28 November 2013

2013 Annual General Meeting
Executive Director's Address and Financial Update

Good morning ladies and gentlemen. Welcome and thank you for attending the Annual General Meeting. On behalf of the Board, I would like to take the opportunity to provide an update on the performance, recent developments and the outlook for the company.

LaserBond (NSW)

FY2013

Last financial year was a landmark year for the NSW division. The company's main workshop had been located in the Ingleburn premises since the company was started, and in more recent times we had expanded the business through leasing other premises nearby. This was not a particularly efficient arrangement. During the financial year we consolidated the business into a new leased facility in Smeaton Grange, constructed to our specifications. In the process, we more than doubled the factory and office space we had available to allow the division to continue its future growth. Given the quantity and size of the specialised equipment we possess, achieving the relocation whilst minimising disruption to our customers was a tall order. Throughout the relocation, our priority was to continue to satisfy customer requirements for delivery, meaning we could not simply shut down and move everything at once. The relocation actually took place over a six month period as production requirements allowed. I commend all of our staff for their excellent efforts in achieving the relocation smoothly.

A large proportion of revenue for the NSW division has historically been drawn from the minerals processing, mining and related industries. These industries have been under significant pressure in recent times due to falling commodity prices, increasing costs and the stubbornly high Australian dollar. The coal industry is particularly affected. Our large equipment manufacturing customers in these industries have universally seen a major decline in demand for new equipment as projects are delayed or shelved. Further, the cost pressures have led to tightening of maintenance budgets, so the repair and reclamation of major items of equipment has often been delayed. As a consequence, we have experienced reduced demand in the short term from many, including our largest, customers. The LaserBond team has been working hard to grow revenue from other customers and industries with some success, and as a consequence the NSW division was able to minimise the decline in revenue to 4.4% (compared with FY2012).

On the cost side, the internal disruption during the relocation had a temporary effect on gross profits. Many jobs were being transported from site to site for completion of each process, and we saw average gross profits temporarily reduce by several percent. Fixed costs were also higher as a consequence of concurrent leasing of multiple premises whilst the relocation was completed.

These factors led to a decline in the underlying profit before tax for the division to $517,880.

NSW Outlook

The mining and related industries will continue to be a major source of revenue and focus for NSW. Pleasingly, it appears the downwards pressure on profitability of these industries has eased, and the dollar is reportedly being "jawboned" by the RBA towards lower levels. Further, there is a limit to how long critical pieces of equipment can be kept running without overhaul. As we are involved in reclamation of worn parts as well as production of new spares, the outlook for revenue from this sector is positive.

In order to continue to provide growth, focus has been to stimulate demand in other industry sectors. We have made recent inroads into industries such as oil & gas, rail, marine and drilling.

In the 2013 Annual Report LaserBond forecast moderate sales growth of 10% for FY 2014. To date for the July to October 2013 period our NSW division achieved a 7% increase in revenue over the previous corresponding period of July to October 2012. Despite the downturn in the mining and related industries NSW has achieved a 1% increase in spending from this client base, with the balance of the 7% increase in revenue derived from our focus on other industry sectors.

LaserBond considers its NSW division to be perfectly positioned to trade through the current decline and still provide continued revenue and profit growth. As the mining and related industries turn around, the NSW division will benefit further.

LaserBond (SA)

Our decision to set up the South Australian operation was instigated by the request of one of our clients, Gearhart United, for LaserBond to provide local LaserBond® cladding for specialised drilling products for the oil and gas industries. The volume, required delivery schedule and size of the components did not make it practical for this business to be serviced from interstate. The intent is to use this base business to support a low overhead, focussed operation that expands the client base. The Company's founder and Executive Director, Greg Hooper, has relocated his base to Adelaide to drive the operations there, as well as continuing his focus on developing new applications for our technology. The demand by Gearhart United has been a little slower than originally indicated. However as Gearhart increase their production to meet their client's demands our revenue will correspondingly grow. Further in the few short months since it was started, the business has been successful in gaining new customers with new applications, so revenue will continue to grow as expected, more so throughout the 2014 calendar year.

After only four months trading throughout July to October 2013 the division is showing a controlled loss, which is in line with our internal forecasts due to both set up costs and the slowly growing work load. However, with forecast increases in revenue from Gearhart and other clients, the SA division will soon reach a profitable position.

LaserBond (Qld)

The results for the 2013 financial year for the Queensland division were both unacceptable and unsustainable, particularly in the second half. We were not alone in this experience. As has been widely reported, the whole of the Central Queensland region has felt the brunt of the massive mining downturn. Gladstone has been simultaneously experiencing large cost increases due to the unprecedented pace of the LNG construction, with declining maintenance activity from the local alumina and aluminium sector.

In the updates lodged in June and at the end of August, the company stated it was actively pursuing all options for eliminating future losses from the Queensland Division. These options included continuing smaller operations with lower overheads or closure/sale of the business. At the time, we were not in a position to be more specific, because several commercially sensitive options were being investigated and negotiated. As stated in recent announcements, we have sold major assets to Berg Engineering, and decided to close the operations in Gladstone. Whilst disappointing, based on recent trading history for LaserBond (Qld) this was not a difficult decision.

This week we have held an auction of all remaining assets. We have almost completed the “make good” requirements for both leased facilities. LaserBond (Qld) is committed to the lease at one facility until 1st February 2014 and will incur minor further costs related to this facility up to this date.

The sale of assets to Berg Engineering was completed on 21 October, and we had some trading losses until that date. Further, we have had costs associated with redundancies, property leases, equipment removal, property cleanup and repairs etc., which will be reflected in this years’ results. There is also a reversal of an Asset Revaluation Reserve in the Balance Sheet remaining from the purchase of the business. As a result, it is expected LaserBond (Qld) will provide a final overall loss in the vicinity of <$350,000> this financial year.

We will be continuing to provide LaserBond® cladding and thermal spraying services to our Queensland client base from our NSW operations, providing additional growth for NSW.

Consolidated FY2014 Expectations

With the recent decision to close our Queensland division, and the improved trading results for NSW, the Board considers the difficulties experienced during FY2013 to be an anomaly and look forward to returning to growth throughout our short and long term future.

With the final losses expected from the closure of LaserBond (Qld) and the initial losses for LaserBond (SA), LaserBond will report a small profit for the December 2013 half year financial report.

However the second half of FY 2014 (and the 2014 calendar year in particular) is expected to return LaserBond to continued revenue growth and profitability.

Conclusion

The Board is relieved to “draw a line under” the Queensland experience. It was a drain on management as well as financial resources. We will now be able to provide greater focus on our core profitable businesses, including development and exploitation of new applications for our surface engineering technologies. We are in the advanced stages of trialling some new very promising applications which remain commercially sensitive for now.

The Board would like to thank all shareholders for their continued support and look forward to delivering increasing revenue and profits from our activities.