

Amaero International Ltd

Q1FY22 Results Analysis

Investing in the business ahead of revenues

Amaero International Ltd (ASX:3DA) is a global specialist in metal additive manufacturing for the defence, aerospace and tooling sectors. The company has reported Q1FY22 cash receipts and revenues of \$0.11m, a 54% increase on the cash receipts generated in the previous corresponding period (pcp) but down 46% on the Q4FY21 cash receipts. Monthly cash burn increased to \$0.85m from \$0.41m in the same quarter a year ago and \$0.32m in Q4 as the company invested in additional research and development (R&D), product manufacturing, and operating costs and staff ahead of anticipated revenues. Operating cash outflow for the quarter was \$2.55m, up from \$0.97m in Q4 FY21 and \$1.23m in Q1FY21. Amaero noted that key projects with Fletcher Insulation and Rio Tinto have faced continued delays due to COVID-19-related supply chain issues and travel restrictions. The company's cash balance at quarter end was \$7.96m. We have pushed out our forecasts for the Fletcher Insulation and Rio Tinto projects to later in FY22 and into FY23, resulting in earnings adjustments to our H1FY22 and full-year forecasts. Our base case valuation is now \$0.92/share (previously \$0.98). As we have previously noted our base case includes only the ~150tpa titanium powder facility and the existing contracts with Fletchers (not the global opportunity). Further upside exists on the successful commercialisation of the Middle East 3D printing facility and Centre for Excellence, an upscaled 1,200tpa titanium powder facility and the global rollout of the tooling solution for Pink Batts™.

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 and 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.

Investment in R&D and progressing commercial agreements

Amaero has announced Q1FY22 revenues and cash receipts of \$0.11m and operating cash outflows of \$2.55m. The company invested \$0.68m in R&D, which was higher than our expectations, as were product manufacturing and operating costs. We have adjusted our H1FY22 forecasts to reflect higher R&D investment going forward and lifted operating costs. Employee costs were lower than forecasted but we expect Amaero to invest in human capital as the projects move to commercialisation. Amaero also spent \$1.0m on deposits for capital equipment purchases for the titanium powder manufacturing facility. Management noted that it expected travel to the Gulf in the coming quarter to progress negotiations on the Middle East 3D printing facility project agreement and view potential sites.

Base case DCF valuation is \$0.92/share (previously \$0.98)

Our base case DCF valuation of \$0.92/share (previously \$0.98/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 and aerospace manufacturer. Successful commercialisation of these projects delivers considerable upside to our valuation. As we have previously highlighted this could take our valuation to \$1.16b or \$5.76/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	14.8	4.3	(5.1)	(5.8)	(2.7)	5.5
06/23e	57.0	22.9	12.5	11.3	4.8	1.4

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

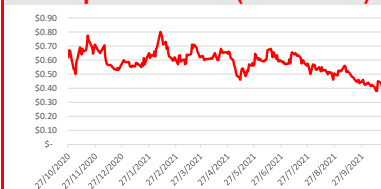
Additive Manufacturing

26th October 2021

Share details

ASX code	3DA
Share price (25 Oct)	\$0.405
Market capitalisation	\$81.7M
Shares on issue	201.8M
Net cash 30 Sept 2021	\$7.96M

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 decision makers 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 Q1FY22 result

Amaero has reported Q1FY22 revenues and cash receipts of \$0.11m and net cash outflows of \$2.55m. The company also invested \$1.0m in deposits for capital equipment for the proposed titanium powder plant. While the company made solid progress with its proposed titanium powder plant in the quarter, including increasing its revenue guidance to \$40.8m per annum due to higher-than-expected output modelling (which took output from 120tpa to 150tpa), two key projects, with Fletcher Insulation and Rio Tinto, experienced COVID-related delays. The Melbourne lockdown, floods in Germany in July, and ongoing COVID-related supply chain issues and travel restrictions all combined to delay progress on these key projects.

Amaero noted that the Fletcher Insulation project and production test results had been pushed back to the December quarter due to delays as a result of the Xline 1000R machine being used to produce the 3D printed tools breaking down and the inability to obtain engineers from Germany to undertake the maintenance required due to international border closures. Additionally, the semiconductor shortage and delays of component parts from Germany due to floods in July set back the assembly of Amaero's SP400 machine, which will be used in future production.

The company also noted that the collaboration agreement with Rio Tinto for "Amaero HOT AI" was progressing but had experienced freight delays and this had caused project timing to slip. The first batch is being atomised into powder with testing due to commence in this quarter.

Amaero also expects to progress negotiations on the project agreement of the Middle East 3D printing facility and Centre for Excellence this quarter with travel to the Gulf expected in this period.

Subsequent to the quarter end, Amaero secured a Heads of Agreement with Gilmour Space Technologies for the long-term supply and manufacture of rocket components. The three-year agreement is expected to deliver total revenues of \$1.7m to Amaero.

Exhibit 1: Q1FY22 vs Q1FY21 (In A\$m unless otherwise stated)			
Quarter ending September 30	Q1FY21	Q1FY22	% chg
Cash receipts	0.07	0.11	54%
Payments to suppliers	(1.04)	(2.01)	93%
R&D	(0.41)	(0.68)	68%
Other	0.15	0.03	(77%)
Operating cashflow	(1.23)	(2.55)	107%
Free cashflow	(1.23)	(2.55)	107%
Monthly cash burn	(0.41)	(0.85)	107%
Source: Company data, RaaS estimates			

Earnings adjustment

We have adjusted our H1FY22 forecasts and FY22 forecasts to reflect the delays the company experienced in Q1. Note that our forecasts reflect timing changes to when projects commence rather than downgrades.

Exhibit 2: H1FY22 earnings adjustment (In A\$m unless otherwise stated)		
Period ending December 31	H1 FY22 old	H1 FY22 new
Sales revenue	5.9	3.5
Gross profit	1.0	0.6
EBITDA	(2.3)	(3.0)
NPAT	(2.6)	(3.3)
Source: RaaS estimates		

Exhibit 3: FY22 and FY23 earnings adjustments (In A\$m unless otherwise stated)

Year ending June 30	FY22 old	FY22 new	FY23 old	FY23 new
Sales revenue	17.9	14.8	57.5	57.0
Total revenue	18.8	15.6	57.5	57.0
Gross profit	5.1	4.3	23.3	22.9
EBITDA	(3.6)	(5.1)	13.8	12.5
NPAT	(4.3)	(5.8)	12.7	11.3
EPS	(2.0)	(2.7)	5.45	4.84

Source: RaaS estimates

DCF valuation

In our view, given the early-stage nature of Amaero's business, the discounted cashflow methodology is 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 \$186m or \$0.92/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 4: DCF valuation (In A\$m unless otherwise stated)

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	15.78%
Sum of PV (A\$m)	80.0
PV of terminal value (A\$m)	98.2
PV of enterprise	178.2
Net cash raised in capital raisings	(8.0)
Net value - shareholder	186.2
No of shares on issue	202.0
NPV in A\$	\$0.92

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 \$1.16b or \$5.76/share on the current share count. Note that our forecasts include the 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 under way, 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 5: 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)	186	240	274	1,023	1,164
DCF valuation on current share count of 219M shares*	\$0.92	\$1.19	\$1.35	\$5.06	\$5.76

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

Exhibit 6: Financial Summary

Amaero International Ltd						Share price (25 October 2021)						A\$	0.41
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	H120A	H220A	H121A	H221A	H122F	H222F		
Sales Revenue	0.0	0.1	0.5	14.8	57.0	0.0	0.1	0.1	0.4	3.5	11.2		
Total Revenue	0.0	0.3	1.3	15.6	57.0	(1.7)	(2.5)	(1.9)	(2.9)	(3.0)	(2.1)		
Gross Profit	0.0	0.2	0.9	4.3	22.9	(1.9)	(2.9)	(2.5)	(3.5)	(3.3)	(2.6)		
EBITDA Adj	(0.1)	(4.3)	(4.8)	(5.1)	12.5	(1.9)	(2.9)	(3.0)	(3.2)	(3.3)	(2.5)		
Depn	0.0	(0.5)	(1.1)	(0.8)	(1.3)	-	-	-	-	-	-		
Amort	0.0	0.0	0.0	0.0	0.0	(2.8)	(2.8)	(3.2)	(3.8)	(3.3)	(2.5)		
EBIT Adj	(0.1)	(4.8)	(6.0)	(5.9)	11.2	(1.72)	(2.06)	(1.59)	(1.69)	(1.56)	(1.12)		
Interest	0.0	(0.2)	(0.2)	0.1	0.1	(2.50)	(1.63)	(1.59)	(2.11)	(1.50)	(1.07)		
Tax	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-		
Minorities	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-		
Equity accounted assoc	0.0	0.0	(0.0)	0.0	0.0	(1.5)	(2.8)	(2.8)	(2.1)	(5.6)	(5.7)		
NPAT pre significant items	(0.1)	(4.9)	(6.2)	(5.8)	11.3	0.7	(1.1)	(2.4)	(1.8)	(2.3)	(2.4)		
Significant items	0.0	(0.8)	(0.8)	0.0	0.0	0.7	(1.1)	(2.4)	(1.8)	(2.3)	(2.4)		
NPAT (reported)	(0.1)	(5.8)	(7.0)	(5.8)	11.3	0.7	(1.1)	(2.4)	(1.8)	(2.3)	(2.4)		
Cash flow (A\$m)						Divisions							
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	H120A	H220A	H121A	H221A	H122F	H222F		
EBITDA	(0.1)	(4.3)	(4.8)	(5.1)	12.5	0.0	0.1	0.1	0.4	3.5	11.2		
Interest	0.0	(0.2)	(0.2)	0.1	0.1	0.2	0.0	0.6	0.2	0.9	0.0		
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	2.9	8.4		
Working capital changes	(0.1)	0.2	0.2	(6.2)	(3.9)	0.0	0.1	0.1	0.3	2.9	8.4		
Operating cash flow	(0.1)	(4.2)	(4.9)	(11.3)	8.8	0.2	0.0	0.6	0.2	0.9	0.0		
Mtce capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Free cash flow	(0.1)	(4.2)	(4.9)	(11.3)	8.8	0.0	0.1	0.1	0.3	2.9	8.4		
Growth capex	0.0	(3.9)	(0.7)	(6.5)	(6.5)	0.2	0.0	0.6	0.2	0.9	0.0		
Acquisitions/Disposals	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Cash flow pre financing	(0.2)	(8.1)	(5.6)	(17.8)	2.3	0.0	0.1	0.1	0.3	2.9	8.4		
Equity	0.4	13.5	13.8	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt	0.0	(0.2)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net cash flow for year	0.2	5.2	8.1	2.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0		
Balance sheet (A\$m)						Total Revenue							
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	0.2	0.1	0.7	0.6	4.4	11.2		
Cash	0.2	4.0	11.5	12.7	15.0	0.0	0.1	0.1	0.3	2.9	8.4		
Accounts receivable	0.1	0.1	0.2	4.8	12.3	0.0	0.1	0.1	0.3	2.9	8.4		
Inventory	0.1	0.5	0.8	3.7	3.7	0.0	0.1	0.1	0.3	2.9	8.4		
Other current assets	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.3	2.9	8.4		
Total current assets	0.4	4.8	12.5	21.3	31.2	0.0	0.1	0.1	0.3	2.9	8.4		
PPE	0.5	7.4	6.1	11.8	17.0	0.0	0.1	0.1	0.3	2.9	8.4		
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	2.9	8.4		
Investments	0.0	0.0	0.3	0.3	0.3	0.0	0.1	0.1	0.3	2.9	8.4		
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	2.9	8.4		
Other non current assets	0.0	0.2	0.2	0.2	0.2	0.0	0.1	0.1	0.3	2.9	8.4		
Total non current assets	0.5	7.6	6.6	12.3	17.5	0.0	0.1	0.1	0.3	2.9	8.4		
Total Assets	0.9	12.4	19.1	33.7	48.7	0.0	0.1	0.1	0.3	2.9	8.4		
Accounts payable	0.4	0.8	1.1	3.3	7.0	0.0	0.1	0.1	0.3	2.9	8.4		
Short term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	2.9	8.4		
Tax payable	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	2.9	8.4		
Other current liabilities	0.0	0.4	0.4	0.5	0.4	0.0	0.1	0.1	0.3	2.9	8.4		
Total current liabilities	0.5	1.2	1.5	3.8	7.4	0.0	0.1	0.1	0.3	2.9	8.4		
Long term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	2.9	8.4		
Other non current liabs	0.0	2.9	2.5	2.5	2.5	0.0	0.1	0.1	0.3	2.9	8.4		
Total long term liabilities	0.0	2.9	2.5	2.5	2.5	0.0	0.1	0.1	0.3	2.9	8.4		
Total Liabilities	0.5	4.1	3.9	6.2	9.8	0.0	0.1	0.1	0.3	2.9	8.4		
Net Assets	0.5	8.2	15.2	27.5	38.9	0.0	0.1	0.1	0.3	2.9	8.4		
Share capital	0.6	14.0	27.2	46.3	46.3	0.0	0.1	0.1	0.3	2.9	8.4		
Accumulated profits/losses	(0.1)	(5.9)	(12.9)	(19.6)	(8.3)	0.0	0.1	0.1	0.3	2.9	8.4		
Reserves	0.0	0.0	0.9	0.8	0.9	0.0	0.1	0.1	0.3	2.9	8.4		
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	2.9	8.4		
Total Shareholder funds	0.5	8.2	15.2	27.5	38.9	0.0	0.1	0.1	0.3	2.9	8.4		

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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