

22nd October 2021

AML3D

University of Qld purchases ARCEMY® module

AML3D Ltd (ASX:AL3) was established in 2014 to commercialise WAM® (Wire Additive Manufacturing), an additive manufacturing technology for the cost-effective production of large, high-performance metal components and structures. AL3 listed on the ASX in April 2020 at \$0.20/share, raising \$9m, and raised an additional \$7m in October 2020 to hasten the commercialisation programme. The company has established a contract manufacturing facility in Adelaide, is establishing a similar facility in Singapore and is making progress with customers for the proprietary ARCEMY® WAM® modules which are capable of manufacturing items up to 6m long – a significant increase in scale relative to most competing technologies. The company yesterday announced the sale of an ARCEMY® module to University of Queensland for approximately \$400,000. This sale furthers AML3D's intention to increase co-operation with academic institutions, with the aim of raising the knowledge and awareness of WAM® with all industry participants.

Business model

AML3D generates revenue from contract manufacturing of components using its WAM process; sales of the ARCEMY® WAM® modules; and licencing 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 possible large-scale use of the WAM® technology.

Sale of ARCEMY® module to University of Queensland

University of Queensland has purchased the smallest ARCEMY® module capable of printing objects up to a volume of 1.5m³ and mass of 750kg. The price paid accords with our price points for AL3's modules and is another sign that the WAM® process is a well-regarded, flexible, scalable, industrial 3D printing process with strong potential for greater use in heavy engineering and manufacturing applications. We expect AL3 will also supply consumables for the module and participate in future R&D associated with 3D printing processes.

Base case DCF valuation of \$71m with upside to \$124m

We use the discounted cashflow methodology to value AML3D due to the company's early stage of development. Negative free cashflow was reported in 2021 and is expected in 2022 and 2023. We expect strong free cash generation thereafter. Using a WACC of 11.1% (Beta 1.5 vs measured Beta of 0.21, terminal growth rate of 2.2%) we derive an equity value of \$71m or \$0.475/share on the current issued capital of 150.4m shares. Our base case is premised on announced agreements and customer interest levels, with a conservative conversion rate of customer inquiries 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 at \$0.829/share. A full discussion of our valuation is available in our recent initiation report [Additive manufacturing matures](#).

Historical earnings and RaaS Advisory estimates (in A\$m)

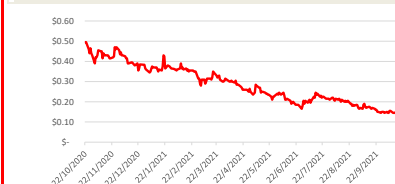
Year end	Total revenue	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)
06/20a	0.3	0.2	(3.2)	(3.2)	n.a.	46.6
06/21a	0.6	0.3	(5.1)	(5.5)	(3.8)	23.6
06/22e	3.7	1.2	(3.2)	(2.8)	(1.7)	5.2
06/23e	7.7	3.1	(1.4)	(1.6)	(1.0)	3.0

Source: Company data, RaaS estimates for FY22e and FY23e

Share details

ASX code	AL3
Share price (21 Oct)	\$0.155
Market capitalisation	\$23.3M
Shares on issue	150.4M
Net cash at 30 June	\$7.3M
Free float	~54%

Share price performance (12-months)



Upside Case

- Strong consumer interest leads to machine orders
- Current trial product deliveries convert to manufacturing contracts
- First-mover advantage is maintained through R&D

Downside Case

- Slow conversion of customers
- Further delays in expansion due to COVID
- Product trials do not convert to sales

Catalysts

- Announcement of additional machine sales
- Ratification of test parts supplied to potential customers (e.g., Boeing)
- Manufacturing orders following ratification
- AGM 19th November 2021

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FINANCIAL SERVICES GUIDE

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AFSL 456663

Effective Date: 6th May 2021

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

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