

21 December 2017

Alexium International (AJX)

BUY

Share Price: A\$0.35

All cashed up and sitting pretty

Target Price: A\$0.80

Following its successful share placement to institutional investors (A\$12m), Alexium will now seek to raise A\$3m from existing shareholders via a Share Purchase Plan (SPP, \$0.35, ends 18/1). In this note, we examine (1) why this was undertaken and the timing (2) the opportunities that require funding and (3) potential revenue and earnings profile over the next 12-24 months in light of these opportunities. Institutional shareholding will sit at c23% of the register post the placement, up from 15%. Looking ahead, we understand that Alexium are in advanced stage negotiations with customers in the Bedding and Military spaces. Alexium now has a strong balance sheet position from which to progress negotiations and demonstrate to (considerably larger) customers that they are financially stable. We retain our BUY recommendation. 2018 is shaping up as a break-out year for the company; 2019 could be even better. Price target \$0.80 (on new share issue), from \$0.90.

It's all in the timing

- **Bedding (A\$5m raised):** The Las Vegas bedding/textiles show will take place from January 28. Mattress sales tend to mimic housing sales (i.e. strong spring). Given timeframes for production are c90 days, we see solid potential for customer orders to ramp up strongly by Q318 in order to have a complete product in stores by mid-year.
- **Military (A\$7m raised):** Negotiations involving Government departments and the military can be challenging. While Alexium is pursuing multiple opportunities across various (textile) applications, the sense of urgency from Government is considerably greater than it has been. While a wear trial is necessary for the next stage in the current process, we view this as an early H119 event.
- **R&D (A\$3m raised):** Alexiflam NF and additional staffing are the primary targets of this spend.

Forecasts and valuation changes

- We include the additional cash raised from the placement (\$12m) and SPP (\$3m) as well as the additional c43m shares issued. No other changes to forecasts.
- This reduces our valuation to \$0.80, from \$0.90.
- With still >100% upside to the current share price, we maintain our BUY recommendation.

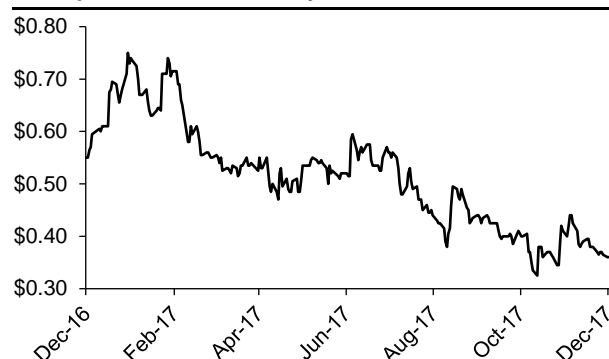
Company Data

Shares – ordinary (M)	349.3
Dilution (M)	9.1
Total (fully diluted) (M)	358.4
Market capitalisation (\$M)	120.3
12 month low/high (\$)	30.5 / 76.5
Average monthly turnover (\$M)	7.4
Index	All Ordinaries
GICS Industry	Industrials

Financial Summary (fully diluted/normalised)

Year end June	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	3.0	24.0	30.1	49.9	66.2
Costs (\$M)	(18.5)	(35.2)	(33.3)	(42.3)	(50.6)
EBITDA (\$M)	(15.5)	(11.2)	(3.2)	7.6	15.6
NPAT (\$M)	(15.7)	(12.2)	(5.3)	5.3	13.3
EPS (¢ps)	(4.4)	(3.4)	(1.5)	1.5	3.8
EPS Growth (%)	n/a	22.5%	56.2%	-202.1%	150.2%
PER (x)	(7.9)	(10.2)	(23.2)	22.7	9.1
Free Cashflow (\$M)	(3.8)	(7.7)	(2.1)	1.4	12.6
FCFPS (¢ps)	(0.0)	(0.0)	(0.0)	0.0	0.0
PFCFPS (x)	nm	nm	nm	85.3	9.6
Enterprise Value (\$M)	109.3	123.4	133.3	131.9	119.3
EV / EBITDA (x)	(7.1)	(11.0)	(42.3)	17.4	7.7
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividends (¢ps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0

AJX – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was Broker for AJX's Placement to raise \$12M at \$0.35/share on 7 December 2017, for which a fee was received.

Analysis

Alexium International Group Ltd

Year end 30 June (A\$m)

MARKET DATA	
Recommendation	BUY
Price	\$ 0.35
Price target (12-month)	\$ 0.80
52 week high / low	\$ 0.38 - 0.90
Market capitalisation (fully diluted)	\$m 120.5
Shares on issue (basic)	no. 349.3
Options / rights	no. 9.1
Other equity	no. 0.0
Shares on issue (diluted)	no. 358.4

INVESTMENT FUNDAMENTALS		FY16	FY17	FY18F	FY19F	FY20F
Reported NPAT	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
NPAT normalised	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
Reported EPS (undiluted)	¢	(4.4)	(3.4)	(1.5)	1.5	3.7
EPS normalised (undiluted)	¢	(4.4)	(3.4)	(1.5)	1.5	3.8
...Growth	%	n/a	23%	56%	(202%)	150%
PER normalised/undiluted	x	(7.9)	(10.2)	(23.2)	22.7	9.1
Operating cash flow per share	¢	(0.0)	(0.0)	(0.0)	0.0	0.0
Free cash flow per share	¢	(0.0)	(0.0)	0.0	0.0	0.0
Price to free cash flow per share	x	nm	nm	9.9	261.6	10.9
FCF yield	%	(3.1%)	(6.7%)	10.1%	0.4%	9.1%

Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout	%	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0

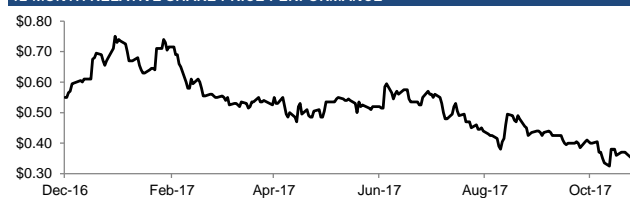
Enterprise value	\$m	109.3	123.4	117.4	116.9	105.9
EV/EBITDA	x	(7.1)	(11.0)	(37.2)	15.4	6.8
EV/EBIT	x	(7.0)	(10.7)	(32.7)	16.4	7.0
Price to book (NAV)	x	10.7	549.1	9.0	6.4	3.8
Price to NTA	x	10.9	2,965.0	12.6	8.1	4.3

KEY RATIOS		FY16	FY17	FY18F	FY19F	FY20F
EBITDA margin	%	nm	nm	nm	15.2%	23.5%
EBIT margin	%	nm	nm	nm	14.3%	22.8%
NPAT margin	%	nm	nm	nm	10.6%	20.0%
ROE	%	nm	nm	nm	28.3%	41.5%
ROA	%	nm	nm	nm	16.1%	25.2%
Net tangible assets per share	¢	0.0	0.0	0.1	0.1	0.2
Net debt / (cash)	\$m	(11.2)	2.8	(3.1)	(3.6)	(14.6)
Interest cover (EBIT / net interest)	x	nm	19.8	2.1	(3.9)	(8.2)
Gearing (net debt / EBITDA)	x	0.7	nm	1.0	nm	nm
Leverage (net debt / (net debt + equity))	x	nm	0.9	nm	nm	nm

DUPONT ANALYSIS		FY16	FY17	FY18F	FY19F	FY20F
Net Profit Margin	%	(522.9)	(50.6)	(17.7)	10.6	20.0
Asset Turnover	x	0	2.5	0.9	1.1	1.1
Return on Assets	%	(111)	(126.0)	(15.8)	12.0	22.2
Financial Leverage	x	1.3	44.0	2.5	2.4	1.9
Return on Equity	%	(139)	(5,538.4)	(39.7)	28.3	41.5

INTERIM SUMMARY		H118	H218	H119	H219
Total revenue	\$M	12.0	18.1	22.9	27.0
Operating expenses	\$M	(14.1)	(19.1)	(20.6)	(20.8)
EBITDA	\$M	(2.1)	(1.0)	2.4	6.2
Depreciation & amortisation	\$M	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	\$M	(2.4)	(1.2)	2.1	6.0
Net interest	\$M	(0.7)	(1.0)	(0.7)	(1.1)
Pretax profit	\$M	(3.1)	(2.3)	1.4	4.9
Tax expense	\$M	0.0	0.0	0.0	0.0
Minorities/preference dividend	\$M	0.0	0.0	0.0	0.0
Operating NPAT	\$M	(3.1)	(2.3)	1.4	4.9
Significant items	\$M	0.0	0.0	0.0	0.0
Reported NPAT	\$M	(3.1)	(2.3)	1.4	4.9
Reported EPS (diluted)	¢	(0.9)	(0.6)	0.4	1.4
Normalised EPS	¢	(0.9)	(0.6)	0.4	1.4

12-MONTH RELATIVE SHARE PRICE PERFORMANCE



PROFIT AND LOSS		FY16	FY17	FY18F	FY19F	FY20F
Total revenue	\$m	3.0	24.0	30.1	49.9	66.2
Costs (COGS & opex)	\$m	(18.5)	(35.2)	(33.3)	(42.3)	(50.6)
EBITDA	\$m	(15.5)	(11.2)	(3.2)	7.6	15.6
Depreciation & amortisation	\$m	(0.2)	(0.4)	(0.4)	(0.5)	(0.5)
EBIT	\$m	(15.7)	(11.6)	(3.6)	7.1	15.1
Net interest	\$m	0.0	(0.6)	(1.7)	(1.8)	(1.8)
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
Tax expense	\$m	0.0	0.0	0.0	0.0	0.0
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Operating NPAT	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
Significant items	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3

GROWTH PROFILE		FY16	FY17	FY18F	FY19F	FY20F
Operating revenue	%	n/a	700.8	25.3	65.7	32.7
EBITDA	%	n/a	90.6	(5.6)	27.2	19.7
EBIT	%	n/a	26.3	69.0	(298.7)	111.6
Operating NPAT	%	n/a	22.5	56.2	(199.5)	150.2
Normalised EPS	%	n/a	22.5	56.2	(202.1)	150.2
DPS	%	n/a	n/a	n/a	n/a	n/a

BALANCE SHEET		FY16	FY17	FY18F	FY19F	FY20F
Cash/(overdraft)	\$m	11.2	3.4	15.6	16.0	27.1
Receivables	\$m	0.2	1.4	4.7	8.7	10.5
Inventory	\$m	1.7	2.1	6.8	12.7	15.3
Other	\$m	0.1	0.1	0.1	0.1	0.1
Current	\$m	13.2	7.0	27.1	37.6	52.9
Prop. plant & equip	\$m	0.8	2.4	2.8	2.8	3.0
Other	\$m	0.2	0.2	3.8	3.9	3.9
Non current	\$m	1.0	2.6	6.6	6.7	6.8
Total assets	\$m	14.2	9.7	33.7	44.3	59.8
Accounts Payable	\$m	2.8	1.8	6.0	11.2	13.4
Borrowings	\$m	0.0	6.2	12.5	12.5	12.5
Other	\$m	0.1	1.4	1.9	1.9	1.9
Total liabilities	\$m	2.9	9.4	20.3	25.6	27.8
Net assets	\$m	11.3	0.2	13.4	18.7	32.0
Equity	\$m	51.6	52.8	67.8	67.8	67.8
Retained earnings/other	\$m	(40.4)	(52.6)	(54.4)	(49.1)	(35.9)
Shareholder's equity	\$m	11.3	0.2	13.4	18.7	32.0

CASH FLOW		FY16	FY17	FY18F	FY19F	FY20F
EBITDA	\$m	(15.5)	(11.2)	(3.2)	7.6	15.6
Change in provisions	\$m	0.0	0.0	0.0	0.0	0.0
Change in working capital	\$m	(0.5)	(2.6)	(3.8)	(4.8)	(2.1)
Net interest	\$m	0.0	(0.9)	(1.7)	(1.8)	(1.8)
Tax paid	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.0	1.5	0.0	0.0	0.0
Operating cash flow	\$m	(16.0)	(13.2)	(8.7)	1.0	11.7
Stay in business capital expenditure	\$m	(2.0)	(1.1)	(0.8)	(0.5)	(0.7)
Acquisitions/divestment/other	\$m	(0.3)	(0.6)	0.0	0.0	0.0
Investing cash flow	\$m	(2.3)	(1.7)	(0.8)	(0.5)	(0.7)
Equity	\$m	6.0	0.0	15.0	0.0	0.0
Increase / (decrease) in borrowings	\$m	0.0	5.9	6.6	0.0	0.0
Dividend/other	\$m	8.5	1.0	0.0	0.0	0.0
Financing cash flow	\$m	14.5	6.9	21.6	0.0	0.0
Free cash flow	\$m	(3.8)	(8.1)	12.2	0.5	11.0

Source: Petra Capital, Company estimates

Balance sheet strength added; now to delivery

Post Alexium’s capital raise, the key question now becomes: what next?

The capital raising was ostensibly undertaken to show prospective customers that they had the balance sheet to quickly ramp up production, meeting any future commercial obligations and ensures that as far as possible, counter-party risk for potentially much larger customers was not a concern.

With management flagging two main areas, bedding and military as the predominant use of funds, this suggests to us that negotiations in respect of future deals are significantly progressed. While some risk still exists, it is unlikely that Alexium could not have proceeded beyond this point without prospective customers undertaking in-depth financial due diligence.

We think the scene is now set for:

- 1) 50% revenue growth into H218.
- 2) Potential to take on larger contracts towards end FY18 and into FY19/20.

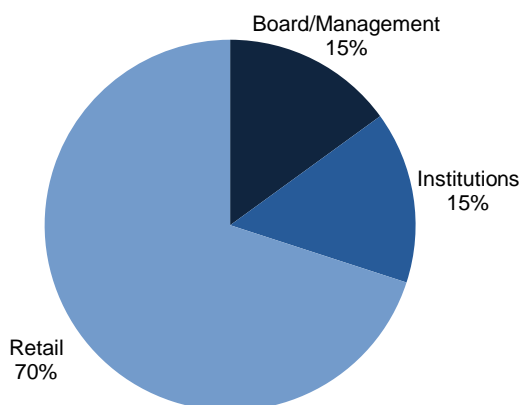
As we outlined in our last note (5/12), we see significant upside potential for revenues and earnings under three scenarios. We again outline these in this note, while fleshing out some of the more critical and pertinent information behind what current negotiations may involve. We stress that at this stage, particularly with regards to Military (given its highly confidential nature) we have limited information.

While FY18 may be a transitional year, we do not underestimate the profitable changes Management are making. We continue to highlight the operating leverage available to this business, as additional revenues drop through to the bottom line. With the company financially secure and primed for significant growth, we maintain our Buy recommendation, with a new target price of \$0.80 (from \$0.90) on revised share count.

Shareholder register post capital raising

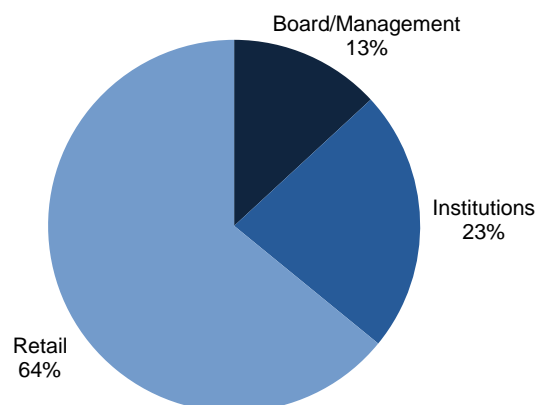
Below we set out the high level summary of the shareholder registry post the \$12m share placement and \$3m SPP. Importantly, institutional shareholders now represent nearly one quarter of the register.

Figure 1: Shareholder summary (pre-raise)



Source: Petra Capital estimates

Figure 2: Shareholder summary (post-raise)



Source: Petra Capital estimates

Changes to forecasts

Given we have only made recent (5/12) changes to our forecasts, below we set out some minor changes, all relating to the recent equity raise. Namely:

- A\$15m of cash coming onto the balance sheet, and remaining as cash.
- R&D spend increased from \$1.7m to \$4.1m in FY18F, with other years unchanged.
- Shares on issue rise from 303.8m to 349.3m.

Figure 3: Changes to forecasts FY18 – FY20F

Year end June	FY18F			FY19F			FY20F		
	New	Old	Chg. %	New	Old	Chg. %	New	Old	Chg. %
Revenue (\$M)	30.1	30.1	0.0%	49.9	49.9	0.0%	66.2	66.2	0.0%
Costs (\$M)	(33.3)	(33.3)	0.0%	(42.3)	(42.3)	0.0%	(50.6)	(50.6)	0.0%
EBITDA (\$M)	(3.2)	(3.2)	0.0%	7.6	7.6	0.0%	15.6	15.6	0.0%
NPAT (\$M)	(5.3)	(5.3)	0.0%	5.3	5.3	0.0%	13.3	13.3	0.0%
EPS (¢ps)	(1.5)	(1.5)	(2.9)%	1.5	1.6	(3.0)%	3.8	3.9	(3.0)%
EPS Growth (%)	56.2%	56.2%	0.0%	(202.1%)	(202.2%)	(0.0)%	150.2%	150.2%	0.0%
PER (x)	(23.2)	(25.8)	(10.1)%	22.7	25.3	(10.0)%	9.1	10.1	(10.0)%
Free Cashflow (\$M)	12.2	(2.1)	(688.0)%	0.5	1.4	(67.4)%	11.0	12.6	(12.7)%
FCFPS (¢ps)	0.0	(0.0)	0.0%	0.0	0.0	(68.4)%	0.0	0.0	(15.3)%
PFCFPS (x)	9.9	nm	n/a	261.6	94.8	n/a	10.9	10.6	n/a
Enterprise Value (\$M)	117.4	146.6	(19.9)%	116.9	145.3	(19.5)%	105.9	132.6	(20.1)%
EV / EBITDA (x)	(37.2)	(46.5)	(19.9)%	15.4	19.1	(19.5)%	6.8	8.5	(20.1)%
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends (¢ps)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Petra capital estimates

Valuation falls to 80c as shares rise

Due to the increase in shares on issue, our valuation and target price falls to 80c, from 90c. Our method of applying an equal blend of DCF (\$0.74) and FY20F EV/EBIT (\$0.76) and adding a 5c/s premium for IP and technological skill all unchanged.

We highlight however that significant customer wins from this point would represent upside to both our revenue/profits forecasts and, as a result, valuation.

Going to the mattresses

In addition to the current sales of Alexicool, which currently sits at c80 tonnes per month, there exists an opportunity to expand these to c400-500t per month over a 2-3 year period. This would involve an application into a much greater and broader range of products, as customers in the mattress industry seek to internalise parts of the supply chain (i.e. fabrics, foams and chemistry) and also as the chemistry (both PCM and FR) is applied to inner-spring mattresses. Achieving these levels of sales would be dependant on several factors, including product development and price.

Las Vegas bedding show is a potential early catalyst in H218

As it did in early 2017, the Las Vegas bedding and textile show may be another important sales catalyst for H218 and beyond (<https://www.lasvegasmarket.com/market-dates/>). Alexicool sales rocketed from 5t in December 2016 to c90t by June 2017, showing a dramatic +718% increase in sales in the five months following the show. The event will take place 28 January – 1 February.

We understand that there is also a possibility that customers may display products that feature the use of Alexicool chemistry.

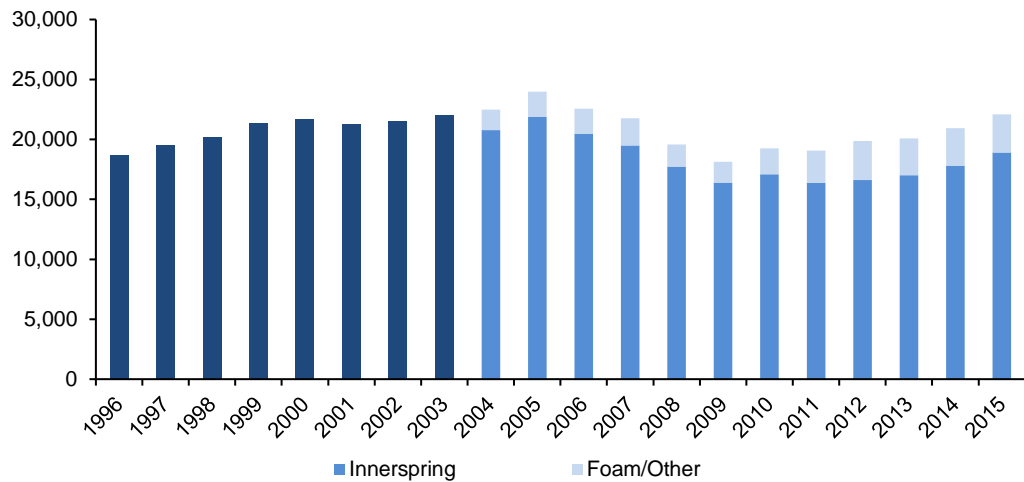
Mattress sales closely follow the US housing cycle

The production of mattresses in the US is designed to cater for the large upswing in sales into the spring housing selling season. With an average of c3 mattresses acquired per household (i.e. average 3 bedroom house), new housing sales are a key driver of demand. These sales account for, on an average (assuming 50yr average 1.5m housing starts) c4.5m mattress sales per year, or c20% of total annual mattress sales.

The real kicker relies on pushing into lower price points and inner-spring

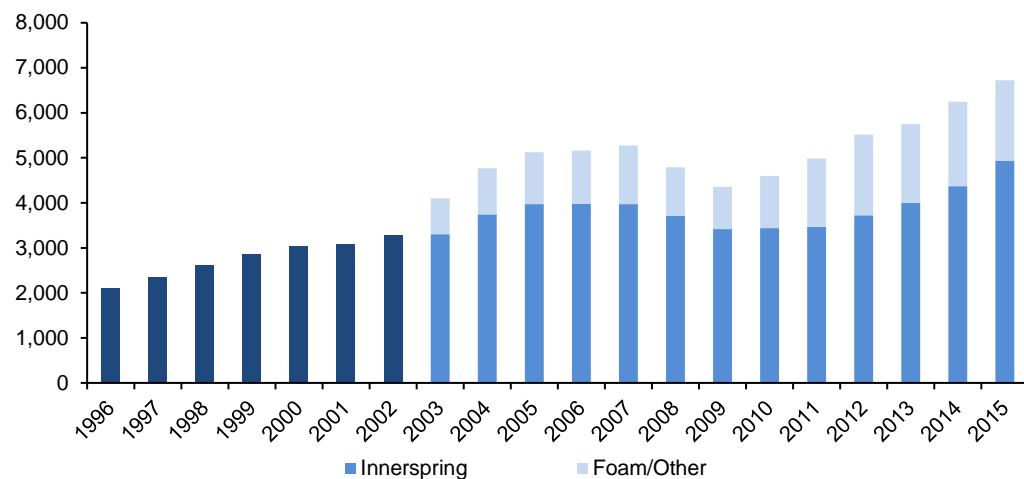
At present, Alexium sell the vast bulk of their chemistry (PCM, FR) into foam mattresses. The US is vastly different to the Australian market, where foam mattresses are the premium product. In the US, these foam mattress sales account for c14% of total mattress sales, but make up c30% of sales value, coming in at a much higher average price point than inner-spring. The next target market though is inner-spring mattresses which make-up c70% of US\$ sales. Foam mattresses will however use more chemistry (PCM and FR) due to the nature of construction.

Figure 4: US Mattress sales ('000s), 1996 – 2015



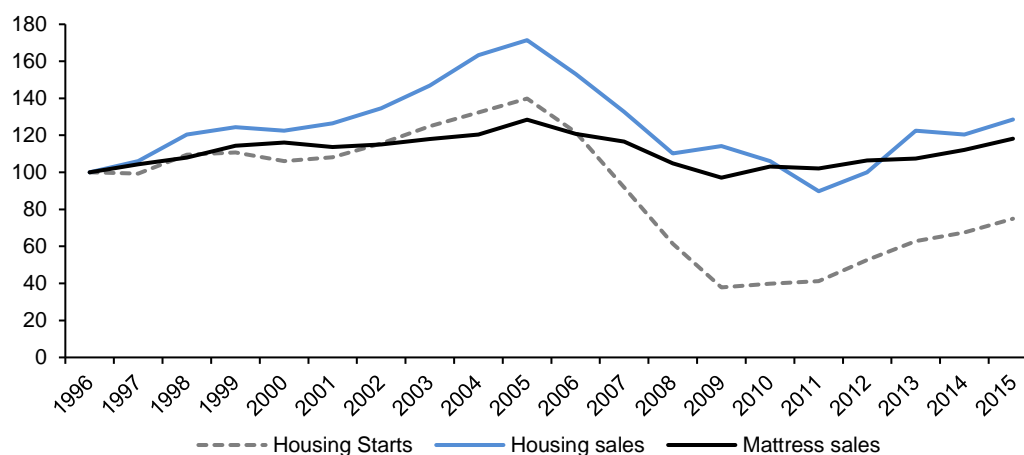
Source: ISPA Annual sales survey (2016), Petra Capital
 Note: Data pre 2003 (shaded black) is a total market figure

Figure 5: US Mattress sales (US\$m), 1996 – 2015



Source: ISPA Annual sales survey (2016), Petra Capital
 Note: Data pre 2003 (shaded black) is a total market figure

Figure 6: US Mattress sales vs Housing Starts, 1996 – 2015



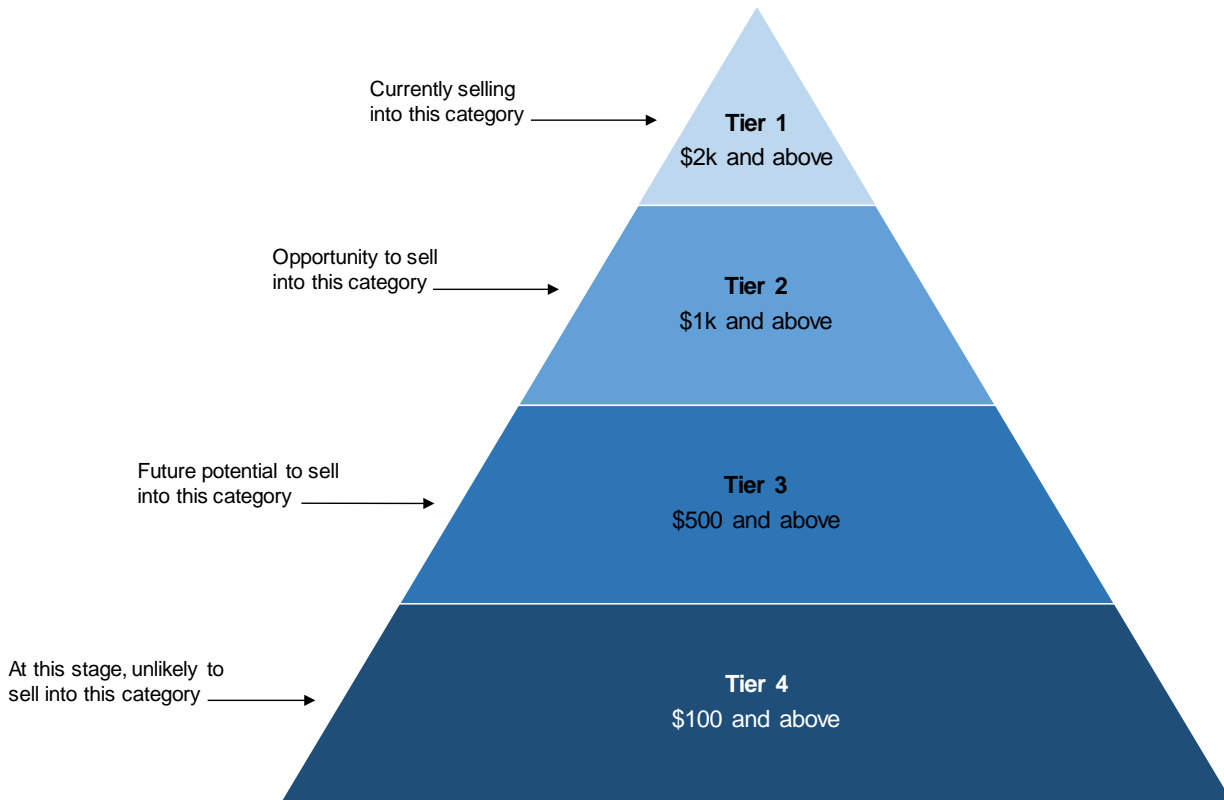
Source: ISPA Annual sales survey (2016), US Census Bureau, Petra Capital

Putting some numbers around it

The mattress industry operates, like many industries, a pricing strategy focussed around an “Entry => Good => Better => Best” approach. At present, Alexium is selling into a small portion of the total mattress market (predominantly the premium end, due to the higher margins/price) and has an opportunity for expansion into other areas including different pricing tiers.

Below, we show the tiers and how these are split. The opportunity for Alexium surrounds moving into both inner spring and down to Tier 2 and overtime, Tier 3. Although at lower price points, combining the higher volumes sold through this channel, with an application into inner springs could elicit a sales volume 7-10x the current level.

Figure 7: Mattress industry four staged sales tiering (US\$)



Source: Petra Capital

Price re-investment likely required; but R&D protects GP margins

Moving into a larger sales volume with customers will require reasonable pricing discounts in our view. While this would necessarily imply margin erosion, product innovation continues to allow product optimization that will increase the addressable market to include new market segments not currently being served by PCM suppliers. This can help to preserve the Alexicool margins around their current levels. These new products will improve the performance by increasing the overall longevity and thermal management of the final product.

A new, improved Alexicool

Uncle Sam and some FR

Alexium has been pursuing FR opportunities with the US military for c5 years. While testing for the Flame Retardant Army Combat Uniform (FRACU) requirement is at an advanced stage (c100k uniforms and annual revenues cUS\$50m), there exists additional military applications that Alexium is currently working on that would increase the number of uniforms containing Alexium chemistry. Management believe they are in a very good position to secure this work (as a sub-contractor to a fabric finisher), with a novel offering compared to existing FR garments in the military (inherent fibre vs chemical). Revenues could be up to US\$40m per annum, with user evaluations targeted for early H119, and potential to commence FY19 (note a 2 year ramp up in our scenario analysis). As always, the risk on Government/military work is in the timing and risk of delays.

Testing, finalisation and timings

Management believe a Limited User Evaluation (LUE) could take place in H119 (i.e. July/August). Once a minimum 90 days trial is conducted, this information will be sent back to the United States Army Soldier Systems Center in Natick, MA (commonly known as Natick) for evaluation. There are hopes that by the Spring of 2019, the Army will have completed its engineering and design phase and move to production phase.

Nonetheless, as with all military timeframes, risks lie to the downside in our view.

Buy American: Alexium gives them a reason to

The Buy American Act was passed by Congress in 1933. This required the United States government to prefer U.S. made products in its purchases. In certain government procurements, the requirement purchase may be waived if:

- the domestic product is 25% or more expensive than an identical foreign-sourced product;
- the product is not available domestically in sufficient quantity or quality; or
- doing so is in the public's interest.

The Berry Amendment (USC, Title 10, Section 2533a), requires the Department of Defense (DOD) to give preference in procurement to domestically produced, manufactured, or home-grown products, most notably food, clothing, fabrics, and specialty metals.

While there has always been an exemption made for the Defender M product (produced by Tencate) there is now a viable, comparable and also cheaper product available to the US Military. It is only a matter of time, in our view, until legislators find that Alexium's products are more than fit for this purpose.

Scenario analysis revisited

Recently (5/12) we published a scenario analysis, on the back of trimming our forecasts to a more base case/organic outlook. All three scenarios are achievable, and we place a strong possibility of achieving both scenarios one and two in FY19/20F (i.e. Scenario 2). In terms of the opportunities discussed around the equity raising:

- **Scenario 1: Base Case + Bedding**
- **Scenario 2: Base Case + Bedding + Military**
- **Scenario 3: Base Case + Bedding + Military + Alexiflam NF**

We provide some detail around the specifics of each opportunity below.

- **Bedding and Military:** we describe in more detail above.
- **Alexiflam NF:** Alexiflam NF is the Company's chemistry for application to Flame Retardant Cotton. With this market cUS\$150-200m (globally), there could be a significant opportunity for the company to displace the incumbent producers, Proban (owned by Solvay) and Pyrovatex (owned by Huntsman). Note that the roll-out of Alexiflam NF will be later in the US than internationally due to the need for compliance with the Toxic Substances Control Act (TSCA).

Figure 8: Scenario analysis

	Base case - current forecasts			Base case + Bedding			Base Case + Bedding + Military			Base Case + Bedding + Military + NF		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Sales (A\$m)												
Mattress Ticking	20.0	29.5	33.6	20.0	42.9	60.3	20.0	42.9	60.3	20.0	42.9	60.3
Military workwear	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.7	53.3	0.0	26.7	53.3
Home textiles	2.5	5.1	10.1	2.5	5.1	10.1	2.5	5.1	10.1	2.5	5.1	10.1
Outdoor Fabrics	1.5	3.0	3.3	1.5	3.0	3.3	1.5	3.0	3.3	1.5	3.0	3.3
Natural Fibers	4.2	8.3	12.5	4.2	8.3	12.5	4.2	8.3	12.5	4.2	14.9	25.9
Apparel	0.7	1.3	2.7	0.7	1.3	2.7	0.7	1.3	2.7	0.7	1.3	2.7
Non-textiles	1.2	2.7	4.0	1.2	2.7	4.0	1.2	2.7	4.0	1.2	2.7	4.0
Total Sales (A\$m)	30.1	49.9	66.2	30.1	63.2	92.9	30.1	89.9	146.2	30.1	96.6	159.6
Sales growth y/y (%)	37%	66%	33%	37%	110%	47%	37%	198%	63%	37%	221%	65%
Gross Profit (A\$m)												
Mattress Ticking	6.6	12.1	14.3	6.6	17.6	25.6	6.6	12.1	14.3	6.6	12.1	14.3
Military workwear	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.0	16.0	0.0	8.0	16.0
Home textiles	0.6	1.5	3.0	0.6	1.5	3.0	0.6	1.5	3.0	0.6	1.5	3.0
Outdoor Fabrics	0.3	0.6	0.7	0.3	0.6	0.7	0.3	0.6	0.7	0.3	0.6	0.7
Natural Fibers	1.1	2.5	5.0	1.1	2.5	5.0	1.1	2.5	5.0	1.1	4.5	10.3
Apparel	0.1	0.3	1.1	0.1	0.3	1.1	0.1	0.3	1.1	0.1	0.3	1.1
Non-textiles	0.1	0.5	1.6	0.1	0.5	1.6	0.1	0.5	1.6	0.1	0.5	1.6
Total Gross Profit (A\$m)	8.7	17.5	25.7	8.7	23.0	37.0	8.7	25.5	41.7	8.7	27.5	47.0
Gross Profit growth y/y (%)	391%	101%	46%		164%	61%		193%	63%		20%	40%
Gross profit margin (%)	29%	35%	39%	29%	36%	40%	29%	28%	28%	29%	28%	29%
S,G&A	(11.9)	(9.9)	(10.1)	(11.9)	(9.9)	(10.1)	(11.9)	(9.9)	(10.1)	(11.9)	(9.9)	(10.1)
EBITDA	(3.2)	7.6	15.6	(3.2)	13.1	26.9	(3.2)	15.6	31.6	(3.2)	17.6	36.9
D&A	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)
EBIT	(3.6)	7.1	15.1	(3.6)	12.6	26.4	(3.6)	15.1	31.1	(3.6)	17.1	36.4
Interest	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
NPBT	(5.3)	5.4	13.4	(5.3)	10.9	24.7	(5.3)	13.4	29.4	(5.3)	15.4	34.7
Tax (calculated)	0.0	1.6	4.0	0.0	3.3	7.4	0.0	4.0	8.8	0.0	4.6	10.4
Tax losses	26.0	24.4	20.4	26.0	22.7	15.3	26.0	22.0	13.2	26.0	21.4	11.0
Tax paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT	(5.3)	5.4	13.4	(5.3)	10.9	24.7	(5.3)	13.4	29.4	(5.3)	15.4	34.7

Source: Petra Capital estimates

Note: Our forecasts factor in a 12 month ramp-up to full production state. That is, a 50% contribution in FY19F and 100% come FY20F. This may not be the case for bedding but is more likely, in our view for military.

Revised cash flow forecasts

Below we show our revised cash flow summary, post full \$15m capital raising. We make the following observations in regards to cash flows and uses over FY18:

- **Small cash outflow for FY18F, ex-raising proceeds:** Prior to the capital raising, we forecast a -\$0.5m cash outflow over FY18F. This follows what we view as a break-even H118F (small \$0.3m inflow in Q1 and similar outflow in Q2) with working capital build to follow in H218F, to fund growth into FY19F.
- **Net debt becomes net cash:** Following the scenario above, post drawdown of the second working capital facility (A\$6.3m), and reducing the company's own cash on hand to c\$3.5m (\$4.2m at Q118). Net debt in such a scenario would be \$10.3m, however is now cash on hand of \$4.7m.
- **Cash to remain on balance sheet:** The second working capital facility has already been drawn, but sits as cash (for Alexium's use at some stage). The equity injection will remain as cash on the balance sheet, with the working capital facility remaining drawn (i.e. not repaid).

Figure 9: Cash flow and net debt summary (FY17 – 21F)

	FY17	FY18F	FY19F	FY20F	FY21F
Cash flow summary (A\$m)					
EBIT	(11.6)	(3.6)	7.1	15.1	19.1
Depreciation & Amortisation	0.4	0.4	0.5	0.5	0.5
Profit on sale of assets	0.0	0.0	0.0	0.0	0.0
Working capital	(2.6)	(3.8)	(4.8)	(2.1)	(1.4)
Other	1.1	0.0	0.0	0.0	0.0
Operating cash flow (pre-interest/tax)	(12.7)	(7.0)	2.8	13.5	18.3
Interest paid	(0.5)	(1.7)	(1.8)	(1.8)	(0.3)
Tax	0.0	0.0	0.0	0.0	0.0
Operating cash flow	(13.2)	(8.7)	1.0	11.7	17.9
Replacement capex	(1.6)	(0.5)	(0.5)	(0.5)	(0.5)
Expansion capex	(0.0)	(0.3)	0.0	(0.2)	(0.3)
Sale of assets	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Share issue	0.7	15.0	0.0	0.0	0.0
Other	(6.4)	0.4	0.0	0.0	0.0
Net Debt / (cash) at start of year	(5.0)	2.8	(3.1)	(3.6)	(14.6)
Movement during year	(7.8)	5.9	0.5	11.0	17.2
Net Debt / (cash) at end of year	2.8	(3.1)	(3.6)	(14.6)	(31.7)

Source: Petra Capital, Company data



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