

SILK Laser Australia Limited

Strategic acquisition executed for dominance

SILK Laser Australia Limited (ASX:SLA) operates a network of 119 specialist clinics across Australia and New Zealand. SILK has a range of offerings in non-surgical aesthetics from laser hair removal to cosmetic injectables, body contouring and skin treatments as well as skincare products. SLA listed on the ASX in December 2020, raising \$83.5m at \$3.45/share to give a market capitalisation at listing of \$162.5m. The listing helped fund SILK's growth strategy to extend its existing clinics' business with cross-sell and up-sell opportunities, expand its network and for acquisition opportunities. In September 2021, the company acquired Australian Skin Clinics which includes The Cosmetic Clinic for \$50.5m, including cash consideration of \$45.9m, providing entry into the Victorian and New Zealand markets. This deal also positioned SILK as the second-largest player in the industry, providing scalable opportunity.

Business model

SILK Laser's model is to operate corporate stores, joint ventures, and the traditional franchisee model. The corporate structure, which accounts for 25 of its stores, provides SILK with total control of the clinics, enabling penetration into new markets whilst drawing synergies. The hybrid model of joint ventures allows for flexible financing options by both stakeholders where holdings can be split either 50% or 75% SILK and 50% or 25% franchisee. Currently, 29 of its clinics operate under this model, helping mitigate risks to all parties. Most of the stores (65 by number) operate under the traditional franchisee model, with many of these stores in regional areas due to the smaller growth potential. Owners and employees are provided both in-person and online training opportunities to upskill with the latest technology which they can then deliver to their customers.

Growth trajectory continuing into H2 FY22

SILK is a major player within the non-surgical aesthetics industry, targeting a high-quality offering at affordable prices. The company reported H1 FY22 revenue of \$40.5m, up 32% on the previous corresponding period (pcp), and a 70% jump in network cash sales to \$76.4m. Pro-forma EBITDA for the half increased 20% to \$12.7m and pro-forma NPAT was \$5.7m, up 2% on the pcp. Reported NPAT was \$4.1m, a decline of 13% on pcp. The company noted that with Q1 FY22 impacted by lost trading days due to COVID-19 lockdowns, the group experienced a six-to-eight week bounce back post re-opening in Q2 and that trading conditions had now returned to normal, consistent levels. SLA commented that the growth trajectory had continued into H2 FY22 with total network cash sales from 1 January to 24 February up 7% to \$23.1m. The company plans to open two further clinics in Australia and two in New Zealand in the next six months, in line with its guidance for an additional six-10 new clinic openings in FY22.

Peers included API's Clear Skin and Vita Group

SILK Laser is growing at a rapid rate; since acquiring ASC, it has moved from the third- to second-largest market player. Australian Pharmaceutical Industries (ASX:API) owns Clear Skin and this is a major competitor offering consumers a comparable range of services and products at a similar price point. Vita group (ASX:VTG), following the sale of its retail information and communications technology (ICT) business to Telstra, is now focused on expanding its Artisan Aesthetic Clinics business, having retained \$35m from the ICT sale for this purpose.

Historical earnings and ratios (in \$Am unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.* (c)	EPS rep. (c)	EV/Revenue (x)^	EV/EBITDA (x)^	PER (x)^
06/20a	29.1	8.3	2.3	2.3	5.05	5.05	5.6	19.6	61.4
06/21a	53.3	17.8	8.8	5.2	20.12	11.49	3.0	9.1	15.4

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items
^calculated from current enterprise value and share price

Consumer Services

11th March 2022

Share Details

ASX code	SLA
Share price	\$3.10
Market capitalisation	\$190.8M
Shares on issue	51.8M
Net cash at 31-Dec-2021	\$1.6M
Free float	71.79%

Share Performance (since listing)



Upside Case

- Continued trend of focusing on personal health
- High brand recognition and reputation amongst customers
- Increase pre-purchased package sales (\$9m) as well as cross-selling products

Downside Case

- Increased regulation for injectables
- Change in personal-spending preferences
- Inflationary pressures on non-essential spend

Catalysts

- Successful integration of acquisitions
- Delivery of FY22 results

Comparable companies (Aust/NZ)

Australian Pharmaceutical Industries (ASX:API),
Vita Group (ASX:VTG)

Board and Management

Boris Bosnich	Ind. Non-Exec. Chair
Martin Perelman	Managing Director/CEO
Sinead Ryan	Ind. Non-Exec. Director
Andrew Cosh	Ind. Non-Exec. Director
Bradley Lynch	Non-Executive Director

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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