

Amaero International Ltd

FY21 results analysis

Poised to benefit from the foundations created in FY21

Amaero International Ltd (ASX:3DA) is a global specialist in metal additive manufacturing for the defence, aerospace and tooling sectors. The company has reported a better than forecast adjusted net loss of \$6.18m for FY21, with cost containment a key feature of the result. FY21 was a foundation year for the company with relationships and contract boundaries established. Good progress has been made on key projects with two or more forecast to be commercialised in FY22. The near term revenue opportunities include the recently announced commissioning of a 120t/annum titanium powder facility in Australia, the soon to be signed Centre for Additive Manufacturing Excellence in the Middle East, expanded contracts with Boeing, and the global rollout of a 3D printed tool for Fletcher Insulation to replace incumbent technology. We have made some adjustments to our forecasts, chiefly on timing of rollout with COVID-19 lockdowns and delays in mind. We have rolled our financial model and our base case valuation is now \$0.87/share (previously \$0.92/share). It is worth noting that our base case forecasts do not include the opportunities discussed above except the 120t/annum titanium powder plant. We have dimensioned these other opportunities, and if 3DA is successful on execution, we could see our valuation rising to \$5.58/share.

Business model

Amaero generates revenue from several sources including the design and prototyping of additive manufacturing solutions on a cost-plus basis; from contract manufacturing and tooling on a price per unit basis; from the sale of proprietary metal 3D printers & equipment and 3D printing metal powders on a cost plus mark-up basis; from post-sales support and maintenance service fees; and from the rights to commercialise patented proprietary alloys developed by Monash University on a price per unit basis. Amaero has the North American commercialisation rights to a range of 3D printing machines, including the world's largest laser powder bed machine, as well as the powder preparation machines and powder handling and recovery devices. The company owns fully accredited manufacturing facilities in Melbourne, Adelaide and El Segundo, California.

Better than forecast cost containment in FY21

Amaero has announced its FY21 results with revenues up 332% to \$0.5m and an adjusted EBITDA loss of \$4.84m, a 13.8% increase on FY20 but largely in line with our forecasts. The net loss was a little lower than our forecast at \$6.18m and a 25% increase on FY20. We have adjusted our forecasts to reflect the slightly slower revenue take up profile. This is an adjustment for timing, not a downgrade. Amaero continues on the revenue and earnings trajectory that we have forecast for the group, albeit at a slightly slower pace than our original estimates.

Base case DCF valuation is \$0.87/share (\$176m)

Our base case DCF valuation of \$0.87/share (previously \$0.92/share) includes forecasts for the 120tpa titanium powder facility as well as existing contracts with Fletchers (but not the global rollout) and a US defence & aerospace manufacturer. Successful commercialisation of these projects delivers considerable upside to our valuation. As we have previously highlighted this could take our valuation to \$1.13b or \$5.58/share.

Historical earnings and RaaS forecasts

| Y/E | Sales Revenue (A\$m) | Gross Profit (A\$m) | EBITDA (A\$m) | NPAT (A\$m) | EPS (c) | EV/Sales (x) |
|--------|-------------------------|------------------------|------------------|----------------|------------|-----------------|
| 06/20a | 0.1 | 0.0 | (4.3) | (4.9) | (3.5) | nm |
| 06/21a | 0.5 | 0.9 | (4.8) | (6.2) | (3.3) | nm |
| 06/22e | 17.9 | 5.1 | (3.6) | (4.3) | (2.0) | 5.2 |
| 06/23e | 55.5 | 22.2 | 12.6 | 11.5 | 4.9 | 1.6 |

Source: Company data for historicals, RaaS estimates for FY22e and FY23e

Additive Manufacturing

31st August 2021

Share details

| | |
|-------------------------|---------|
| ASX Code | 3DA |
| Share price (30 August) | \$0.49 |
| Market Capitalisation | \$98.9 |
| Shares on issue | 201.8M |
| Net cash 30 June 2021 | \$11.5M |

Share performance (12 months)



Upside Case

- Counts six of the top 10 defence companies as clients
- Partnered with the world's foremost additive manufacturing R&D team at Monash University
- Strong board and advisory board with links into the decisionmakers in US and EMEA defence

Downside Case

- Competing with multinational 3D printing manufacturers with big balance sheets
- Further capital raises likely, resulting in potential dilution
- Still early stage with no guarantee that strategy will translate into earnings success

Catalysts

- Australian titanium powder plant is commissioned
- Fletcher tooling opportunity presents globally
- Decision on 3D printing centre in Middle East

Board of Directors & Management

| | |
|-----------------|-------------------------|
| David Hanna | Non-Executive Chairman |
| Stuart Douglas | Executive Director |
| Kathryn Presser | Non-Executive Director |
| Barrie Finnin | Chief Executive Officer |

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Key points from FY21 result

Amaero has reported a better than forecast adjusted net loss of \$6.18m, compared with our forecast for a net loss of \$6.24m. The result was a 25% increase on the previous corresponding period's net loss of \$4.95m. Revenue for the period was \$0.50m, up 332% on the pcip although below our forecast for \$2.4m, chiefly due to timing differences on revenue recognition from contracts signed in the year. Total revenue for the period was \$1.34m underpinned by government grants. We have made some adjustments to our FY22 forecasts, effectively as a result of incorporating the reported FY21 numbers.

| Exhibit 1: FY21 vs FY20 and RaaS forecast | | | | |
|--|-------------|-------------|--------------|-----------------|
| Year ending June 30 | FY20 | FY21 | % chg | RaaS fct |
| Sales revenue | 0.12 | 0.50 | 332.4% | 2.40 |
| Total Revenue | 0.21 | 1.34 | 544.0% | 3.01 |
| Gross Profit | 0.00 | 0.08 | 4982.1% | 1.00 |
| EBITDA adj | (4.26) | (4.84) | 13.8% | (4.87) |
| NPAT adj | (4.95) | (6.18) | 25.0% | (6.24) |
| NPAT reported | (5.78) | (6.99) | 21.0% | (6.24) |
| EPS adj | (3.46) | (3.28) | (5.4%) | (3.20) |
| EPS reported | (4.05) | (3.70) | (8.5%) | (3.20) |
| Source: Company data, RaaS estimates | | | | |

Earnings adjustment

We have made some small adjustments to our forecasts for FY21, chiefly flowing from the FY21 result and considering the timing of the introduction of projects. Note that our forecasts reflect timing changes to when projects commence rather than downgrades.

| Exhibit 2: Earnings adjustments | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Year ending June 30 | FY22 old | FY22 new | FY23 old | FY23 new |
| Sales Revenue | 19.9 | 17.9 | 55.2 | 55.5 |
| Total Revenue | 20.6 | 18.8 | 55.2 | 55.5 |
| Gross Profit | 5.5 | 5.1 | 22.0 | 22.2 |
| EBITDA | (2.0) | (3.6) | 13.8 | 12.6 |
| NPAT | (2.6) | (4.3) | 12.8 | 11.5 |
| EPS | (1.2) | (2.0) | 5.46 | 4.94 |
| Source: RaaS estimates | | | | |

DCF valuation

In our view, given the early-stage nature of Amaero's business, the discounted cashflow methodology to be the most appropriate method for valuing the company. We derive a weighted average cost of capital (WACC) of 13.9% (beta 1.8, terminal growth rate 2.2%) and this gives us a base case valuation of \$176m or \$0.87/share on the current share count of 202m. We use an equity risk premium of 6.5% and risk free rate of 2.0%. Note that we do anticipate further raisings (an additional \$17.3m on the current cash in hand) and this will likely result in additional shares on issue.

Exhibit 3: DCF valuation

| DCF valuation | Parameters |
|-------------------------------------|----------------|
| Discount Rate / WACC | 13.9% |
| Beta | 1.8 |
| Equity Risk Premium | 6.5% |
| Risk Free Rate | 2.0% |
| Terminal growth rate | 2.2% |
| CAGR in FCF FY22-30 | 17.52% |
| Sum of PV (A\$m) | 77.1 |
| PV of terminal Value (A\$m) | 87.5 |
| PV of Enterprise | 164.5 |
| Net Cash raised in capital raisings | (11.5) |
| Net Value - Shareholder | 176.0 |
| No of shares on issue | 202.0 |
| NPV in A\$ | \$ 0.87 |

Source: RaaS Analysis

Scenario Analysis

Our initiation report contemplated the valuation impact of several opportunities for Amaero including the projects the company outlined in its update. We have modelled but not included the potential for expansion of the Fletcher Insulation tooling agreement to its global network (**project 1**), the proposed US\$77m (A\$104m) Middle East 3D printing facility (**project 2**) and an expanded case (1,200t) for the recently announced 120t/pa Australian titanium powder manufacturing facility (**project 3**), which combined could take our base case valuation to \$1.13b which equates to \$5.58/share on the current share count. Note that our forecasts include a 120t per annum Australian titanium powder facility. Again our forecasts incorporate an expectation that additional capital will be required resulting in additional shares being issued. This is all very subjective and dependent on the projects getting underway, timing, funding and final detail but the exercise demonstrates that there is potential upside from Amaero's current business.

We set out the impact of these projects on the valuation in the following table.

Exhibit 4: Base case valuation with scenario impact of proposed projects on valuation

| | Base | Base with Project 1 | Base with Project 2 | Base with Project 3 | Base with Projects 1, 2 & 3 |
|---|--------|---------------------|---------------------|---------------------|-----------------------------|
| DCF Valuation \$m | 176 | 231 | 261 | 988 | 1,127 |
| DCF valuation on current share count of 219M shares* | \$0.87 | \$1.14 | \$1.29 | \$4.89 | \$5.58 |

Source: RaaS estimates *note that additional capital will be required for projects, potentially resulting in additional shares being issued

Exhibit 5: Financial Summary

| Amaero International Ltd | | | | | | Share price (30th August 2021) | | | | | | A\$ | | 0.49 |
|-----------------------------|-------|-------|--------|--------|-------|--------------------------------|--------|---------|----------|----------|----------|----------|-------|------|
| Profit and Loss (A\$m) | | | | | | Interim (A\$m) | | H120A | H220A | H121A | H221A | H122F | H222F | |
| Y/E 30 June | FY19A | FY20A | FY21A | FY22F | FY23F | | | | | | | | | |
| | | | | | | Sales Revenue | 0.0 | 0.1 | 0.1 | 0.4 | 5.9 | 12.0 | | |
| Sales Revenue | 0.0 | 0.1 | 0.5 | 17.9 | 55.5 | EBITDA Adj | (1.7) | (2.5) | (1.9) | (2.9) | (2.3) | (1.3) | | |
| Total Revenue | 0.0 | 0.3 | 1.3 | 18.8 | 55.5 | EBIT Adj | (1.9) | (2.9) | (2.5) | (3.5) | (2.6) | (1.8) | | |
| Gross Profit | 0.0 | 0.2 | 0.9 | 5.1 | 22.2 | NPAT (Adj) | (1.9) | (2.9) | (3.0) | (3.2) | (2.6) | (1.7) | | |
| EBITDA Adj | (0.1) | (4.3) | (4.8) | (3.6) | 12.6 | Minorities | - | - | - | - | - | - | | |
| Depn | 0.0 | (0.5) | (1.1) | (0.8) | (1.3) | NPAT (reported) | (2.8) | (2.8) | (3.2) | (3.8) | (2.6) | (1.7) | | |
| Amort | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EPS (Adj) | (1.72) | (2.06) | (1.59) | (1.69) | (1.22) | (0.76) | | |
| | | | | | | | | | | | | | | |
| EBIT Adj | (0.1) | (4.8) | (6.0) | (4.4) | 11.3 | EPS (reported) | (2.50) | (1.63) | (1.59) | (2.11) | (1.17) | (0.72) | | |
| Interest | 0.0 | (0.2) | (0.2) | 0.1 | 0.2 | Dividend (cps) | - | - | - | - | - | - | | |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Imputation | - | - | - | - | - | - | | |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Operating cash flow | (1.5) | (2.8) | (2.8) | (2.1) | (3.9) | 1.1 | | |
| Equity accounted assoc | 0.0 | 0.0 | (0.0) | 0.0 | 0.0 | Free Cash flow | 0.7 | (1.1) | (2.4) | (1.8) | (0.7) | 4.4 | | |
| NPAT pre significant items | (0.1) | (4.9) | (6.2) | (4.3) | 11.5 | Divisions | H120A | H220A | H121A | H221A | H122F | H222F | | |
| Significant items | 0.0 | (0.8) | (0.8) | 0.0 | 0.0 | Sales and service revenue | 0.0 | 0.1 | 0.1 | 0.4 | 5.9 | 12.0 | | |
| NPAT (reported) | (0.1) | (5.8) | (7.0) | (4.3) | 11.5 | R&D grants | 0.2 | 0.0 | 0.6 | 0.2 | 0.9 | 0.0 | | |
| Cash flow (A\$m) | | | | | | Total Revenue | 0.2 | 0.1 | 0.7 | 0.6 | 6.8 | 12.0 | | |
| Y/E 30 June | FY19A | FY20A | FY21A | FY22F | FY23F | COGS | 0.0 | 0.1 | 0.1 | 0.3 | 5.0 | 8.7 | | |
| EBITDA | (0.1) | (4.3) | (4.8) | (3.6) | 12.6 | Gross Profit | 0.2 | 0.0 | 0.6 | 0.3 | 1.8 | 3.3 | | |
| Interest | 0.0 | (0.2) | (0.2) | 0.1 | 0.2 | R&D costs | (0.3) | (0.6) | (0.8) | (1.0) | (0.8) | (1.0) | | |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Employment | (0.3) | (0.6) | (0.6) | (0.7) | (1.7) | (1.9) | | |
| Working capital changes | (0.1) | 0.2 | 0.2 | 0.7 | (1.1) | General & Admin costs | (0.8) | (1.0) | (0.7) | (1.4) | (1.5) | (1.5) | | |
| Operating cash flow | (0.1) | (4.2) | (4.9) | (2.8) | 11.7 | Other costs | (0.5) | (0.4) | (0.4) | (0.2) | (0.2) | (0.2) | | |
| Mtce capex | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | | | |
| Free cash flow | (0.1) | (4.2) | (4.9) | (2.8) | 11.7 | EBITDA | (1.7) | (2.5) | (1.9) | (2.9) | (2.3) | (1.3) | | |
| Growth capex | 0.0 | (3.9) | (0.7) | (6.5) | (6.5) | | | | | | | | | |
| Acquisitions/Disposals | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | Margins, Leverage, Returns | | FY19A | FY20A | FY21A | FY22F | FY23F | | |
| Other | (0.2) | 0.0 | 0.0 | 0.0 | 0.0 | EBITDA | | nm | nm | nm | (20.2%) | 22.8% | | |
| Cash flow pre financing | (0.2) | (8.1) | (5.6) | (9.3) | 5.2 | EBIT | | nm | nm | nm | (24.5%) | 20.4% | | |
| Equity | 0.4 | 13.5 | 13.8 | 20.0 | 0.0 | NPAT pre significant items | | nm | nm | nm | (23.8%) | 20.8% | | |
| Debt | 0.0 | (0.2) | (0.2) | 0.0 | 0.0 | Net Debt (Cash) | | 0.1 | 4.0 | 11.5 | 21.2 | 26.4 | | |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Net debt/EBITDA (x) | (x) | n/a | n/a | n/a | n/a | 2.1 | | |
| Net cash flow for year | 0.2 | 5.2 | 8.1 | 10.7 | 5.2 | ND/ND+Equity (%) | (%) | (41.3%) | (96.3%) | (303.3%) | (242.5%) | (174.3%) | | |
| Balance sheet (A\$m) | | | | | | EBIT interest cover (x) | (x) | n/a | n/a | n/a | n/a | - | | |
| Y/E 30 June | FY19A | FY20A | FY21A | FY22F | FY23F | ROA | | nm | (71.7%) | (37.9%) | (12.9%) | 18.3% | | |
| Cash | 0.2 | 4.0 | 11.5 | 21.2 | 26.4 | ROE | | nm | (133.2%) | (59.6%) | (18.9%) | 32.3% | | |
| Accounts receivable | 0.1 | 0.1 | 0.2 | 10.8 | 27.3 | ROIC | | nm | (227.0%) | (240.4%) | (165.2%) | 484.4% | | |
| Inventory | 0.1 | 0.5 | 0.8 | 4.4 | 3.7 | NTA (per share) | | 0.01 | 0.05 | 0.07 | 0.13 | 0.18 | | |
| Other current assets | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | Working capital | | (0.2) | (0.1) | (0.1) | (0.8) | 0.3 | | |
| Total current assets | 0.4 | 4.8 | 12.5 | 36.5 | 57.5 | WC/Sales (%) | | nm | (121.6%) | (23.3%) | (4.5%) | 0.6% | | |
| PPE | 0.5 | 7.4 | 6.1 | 11.8 | 17.0 | Revenue growth | | nm | nm | 332.4% | 3456.0% | 209.7% | | |
| Intangibles and Goodwill | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EBIT growth pa | | n/a | n/a | n/a | n/a | (358.4%) | | |
| Investments | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | Pricing | | FY19A | FY20A | FY21A | FY22F | FY23F | | |
| Deferred tax asset | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | No of shares (y/e) | (m) | 75 | 175 | 219 | 234 | 234 | | |
| Other non current assets | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | Weighted Av Dil Shares | (m) | 25 | 143 | 145 | 224 | 234 | | |
| Total non current assets | 0.5 | 7.6 | 6.6 | 12.3 | 17.5 | | | | | | | | | |
| Total Assets | 0.9 | 12.4 | 19.1 | 48.9 | 75.1 | EPS Reported | cps | (0.3) | (4.0) | (3.7) | (2.0) | 4.9 | | |
| Accounts payable | 0.4 | 0.8 | 1.1 | 16.1 | 30.7 | EPS Normalised/Diluted | cps | (0.3) | (3.5) | (3.3) | (2.0) | 4.9 | | |
| Short term debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EPS growth (norm/dil) | | n/a | n/a | n/a | n/a | (349.9%) | | |
| Tax payable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | DPS | cps | - | - | - | - | - | | |
| Other current liabilities | 0.0 | 0.4 | 0.4 | 0.5 | 0.4 | DPS Growth | | n/a | n/a | n/a | n/a | n/a | | |
| Total current liabilities | 0.5 | 1.2 | 1.5 | 16.6 | 31.1 | Dividend yield | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | |
| Long term debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Dividend imputation | | 0 | 0 | 0 | 0 | 0 | | |
| Other non current liabs | 0.0 | 2.9 | 2.5 | 2.5 | 2.5 | PE (x) | | - | - | - | - | 9.9 | | |
| Total long term liabilities | 0.0 | 2.9 | 2.5 | 2.5 | 2.5 | PE market | | 18.6 | 18.6 | 18.6 | 18.6 | 18.6 | | |
| Total Liabilities | 0.5 | 4.1 | 3.9 | 19.0 | 33.6 | Premium/(discount) | | nm | nm | nm | nm | nm | | |
| Net Assets | 0.5 | 8.2 | 15.2 | 29.9 | 41.5 | EV/EBITDA | | nm | nm | nm | nm | nm | | |
| | | | | | | FCF/Share | cps | (0.2) | (2.4) | (2.2) | (1) | 5 | | |
| Share capital | 0.6 | 14.0 | 27.2 | 47.2 | 47.2 | Price/FCF share | | (271.4) | (20.3) | (21.9) | - | 40.8 | | |
| Accumulated profits/losses | (0.1) | (5.9) | (12.9) | (18.1) | (6.6) | Free Cash flow Yield | | (0.4%) | (4.9%) | (4.6%) | (2.4%) | 10.2% | | |
| Reserves | 0.0 | 0.0 | 0.9 | 0.8 | 0.9 | | | | | | | | | |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | | | |
| Total Shareholder funds | 0.5 | 8.2 | 15.2 | 29.9 | 41.5 | | | | | | | | | |

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

Effective Date: 6th May 2021

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- how we are paid, and
- complaint processes

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