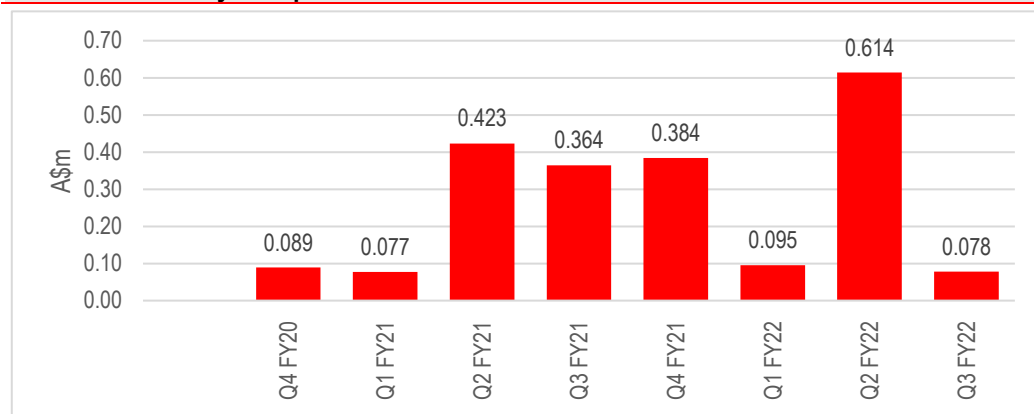
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## Q3 FY22 Results Analysis

AML3D's third-quarter report highlighted the current lumpy nature of revenues with Q4 expected to benefit from completion of two ARCEMY units with a further three expected in H1 FY23. Management expects revenues from current orders for FY22 to approximate \$2m.

**Exhibit 1: Quarterly receipts from customers**



Source: Company reports

Cash receipts for the quarter were \$0.08m, down on the previous quarter due to order timing. YTD cash receipts are slightly down but expected to easily exceed FY21 in the full year. The operating cash loss for the quarter was \$1.16m with a slight increase in staff costs vs Q2 but flat versus Q1. R&D was lower and other costs largely flat. AL3 finished the quarter with three quarters of cash on hand at current expenditure rates but with a more profitable H1 FY23 ahead.

**Exhibit 2: Q3 FY22 versus previous quarters (in A\$m unless otherwise stated)**

	Q3 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Cash receipts	0.364	0.095	0.614	0.078
Payments to suppliers	(1.480)	(1.679)	(0.793)	(0.931)
R&D	(0.050)	(0.523)	(0.543)	(0.239)
Other	(0.315)	0.423	(0.061)	(0.069)
Operating cashflow	(1.481)	(1.684)	(0.783)	(1.161)
<b>Free cashflow</b>	<b>(1.481)</b>	<b>(1.684)</b>	<b>(0.783)</b>	<b>(1.161)</b>
Net cash at the end of the period	9.412	5.382	4.517	3.185
Monthly cash burn	(0.494)	(0.561)	(0.261)	(0.387)
<b>Quarters of cash on hand</b>	<b>6</b>	<b>3</b>	<b>6</b>	<b>3</b>

Source: Company data

## Key Events In The Quarter

- Construction of two ARCEMY units from University of Queensland and Royal Melbourne Institute of Technology;
- Completion of printed parts for international customers in the oil and gas, marine and aerospace sectors;
- Construction of an ARCEMY unit for the Adelaide Factory of the Future;
- Continuing development of increased deposition rates with the aim of increasing volumes to 30kg/hour, reducing production lead times and increase commercial applications; and
- Agreements for supply of parts for oil and gas manufacturers on a print-on-demand basis.

AL3 continues a project investigating scandium/aluminium welding with strong indicators of success for final three-month commercial trials. Investigation of Boron Nitride Nanotubes (BNNT's) in WAAM-deposited alloys continued with both projects promising significant benefits to AML3D's patented process and the strength and weight of printed parts.

## Actual Vs Prospectus Plan

**Exhibit 5: Use of funds under Prospectus (in A\$ unless otherwise stated)**

	Note	Funds allocated under the Prospectus \$	Funds expended to 31 March 2022 \$
Singapore Bureau establishment	1	4,270,000	977,863
Relocation and expansion of Adelaide facility	2	2,840,000	3,369,785
Development of integrated print/machining	3	400,000	59,893
IP protection	4	400,000	84,932
Unallocated working capital - Adelaide		950,000	950,000
Unallocated working capital - Singapore	1	1,100,000	0
Expenses of the offer		1,100,000	1,110,198
<b>Total</b>		<b>11,060,000</b>	<b>6,552,670</b>

Source: Company data

1. Singapore Bureau establishment: The company has determined this market is best serviced using the existing relationship with ST Engineering and manufacturing capacity and services based in Adelaide.
2. Relocation and expansion of Adelaide facility: The relocation and expansion of the Adelaide facility was completed during Q1 FY22 with a portion of funds under the Prospectus for the Singapore Bureau establishment reallocated to expand the Adelaide facility to provide greater local capacity.
3. Development of integrated print/machining: Whilst initial research, planning and concept design has been undertaken, current focus has been on improvements and enhancements to the existing ARCEMY unit.
4. IP protection: AML3D has secured an Australian Patent 2019251514 for its WAM process, along with patents in South Korea and New Zealand. Patents have been examined in Europe and the USA and grant award is now in the final six-12 months.

## Earnings Adjustments

We reduce our FY22 forecasts in accordance with guidance. Timing of customer orders and slower customer take-up due to COVID-related challenges are the main underlying causes of the change. With three machine deliveries likely in H1 FY23 and further revenues from contract manufacturing likely building following recent customer agreements we remain of the view that AL3 will see continued growth in FY23. We also roll forward our DCF year-zero from FY21 to FY22 leaving our valuation essentially unchanged.

**Exhibit 6: Forecast changes (in \$Am unless otherwise stated)**

Changes in forecasts	FY22	Change %	FY23	Change %
<b>Current (30/04/2022)</b>				
Revenues	2.0	(13)	4.6	7
EBITDA	(4.0)		(3.1)	
NPAT	(4.1)		(2.7)	
EPS (\$)	(0.025)		(0.016)	
Base valuation	65.3	(8)		
<b>Previous (28/01/2022)</b>				
Revenues	2.3		4.3	
EBITDA	(3.6)		(2.8)	
NPAT	(3.1)		(2.6)	
EPS (\$)	(0.019)		(0.016)	
Base valuation	64.5			

Source: Company data

## Exhibit 6: Financial Summary

AML3D Ltd (ASX:AL3)						Share price (Date)		29/04/2022		A\$		0.073
Profit and Loss (A\$m)						Interim (A\$m)						
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	1H20 A	2H20 A	1H21 A	2H21 A	1H22 E	2H22 E	
						Revenue	0.1	0.2	0.1	0.5	0.3	1.7
						EBITDA	(1.8)	(1.3)	(2.1)	(3.3)	(2.5)	(1.6)
						EBIT	(1.8)	(1.3)	(2.3)	(3.5)	(2.7)	(2.0)
						NPAT (normalised)	(1.8)	(1.3)	(2.2)	(3.5)	(2.7)	(1.4)
						Minorities	-	-	-	-	-	-
						NPAT (reported)	(1.8)	(1.1)	(2.1)	(3.5)	(2.7)	(1.4)
						EPS (normalised)	(1.24)	(1.10)	(1.47)	(2.17)	(1.66)	(0.82)
						EPS (reported)	(1.39)	(0.85)	(1.43)	(2.30)	(1.82)	(0.90)
						Dividend (cps)	-	-	-	-	-	-
						Imputation	30.0	30.0	30.0	30.0	30.0	30.0
						Operating cash flow	(0.8)	(1.8)	(1.9)	(4.4)	(2.5)	(0.4)
						Free Cash flow	(0.7)	(1.1)	0.4	(4.1)	(2.3)	0.7
						Divisions	1H20 A	2H20 A	1H21 A	2H21 A	1H22 E	2H22 E
						Contract Manufacturing	0.0	0.0	0.0	0.0	0.6	0.7
						Machine Sales	0.0	0.0	0.0	0.0	0.0	0.7
						Licence Income	0.0	0.0	0.0	0.0	0.3	0.4
						COGS	0.0	0.0	0.0	0.0	(0.6)	(1.1)
						Employment	0.0	0.0	0.0	0.0	(1.6)	(1.6)
						Technology, licence fees	0.0	0.0	0.0	0.0	0.0	0.0
						Other costs	0.0	0.0	(2.4)	(4.0)	(0.6)	(0.6)
						EBITDA	(1.8)	(1.3)	(2.1)	(3.3)	(2.5)	(1.6)
						Margins, Leverage, Returns	FY19A	FY20A	FY21A	FY22F	FY23F	
						EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	
						EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	
						NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	n.a.	
						Net Debt (Cash)	(0.6)	7.8	6.8	2.7	(2.8)	
						Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	n/a
						ND/ND+Equity (%)	(%)	125%	(411%)	(141%)	(58%)	37.3%
						EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a
						ROA	n.a.	n.a.	n.a.	n.a.	n.a.	
						ROE	n.a.	n.a.	n.a.	n.a.	n.a.	
						ROIC	n.a.	n.a.	n.a.	n.a.	n.a.	
						NTA (per share)	n/a	0.07	0.08	0.04	0.01	
						Working capital	0.2	0.0	1.7	0.3	0.9	
						WC/Sales (%)	105%	17%	259%	16%	20%	
						Revenue growth	(35%)	45%	121%	213%	130%	
						EBIT growth pa	n/a	n/a	n/a	n/a	n/a	n/a
						Pricing	FY19A	FY20A	FY21A	FY22F	FY23F	
						No of shares (y/e)	(m)	132	148	150	150	150
						Weighted Av Dil Shares	(m)	132	148	148	165	165
						EPS Reported	cps	0.0	0.0	(3.4)	(2.5)	(1.6)
						EPS Normalised/Diluted	cps	0.0	0.0	(3.6)	(2.5)	(1.6)
						EPS growth (norm/dil)	n.a.	n.a.	n.a.	-32%	-34%	
						DPS	cps	-	-	-	-	-
						DPS Growth	n.a.	n.a.	n.a.	n.a.	n.a.	
						Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	
						Dividend imputation	30	30	30	30	30	
						PE (x)	n.a.	n.a.	-2.1	-2.9	-4.4	
						PE market	17.8	17.8	17.8	17.8	17.8	
						Premium/(discount)	n.a.	n.a.	(112%)	(117%)	(125%)	
						EV/EBITDA	-14.2	-0.9	-0.8	-2.0	-4.4	
						FCF/Share	cps	-0.6	-1.2	-4.0	-1.8	-2.2
						Price/FCF share	-13.1	-6.2	-1.8	-4.0	-3.3	
						Free Cash flow Yield	(7.7%)	(16.1%)	(54.5%)	(24.9%)	(30.2%)	

Source: RaaS Advisory

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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  - Securities
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  - Securities

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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