Silk Laser Australia Limited

ORD MINNETT RESEARCH

Capital injection to drive long-term growth

In the age of Instagram, Zoom and Selfies, the focus on personal appearance has never been so prevalent. The cosmetic and beauty industry, along with Silk Laser Australia (SLA), has been a major beneficiary of this thematic, with consumers increasingly utilising their services. SLA has seen growth in network cash sales of 78.1% between FY18 – FY20 (CAGR) as demand increases and their network has grown from 15 clinics to 56 today. LFL revenue growth has been similarly strong (FY20: +18%) as clinics mature while group EBITDA has grown from loss making in FY18 to underlying EBITDA of $6.5m in FY20. We think these trends will continue while the company will continue to expand its network with up to 10 clinics p.a. SLA has a lot of momentum in to FY21 with cash sales to Nov-20 up 63% on the pcp with forecast EPS CAGR (FY20-23) of 59% in FY21, and we initiate with a Buy recommendation and a price target of $4.61.

Industry growth and increased penetration of injectables

SLA offer five core products & services: Laser Hair Removal, Skincare Treatment, Cosmetic Injectables, Skincare Products and Body Contouring. Together industry forecasts predict a 5yr revenue CAGR of 10%, led by Injectables at 25% p.a. Laser formed the foundation of SLA's business, however injectables are becoming an increasingly important part as more familiarity with the brand and service drive increased demand. Just 22% of SLA customers have used injectables, demonstrating the significant upside potential from cross-selling to that category, and the new body contouring service.

Typical ramp up profile provides upside from maturation

History has shown that SLA clinics have a typical 3yr ramp up profile, while the recent inclusion of new products and the increasing interest of injectables suggests further upside potential from more mature clinics. Within the current network, 62% of clinics are less than 3yrs old, with organic maturation underpinning growth over the next 24 months. Supplementing that is the ambition to add up to 10 new clinics per year, offering strong long-term growth potential.

Growth and cash-flow conversion offer appeal. Buy.

Approximately half of SLA's services are purchased as packages, paid for upfront and redeemed over 4-6 months. This ensures cash flow conversion is >100%. We forecast an FY20 – FY23 EPS CAGR of 59% with an FY22 PE of 19.6x.

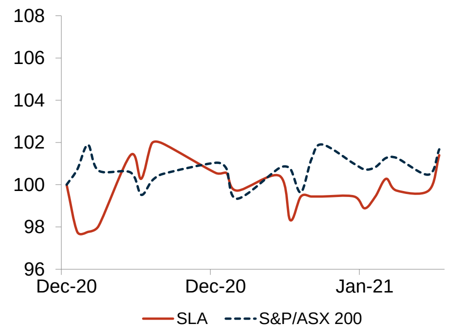
Year-end June ($)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue ($m)	26.6	34.3	54.8	65.2	76.5
EBITDA ($m)	1.5	6.6	13.5	16.3	19.5
EBIT ($m)	(0.4)	3.8	10.1	12.3	14.9
Reported NPAT ($m)	(2.0)	0.7	5.4	7.0	8.4
Reported EPS (c)	-	1.6	10.8	14.8	17.8
Normalised NPAT ($m)	(0.3)	2.6	7.1	8.7	10.5
Normalised EPS (c)	-	5.5	15.2	18.5	22.3
EPS Growth (%)	-	-	176.3	22.0	20.5
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
EV/EBITDA (X)	-	25.4	11.2	8.9	7.2
Normalised P/E (x)	-	66.1	23.9	19.6	16.3
Normalised ROE (%)	-	7.2	15.4	14.6	15.6

Source: OML, Iress, Silk Laser Australia Limited

Last Price
A$3.63
Target Price
A$4.61
Recommendation
Buy
Risk
Higher

Specialized Consumer Services	
ASX Code	SLA
52 Week Range ($)	-
Market Cap ($m)	171.0
Shares Outstanding (m)	47.1
Av Daily Turnover ($m)	0.1
3 Month Total Return (%)	-
12 Month Total Return (%)	-
Benchmark 12 Month Return (%)	-4.6
NTA FY21E (¢ per share)	60.0
Net Cash FY21E ($m)	20.1

Relative Price Performance



Source: FactSet

Consensus Earnings	FY21E	FY22E
NPAT (C) ($m)	-	-
NPAT (OM) ($m)	7.1	8.7
EPS (C) (c)	-	-
EPS (OM) (c)	15.2	18.5

Source: OML, Iress, Silk Laser Australia Limited

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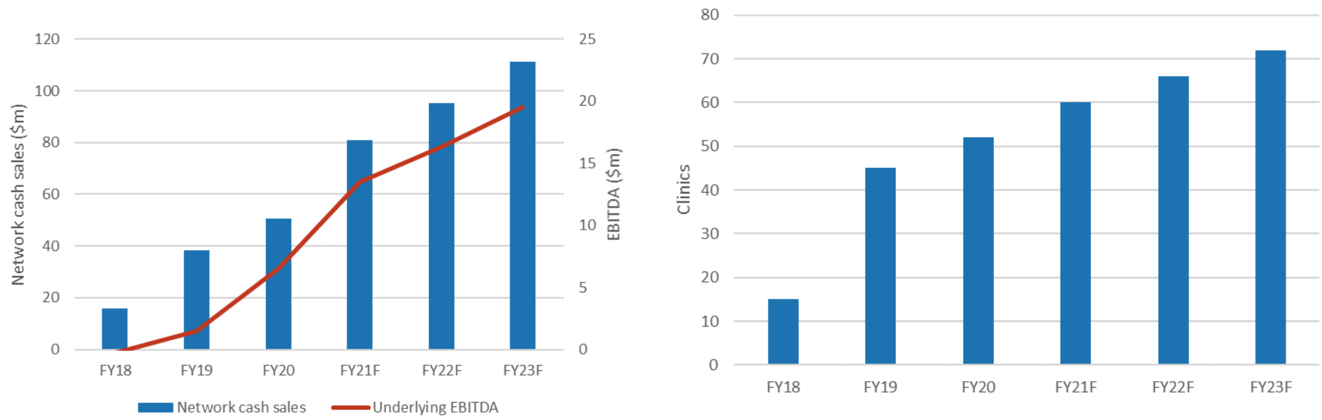
Executive summary

Founded in 2009 by the company's current CEO Martin Perelman, SILK Laser Clinics (SLA) has grown to be one of Australia's largest beauty and cosmetic clinical businesses. With 10 clinics operating in FY17, the network now stands at 56 with at least an additional four expected to be open by the end of FY21.

The company's genesis was laser hair removal, however it is increasingly expanding its product offering to include injectables and body contouring, as well as skincare treatments and products. This has underpinned a revenue CAGR of 65% over FY18-FY20, while we expect maturation of the network and increased penetration of newer categories to drive an EPS CAGR of 60% between FY20 and FY23.

Figure 1: Key financial metrics (LHS) & No of clinics (RHS) – FY18 – FY23F



Source: OML, SILK

Network maturation and product penetration to drive growth

History has shown that the typical maturation profile for a new clinic is 3 years, currently 17 SLA clinics are less than two years old while a further 16 are between two and three years. This suggests that there is a multi-year growth story supported by natural maturation in the network alone. The new Body category is expected to drive further growth, with client penetration of injectables just 22% while body contouring is a new offering. Both categories are also significantly higher value than laser and skincare, with little incremental overhead required to service customers.

Earnings growth and cash flow profile offer appeal

These two features are key to driving strong medium-term earnings growth, while the broadening appeal of non-cosmetic surgical treatments and a stated intention of growing the network by 6-10 clinics a year supports the long term. In the meantime, the upfront purchase of treatment packages makes SLA a highly cash generative business, which offers significant investment appeal.

SLA is trading on an FY22 PE of 19.6x which we believe is good value against consumer focused high growth peers, and we initiate with a Buy recommendation and price target of $4.61.

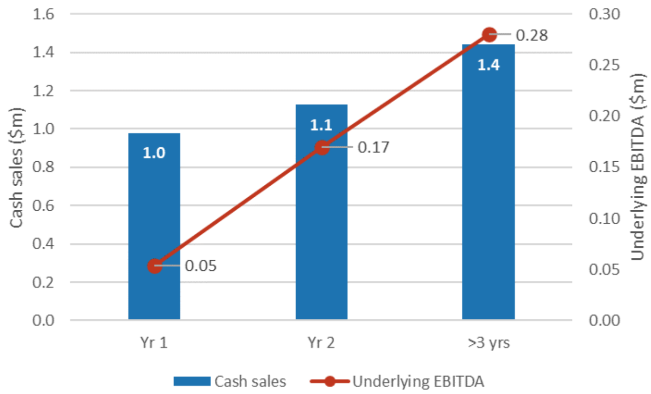
Key investment drivers

- **Key industry growth**: Industry research (IMARC) estimates the aggregate size of SLA's market at A$5.4bn in CY20 and is expected to grow at a CAGR of 10% out to CY24. Beauty products are a major component of that (~$3bn, 8% CAGR), however two key growth drivers for SLA in Injectables and Body Contouring represent the fastest growing markets at CAGR's of 25% and 13%.

  Injectables is an established market, albeit still in early stages of adoption. It has typically been the domain of women aged over 35, however it is increasingly experiencing demand from the 'Millennial' demographic alongside improvements in outcomes, affordability and the role social media has played in bringing it in to the mainstream. Total penetration of the Australian population (4.1%) is also half that of the US, offering a clear pathway to potential growth. The body product meanwhile is comparatively new, however early returns are highly encouraging and fits perfectly with SLA's existing clinical process.

- **Maturation of existing clinics:** In FY18 the SLA network included 15 locations, while at the end of FY21 its footprint is expected to number 60. While clinics offer strong unit economics in year 1, prior experience has indicated an approximate 3yr ramp up profile. Within the current network, 33 clinics (62%) are less than three years old, with maturation of these newer clinics underpinning medium term EPS growth.

Figure 2: Existing average clinic profile



Source: SLA

We also believe the current data understates the full potential of each clinic, with an average clinic (five rooms) capable of achieving up to or greater than $2.5m in cash sales once body is fully deployed, in our view. In FY21 prospectus forecasts assume LFL sales growth of 31%; in 1Q21 cash sales were up 98% on pcp, suggesting the company is well on track.

- **Increase in penetration of higher value/margin categories:** Laser hair removal has been the foundation stone for the SLA, with other categories added and grown as time has passed. As a result laser has client penetration of 69% while injectables is just 22%. The cross selling opportunities here are strong, with both fundamentally beauty related products or services, with subsequent adoption of injectables a function of clients gaining comfort with the brand and product. The economic benefits of this cross selling are compelling, with little incremental overhead required while the average transaction value (ATV) is ~3x that of laser hair removal. The same dynamic exists with body contouring, which has negligible client penetration as a new product category.

- **Network expansion**: At the end of FY20 SLA was operating 52 clinics, this has grown quickly over the past three years when the business was operating just 10 locations, predominately in SA. In FY21 SLA intend to open a further seven locations, offering an indication of management's annual ambition (up to 10 p.a.). While we believe prior experience is a good indicator of expected ramp profiles and returns (yr 3 ROI of 40%), there remains a strong opportunity to partner with existing nurse injectors via SLA's JV clinic structures. In doing so, these clinics can be immediately profitable, delivering strong economic outcomes from all parties involved. We further expect M&A to be a strong feature.

- **Skincare product upselling & expansion:** In 2018 SLA acquired Aesthetic RX a plant-based skincare brand designed specifically to maximise treatment outcomes. Manufactured with a gross margin of >75%, it is a key point-of-sale upselling opportunity for the group with product GP dropping straight to the bottom line. These products are also sold via third party retailers (incl. adorebeauty.com.au), offering a solid long-term incremental revenue opportunity.

- **Margin expansion and cash flow profile:** In FY20 SLA achieved an underlying EBITDA margin of 19%, in FY21 we expect this to reach 24.5% with further upside potential over the coming years. This is driven by several dynamics starting with clinic operating leverage as the network continues to mature. It is further underpinned by the existence of distribution and franchise revenue, which is the income received from the provision of products and services to the franchise network.

  SLA's cash flow profile is also highly attractive by virtue of the upfront packages sold to customers, which are subsequently redeemed over a 4-6 month period. This ensures that on a statutory basis, EBITDA over converts to cash.

Key investment risks

- **Competition**: Silk faces competition across a highly fragmented specialist-cosmetics market with its core competitors ranging from four large chain clinics (i.e. Laser Clinics Australia, Clear Skincare Clinics, Australia Skin Clinics & Results Clinics Australia) to small chain and single independently-owned operations (e.g. Evolution Laser, Eden Laser, Brisbane Anti-Wrinkle Skin Studio's & Unique Laser).This reveals an opportunity for Silk to acquire in a fragmented market. However, it increases the risk of emerging competition capturing market share from Silk clinics.
- **Consumer Spending**: Silk operates in the non-surgical aesthetics space, which is objectively discretionary in nature. This mean that Silk's revenues could potentially be affected by the broader state of the economy and its effect on the discretionary spending behaviours of Silk's customers. If there was to be a prolonged deterioration of economic conditions such as due to covid, this may impact Silk's ability to generate projected revenues. Silk management aim to mitigate this by building strong brand loyalty through achieving desired product results, coupled with high customer satisfaction.
- **Adverse Product Effects:** Silk uses a variety of different products and technologies that can cause unintended harmful side effects for customers. There is a risk that such unintended side effects would adversely affect the company's product reputation and financial performance. The company is also exposed to the safety testing of the 3rd party product suppliers and the reputation of their products. To mitigate this risk the company chooses 3rd party suppliers with impeccable market reputation and mitigates legal risk with legal consent forms with all procedures.
- **Store Expansion**: Silk are adopting an aggressive expansion strategy totalling 150+ stores at a rate of 6-10 stores per year. Potential new store locations undergo a selection criterion targeting certain demographics in defined catchment areas to optimise the chances of clinic success. This opens the company to project execution risk and data quality risk. Silk management aim to reduce these risks by undertaking desktop feasibilities of potential locations and visiting sites physically to assess the clinic location quality.
- **Medical Procedure Risk**: Silk uses non-invasive techniques such as laser (light/heat), injections, needling, magnetic pulses and cryolipolysis (cold). The treatments are results driven and whilst they are non-surgical, they do require a certain degree of client discomfort. These techniques are well tested and are administered by trained SILK professionals using equipment with industry leading safety features aimed to help reduce client discomfort/injury. However, there is risk that treatments may not be administered correctly giving client discomfort or ineffective results.
- **Regulatory Risk**: Silk is bound by the applicable laws and regulations that govern the cosmetics industry. Whilst Silk has benefitted from repeals in laws in certain jurisdictions, there is no certainty that future regulations may not move adversely against silk in either the cosmetic or franchising space.

Company overview

Silk Laser Clinics (SLA) is a prominent, Australian-founded beauty and cosmetics company, offering a range of beauty products and services to enhance customers aesthetic desires. The company was co-founded in 2009 by CEO Martin Perelman and has grown to operate 56 clinics throughout six states with a strong presence in Western Australia and its home state of South Australia. The majority of SLA's clinics are located in shopping centres or high streets, with all clinics across the network utilising contemporary, clean branding with a uniform layout.

Silk has five broad categories: laser hair removal, cosmetic injectables, skin treatments, fat reduction & body contouring services and an own branded skincare range. The bulk of revenue is currently derived from laser hair removal (36.4%) and injectables (38.2%), followed by skin treatment and skincare products.

The company's business model includes a network of clinics under three different ownership structures: Corporate (23 clinics), Joint Venture (14) and franchise (16). This structure allows the business to approach different markets and opportunities in a manner that can drive the best commercial outcome.

The company employs 467 staff across the network with each clinic typically consisting of a manager, a leading cosmetic injectable nurse, and various beauty therapists for the different products.

History

Founded in 2009, the company's first store was opened in the upmarket suburb of Hyde Park, South Australia. Its initial offering was limited to Laser Hair Removal, followed in 2010 by the launch of their then secondary products: injectables, skincare treatments and skin products.

From 2010 to 2018 growth was funded organically with the roll out of clinics in WA, QLD, TAS & NT before being partly acquired by the Advent Fund in 2018, providing the business with the capital required to accelerate expansion. This was first in evidence with the acquisition of The Laser Lounge, containing 16 clinics across the East Coast and SA, giving the company a total of 42 stores nationwide.

In December 2020, Silk successfully completed an IPO process, raising A$89.5m (A$20m primary) in the process, in aid of further expansion.

Figure 3: History

2009	Foundation Clinic Opened in South Australia
2010	Launched Skin, Product & Inject Categories
2016	Launched in NT
2017	Launched in TAS
2018	Launched in WA & QLD
	Acquired Laser Lounge (16 clinics across QLD, NSW, SA)
	Acquired Aesthetics RX skincare company
2020	Rebrand of all The Laser Lounge clinics into SILK clinics
	Further roll out of clinics in QLD, WA, and SA
	Launched Body category signing a deal with BTL Aesthetics

Source: OML, TRS

What do they do?

Product lines include a variety of cosmetic treatments aimed to enhance beauty. These categories can be broadly grouped into five core offerings:

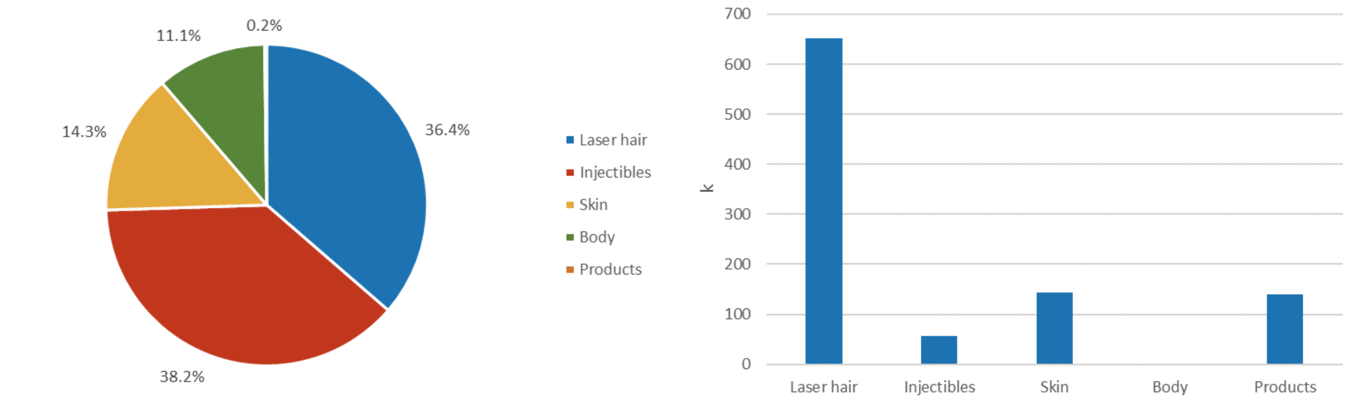
- **Laser Hair Removal:** SLA offers laser hair removals as their core offering with the highest client penetration of 69%. While offering strong unit economics in its own right (60% post-labour margin), it also acts as a strong cross-selling opportunity for the rest of the group's services. The company uses Candela lasers which are grade 4 TGA/ FDA certified for safe treatment and quality hair reduction result.
- **Skin Treatments:** SLA offers a wide variety of non-invasive treatments to help treat common skin problems such as hyperpigmentation, acne, enlarged pores, dull complexion, uneven tone or texture and sun damage. These are generally paid in packages ranging 6-12 months. It has 25% customer penetration and an average transaction value of $142 being offered across all 56 clinics. Product examples are provided in the Industry section (p.35)
- **Cosmetic Injectables**: SLA offers a range of injectables to reverse the looks of ageing, enhance volume and create desired features. The procedures cause mild discomfort and require no recovery time after injection. The effect of the injectables is temporary, which aids customer retention and an attractive repeat revenue opportunity as injectables expand to become a more prevalent part of consumers discretionary spending.

  The injections are administered by a team of highly trained cosmetic nurses that are overseen by company doctors. These are generally paid for at the time of service and can be taken up in conjunction with other treatments. It has 22% customer penetration and an average transaction value of $426 being offered across all 56 clinics. Product examples are provided in the industry section (p.35).
- **Body Contouring**: SLA offers innovative, non-surgical muscular toning and fat reduction techniques to improve body contouring aesthetics. These are chosen in prepayment packages with minimal existing customer penetration (new product offering) and an average transaction value of $1514. Products include:
  - CoolSculpting (Fat Reduction) - Uses cryolipolysis (freezing) of adipose tissues via an applicant allowing to focus on specific areas in comparison to exercise. Offered at 17 location around Australia.
  - EmSculpt (muscle toning) – Uses high-intensity focused electromagnetic field (HIFEM) technology to induce supramaximal muscle contractions in repetition to achieve targeted muscular toning.
- **Owned Branded Skin Care Products:** SLA offers a range of own branded skin care products as an additional service for clients bolstering results and customer satisfaction. The products are manufactured by third parties primarily in Australia. The products are bought ad hoc by customers in conjunction with other services as continued after-care treatment for the skin, after procedures. They have 49% customer penetration and an average transaction value of $95. Product examples are provided in the industry section (p.35).

Volumes, pricing, margin

By virtue of the fact that laser hair removal is the backbone of the business, it represents the vast majority of volume for the group, however injectables have an average transaction value 3.6x that of laser hair removal. As a consequence, injectables represents the largest source of revenue for the group; we expect this dynamic to increase in future years as penetration increases.

Figure 4 & 5: Cash sales split (LHS) & Volume of products and services (RHS, FY20)

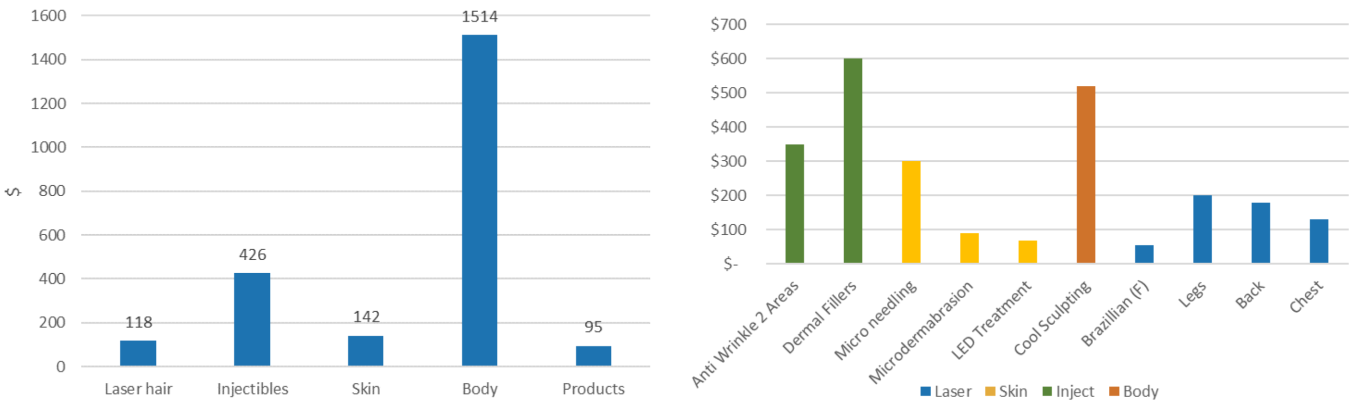


Source: OML,

Body sculpting is also a materially higher value transaction, however as a new category it represents a small part of overall revenue in FY20. With this equipment being rolled out widely in FY21, we would expect it to contribute to growth over the future, which is explored further in investment drivers (p.14).

With each product category, pricing varies according to the specific product and/or body part being addressed. The majority of services (excl. injectables) are included in pre-paid packages, to be redeemed over a 6 -12 month period. Additional upsell opportunities for SLA's owned brand product occurs at visitation.

Figure 6 & 7: Average transaction value (LHS) & product/service prices (RHS)



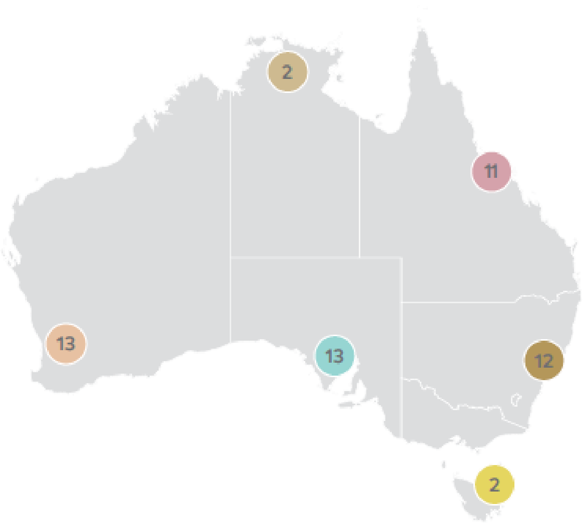
Source: OML, SLA

Across the board repeat visitations are high due to the need for ongoing maintenance or to utilise another service. In the case of injectables, each treatment will generally last between 4 – 6 months. This speaks to the typical customer journey, with laser hair often acting as the gateway for new customers. Once the customer gains comfort with SLA, they often shift to other services, in effect increasing the yield achieved for that customer. The use of packages and an increasing focus on customer data is an additional lever SLA can use to drive yield increases, including other items in new packages.

The Network

SLA currently has 56 clinics around the country with SA and WA the most heavily represented as beneficiaries of early rollout activities. The company's presence in NSW and QLD was facilitated by the acquisition of The Laser Lounge in Oct-18, while there is no presence in VIC. We expect this to change in the short-term with NSW, QLD and VIC to be a focus while the company have called out 60+ clinics by the end of FY21.

Figure 8: Silk network



Queensland		
Bundaberg	Maroochydore	Paddington
Mackay	Robina	Fairfield
Cairns	Brookside	Townsville
Rockhampton	Coorparoo Square	
New South Wales		
Balmain	Bateau Bay	Warners Bay
Castle Hill	Erina	Wagga Wagga
Double Bay	Coffs Harbour	
North Bridge	Green Hills	
Rouse Hill	Port Macquarie	
Tasmania		
Eastlands	Hobart	
South Australia		
Adelaide Rundle Mall	Henley Beach	Prospect
Adelaide Rundle Place	Hyde Park	Tea Tree Plaza
Burnside Village	Marion	West Lakes
Elizabeth	Noarlunga	
Glenelg	Norwood	
Western Australia		
Baldivis	Inaloo	Perth
Carousel	Joondalup	Rockingham
Cockburn	Karrinyup	Whitford City
Ellenbrook	Midland Gate	
Garden City	Ocean Keys	
Northern Territory		
Casuarina	Palmerston	

Source: SLA

Typically located in a shopping centre or on a 'high street', SILK clinics have a uniform, contemporary and clean layout. They typically range in size from 70 -130 sq metres, ideally with five treatment rooms, two laser machines and a full suite of skin treatment equipment. Increasingly SLA are including an EmSculpting (30 currently) and/or CoolSculpting (estimated at 20 currently) in each clinic.

Figure 9: Store layout example

Source: SLA

Each clinic has the potential to be flexible in which services they deliver in order to maximise economic returns. Currently, on average across all clinics that have been operating for >3yr, a clinic is generating cash sales of $1.44m p.a. We think this understates the true potential (up to $2.5m) of the network and examine this further within investment drivers (p.14).

Figure 10: Average clinic economics (>3yr)

	$m
Cash sales / clinic	1.44
Underlying EBITDA / clinic	0.28
% margin	*19.4%*
Average invested capital	0.7
Yr 3 ROI	**40%**

Source: OML, SLA

Ownership Model

Silk operates its network via three separate structures:

- **Corporate (24 Clinics):** 100% owned by silk. The structure is used to enter new markets with speed and efficiency, opening stores and maximising synergies. It allows the business to effectively manage the formative years of the clinic, and invest appropriately and expediently when required.
- **Joint Venture (13 Clinics):** 50-75% owned by Silk. This structure is used as a means to attract and retain key staff (injectors) by offering equity share. Franchise fees are still payable by the clinic, while SLA also benefits from the sale of branded product and injectables. It nevertheless remains attractive for injectors, who retain volume commissions while also sharing in clinic economic returns.
- **Traditional Franchise (16 Clinics):** 100% owned by franchisee. This structure business model is typically employed in rural regions allowing the silk brand to penetrate less population dense regions. It involves franchise fees paid to Silk and margin on products.

Figure 11: Key franchise terms

	JV75	JV50	Traditional
Term	5yrs*	5yrs*	5yrs*
Upfront cost	$185k	$325k	$775k
Ongoing franchise fee**	8% - 10%	8% - 10%	8% - 10%
Ongoing marketing levy**	3%	3%	3%
Management fee	$750pw	$750pw	-

*3 x 5yr renewal terms

**Of sales

Source: OML, SLA

Employees

SLA considers retention of staff a key priority and a source of risk for the business. The business has invested in new talent incl the recent addition of a category head (Body). These key appointments are reflective of the overarching strategy to provide high quality education and training to staff to ensure they are able to progress their careers with the appropriate skills.

Support visits are used to provide an opportunity for review, analysis, guidance and advice to clinic operators. SILK also has a range of training and operating manuals to ensure consistent, high quality service is provided across all SILK clinics.

Given the specialised nature of the services offered by SILK, it places significant focus on cosmetic injectable nurse training.

The training program is overseen by the Group Medical Director, who has over 20 years of experience in the non-surgical aesthetics industry and is a key opinion leader for industry supplier Allergan. The Group Medical Director oversees a team consisting of one clinical manager and three clinical trainers, each of whom are Registered Nurses and conduct cosmetic injectable training in each state and the Northern Territory. Once the initial training has been completed, SILK cosmetic injectable nurses undertake approximately 10 training sessions p.a. provided by external companies to upskill.

Figure 12: Management & employee breakdown

	FY20
Board & Management	7
Clinic managers	40
Cosmetic injectable nurses	53
Franchise partners	28
Laser and dermal technicians	288
Receptionists	12
Head office staff	30
Authorised Prescribers	9
Total	**467**

Source: OML, SLA

Marketing

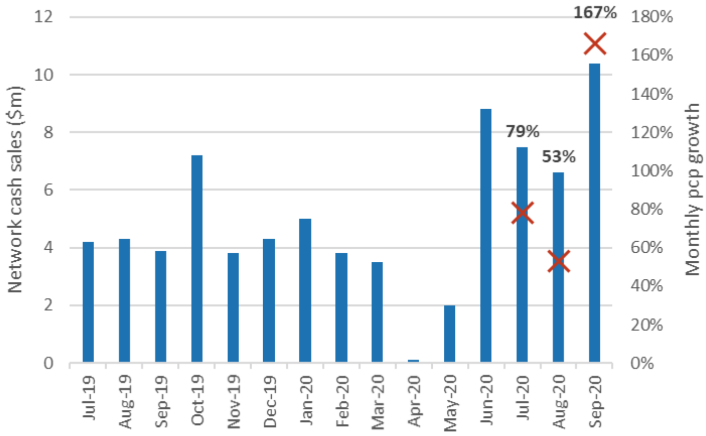
SILK's primary marketing strategy is aimed at utilising digital media to attract their key demographics, currently females aged between 20 and 49. This includes social media, emails, SMS and Google search. The company's effectiveness in driving leads via Google has been showing marked improvements; between FY19 and FY20 Inject and Laser saw improvements in conversion from Google search of ~90%. Meanwhile organic Google searches increased 34% during the same period.

Lifecycles and predictive marketing is also becoming more of a feature via the implementation of point-of-sale platforms. Such implementation was also aided driving an increase of upselling.

How was it affected throughout Covid and how is it trading now?

SLA has emerged from the pandemic with momentum lending weight to the company's thesis that non-surgical aesthetic products are becoming non-discretionary in the customer psyche. The company has benefitted from a lack of presence in Victoria experiencing a surge in revenue and new customers in the months of June through to September through redemptions of products and surpassing the losses in Covid. The company amassed a waitlist of 3,600 preregistered injectable customers surpassing the previous average monthly inject levels of 3,000.

Figure 13: Post-covid recovery



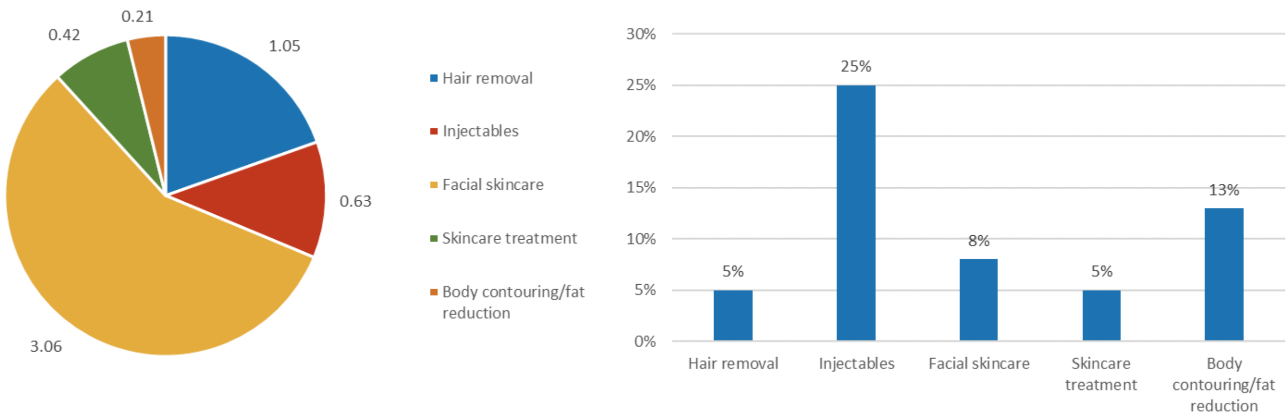
Source: OML, SLA

Investment drivers

Organic growth in key products

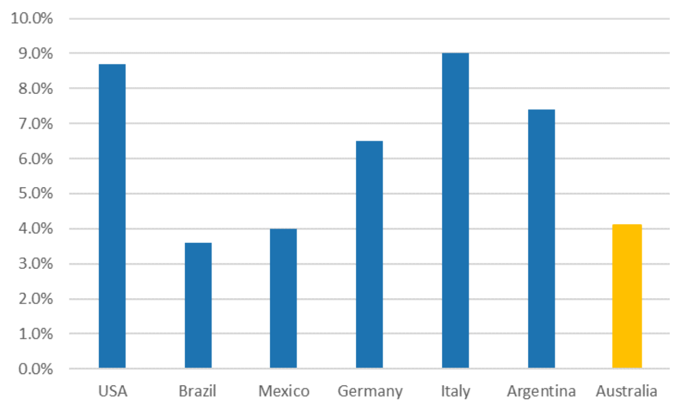
Industry research (IMARC) estimates the aggregate size of SLA's market at A$5.4bn in CY20 and is expected to grow at a CAGR of 10% to CY24. Skincare products make up the largest proportion of industry revenue ($3.1bn) with SLA's remaining core offering nevertheless generating industry revenue of A$2.4bn in CY20 with SLA penetration standing at just 2%.

Figure 14 & 15: Industry composition (LHS) & CY20 – CY24 CAGR (RHS)



The beauty industry in general is experiencing growth off the back of improving technology, access to services, and the normalisation of cosmetic treatments through various media channels. Some parts of the industry have traditionally been the domain of older women given the progression of aging, however millennials are increasingly using products and services, particularly injectables. Australia is also lagging other key peer countries in terms of penetration of non-surgical procedures, with peak industry body research (ISAPS, 2018) pointing to 8.7% penetration in the US vs 4.1% in Australia.

Figure 16: Penetration of non-surgical procedures to total populations



Source: ISAPS International Survey, OML

Within the industry, each product segment has additional growth drivers.

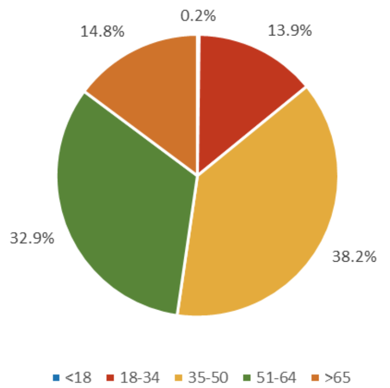
Excluding skincare product, hair removal is the most mature market. This is inclusive of traditional hair removal methods (waxing), with laser hair removal growing faster in comparison. Waxing and at-home shaving often result in unsatisfactory aesthetic outcomes, typically only lasts a short period. Laser on the other hand will last several years, has minimal side-effects and is supported by established research and regulatory approval. This clearly makes it an appealing proposition.

Skincare treatments are a comparatively small part of the industry but is considered a less invasive treatment to address the features of aging, pigmentation (freckles etc) and blemishes. It is a common cross-selling opportunity for the laser hair removal clinics, while acting as a key gateway product for injectables.

Injectables is the key growth engine of the industry, and for SLA with predicted category growth of 25% to CY24. Commonly referred to as “Botox” (Botulinum toxin), there are in fact a range of injectable treatments beyond Botox (see p.35) available to deliver desired outcomes, with new, more effective, often cheaper products continually coming to market. The affordability aspect of this has helped open up a new market.

The age group commonly associated with the use of injectables is >35yo, however alongside the development of influencers and ‘selfies’, demand among Millennials is increasing. Indeed recent demand increase has been coined by some as the “Zoom Boom”, as the mirror effect of video conferencing has made people more aware of perceived imperfections.

Figure 17: Age distribution of injectables in the US



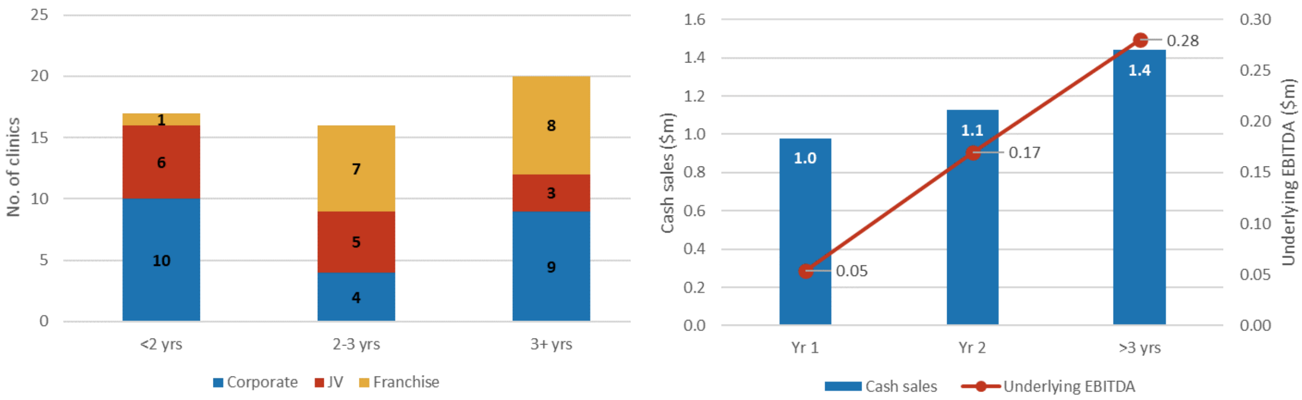
Source: ASAPS, OML

Comparatively speaking, non-surgical cosmetic treatments remains a developing industry, however it is increasingly becoming more mainstream. Availability and affordability of treatments is supporting growth, while shifting evidence and attitude regarding safety, efficacy and social acceptance are acting as key drivers as well.

Maturation of existing clinics

While SLA is now a relatively large player with ~5% of the total number of specialist clinics in the Australian market, the business has grown so quickly with the network growing from just 15 locations in FY18 to an expected footprint of 60 by the end of FY21. The ramp profile of new clinics means that many of these locations are still not operating at full potential, with their maturation expected to contribute to strong EPS growth in the short term.

Figure 18 & 19: Age profile of existing clinics (LHS) & SLA clinic financial profile (RHS)



Source: SLA, OML

This is supported by the current experience across the network, with existing clinics offering strong uplift in sales and EBITDA in year three. Within the current network, 33 clinics (62%) are less than 3 years old. The maturation of these newer clinics underpins the growth in revenue and earnings in FY21 and beyond.

We also believe the current data on the average financial profile understates the commercial potential of each clinic, once injectables and body contouring is fully deployed and integrated, but also because the data is depressed due to Covid shutdowns in March and April 2020.

Figure 20 assumes a level of utilisation for each category, with the implied prices taking in to account required cycles or individual treatments. For example, EmSculpt is currently marketed at a price of $1439 for five sessions ($288 per visit) over multiple weeks. A typical clinic has five rooms, with those rooms capable of being flexible in the treatments they provide in any given session. From a capacity point of view, we view the assumed volumes as highly conservative, with some rooms capable of managing up to or more than 20 treatments per day for some categories. The below scenario implies that additional maturation is likely to occur for older clinics.

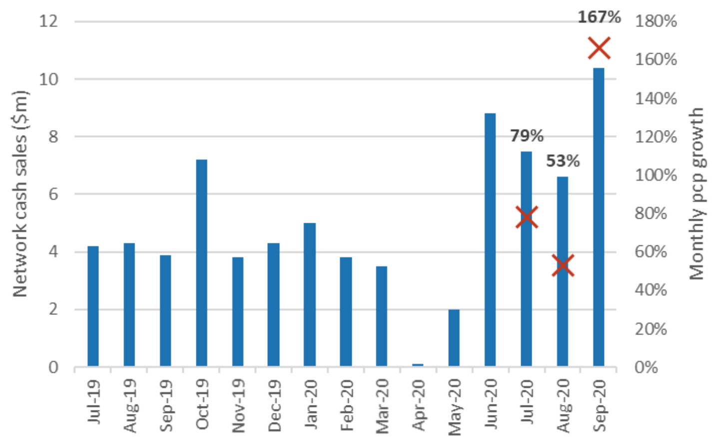
Figure 20: Potential clinic sales scenario

Type	Rooms	Volume per day	Implied avg price per visit/treatment	Sales ($m, p.a.)
Laser	3	25	28	0.6
Inject	1	10	345	0.9
Skin	1	20	50	0.3
Subtotal				**1.7**
Body				
CoolSculpt	1	5	500	0.7
EmSculpt	1	5	288	0.4
Potential addition				**1.0**

Source: OML, SLA

SLA experienced LFL sales growth of 18% in FY20, despite the business trading for only 10 months due to Covid, in FY21 the company expects LFL sales growth of 31%. This growth is supported by strong uplift in demand in the 1Q21 where cash sales were up 98% on pcp.

Figure 21: Monthly network cash sales & pcp growth



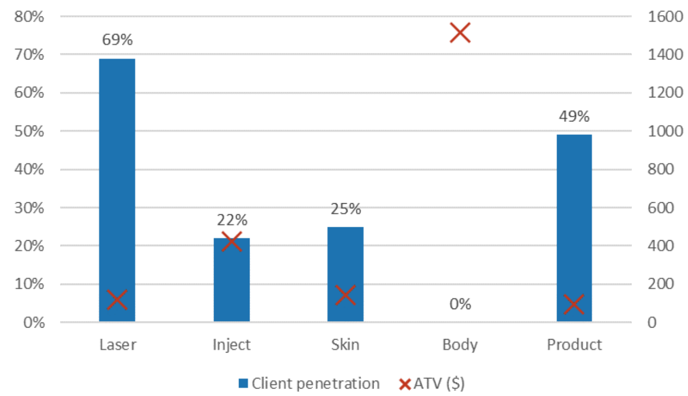
Source: OML, SLA

Increased penetration of higher value/margin products

Supporting strong LFL growth over recent years has been the expansion of service offering across the network, starting with injectables, but now also including the body category.

Of SLA's entire client data base (excl. acquired Laser Lounge clinics), just 22% have purchased an injectables product at any time from FY18 to date while the Body offering is only just commencing. The cross-selling opportunities here are material, particularly given Inject and Body have a significantly higher average transaction value (ATV) than Laser or Skin.

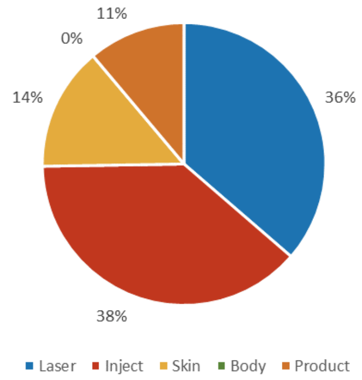
Figure 22: Client penetration of products/services



Source: OML, SLA

Figure 25 presents a scenario analysis on the potential uplift from increased penetration using existing data on average mature cash sales ($1.4m p.a.), network wide category contribution to cash sales, ATV and product margins.

Figure 23 & 24: Product/service margins (LHS) & Existing cash sales splits



Source: OML

Figure 25: Penetration scenario analysis

Scenario	Base	1	2
Category volume split			
Laser	62%	55%	40%
Inject	18%	25%	35%
Skin	20%	15%	15%
Body	0%	5%	10%
Transactions (k)	7.0	7.0	7.0
Cash sales ($m)	1.3	1.9	2.6
Gross margin ($m)	1.1	1.5	2.0
Post-labour margin ($m)	0.7	0.9	1.2
% margin	*58%*	*48%*	*47%*
Potential earnings* uplift (%)		***25.8%***	***68.6%***

*Post-labour

Source: OML

This analysis assumes a finite number of transactions a year (7k), however we believe additional capacity exists within the network. Nevertheless, the analysis demonstrates that effective cross-selling to injectables and body in particular will drive a strong commercial outcome for the group.

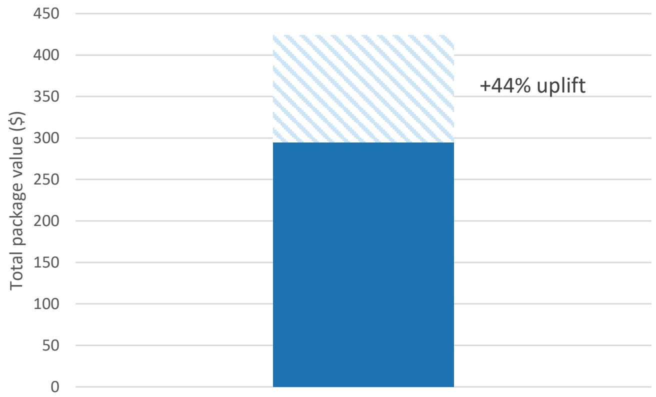
We believe the increase in penetration of injectables will occur organically over coming years. As discussed, laser hair removal acts as a gateway for other products, with clients growing comfortable with the Silk brand, the practitioners and process. SLA base their marketing activities around developing this client journey, delivering targeted campaigns by leveraging customer intelligence and event driven promotional campaigns.

The body category is only just beginning, with the roll-out of machines still ongoing and SLA possessing exclusive rights over the EmSculpt technology. As at today, the network has 30 EmSculpt machines in place, with half of those installed in 2Q21. There are a further 20 CoolScuplting machines. Each machine costs ~$150k (Emsculpt) and $80k (Coolsculpt) respectively, making the potential payback compelling even if solid yr 1 utilisation is achievable. The product also requires little additional overhead investment, driving strong economic returns.

Skincare product upselling & expansion

In 2018, SLA acquired Aesthetic RX, a plant-based skincare brand designed specifically to maximise treatment outcomes. Manufactured with a gross margin of ~65%m, it is a key upselling opportunity for the group at the point of sale and third party retailers incl. online beauty channels (ie. adorebeauty.com.au).

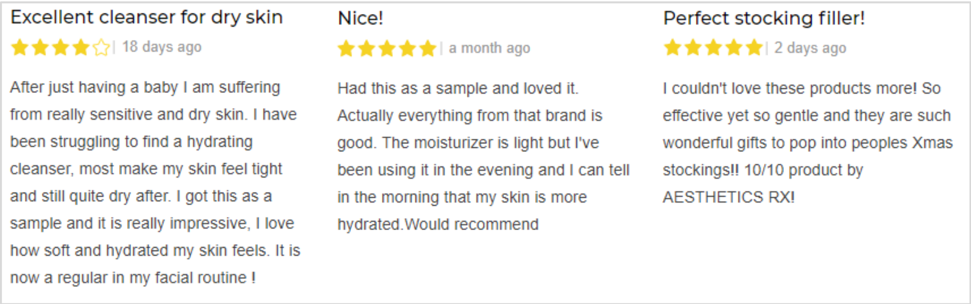
Figure 26: Product upsell opportunity



Source: OML

Products are sold in all SLA clinics, however they are also available through SLA's website, the brand's website, and other third parities.

Figure 27: Sample of *Adorebeauty.com.au* reviews



Source: adorebeauty.com.au

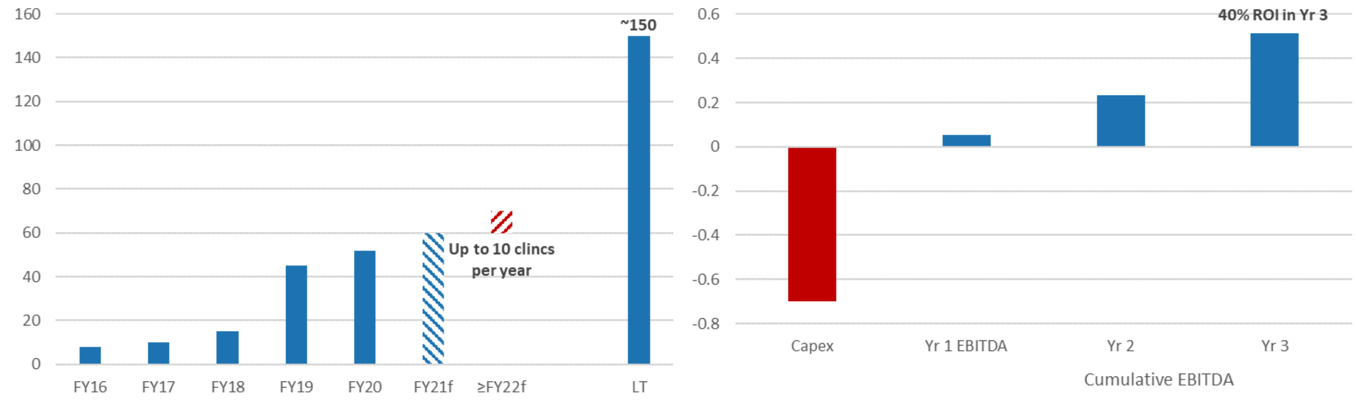
Network expansion

At the end of FY20 SLA was operating 52 clinics, this has grown quickly over the past three years with the business operating just 10 locations, predominately in SA. The network has expanded via greenfield and M&A activities, highlighted by the acquisition of the Laser Lounge in 2018. We expect both to be a feature over coming years.

In FY21 SLA intend to open a further eight locations, with one already open, and two in the process of being opened. Management's objective is to open six to ten new locations per year, targeting underpenetrated geographies with strong demographic profiles.

Upfront capex spend on new locations is between $500k and $800k, with a typical ~3.5yr payback period to date with a ROI of 40% in year 3 based on prior experience.

Figure 28: Network expansion & Payback/ROI



Source: OML, SLA

This ramp up profile can be accelerated further by partnering with an established injector nurse who brings with them an existing client base and revenue of up to $1m p.a. This is a key reason for SLA's franchise (JV 50/75) offering, whereby franchise partners can maintain commission rates from their existing injectables business, while sharing in incremental economic returns provided by the broader Silk product and service offering. It is an appealing proposition for potential partners and SLA alike given the strong return and accelerated ramp profile.

Financials

Profit & Loss

Below is the historical and forecast profit and loss statement for FY19 to FY23f.

Figure 29: Historical and forecast P&L

	FY20pf	FY21f	FY22f	FY23f	FY20 - FY23 CAGR
Trading sales					
Clinic	18.8	23.5	39.6	49.3	58.1
Distribution & Other	3.0	5.5	8.7	8.6	9.9
Total	**21.8**	**29.0**	**48.3**	**57.9**	**68.1**
Franchise	2.3	3.3	5.3	5.8	6.7
Reported revenue	**24.1**	**32.3**	**53.5**	**63.8**	**74.8**
Cash sales					
Clinic	21.3	25.5	40.9	50.8	59.9
Distribution	3.0	5.5	8.7	8.6	9.9
Total cash sales	**24.3**	**31.0**	**49.6**	**59.4**	**69.8**
Franchise revenue	2.3	3.3	5.3	5.8	6.7
Total cash revenue	**26.6**	**34.3**	**54.8**	**65.2**	**76.5**
COGS	-5.1	-7.8	-13.7	-17.2	-20.6
Trading GP	**16.7**	**21.2**	**34.5**	**40.7**	**47.4**
Cash sales GP	**21.6**	**26.5**	**41.1**	**48.1**	**55.9**
% margin (of cash trading sales)	*88.6%*	*85.4%*	*82.9%*	*80.9%*	*80.0%*
% margin (of trading revenue)	*76.7%*	*73.1%*	*71.5%*	*70.3%*	*69.7%*
Operating costs	-20.0	-20.7	-29.1	-33.0	-37.9
Underlying (cash) EBITDA pre-associates	**1.6**	**5.8**	**11.9**	**15.0**	**18.0**
% margin	*5.8%*	*16.8%*	*21.8%*	*23.0%*	*23.5%*
Share of JV50 EBITDA	0.0	1.0	1.7	1.7	2.0
NCI	0.0	-0.2	-0.2	-0.4	-0.5
Underlying (cash) EBITDA post-associated	**1.5**	**6.6**	**13.5**	**16.3**	**19.5**
% margin	*5.7%*	*19.1%*	*24.5%*	*25.0%*	*25.5%*
D&A	-1.9	-2.7	-3.3	-4.0	-4.6
Underlying EBIT	**-0.4**	**3.8**	**10.1**	**12.3**	**14.9**
Net interest	-0.1	-0.1	0.1	0.1	0.1
Underlying PBT	**-0.5**	**3.7**	**10.2**	**12.4**	**15.0**
Tax	0.1	-1.1	-3.1	-3.7	-4.5
Underlying NPAT	**-0.3**	**2.6**	**7.1**	**8.7**	**10.5**
Adjustments	-1.8	-1.8	-1.7	-1.4	-1.7
Reported NPAT	**-2.2**	**0.8**	**5.4**	**7.3**	**8.8**

Source: OML

Clinic structures

SLA operate several different ownership models (Corporate, Joint Venture, Franchise – see p.10), each of these models have different impacts on the company's financial statements.

- **Corporate & JV75:** Financials are consolidated, with minority share deducted as non-controlling interest (NCI)
- **JV50:** Profit is equity accounted ("share of JV50 profit"); franchise fees are recorded at group level.
- **Franchise:** Franchise fees are recorded at a group level; these franchise fees are shown in figure 11 on page 12.

While each clinic structure offers differing financial contributions to the group, SLA management nevertheless track network cash sales as a key financial/operating metric. Historical and forecast network cash sales are presented in figure 30.

Figure 30: Network cash sales

	FY19	FY20	FY21f	FY22f	FY23f
Network cash sales					
Corporate & JV75	21.3	25.5	40.9	50.8	59.9
JV50	6.7	13.2	22.0	21.5	24.7
Traditional Franchise	10.3	11.9	18.1	23.0	26.6
Total	**38.3**	**50.6**	**81.0**	**95.3**	**111.1**
% growth					
Corporate & JV75		19.4%	60.4%	24.2%	17.9%
JV50		98.0%	66.7%	-2.4%	14.7%
Traditional Franchise		15.7%	52.1%	27.0%	15.5%
Total		**32.1%**	**60.1%**	**17.6%**	**16.6%**

Source: OML, SLA

Revenue

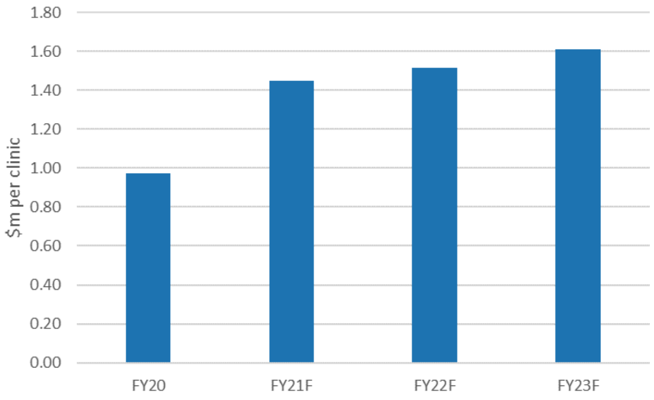
SLA present revenue as "Trading" and "Cash". Trading revenue is recognised on an accrual basis in accordance with AASB15, cash revenue is recognised on the receipt of cash with the difference due to the existence of pre-paid packages. Both SLA and OML use cash revenue as underlying revenue.

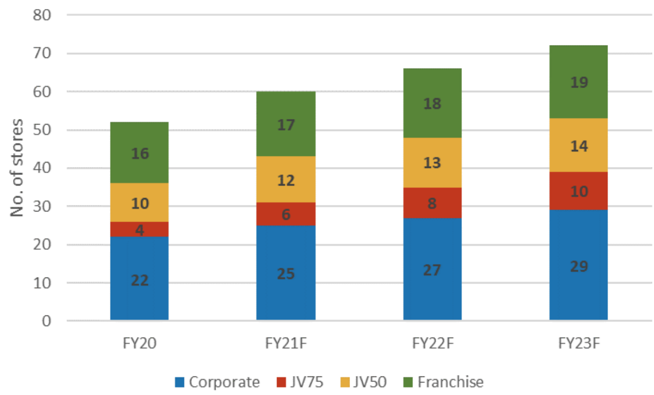
Within that, revenue is driven by:

- **Clinic sales**: Sales completed within corporate and JV75 (consolidated clinics)
- **Distribution**: Revenue generated from the sale of products and services to clinics within the franchise network and by the sale of products sold externally.
- **Franchise**: As detailed above and on page 11

Over time we would expect revenue to grow alongside the growth in the number of clinics, and organic per clinic sales (maturation, penetration of new categories etc). As distribution revenue is derived from the sale of products to the franchise network, and franchise revenue is underpinned by the growth in sales, we would expect growth in these revenue items to be driven by the same dynamic.

Figure 31 & 32: Avg. network cash sales per clinic (LHS) & number of clinics (RHS)

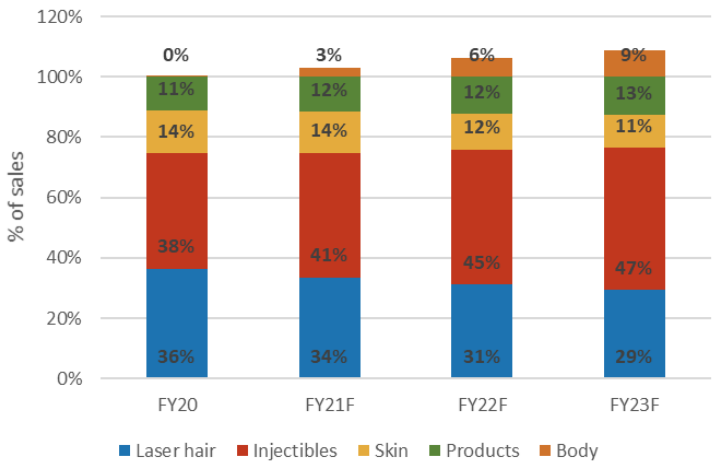




Source: OML, SLA

We expect Inject to increase its dominance over network cash sales over coming year, while the Body category will contribute and grow modestly over coming years. This will be at the expense of Laser and Skin (as a % of overall sales).

Figure 33: Forecast network cash sales by category



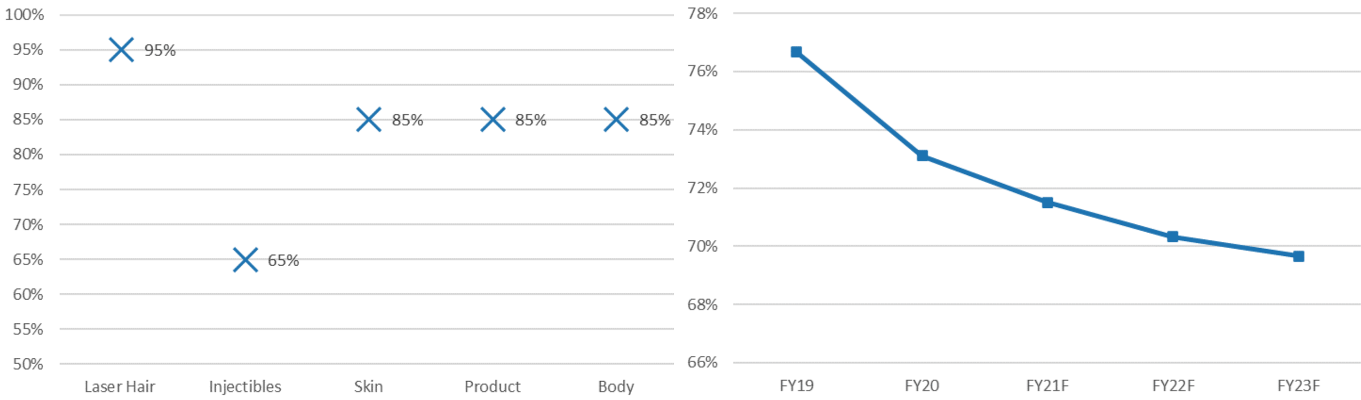
Source: OML

Gross Profit

Cost of sales comprises the purchase of consumables, products, and materials from the provision of clinic products and services. It also includes associated freight as well as equipment maintenance. Cost of sales is also reduced by volume rebates from key suppliers (Allergan).

Each service or category operates at different gross margins, with the injectable and body categories lower margin. As we expect these two categories to progressively account for a larger proportion or sales over times, we expect the blended margin to fall over the medium term.

Figure 34 & 35: Category GP margins (LHS) & Group trading GP margin (RHS)

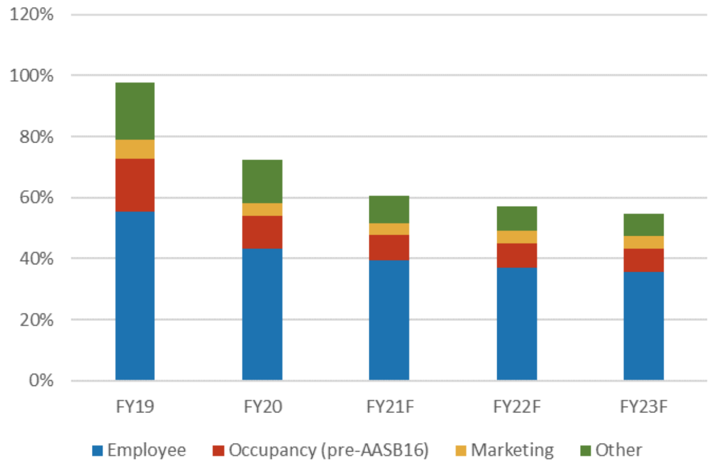


Source: OML, SLA

EBITDA

The largest operating costs are employee costs, accounted for 43% of trading revenue in FY20. This includes head office costs (senior exec, marketing, HR, admin etc), and clinic level costs. A portion of these clinic costs is commission, primarily relating to nurse injectors (~20%). Otherwise costs are predominately fixed in nature, but will grow alongside growth in clinics and investment in marketing etc.

Figure 36: Pro-forma opex as a % of trading sales

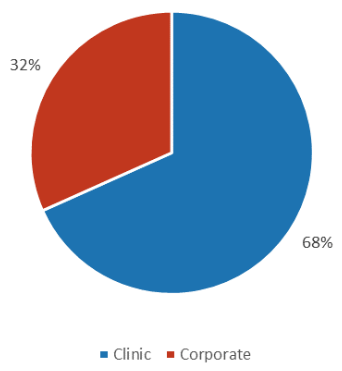


	FY19	FY20	FY21f	FY22f	FY23f
Employee benefits	55%	43%	39%	37%	36%
Occupancy (pre-AASB16)	18%	11%	8%	8%	8%
Marketing	6%	4%	4%	4%	4%
Other	18%	14%	9%	8%	8%
Total	**92%**	**71%**	**60%**	**57%**	**55%**

Source: OML, SLA

Figure 37 indicates the post-labour margin for each clinic category in FY20, indicating a blended post-labour margin of 50%. This also implies that corporate employee costs were ~$4m in FY20, or 32% of total employee costs. We expect this cost to grow modestly over future years, with the corporate platform established to drive near-term operating leverage. We also believe the clinic post-labour margin will see some expansion near-term, as clinics mature.

Figure 37 & 38: Post-labour category margin & employee cost function split (OMLe)



Source: OML, SLA

Occupancy costs are presented on a pre-AASB16 basis, with underlying EBITDA presenting them as such. We expect these to grow in line with network expansion, while marketing costs are expected to remain at ~4% of trading revenue long-term. Other costs as a percentage of revenue are expected to decline modestly, however with merchant costs (variable) accounting for a major component, we expect them to be comparatively stable.

Underlying EBITDA

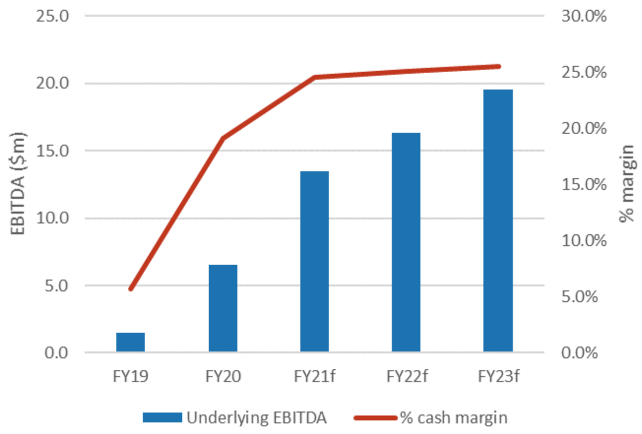
Underlying EBITDA includes the consolidated financials from corporate and JV75, plus corporate overheads, with the following adjustments:

- Adjusted for cash revenue (vs accrual) as discussed previously
- Inclusion of the 50% share of JV50 clinic EBITDA
- Removal of EBITDA from NCI
- Removal of share of profit from associates
- Occupancy costs recorded pre-AASB16

Underlying EBITDA is presented in this way in order to reflect the economic benefit to the group on an EBITDA and cash basis.

We and SLA (prospectus forecasts) expect 105% growth in EBITDA in FY21, while we forecast a 3yr EBITDA CAGR (FY20-23) of 44%.

Figure 39: Underlying EBITDA & cash margin, FY19 – FY23f



Source: OML, SLA

Normalised Profit

- **D&A**: Depreciation and amortisation is reflective of capital investment (equipment, leasehold improvements furniture etc) and excludes amortisation of right of use assets.
- **Net-interest:** Interest reflects interest earned and paid, SLA is currently net cash. Interest paid on lease liabilities has also been excluded.

In the prospectus, SLA expect FY21 pro-forma NPAT to be $5.4m. We forecast underlying (cash) NPAT of $7.1m, with a 3yr EPS CAGR (FY20-23) of 60%.

Adjustments

Adjustments made to reconcile 'underlying NPAT' to reported (pro-forma) include:

- Appropriate associate adjustments
- Deduction of unearned revenue
- Reversal of cash occupancy expenses and inclusion of AASB16 related cost
- Tax impacts

Balance Sheet

Below is the historical and forecast balance sheet statement for FY20pf to FY23f.

Figure 40: Balance Sheet

	FY20pf	FY21f	FY22f	FY23f
Current assets				
Cash	14.8	20.1	24.9	31.5
Trade receivables	3.8	3.8	4.5	5.2
Lease receivables	0.7	0.7	0.7	0.7
Inventories	2.1	2.7	3.3	3.8
Other assets	0.1	0.1	0.1	0.1
Total current	**21.4**	**27.4**	**33.4**	**41.3**
Non-current assets				
Trade receivables	2.5	2.5	2.5	2.5
Lease receivables	2.4	2.4	2.4	2.4
Other assets	1.0	1.0	1.0	1.0
PPE	13.3	16.4	19.4	22.3
Right of use	9.0	9.6	10.3	10.9
Deferred tax	6.4	6.4	6.4	6.4
Intangibles	27.6	27.6	27.6	27.6
Other assets	0.2	0.2	0.2	0.2
Total non-current assets	**62.5**	**66.2**	**69.8**	**73.3**
Total assets	**83.9**	**93.6**	**103.3**	**114.7**
Current liabilities				
Trade payables	5.9	6.6	7.2	7.7
Lease liabilities	4.1	3.6	3.6	3.6
Current tax	0.8	2.0	2.0	2.0
Provisions	0.7	0.7	0.7	0.7
Contract liabilities	8.3	9.6	11.1	12.9
Total current liabilities	**19.8**	**22.6**	**24.7**	**26.9**
Non-current liabilities				
Lease liabilities	10.7	11.0	11.3	11.7
Deferred tax	3.6	3.6	3.6	3.6
Provisions	0.3	0.3	0.3	0.3
Contract liabilities	0.2	0.2	0.2	0.2
Total non-current liabilities	**14.8**	**15.1**	**15.5**	**15.9**
Total liabilities	**34.7**	**37.7**	**40.1**	**42.8**
Equity				
Issued capital	54.4	54.7	54.7	54.7
Reserves	0.5	0.5	0.5	0.5
NCI	-0.2	-0.5	-0.5	-0.5
Retained earnings	-5.6	1.1	8.4	17.2
Total Equity	**49.2**	**55.8**	**63.1**	**71.9**

Source: OML, SLA

Working capital

As a consequence of packages being paid up front and redeemed over 4-6 months, SLA is generally highly cash generative. This upfront receipt of revenue is accounted for in ‘unearned revenue.

Receivables are driven primarily by payments for products and services as well as fees from the franchise network, while payables reflect payments to suppliers or consumables, particularly injectables.

Inventory reflects stock holdings for the clinic network, with an investment of $30k-$50k typically needed upfront for new clinics.

Other key features of the balance sheet include:

- **PPE:** Equipment and leasehold improvements
- **Right of use asset & lease liabilities:** Reflects occupancy obligation in line with AASB16 requirements
- **Contract liabilities:** Represents unearned revenue
- **Debt:** SLA are currently carrying no debt, outside of hire purchase liabilities ($1m)

Use of funds

As at FY20pf, SLA had $14.7m of cash, having raised $20m of primary capital in Nov-20. Funds will be used primarily to fund working capital and the rollout of new clinics

We expect SLA to have cash of ~$20m at the end of FY21.

Cash Flow Statement

Below is the historical and forecast cash flow statement for FY19pf to FY23f.

Figure 41: Cash flow statement

	FY19	FY20	FY21f	FY22f	FY22f
Underlying EBITDA	**1.5**	**6.6**	**13.5**	**16.3**	**19.5**
Changes in working capital	2.6	3.1	0.0	-0.6	-0.9
Gross OCF	**4.2**	**9.7**	**13.4**	**15.7**	**18.6**
Net interest	-0.1	-0.5	0.1	0.1	0.1
Income tax	-0.2	0.1	-1.0	-3.0	-3.6
Other	0.0	1.3	0.1	-1.0	-1.2
Net operating cash flows	**3.8**	**10.6**	**12.6**	**11.8**	**14.0**
Capex	-7.1	-5.0	-6.5	-7.0	-7.5
Payments for acquisitions	-3.3	0.0	0.0	0.0	0.0
Other	-2.2	-0.9	-0.1	0.0	0.0
Investing cash flows	**-12.6**	**-6.0**	**-6.6**	**-7.0**	**-7.5**
Dividends	0.0	0.0	-6.9	0.0	0.0
Proceeds from share issue	8.1	0.0	23.3	0.0	0.0
Proceeds/payment of borrowings	0.5	0.0	0.0	0.0	0.0
Other	-0.3	-2.1	-6.9	0.0	0.0
Financing cash flows	**8.3**	**-2.1**	**9.5**	**0.0**	**0.0**
Free cash flows	**-3.3**	**5.6**	**6.2**	**4.8**	**6.5**
Net cash flows	**-0.4**	**2.6**	**15.5**	**4.8**	**6.5**
Gross cash flow conversion	***274.6%***	***147.6%***	***99.9%***	***96.1%***	***95.6%***
Unearned revenue	-2.4	-1.9	-1.3	-1.5	-1.7
Non-cash EBITDA/GOCF conversion	***n/a***	***207%***	***111%***	***106%***	***105%***

Source: OML, SLA

- Capex relates to new clinic rollouts, costing ~$700k per location. Maintenance capex is minimal with machinery holding long useful lives; however capex may be boosted over time by further expansion capex for established locations.
- We expect cash conversion on underlying EBITDA (cash) basis to be ~100%, with upfront inventory acting as a modest drag. On a statutory basis we expect SLA EBITDA to over convert to cash.

Valuation

We value SLA by using a discounted cash flow (DCF) method due to the highly cash generative nature of the business and include it alongside a target 1yr fwd PE multiple, using our chosen peer group (p.31) as comparison.

Figure 42: DCF inputs and outputs

Key DCF inputs	
Risk free rate	3.0%
Equity risk premia	6.0%
Beta	1.10
Cost of Equity	9.6%
Cost of Debt - After tax	3.9%
D/EV	0.0%
WACC	**9.6%**
Terminal growth	1.5%

Key DCF outputs	
Explicit cash flows	63
Terminal item	142
Enterprise value	**205**
Less net debt (add cash)	-20
Equity value	**225**
Diluted share count	47
Equity valuation p.s.	**4.78**

Multiple Method	
Target FY22 PE	24x
FY22 EPS	18.5
Valuation p.s.	**4.44**

Valuation composite	
DCF	4.78
PE	4.44
Average	**4.61**

Implied PE	24.9x
Current share price	3.63
Upside	27.0%

Figure 43 over the page shows our chosen peer group, selected due to comparable characteristics around broad industry focus, size, earnings and sales growth. The average FY22 PE of that peer group is 20x, while key peer Pacific Smiles (PSQ – uncovered) is trading at 26.5x. Due to SLA's superiority in multiple characteristics, we believe it should trade at a 20% (24x) premium to the average of this peer group.

The resulting valuation out of this composite approach is $5.15 per share, implying a 27.3x FY22 PE and 45% upside to the current share price.

Comparable companies

SLA is the first pure-play clinical, cosmetic services company listed on the ASX. Australian Pharmaceuticals (API – not covered) owns Clear Skincare, a skincare focused competitor of SLA, however it represents just 7% of API gross profit. Given the absence of a clear peer group, we have identified several characteristics around broad customer/industry focus, size, earnings growth and sales growth. We have used these characteristics to select a peer group which we believe is useful as a comparison to SLA.

Figure 43: Primary peer group

Consumer products & services; Mkt cap: 100m > 1.5bn; EPS CAGR >20%; Sales CAGR >10%;											
		Mkt Cap	PE Ratio		EV/EBITDA		EPS Growth		Sales Growth		EBITDA Margin
Code	**Company**	**AUD**	**FY21**	**FY22**	**FY21**	**FY22**	**FY21**	**FY22**	**FY21**	**FY22**	**FY21**
PSQ AU	Pacific Smiles Group Ltd	407	29.1	27.0	14.4	13.2	98%	8%	29%	11%	27%
BBN AU	Baby Bunting Group Ltd	646	25.9	22.1	13.6	12.1	30%	17%	14%	10%	11%
CAJ AU	Capitol Health Ltd	282	25.0	16.2	10.7	9.1	22%	55%	10%	13%	21%
LOV AU	Lovisa Holdings Ltd	1,163	54.1	28.9	18.4	11.9	2%	87%	10%	42%	31%
ADH AU	Adairs Ltd	659	10.7	12.1	6.7	7.3	88%	-12%	23%	4%	25%
HLA AU	Healthia Ltd	155	15.1	11.3	7.0	5.4	29%	34%	55%	32%	23%
KMD AU	Kathmandu Holdings Ltd	879	17.6	12.1	7.8	6.3	19%	46%	18%	11%	19%
CCX AU	City Chic Collective Ltd	919	41.6	28.9	23.9	18.1	18%	44%	28%	21%	18%
BWX AU	BWX Ltd	558	31.5	23.1	17.2	13.8	7%	36%	13%	14%	16%
			27.9	**20.2**	**13.3**	**10.8**	**35%**	**35%**	**22%**	**18%**	**21%**
SLA AU	**Silk Laser Australia Ltd**	**171**	**23.9**	**19.6**	**11.2**	**8.9**	**176.3%**	**22.0%**	**60%**	**21%**	**25%**
	Premium/Discount		*-14.1%*	*-2.9%*	*-16%*	*-17%*	*408%*	*-37%*	*171%*	*22%*	*+4%*

On this basis, SLA is currently trading at a 15% and 6% discount to the average of this peers group's FY21 and FY22 PE; on an EV/EBITDA this discount is 18% and 21% respectively. These discounts exist despite SLA offering an FY20-FY22 EPS CAGR of 85%, well in excess of the peer group average (30%). SLA's average sales growth is similarly higher than the average. SLA's cash position and cash flow profile is also superior to this peer group, in our view.

Given these characteristics, we believe SLA deserves to trade at a premium to the average of this peer group. Our target multiple implies a premium of 20%.

Cosmetics Industry

Market Size?

Silk's addressable market is the Australian non-surgical cosmetics space, which has an estimated ~A$5.4 billion in annual revenue for calendar year 2020 projecting growth at a 10% CAGR to return ~A$7.8 billion by calendar year 2024. Increasing consciousness regarding physical appearance among consumers, coupled with an ageing Australian female population, is anticipated to drive growth for key products. Market growth is expected to be supported by a shift from invasive to less invasive procedures.

Injectables

- Highest CAGR of 25% accumulating an extra ~A$904m over four years to have a ~$A1.53B projected annual revenue in 2024.
- Bodes well for chain clinics and dermatologists as injections require qualified nurses creating a barrier of entry for smaller market players.
- Gives exposure to the highest growing product category in the market.
- Provides cross selling opportunities and offers value and efficiency to customers compared with smaller clinics as chains become a 'one stop shop' for all beauty treatments.

Body

- Second highest CAGR of 13% accumulating an extra ~A$130m over four years to have a ~$A336m projected annual revenue in 2024.
- Quality machines require large upfront capital (up to ~A$75,000) making it economically unobtainable by smaller market players.
- Silk is the only large chain player in Australia with exposure to the newest technology, the EmSculpt, providing a unique opportunity to acquire new customers who want to enhance body contouring.

Skincare Products

- CAGR of 8% accumulating an additional ~A$1.1B over four years to have a ~$4.15B projected annual revenue in 2024.
- SLA provides their own branded aftercare products for customers returning higher margins and increasing brand penetration in comparison with chains that buy third party products (LCA, ASC).

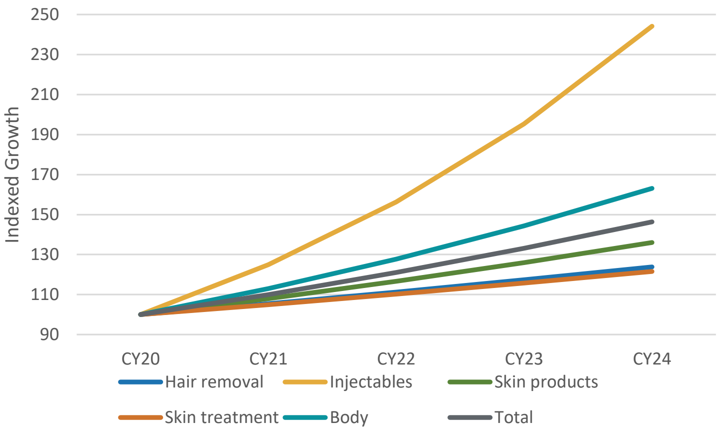
Skincare Treatments

- Skincare treatments have a CAGR of 8% accumulating an additional ~A$91m over four years to have a ~$515m of projected annual revenue in 2024.
- This is a low revenue generating category for SLA, however, they offer attractive prices relative to peers in this category to gain market share.

Laser Hair Removal

- LHR have a CAGR of 5% accumulating an extra ~A$251m over fours year to have a ~$A1.3B projected annual revenue in 2024.
- This is an entry level category which equates to ~1/3 of Silk's revenues. The category growth is being increasingly bolstered by wider acceptance by male market participants due to a reduction in the stigma of it being a procedure primarily for females.

Figure 44: Annual market revenue per category (indexed)



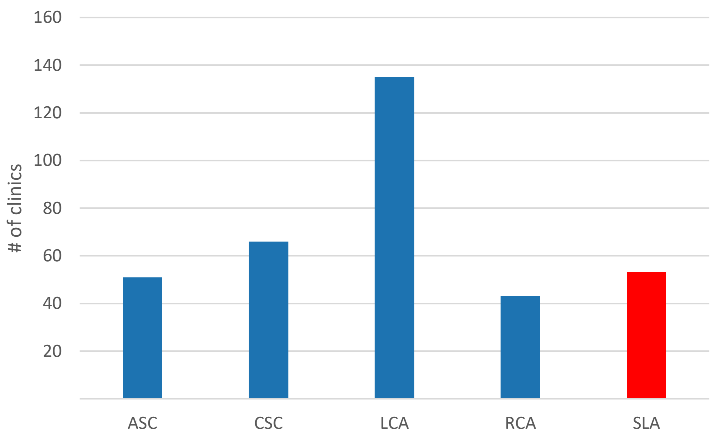
Source: SLA, IMARC

Who are the major competitors?

The non-surgical cosmetics industry is highly fragmented with Silk's competitors being:

- Large chain cosmetic clinics (20+ clinics)
  - ~32% of the market
  - ~351 clinics
- Small chain and single, independently-owned operations ranging from dermatologists providing multiple comparable services such as skin treatments, injectables and laser hair removal to smaller operations providing single comparable products categories
  - ~68% of the market
  - ~759 clinics

Figure 45: Total Australian clinics



Source: OML

SLA's key comparable competition are the larger chain cosmetic companies:

Laser Clinics Australia (LCA)

- Laser Clinics Australia is Silk's largest competitor. It was established in 2008 and is now the largest chain operator in Australia with 135 clinics and 17 in New Zealand. Australian growth profile reads as follows
  - 60 stores by 2015
  - 80 stores by 2016
  - 100 stores by 2018
  - 135 Australian stores by 2020 (website)
- LCA offer LHR, Injectables, skin treatments, cool sculpting and third party branded skincare products
- 50/50 JV Franchises (for franchise stores)
  - Incentive 100k guaranteed salary for Franchise's
- In late 2017 the company was purchased by global private equity firm KKR due to the company's high growth, scalability, and generous margins for ~A$650m (according to news articles).
- The company is considering international expansion into the UK and Singapore.

Clear Skincare Clinics (CSC)

- Clear Skincare clinics was established in 1999 and is the second largest chain operator in Australia with 66 clinics and 8 clinics in New Zealand
- CSC offer LHR, Injectables, skin treatments, Clatuu fat reduction and own branded skincare products, which are sold on site and via Priceline pharmacies (via parent API)
- In 2018 Clear Skincare Clinics was acquired by Australian Pharmaceutical Industries (API) for A$127.4m.

Australian Skin Clinics (ASC)

- Australian Skin Clinics is the second smallest large-chain operator in Australia with 51 clinics.
- ASC offer LHR, Injectables, skin treatments, Cryodefine fat freezing and third party branded skincare products
- 50-100% franchise (for franchise stores)
  - Incentive 100k guaranteed salary for Franchise owners.

Results Clinics Australia (RCA)

- Results Clinics Australia is the smallest large-chain operator in Australia with 43 clinics.
- ASC offer LHR, Injectables, skin treatments and both third party branded and own branded skincare products
- The business is privately owned by Paulina Saliba and generated interest from Macquarie bank in 2018 touting A$28m revenue and A$9m EBITDA.

Product examples

SLA's products can be grouped into five broad offerings:

- **Laser Hair Removal (LHR):** Silk offers laser hair removal as their original and core offering with the highest client penetration at 69%. This is then used to introduce and cross sell customers into alternative Silk products. It has an average transaction value A$118 and is offered in all 56 clinics. The company uses Candela lasers, which are grade 4 TGA/ FDA certified for safe treatment and quality hair reduction result.
  - LHR uses infra-red lasers over the skin to target the pigment in the hair follicle. The laser breaks the connection between the follicle and its blood supply, destroying hair in the active growth stage. The laser also damages the hair follicles, which inhibits and delays future hair growth.
  - This differentiates from poor quality laser, called intensed pulse lighting (IPL), used by smaller independent clinics. IPL uses a multi wavelength light, which requires more treatments to achieve a similar result to the candela laser, which uses a single more precise wavelength to target the hair follicle.
- **Skin Treatments:** Silk offers a wide variety of non-invasive treatments to help treat common skin problems such as hyperpigmentation, acne, enlarged pores, dull complexion, uneven tone or texture and sun damage. These are generally paid in packages ranging 6-12 months. It has 25% customer penetration and an average transaction value of $142 being offered across all 56 clinics. Products include
  - Microdermabrasion – uses an applicator with an abrasive surface to sand away epidermal layers of skin to remove dead skin and impurities.
  - Dermal Peels - a blend of active vitamins, peptides and antioxidants to treat pigmentation, congestion, ageing, and acne
  - Light-Emitting Diode (LED) – uses LED lights to target skin cells and stimulate dermal blood flow for faster healing and skin rejuvenate skin.
  - Laser Pigmentation Removal – removes agglomerations of dark pigmentation on the skin caused by pregnancy, hormones, or skin damage.
  - Micro Needling – micro needles are attached to a derma roller injuring the top layer of your skin stimulating endogenous healing responses sending elastin and collagen to the damaged areas for reparation creating stronger and healthier looking skin.
  - Laser Redness Removal - removes concentrations of redness on the skin caused by pregnancy, hormones, or skin damage.
  - Laser Vascular Treatment – removes superficial vascularity and varicose veins caused by pregnancy and stunted blood flow through laser treatment.
  - Laser Tattoo Removal – Removal of tattoos via laser

- **Cosmetic Injectables**: Silk offers a range of injectables to reverse the looks of ageing, enhance volume and customise feature shape. The procedures cause mild discomfort and require no recovery time after injection. The effect of the injectables is temporary, which aids for customer retention and an attractive repeat revenue opportunity as injectables expand to become a more prevalent part of consumer's discretionary spend.

The injections are administered by a team of highly trained cosmetic nurses that are overseen by company doctors. These are generally paid for at the time of service and are often taken up in conjunction with other treatments. It has 22% customer penetration and an average transaction value of $426 being offered across all 56 clinics. Products include:

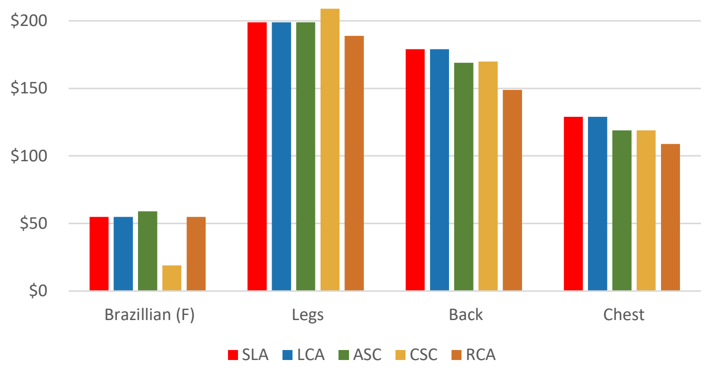
  - Anti-Wrinkle Injections – a purified protein is administered to reduce the signs of ageing and eliminate common problems, including crows feed, frown lines and smile lines.
  - Dermal Fillers – include administration of a synthetic sugar, which acts to 'fill' the wrinkle and smooth out the skin. Procedures can also use Botox, which relaxes the muscles giving a smoother appearance of skin.
  - Lip Fillers – injection of complex sugar chians that are naturally occurring in the body. Lip fillers help to increase lip volume and symmetry for desired lip volume and contour.
  - Hydrating Fillers – administration of hyaluronic acid, which helps to retain water molecules in the skin giving a more refreshed looking skin layer.
  - Platelet Rich Plasma (PRP) – injects the body's own platelet rich plasma and stem cells into the skin, which encourages natural production of collagen and elastin providing a rejuvenated looking skin.

- **Body Contouring**: Silk offers innovative, non-surgical muscular toning and fat reduction techniques to improve body contouring aesthetics. These are chosen in prepayment packages with a currently low customer penetration (new product offering) and an average transaction value of $1514. Products include:
  - CoolSculpting (Fat Reduction) - Uses cryolipolysis (freezing) of adipose tissue via an applicant allowing to focus on specific areas in comparison to exercise. Offered at 16 locations around Australia.
  - EmSculpt (muscle toning) – Uses high-intensity focused electromagnetic field (HIFEM) technology to induce supramaximal muscle contractions in repetition to achieve targeted muscular toning. Offered at 30 locations around Australia.
- **Owned Branded Skin Care Products:** Silk offers a range of own-branded skin care products as an additional service for clients, bolstering results and customer satisfaction. The products are manufactured by third parties primarily in Australia. The products are bought ad hoc by customers in conjunction with other services as continued after-care treatment for the skin. They have 49% customer penetration and an average transaction value of $95 being offered at all 56 clinics. Products include
  - Serums – lighter weight and higher concentration, penetrating deeper than epidermal layer of skin to treat common skin problems
  - Moisturisers – heavier but lower concentration, moisturising the epidermal layer of skin by reducing skin dryness.
  - Cleansers – products to help remove exogenous waste from the skin before applying products.
  - Anti-Ageing – products directed at fighting wrinkles and other common sign of ageing skin.

How does pricing differ

The laser hair removal market in Australia is highly competitive with each company offering discounts in various body parts to attract market share and induce customer retention. Across the LHR treatments in comparison with peers, Silk offers mid-range pricing for a quality product in the single pay, undiscounted product range. SLA is slightly higher, albeit relatively in line across the body parts, with their major competitors.

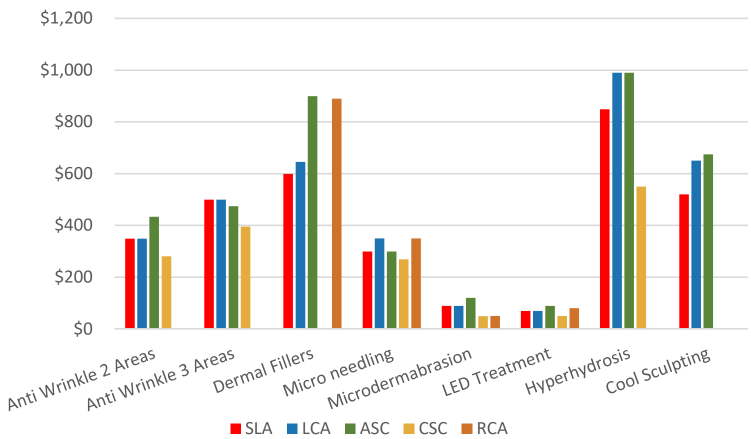
Figure 46: LHR per session (full price)



Source: Company websites, OML

Silk's significant difference is through a lower price in the cosmetic injectables space in comparison to peers, which attracted A$19.6m of Silk's revenues in FY20 equating to ~1/3 of the companies' revenues. Silk also offers a material discount on its newest category (body) to attract fresh customers to one of the fastest growing segments of the cosmetics industry. Additionally, it is the only chain clinic to offer the new muscle building product the Emsculpt.

Figure 47: Other products per session (full price)



Source: Company websites, OML

Clinic Locations

Silk has a dominating presence in South Australia and Western Australia whilst lagging the Eastern Seaboard states in comparison with peers. Further analysis shows that, whilst initial clinics have helped create a presence in entry states, they are overrepresented in regional areas (low density) vs key metropolitan areas (high density) holding no clinics in Sydney, Brisbane or Victorian CBD's compared with peers. This gives Silk an opportunity via acquisition to penetrate high impact areas to aid in capturing market share.

Figure 48: National clinic location by company

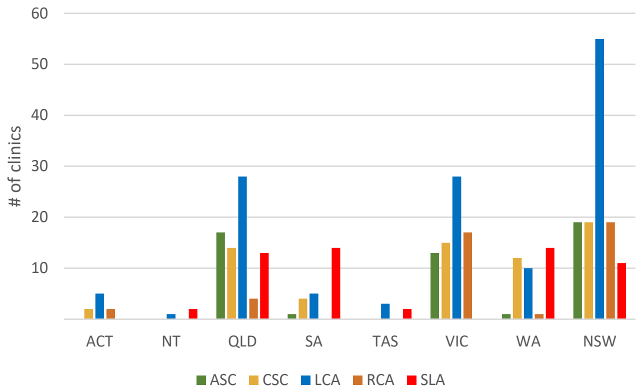
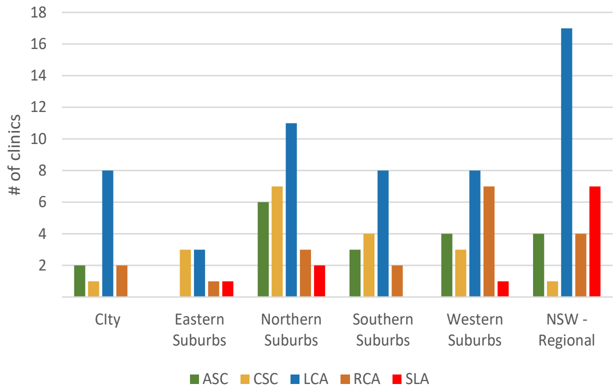


Figure 49: NSW clinic location by company



Source: Company Websites, Census Data

Figure 50: QLD clinic location by company

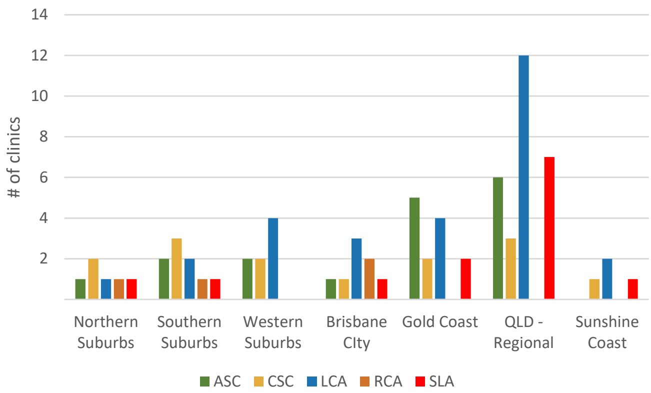
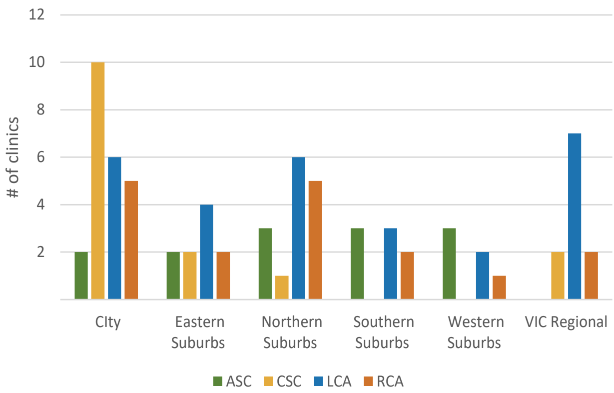


Figure 51: VIC clinic location by company



Source: Company Websites, Census Data

Competition clinic's population density per clinic

Silk is reengineering its clinic growth strategy to focus on opening clinics in high impact locations. Analysis of catchment area population density per clinic reveals that Silk trails in opening clinics in population dense areas compared with peers having 1,600 people per clinic compared with peers at 3,100 people per clinic. Silk leads in low population states for clinic site allocation (WA.TAS & NT) whilst lagging in comparison with peers for the higher population states (NSW, QLD, VIC, QLD).

Figure 52: Population density per clinic (total)

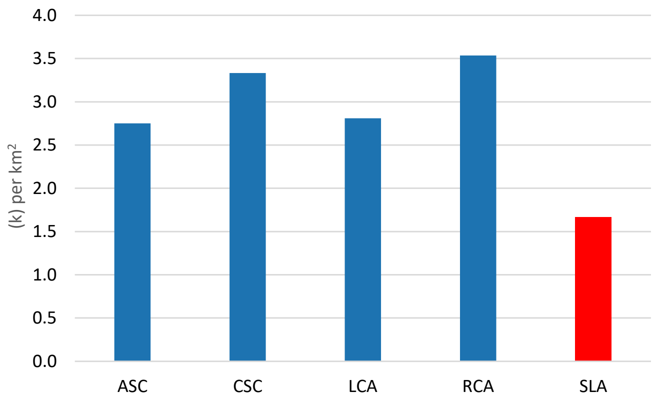
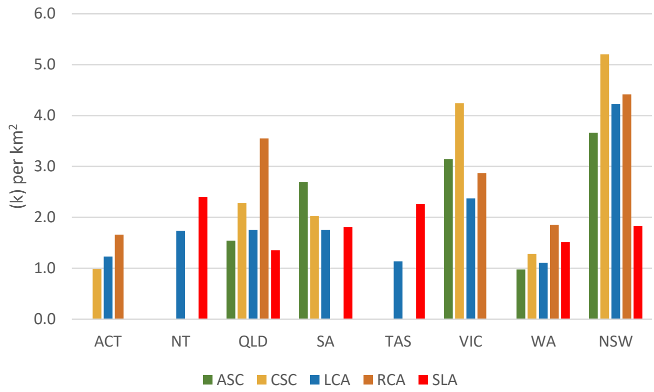


Figure 53: Population density per clinic (by state)



Source: Company Websites, Census Data

Competition clinic's key demographics per clinic

Silk's core demographic is females between 20 and 49 years old considering that ~95% of Silk's clients are female. We have assumed a wider range for core demographics across the market being females between the ages of 20 and 59 years old. Silk, on a key demographic per clinic basis, lags peers with roughly 3,500 people per clinic compared with peer average of 4,100. Silk leads again in non-core states whilst lagging in key high population states. Silk also has an opportunity to move more substantially into key demographic areas such as Sydney's Eastern and Western Suburbs, the Gold and Sunshine Coasts, and Melbourne's Southern & Eastern Suburbs.

Figure 54: Key demographics per clinic (total)

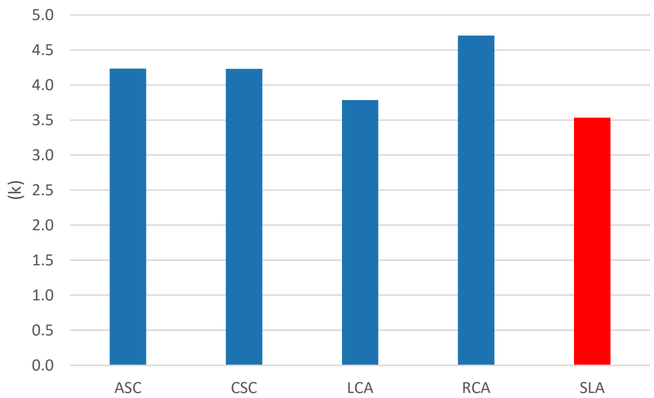
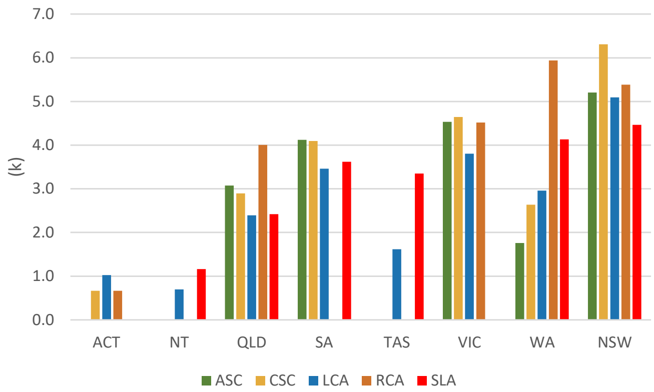


Figure 55: Key demographics per clinic (by state)



Source: Company Websites, Census Data

Barriers to entry

Regulation

The emergence of chain clinics has led to the increase in accessibility and affordability of products such as injectables leading to the replacement of smaller market players via acquisition and customer predation. Lax regulations have also enabled treatments previously only provided by dermatologists at higher costs to be administered by cosmetics clinics at more affordable prices.

Injectables

- Cosmetic injections are classified as Schedule 4 (prescription only) drugs under the Therapeutic Goods Act 1989.
- The minimum requirement under Australian law is administration by an enrolled Nurse with supervision by a Registered Nurse.
- SLA's hold a higher standard with minimum requirement for injections to be administered by an APHRA Registered Nurse.
- In WA clinics must have "poisons licence" pursuant to the Medicines and Poisons Act 2014 requiring only Registered Nurses or doctors to administer Schedule 4 drugs.

LHR

- In WA, QLD and TAS operators are required to have a laser licence and have radiation management plan.
- Other states do not require a license to operate.
- In the same states, individual staff members are also required to hold a laser licence to use the Laser Hair Removal device.
- It is standard industry practise at large chain companies to only employee therapists with a certificate 4 or diploma in beauty therapy, who understand the associated risks, and have had the requisite training.

Skincare products

- Skincare products do not require registration on the Australian Register of Therapeutic Goods (ARTG) or any safety assessment unless they make therapeutic claims
- Products that do not make therapeutic claims are considered "cosmetic only" and must be safe for normal human use according to Australian Consumer Law which is most of Silks products.

Body

- EmSculpt and Coolsculpting machines are approved by the U.S. Food and Drug Administration (FDA) and have been entered on the ARTG. There are no other applicable regulations in respect of the operation of these devices.

Board and Management

Board of Directors

Boris Bosnich - Chairman and Independent Non-Executive Director (BEcon, MBA – Joined 2015)

Boris currently holds various directorships including chairman of Orthopaedics Australia and Kid Sense Child Development. Boris provides advisory services to several companies both domestically and internationally spanning diverse industries including enviro-tech, manufacturing, retail, and health. His advisory services include managing a range of venture development projects and capital raisings. Boris previously spent 15-years in global logistics including co-founding Challenge Recruitment which became Australia's largest privately held recruitment firm.

Brad Lynch - Non-Executive Director (BCom, GradDip Finance – Joined 2017)

Brad has previous diverse experience working in the finance/accounting sectors working for six years at Ernst & Young, seven years at ANZ and more recently two years at the global private equity firm the Riverside Company. He is currently a partner at Advent Partners and is also director of Mandoe Media, Junior Adventures Group and Flintfox International. Brad is qualified as a Chartered Accountant.

Andrew Cosh - Independent Non-Executive Director (MBA – Joined 2015)

Andrew has held senior executive roles at Ernst & Young, Minter Ellison and Michell Australia. Andrew is the Co-founder and Director of Kilara Capital, a specialist investment management business which invests in the food, agriculture and energy sectors in Australia and New Zealand. He is also a director at Colindale and Clearwater Investment Co (Family offices) and is a director Agrinos Australia Pty Ltd, a subsidiary of NYSE listed American Vanguard Corp (AVD).

Sinead Ryan - Independent Non-Executive Director (BA:Hons – Joined 2020)

Sinead has over 25 years' in-depth experience with board and executive roles across sectors such as childcare, retail and energy. Sinead has specific expertise and knowledge in managing transformational programs, M&A from due diligence through to integration at tier 1 accounting firms such as EY and Deloitte.

Martin Perelman - Chief Executive Officer and Managing Director (BBus:Man – Joined 2009)

Martin is a co-founder and the Chief Executive Officer of Silk Laser Clinics assisting the company transition from inception through to a successful IPO in 2020. Martin has worked in various national sales roles in the retail industry allowing him to develop company leading skills such as financial management, brand development, innovative sales and marketing strategies and team leadership. Martin's company focus is about identifying new growth opportunities and protecting and maintaining brand credibility.

Management

Martin Perelman Chief Executive Officer and Managing Director (BBus:Man – Joined 2009)

As Above.

Ivan Jacques - Chief Financial Officer (BSocSc:Hons, FCA, GAICD - Joined 2019)

Ivan has over 20 years of experience as a CFO in listed and private equity owned companies both domestically and internationally, spanning industries such as healthcare, education services, manufacturing, agri-business and ecommerce. He has assisted companies in transformations and companies listing on Europe's public exchanges. Ivan has previously been the CFO for listed international healthcare group, Synergy Health plc.

Rob Garsden Chief Operating Officer (BCom:First Class Hons, LLB:Hons – Joined 2018)

Rob started his career at Silk Laser Clinics as category head of Laser, Skin and Product and has progressed to COO. He has driven fundamental changes to how SILK clinics are track, measured and rewarded. Prior to joining Silk, Rob had 15 years' broad experience from companies such as Bain & Company, Qantas and Linkedin, gaining skills in strategy, sales and operations including business unit transformations, post-merger integration, and operations and sales management.

Silk Laser Australia Limited

Buy

PROFIT & LOSS (A$m)	2019A	2020A	2021E	2022E	2023E
Revenue	26.6	34.3	54.8	65.2	76.5
Operating costs	(25.1)	(27.7)	(41.4)	(48.9)	(57.0)
Operating EBITDA	**1.5**	**6.6**	**13.5**	**16.3**	**19.5**
D&A	(1.9)	(2.7)	(3.3)	(4.0)	(4.6)
EBIT	**(0.4)**	**3.8**	**10.1**	**12.3**	**14.9**
Net interest	(0.1)	(0.1)	0.1	0.1	0.1
Pre-tax profit	**(0.5)**	**3.7**	**10.2**	**12.4**	**15.0**
Net tax (expense) / benefit	0.1	(1.1)	(3.1)	(3.7)	(4.5)
Significant items/Adj.	(1.7)	(1.8)	(1.7)	(1.7)	(2.1)
Normalised NPAT	**(0.3)**	**2.6**	**7.1**	**8.7**	**10.5**
Reported NPAT	**(2.0)**	**0.7**	**5.4**	**7.0**	**8.4**
Normalised dil. EPS (cps)	-	5.5	15.2	18.5	22.3
Reported EPS (cps)	-	1.6	10.8	14.8	17.8
Effective tax rate (%)	30.0	30.0	30.0	30.0	30.0
DPS (cps)	-	-	-	-	-
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Diluted # of shares (m)	-	47.1	47.1	47.1	47.1

CASH FLOW (A$m)	2019A	2020A	2021E	2022E	2023E
Net Interest (paid)/received	(0.1)	(0.5)	0.1	0.1	0.1
Income tax paid	(0.2)	0.1	(1.0)	(3.0)	(3.6)
Other operating items	4.2	9.7	9.8	14.7	17.5
Operating Cash Flow	**3.8**	**10.6**	**12.6**	**11.8**	**14.0**
Capex	(7.1)	(5.1)	(6.5)	(7.0)	(7.5)
Acquisitions	(3.3)	-	-	-	-
Other investing items	(2.6)	(0.9)	(0.1)	-	-
Investing Cash Flow	**(12.6)**	**(6.0)**	**(6.6)**	**(7.0)**	**(7.5)**
Inc/(Dec) in equity	8.1	0.0	23.3	-	-
Inc/(Dec) in borrowings	0.5	-	-	-	-
Dividends paid	-	-	(6.9)	-	-
Other financing items	(0.3)	(2.1)	(6.9)	-	-
Financing Cash Flow	**8.3**	**(2.1)**	**9.5**	**-**	**-**
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	(0.4)	2.6	15.5	4.8	6.5

BALANCE SHEET (A$m)	2019A	2020A	2021E	2022E	2023E
Cash	2.1	4.6	20.1	24.9	31.5
Receivables	1.8	3.8	3.8	4.5	5.2
Inventory	1.1	2.1	2.7	3.3	3.8
Other current assets	0.1	0.8	0.8	0.8	0.8
PP & E	11.1	13.3	16.4	19.4	22.3
Intangibles	27.4	27.6	27.6	27.6	27.6
Other non-current assets	3.5	19.3	22.0	22.6	23.3
Total Assets	**47.1**	**71.6**	**93.6**	**103.3**	**114.7**
Short term debt	1.0	-	-	-	-
Payables	2.4	5.9	6.6	7.2	7.7
Other current liabilities	7.1	13.9	16.0	17.5	19.2
Long term debt	0.8	-	-	-	-
Other non-current liabilities	1.4	14.8	15.1	15.5	15.9
Total Liabilities	**12.7**	**34.7**	**37.7**	**40.1**	**42.8**
Total Equity	**34.4**	**36.9**	**55.8**	**63.1**	**71.9**
Net debt (cash)	(0.2)	(4.6)	(20.1)	(24.9)	(31.5)

DIVISIONS	2019A	2020A	2021E	2022E	2023E

KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	113.5	28.7	59.9	19.0	17.3
EBITDA growth	-	333.1	105.3	21.4	19.5
EBIT growth	-	-	164.6	21.6	20.5
Normalised EPS growth	-	-	176.3	22.0	20.5
EBITDA margin	5.7	19.1	24.5	25.0	25.5
OCF /EBITDA	274.6	147.6	99.9	96.1	95.6
EBIT margin	-	11.2	18.5	18.9	19.4
Return on assets	-	4.5	8.6	8.8	9.5
Return on equity	-	7.2	15.4	14.6	15.6

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	-	228.6	33.6	24.5	20.4
Normalised P/E	-	66.1	23.9	19.6	16.3
Price To Free Cash Flow	-	30.8	27.8	35.3	26.1
Price To NTA	-	18.3	6.1	4.8	3.9
EV / EBITDA	-	25.4	11.2	8.9	7.2
EV / EBIT	0.6	43.4	14.9	11.8	9.4

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	(0.7)	(14.2)	(56.1)	(65.2)	(77.8)
Net Debt / EBITDA (%)	(15.1)	(70.3)	(149.3)	(152.6)	(161.3)
EBIT Interest Cover (x)	-	27.6	-	-	-
EBITDA Interest Cover (x)	19.4	47.1	-	-	-

SUBSTANTIAL HOLDERS	m	%
Advent Partners	13.3	28.2%
HSBC Custody	7.1	15.0%
JPM Custody	3.2	6.8%

VALUATION	
Cost of Equity (%)	9.6
Cost of debt (after tax) (%)	3.9
D / EV (%)	-
WACC (%)	**9.6**
Forecast cash flow ($m)	63.3
Terminal value ($m)	141.8
Enterprise Value ($m)	205.2
Less net debt / add net cash & investments ($m)	20.1
Equity NPV ($m)	**225.3**
Equity NPV Per Share ($)	**4.78**
Multiples	4.4
Target Price Method	DCF
Target Price ($)	4.61
Valuation disc. / (prem.) to share price (%)	27.0

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Guide to Ord Minnett Recommendations

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.