

Q1 FY22- Leads strong, sales slowed by COVID

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. The company has reported lower levels of customer conversion in Q1FY22 as a result of the impact of COVID-constrained business development and order completions. AL3 has \$5.4m in cash and has been active in developing opportunities in the quarter despite these obvious constraints. The company has advanced connections with academia and will see commercial benefits in both machine sales and technology development from relationships with Deakin University, University of Queensland and RMIT. Boeing, BAe, Keppel and other significant entities are in the process of qualifying parts made using the WAM® process and we expect commercial results to follow.

Business model

AML3D generates revenue from contract manufacturing of components using its WAM® process, sales of the 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.

September quarter reflects the wider economy

During the quarter AL3 confirmed an extension to the prototype body armour testing programme with Lightforce, development with Deakin University of a scandium/aluminium welding wire which removes the need for hardening heat treatment, and achieved DNV certification of the Panama chock delivered to Keppel Technology and Innovation in Singapore. AL3 has commenced further development of the ARCEMY® module and WAMsoft process software to take advantage of developments in high-strength alloys and expand potential manufacturing scale and speed by adding a second wire feed and in-line finishing machining to the WAM® process. These developments provide substantial speed and volume improvements and reduce associated post-production processing. The company operated conservatively during the quarter, recognising the likely delays in customer progress due to the impact of COVID-19.

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

We've used the discounted cashflow (DCF) 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. As we highlighted in our 13 October initiation report [Additive manufacturing matures](#), 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. We expect machine sales to be biased to the end of FY22 given COVID-related slowdowns and accordingly leave our estimates unchanged following the Q1 report.

Historical earnings and RaaS estimates (A\$m)

Year end	Sales 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

Additive Manufacturing

1st November 2021

Share details

ASX code	AL3
Share price (29 Oct)	\$0.1525
Market capitalisation	\$22.8M
Shares on issue	150.4M
Net cash 30 Sept 2021	\$5.4M
Free float	~54%

Share performance (12 months)



Upside Case

- Strong customer 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
- Retention rate reverts to COVID levels

Catalysts

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

Board of Directors

Stephen Gerlach	Chairman
Andrew Sales	Founder/MD/CEO
Kevin Reid	Non-Executive Director
Sean Ebert	Executive Director
Leonard Piro	Non-Executive Director

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Q1FY22 Results Discussion

The company highlighted in its Q1 results, funds expended to date from its IPO. This is set out below.

Exhibit 1: Use of funds under prospectus

	Note	Funds allocated under the Prospectus \$	Funds expended to 30 September 2021 \$
Singapore Bureau establishment	1	4,270,000	808,878
Relocation and expansion of Adelaide facility	2	2,840,000	3,360,363
Development of integrated print/machining	3	400,000	53,923
IP protection	4	400,000	83,597
Unallocated working capital - Adelaide		950,000	950,000
Unallocated working capital - Singapore	1	1,100,000	-
Expenses of the offer		1,100,000	1,110,198
Total		11,060,000	6,366,960

Source: Company reports

Other key developments in the quarter include:

1. Singapore Bureau establishment: Singapore opportunities are continuing; however, they are being hampered by restrictions imposed by COVID-19.
2. Relocation and expansion of Adelaide facility: The relocation and expansion of the Adelaide facility culminated in the official opening of the facility on 9 July, 2021 by the Hon David Pisoni MP, Minister for Innovation and Skills. A portion of funds under the Prospectus for the Singapore Bureau establishment has been reallocated to expand the Adelaide facility to provide greater local capacity.
3. Development of integrated print/machining: Initial research, planning, and concept design has been undertaken with expenditure to be incurred in line with the company's internal programme schedule.
4. IP protection: AML3D has secured an Australian Patent 2019251514 for its WAM® process, with subsequent confirmation of the granting of a WAM® patent in South Korea and New Zealand. Securing of patents in other key markets, including Europe, the UK and the USA is progressing.

Cash receipts for the quarter were \$0.95m, down on the previous quarter. The operating cash loss for the quarter was \$1.7m, a \$300k improvement on June quarter '21. Staff costs were \$117k lower than any previous quarter and substantially less than Q4FY21.

Exhibit 2: Q1FY22 versus Q1FY21 and Q4FY21 (in A\$m unless otherwise stated)

	Q1FY21	Q4FY21	Q1FY22
Receipts from customers	0.077	0.384	0.095
Research and development	(0.003)	(0.535)	(0.523)
Product manufacturing	(0.150)	(0.566)	(0.310)
Advertising	(0.110)	(0.103)	(0.053)
Lease costs	0.000		
Staff costs	(0.647)	(1.330)	(0.530)
Administration and corporate costs	(0.323)	(0.321)	(0.358)
Payments to suppliers and employees	(1.156)	(2.471)	(1.679)
Operating cashflow	(0.743)	(2.017)	(1.684)
Net cash at the end of the period	6.463	7.221	5.382

Source: Company data

Exhibit 3: Financial Summary

AML3D Ltd (ASX:AL3)						Share price (Date) 29/10/2021						A\$	0.1525
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		
Sales Revenue	0.2	0.3	0.6	3.7	7.7	Revenue	0.1	0.2	0.1	0.5	1.7	1.9	
Gross Profit	0.2	0.2	0.3	1.2	3.1	EBITDA	(1.8)	(1.3)	(2.1)	(3.3)	(1.6)	(1.5)	
EBITDA	(0.6)	(3.2)	(5.5)	(3.2)	(1.4)	EBIT	(1.8)	(1.3)	(2.3)	(3.5)	(2.0)	(2.0)	
Depn	(0.1)	(0.1)	(0.4)	(0.8)	(0.7)	NPAT (normalised)	(1.8)	(1.3)	(2.2)	(3.5)	(1.4)	(1.4)	
Amort	0.0	0.0	0.0	(0.0)	(0.2)	Minorities	-	-	-	-	-	-	
EBIT	(0.7)	(3.2)	(5.9)	(4.0)	(2.3)	NPAT (reported)	(1.8)	(1.1)	(2.1)	(3.5)	(1.4)	(1.4)	
Interest	0.0	0.0	0.0	0.0	(0.0)	EPS (normalised)	(1.24)	(1.10)	(1.47)	(2.17)	(0.86)	(0.83)	
Tax	0.0	0.0	0.0	1.2	0.7	EPS (reported)	(1.39)	(0.85)	(1.43)	(2.30)	(0.94)	(0.91)	
Minorities	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	-	-	-	-	-	-	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0	
NPAT pre significant item	(0.7)	(3.2)	(5.8)	(2.8)	(1.6)	Operating cash flow	(0.8)	(1.8)	(1.9)	(4.4)	(0.3)	(1.9)	
Significant items	0.0	0.1	0.2	0.0	0.0	Free Cash flow	(0.7)	(1.1)	0.4	(4.1)	0.4	(0.8)	
NPAT (reported)	(0.7)	(3.1)	(5.7)	(2.8)	(1.6)	Divisions	1H20 A	2H20 A	1H21 A	2H21 A	1H22 E	2H22 E	
Cash flow (A\$m)						Contract Manufacturing	0.0	0.0	0.0	0.0	0.7	0.8	
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Machine Sales	0.0	0.0	0.0	0.0	0.7	0.7	
EBITDA	(0.6)	(3.2)	(5.5)	(3.2)	(1.4)	Licence Income	0.0	0.0	0.0	0.0	0.3	0.4	
Interest	0.0	0.0	0.0	0.0	(0.0)	COGS	0.0	0.0	0.0	0.0	(1.2)	(1.3)	
Tax	0.0	0.0	0.0	0.0	0.0	Employment	0.0	0.0	0.0	0.0	(1.6)	(1.6)	
Working capital changes	(0.3)	0.6	(0.9)	0.9	(0.7)	Technology, licence fees	0.0	0.0	0.0	0.0	0.0	0.0	
Operating cash flow	(0.9)	(2.6)	(6.3)	(2.2)	(2.2)	Other costs	0.0	0.0	(2.4)	(4.0)	(0.6)	(0.6)	
Mtce capex	(0.2)	(0.8)	(0.3)	(0.4)	(0.4)	EBITDA	(1.8)	(1.3)	(2.1)	(3.3)	(1.6)	(1.5)	
Free cash flow	(1.1)	(3.4)	(6.6)	(2.6)	(2.6)	Margins, Leverage, Returns	FY19A	FY20A	FY21A	FY22F	FY23F		
Growth capex	(0.0)	(0.0)	(2.3)	(1.4)	(1.4)	EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Other	0.0	(0.0)	0.0	0.0	0.0	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Cash flow pre financing	(1.2)	(3.5)	(8.9)	(4.0)	(4.0)	Net Debt (Cash)		(0.6)	7.8	6.7	2.7	(1.3)	
Equity	0.1	10.2	7.3	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	n/a	
Debt	1.6	(0.1)	(0.1)	0.0	0.0	ND/ND+Equity (%)	(%)	125%	(411%)	(140%)	(44%)	15.8%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a	
Net cash flow for year	0.5	6.7	(1.7)	(4.0)	(4.0)	ROA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Balance sheet (A\$m)						ROE	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	ROIC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Cash	1.2	8.2	7.3	3.2	(0.8)	NTA (per share)	n/a	0.07	0.08	0.05	0.03		
Accounts receivable	0.3	0.7	0.5	0.3	0.6	Working capital	0.2	0.0	1.7	0.7	1.4		
Inventory	0.0	0.1	2.0	0.6	1.2	WC/Sales (%)	105%	17%	259%	20%	18%		
Other current assets	0.0	0.2	0.2	0.2	0.2	Revenue growth	(35%)	45%	121%	475%	110%		
Total current assets	1.5	9.3	10.0	4.4	1.2	EBIT growth pa	n/a	n/a	n/a	n/a	n/a		
PPE	0.3	1.5	3.3	2.9	2.6	Pricing	FY19A	FY20A	FY21A	FY22F	FY23F		
Intangibles and Goodwill	0.0	0.0	0.1	1.4	2.7	No of shares (y/e)	(m)	132	148	150	150	150	
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	132	148	148	165	165	
Deferred tax asset	0.0	0.0	0.0	1.2	1.9	EPS Reported	cps	0.0	0.0	(3.4)	(1.7)	(1.0)	
Other non current assets	0.0	0.0	0.0	0.1	0.1	EPS Normalised/Diluted	cps	0.0	0.0	(3.6)	(1.7)	(1.0)	
Total non current assets	0.4	1.6	3.4	5.6	7.3	EPS growth (norm/dil)	n.a.	n.a.	n.a.	-54%	-42%		
Total Assets	1.8	10.9	13.4	9.9	8.5	DPS	cps	-	-	-	-	-	
Accounts payable	0.1	0.8	0.9	0.2	0.4	DPS Growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Short term debt	1.8	0.1	0.2	0.2	0.2	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation	30	30	30	30	30	30	
Other current liabilities	0.1	0.0	0.5	0.5	0.5	PE (x)	n.a.	n.a.	-4.5	-9.1	-15.5		
Total current liabilities	1.9	0.9	1.5	0.8	1.0	PE market	17.8	17.8	17.8	17.8	17.8		
Long term debt	0.0	0.3	0.4	0.4	0.4	Premium/(discount)	n.a.	n.a.	(125%)	(151%)	(187%)		
Other non current liabs	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	-31.7	-4.6	-3.0	-6.4	-17.0		
Total long term liabilities	0.0	0.3	0.4	0.4	0.4	FCF/Share	cps	-0.6	-1.2	-4.0	-1.2	-1.1	
Total Liabilities	1.9	1.2	1.9	1.2	1.4	Price/FCF share	-27.3	-13.0	-3.8	-12.8	-13.4		
Net Assets	(0.1)	9.7	11.5	8.7	7.1	Free Cash flow Yield	(3.7%)	(7.7%)	(26.1%)	(7.8%)	(7.5%)		
Share capital	1.1	14.0	21.3	21.3	21.3								
Accumulated profits/losse	0.0	(4.3)	(9.8)	(12.6)	(14.2)								
Reserves	(1.2)	0.0	0.0	0.0	0.0								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder func	(0.1)	9.7	11.5	8.7	7.1								

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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