

INITIATING COVERAGE

Equity | Industrials/ Industrial Services

**Laser Photonics Inc.
(NASDAQ:LASE; Target Price: \$10.00)**

Industrial services as a sector is usually not considered one of the 'cool', hyper-growth domains. However, there are many sub-sectors within industrial services whose markets are expanding at a rapid pace. One such sub-sector is that laser cleaning for maintenance and repair work. The automotive, building and metalworking industries' strong need for these technologies and the growing interest in robotic cleaning technologies all support the market's growth. Lasers operate incredibly well on a number of materials, such as glass, ceramics, metals, concrete, and plastics, and are gradually replacing older abrasive blasting technologies as a cleaner and more effective alternative. Laser Photonics is a specialist operator within this sub-sector and provides a cutting-edge solutions to resolve the significant rust issue that plagues various industries.

INVESTMENT THESIS

This is our first report on Laser Photonics and we look to provide a detailed account of the various drivers that will be responsible for the company's growth in the coming years. The revenues of Laser Photonics have more than doubled in the last two years. The fact that the company was able to achieve such a high-level growth with a positive bottom line is truly phenomenal. The management has been consistently reporting a net margin of about 20% along with such growth. We expect the company to command a substantial premium given the rapid growth, consistent profitability, and enormous scale of the addressable market.. We believe that there is a good chance the company's offering may become universally accepted in the years to come. Baptista Research looks to evaluate the different factors that could influence Laser Photonics' price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology to determine a suitable price for the company's stock.

COMPANY OVERVIEW

Laser Photonics, a vertically-integrated company, is responsible for manufacturing industrialized laser technologies and systems. With the aim of being a viable, environmentally friendly alternative to the ancient sand and abrasives blasting sectors, its technology and systems assist in surface cleaning, corrosion management, rust removal, de-painting, and carrying out different laser-based industrial usages. The latest production of cutting-edge laser blasting equipment and technology from Laser Photonics also addresses a number of legal, ethical, and regulatory issues related to the previous methods. Fortune 1000 firms and well-known manufacturers in the automotive, aerospace, defense, industrial, energy, maritime, and shipbuilding segments employ the company's "unique-to-industry" technologies. Strong R&D capabilities and a plan to dominate the market for industrial laser systems are strengths of Laser Photonics. It serves the aerospace, automotive, defense, nuclear, shipbuilding, and space sectors. Laser Photonics Corporation was incorporated in 2019 and is based in Orlando, Florida.

Key Report Highlights

Industry View:	Attractive
Stock Rating:	Buy
Price Target:	\$10.00
Current Price:	\$4.91
52-Week-Range:	\$1.82 - \$5.50

Annual Income Statement	2021	2022E	2023E
Revenues	4.19	6.40	10.60
Cost of Goods Sold	-1.54	-2.15	-3.49
Gross Income (excl. D&A)	2.65	4.25	7.11
EBITDA	1.01	2.25	4.11
EBIT (incl. extraordinary exp)	0.61	1.83	3.67
Net Income	0.58	1.80	3.64
Cash from Operations	1.38	2.05	3.67
Free Cash Flows	1.39	3.14	4.56

Growth & Margins	2021	2022E	2023E
Sales Growth	94.9%	52.7%	65.6%
EBITDA Margin	24.1%	35.2%	38.8%
EBIT Margin	14.6%	28.6%	34.6%
Net Profit Margin	13.8%	28.1%	34.3%

Valuation Ratios	Current	2022E	2023E
EV/ Sales	5.7	7.6	8.7
EV/ EBITDA	23.7	21.5	22.4
EV/ EBIT	39.2	26.5	50.3
Price/Earnings	41.3	27.1	25.5

KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

- 1. STRONG PRODUCT PORTFOLIO**
- 2. LARGE ADDRESSABLE MARKET**
- 3. GROWTH & EXPANSION STRATEGY**
- 4. CUSTOMER STICKINESS & GOVERNMENT CONTRACTS**
- 5. EXPERIENCED MANAGEMENT TEAM**

Strong Product Portfolio

Laser Blaster™ Portfolio

(Class 4 Laser Systems)

Laser Photonics designed the EZ-RIDER to be a heavy-duty industrial grade laser cleaning and surface treatment system for large



The CleanTech™ line delivers exceptional power, precision and control.



The CleanTech™ JobSite™ 2000-CTH is the world's most powerful Handheld Laser Blasting system on the market.



The CleanTech® Robot is the first commercially available, easily programmable, artificial intelligence (AI) capable, laser cleaning system made in the U.S.



Source: Company Presentation

- Laser Photonics offers the most comprehensive assortment of Class IV handheld laser blasting tools as shown in the above snapshot.
- Their systems range from 20W to 3000W power, with the Jobsite 2000 being the strongest production laser blaster currently on the market and the JobSite 3000 being even more powerful.
- The company is now working on developing and releasing its 4000W handheld laser blasting system, which will be its most powerful laser blasting instrument.
- Additionally, the company's Titan and Mega Center brands of Class I Laser Blasting Systems were developed with large manufacturing in mind. We can see the Class I portfolio in the snapshot below:

Laser Blaster™ Portfolio (Class 1 Product Laser Systems)



Our line of industrial Class 1 product laser systems are designed for safety, reliability and high throughput, with fully compliant Blasting Cabinets. They can be configured with full automation for high-volume production environments.



21 CFR 1040.10 Compliance

These are Class 1 products laser systems as designated by the FDA Center for Devices and Radiological Health (CDRH). Each system is engineered to meet or exceed the requirements for stand-alone laser systems as defined by 21 CFR 1040.10 under the Radiation Control for Health and Safety Act of 1968.

Source: Company Presentation

- These assembly-line-ready systems are constructed with automated material-loading and automation control features to ensure maximum throughput in high-production environments.
- The company improved the C-Robots' user-programmable artificial intelligence to assist people. Line workers programmed these precision robots to carry out challenging and repetitive tasks in high-volume manufacturing settings.
- This wide range of products can be used to scale to meet customer needs from entry-level, office-friendly laser blasting techniques for high surface integrity module finishing to high-end, high-quantity industrial laser blasting systems for low-cost mass production applications.

- The company's broad portfolio further reduces the need for customers to buy products from numerous vendors for diverse operations, giving it a viable advantage over rivals offering a smaller variety of goods and services.
- The company's blue-chip client base is depicted in the snapshot below:

Established Blue Chip Customer Base

Laser Photonics enjoys an **existing install base** which features a diversified portfolio of Fortune 500 companies, global industries and government agencies.



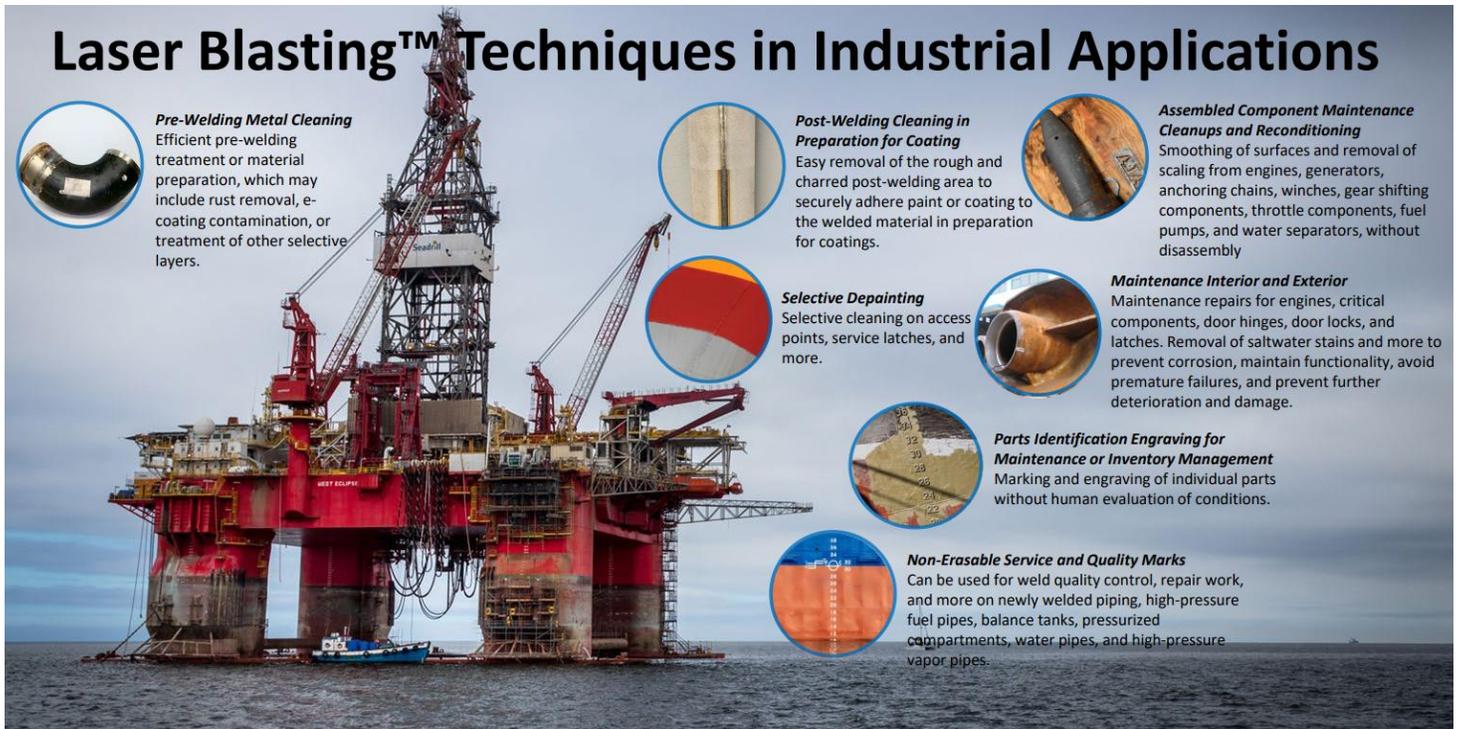
Source: Company Presentation

- As we can see in the above snapshot, companies like 3M, General Electric, Caterpillar, Ford Motors, Honeywell, Johnson & Johnson, Dell, Sony, Siemens, DuPont, Cummins, Kohler, Nike, etc., are some of its most important clients.

Large Addressable Market

- Laser Photonics's offerings have a vast industrial application that includes coating, surface preparation, and corrosion prevention. It acts as a replacement to media blasting which is prohibited for environmental, health, and safety reasons and yet used in almost all heavy industries.

Laser Blasting™ Techniques in Industrial Applications



Pre-Welding Metal Cleaning
Efficient pre-welding treatment or material preparation, which may include rust removal, e-coating contamination, or treatment of other selective layers.

Post-Welding Cleaning in Preparation for Coating
Easy removal of the rough and charred post-welding area to securely adhere paint or coating to the welded material in preparation for coatings.

Assembled Component Maintenance Cleanups and Reconditioning
Smoothing of surfaces and removal of scaling from engines, generators, anchoring chains, winches, gear shifting components, throttle components, fuel pumps, and water separators, without disassembly

Selective Depainting
Selective cleaning on access points, service latches, and more.

Maintenance Interior and Exterior
Maintenance repairs for engines, critical components, door hinges, door locks, and latches. Removal of saltwater stains and more to prevent corrosion, maintain functionality, avoid premature failures, and prevent further deterioration and damage.

Parts Identification Engraving for Maintenance or Inventory Management
Marking and engraving of individual parts without human evaluation of conditions.

Non-Erasable Service and Quality Marks
Can be used for weld quality control, repair work, and more on newly welded piping, high-pressure fuel pipes, balance tanks, pressurized compartments, water pipes, and high-pressure vapor pipes.

Source: Company Presentation

- Given the increased expenses and regulatory pressure on media blasting, it is inevitable that efficient laser cleaning or laser blasting will replace media blasting as the industry's standard blast cleaning technique and establish itself as a secure, efficient, and cost-effective alternative.
- This suggests that the company will have a sizable market to serve. Grand View Research estimates that the global market for abrasive cleaning will reach \$47.82 billion by 2028, representing a 4.2% CAGR, up from \$35.29 billion in 2021.
- Government contracts also have a significant positive impact on businesses like Laser Photonics. The U.S. Military and other branches of the nation's military frequently struggle with rust buildup on their equipment, an issue that Laser Photonics' products can effectively address.
- In reality, the business has previously sold laser cleaning equipment to the Veteran's Administration, NASA, and other branches of the American military services. Clearly, there is a sizable market for laser photonics.

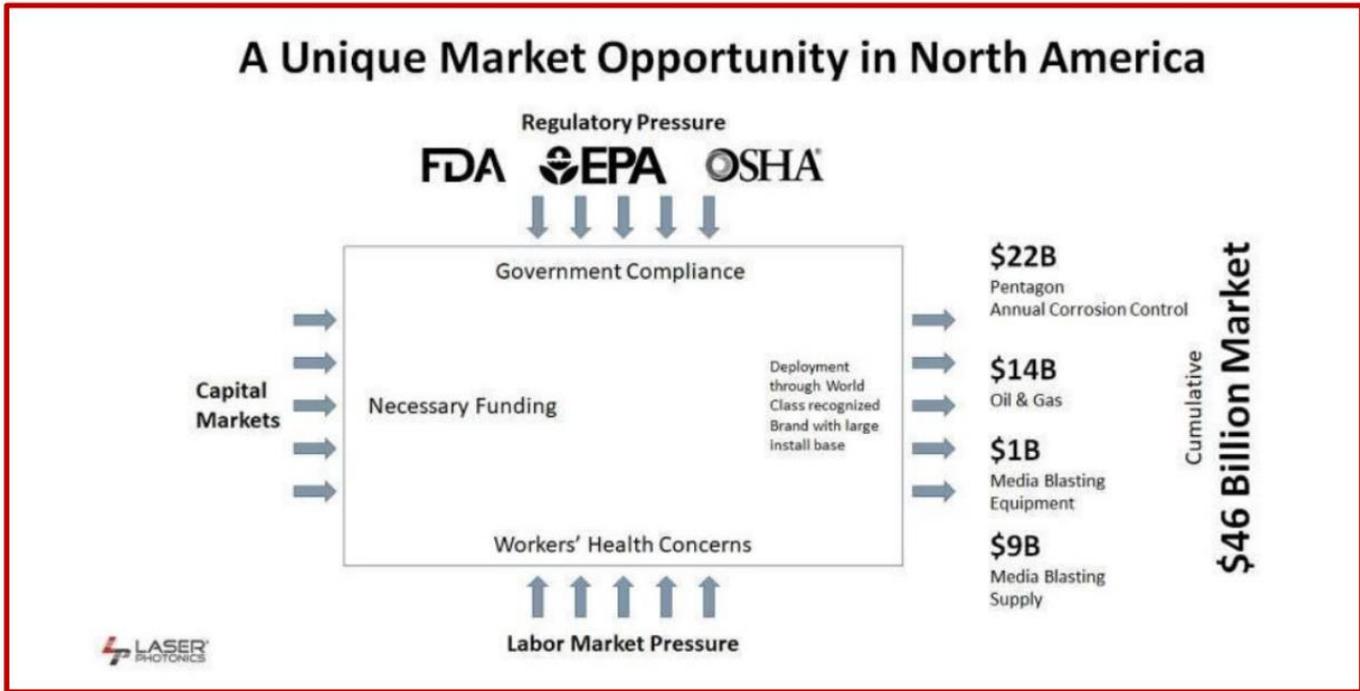
Growth & Expansion Strategy

- With an emphasis on integrated solutions that make laser blasting possible for production applications and extensive accessibility, Laser Photonics seeks to diversify the goods it offers.
- It intends to target unique applications early in the development cycle and foster acceptance by making the most of its strong customer relationships, engineering expertise, and inexpensive production costs.
- To decrease the financial impact of a downturn in any industry, they also created and produced laser systems for a variety of businesses.
- The management believes that sales would increase by developing a reputable industry competency in markets with high demand, like laser blasting cabinets for the general industry, laser decontamination tools for the nuclear industry, and rust removal tools for the shipbuilding industry.
- They are also adding distributors based on regional coverage and sales capabilities to expand their penetration into vertical industries like manufacturing, aerospace, defense, energy, and the automotive industries.
- Undoubtedly, Laser Photonics will work with additional high-volume hardware and equipment distributors to improve its internal sales structure, internet presence, and capital equipment sales channels.
- In order to extend the reach of their distribution network, they are also stepping up their direct sales efforts with a particular emphasis on catering to significant accounts and expanding their footprint within Fortune 500 firms and worldwide governmental organizations.
- The business would want to inform the industry on the best ways to use the technology over the whole product life cycle, given the size of the addressable market.
- Obviously, companies are more likely to purchase their goods and services and gradually expand their use if they are well-informed about or directly aware of the benefits of their laser blasting solutions over traditional production.

Customer Stickiness & Government Contracts

- Laser Photonics is a one of the ONLY players in the field of laser blasting in the U.S. Its goal is to open up access to the technology to all companies that process materials, as well as maintenance and repair facilities for both industrial and governmental uses.
- The management is reasonably confident that their combined knowledge and competitive advantages will enable them to extend and sustain their leadership position in the next generation of laser blasting equipment and increase their market potential.
- It is also worth highlighting that Laser Photonics is the only American company in this domain, with its closest rival in a similar field being Canada-based Laserax.

- The management believes that their investment in marketing resources and effective marketing strategy execution will determine their success.
- Some of their marketing strategies may include going to trade events, giving private presentations, creating advertising and promotional materials, and running advertising campaigns in print and broadcast media.



Source: Company Presentation

- The company also has a solid customer base among several U.S. Government entities, which it intends to grow. They have sold laser cleaning equipment to all branches of the American armed forces.
- The Veteran's Administration and NASA are also among their clients. It is worth mentioning that their U.S. Government clients have appreciated their laser cleaning equipment and the chances of a high level of customer stickiness resulting in a moat source are particularly strong.
- Laser Photonics is in a good position to increase their sales to the U.S. Government as the only American manufacturer of high-powered, portable industrial laser cleaning systems that can address the Pentagon's ongoing rust problem, especially given that the Pentagon alone must spend between \$21 billion and \$22.9 billion annually on rust control and corrosion-related repairs on equipment, from trucks and tanks to aircraft and other ships.
- The U.S. military is demonstrating that it is not just a willing early adopter of the technology but also a testing ground and showcase for the company's offerings. Thus, there is little doubt that with its strong customer stickiness, Laser Photonics has a strong revenue upside from the Government.

Experienced Management Team

- Laser Photonics' organization is spearheaded by Wayne Tupuola, a manufacturing industry veteran with more than 24 years of first-hand experience in the semiconductor, aerospace, food and beverage, and commercial industries.
- He served as an industrial consultant for Florida-based high tech enterprises. Mr. Tupuola also worked as Director and Vice President of Operations at an affiliate of Laser Photonics and one of ICT Investment's portfolio companies, Fonon Corporation.
- Arnold Bykov, the company's Chief Design Engineer, is a key element on the technology side and has years of experience in the photonics sector, primarily with ICT Investments and associated businesses.
- He was appointed Director and Chief Design Engineer of Fonon Corporation, where he developed laser systems for material processing and served as a design and project engineer supervising design teams.
- He is currently in charge of the technological development and industrial design of the laser cleaning technology used by the company.
- Tim Schick, the VP of Finance at Laser Photonics, has vast experience and expertise in finance and accounting and served as the Head of Finance at Jupiter Marine International in the past.
- He has been responsible for managing financial planning and analysis in addition to supervising the accounting and accounts payable team.
- He also managed new model year costs and prices, production scheduling, fixed asset accounting, work-in-process measurement and tracking, liability insurance administration, plant security, waste management planning, and HAZMAT compliance.
- Lastly, the company's Director of Marketing is another industry veteran, Tatiana Nikitina who has served as the senior brand ambassador and event production manager of The Party Robot Inc.
- Overall, the team's vast experience and knowledge should act as an enabler for Laser Photonics' growth in the long run.

HISTORICAL FINANCIAL STATEMENTS & PROJECTIONS

Particulars	9/30/21	12/31/21	3/31/22	6/30/22
Revenues	1.10	1.20	1.21	1.35
<i>% growth</i>		9.1%	0.8%	11.6%
Cost of Goods Sold	-0.32	-0.70	-0.30	-0.41
<i>% of revenue</i>	-29.1%	-58.3%	-24.8%	-30.4%
Gross Income (excl. D&A)	0.78	0.50	0.91	0.94
<i>% of revenue</i>	70.9%	41.7%	75.2%	69.6%
EBITDA	0.23	0.16	0.47	0.42
<i>% of revenue</i>	20.9%	13.3%	38.8%	31.1%
Depreciation & Amortization	0.10	0.10	0.09	0.08
<i>% of Fixed Assets</i>	2.7%	2.3%	2.1%	1.9%
Extraordinary Expenses	-0.01	0.01	0.00	0.01
EBIT (incl. extraordinary exp)	0.14	0.05	0.38	0.33
<i>% of revenue</i>	12.7%	4.2%	31.4%	24.4%
Pretax Income	0.16	0.04	0.38	0.32
<i>% of revenue</i>	14.5%	3.3%	31.4%	23.7%
Income Tax	0.00	0.00	0.00	0.00
<i>% rate</i>	0.0%	0.0%	0.0%	0.0%
Net Income	0.16	0.04	0.38	0.32
<i>% of revenue</i>	14.5%	3.3%	31.4%	23.7%

- Let us start off with analyzing the most recent and historical quarterly data reported by the company.
- Laser Photonics has reported a top-line of \$1.35 million in its recent quarterly result which is a 11.57% appreciation over the previous quarter.
- The company reported a positive gross margin of 69.63% for the quarter ended 6/30/22.
- Its EBITDA for the quarter was \$0.42 million and the EBITDA margin was 31.11%.
- This was a -7.73% margin contraction at the EBITDA level which is definitely a negative outcome.
- Laser Photonics's operating income (EBIT) was reported at \$0.33 million and a margin of 24.44%.
- This EBIT margin dropped by 6.96% in this quarter. The company's pre-tax margin for the quarter was 23.70%.
- Laser Photonics reported a net income of \$0.32 million which resulted in a diluted earnings per share (EPS) of \$0.07. The company's net margin was 23.70%
- Laser Photonics generated \$0.28 million in terms of operating cash flows for the quarter ended 6/30/22.
- The company was able to convert about 20.74% of its revenues into operating cash flows in the recent quarter.
- This quarter's EBITDA-to-operating cash flow conversion ratio is 66.67%
- Overall, Laser Photonics delivered a positive free cash flow of \$0.28 million for the past quarter.

Particulars	2020	2021
Revenues	2.15	4.19
<i>% growth</i>		94.9%
Cost of Goods Sold	-0.95	-1.54
<i>% of revenue</i>	-44.2%	-36.8%
Gross Income (excl. D&A)	1.20	2.65
<i>% of revenue</i>	55.8%	63.2%

EBITDA	0.04	1.01
<i>% of revenue</i>	1.9%	24.1%
<i>% of revenue</i>	0.5%	14.6%
Pretax Income	0.01	0.58
<i>% of revenue</i>	0.5%	13.8%
Income Tax	0.00	0.00
<i>% rate</i>	0.0%	0.0%
Net Income	0.01	0.58
<i>% of revenue</i>	0.5%	13.8%

- When we analyze the company's annualized historical income statement, we see that the top-line was \$4.19 million for the previous financial year ending in 2021.
- The revenue growth was 94.88% in 2021 as compared to around 0.00% in 2020.
- Laser Photonics's cost of goods sold has increased from -44.19% to -36.75% as a percentage of the top-line resulting in a drop in the gross margins.
- The company's overall annual EBITDA margin of 24.11% is lower than the reported quarterly EBITDA margin for the most recent quarter.
- Non-cash expenses in the form of depreciation and amortization have gone up as compared to the result in 2020.
- In terms of the bottom-line, Laser Photonics reported an operating income (EBIT) of \$0.61 million and a net income of \$0.58 million resulting in an EPS of \$0.116.
- The good news for investors holding the stock is that its net margin had increased from 0.47% in 2020 to 13.84% in 2021.

Particulars	2020	2021
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Assets

Net Intangible Fixed Assets	3.18	3.17
Net Tangible Fixed Assets	1.05	1.20
Total Fixed Assets	4.23	4.37
<i>% of revenue</i>	196.7%	104.3%
LT Investments	0.00	0.00
Inventories	2.17	1.79
<i>% of revenue</i>	100.9%	42.7%
Accounts Receivable	0.76	0.08
<i>% of revenue</i>	35.3%	1.9%
Cash and ST Investments	0.33	0.62
<i>% of revenue</i>	15.3%	14.8%
Other Current Assets	0.00	0.00
Total Current Assets	3.26	2.49
Other Assets	-0.01	0.00
Total Assets	7.48	6.86
Equity & Minorities	5.28	5.56

LT Debt	1.13	0.58
Other LT Liabilities	0.04	0.33
Total LT Liabilities	1.17	0.91
ST Debt	0.00	0.00
Accounts Payable	0.06	0.11
<i>% of COGS</i>	<i>2.8%</i>	<i>2.6%</i>
Other ST Liabilities	0.97	0.28
Total Current Liabilities	1.03	0.39
Total Liabilities	2.20	1.30
Total Liabilities & Shareholder's Equity	7.48	6.86

- Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 196.74% to 104.30%
- Its receivables of \$0.08 million are about 1.91% of the top-line.
- Laser Photonics has close to \$0.62 million in terms of liquidity i.e. cash and short term investments.
- On the other hand, its payables for 2021 account for around 2.63% of the cost of goods sold.
- The company's long term debt is around 0.2x times its equity.

Other Metrics	2020	2021
Total Cash Dividends Paid	0.00	0.31
<i>% growth</i>	NA	NA
Total Common Shares Outstanding	5	5
<i>% change</i>		-0.2%
Dividend Per Share	0.00	0.06
<i>% change</i>	NA	NA

Operating Ratios	2020	2021
Receivables Turnover	2.8	52.4
Days Receivable	129.0	7.0
Inventory Turnover	-0.4	-0.9

Inventory Days	-833.7	-424.3
Payables Turnover	-15.8	-14.0
Days Payable	-23.1	-26.1
Fixed Asset Turnover	0.5	1.0
Total Asset Turnover	0.3	0.6
Return on Assets	0.1%	8.5%
Return on Equity	0.2%	10.4%

- Laser Photonics has paid close to \$0.31 million via dividends which accounts for close to \$0.06 of dividend per share and has a growth rate of NA
- Laser Photonics's total common shares outstanding have decreased in 2021 by -0.20% implying a share buyback.
- The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.
- As per the days receivable, the company takes an average period of 7.0 days to collect money from its clients which appears to be reasonable.
- The inventory turnover shows the number of times a given company has sold and replaced inventory during the year and is an indicator of how many days of working capital is blocked in inventory.
- As per the inventory days ratio, Laser Photonics holds an average inventory of -424.3 days which appears to be reasonable.
- The accounts payable turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. It shows how many days of credit a company gets from its suppliers.
- As per the days payable, the company takes an average period of -26.1 days to pay off its creditors which appears to be on the lower side and implies that it gets limited credit.
- The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.
- Laser Photonics's fixed assets turnover ratio of 1.0 has increased in 2021 indicating that the company is generating greater revenues from its fixed assets.
- The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues.
- Laser Photonics's total assets turnover has increased to 0.61 in 2021.

Particulars	2020	2021	2022E	2023E	2024E
Revenues	2.2	4.2	6.4	10.6	19.0
<i>% growth</i>		94.9%	52.7%	65.6%	79.2%
Cost of Goods Sold	-1.0	-1.5	-2.1	-3.5	-6.1

<i>% of revenue</i>	-44.2%	-36.8%	-33.6%	-32.9%	-32.3%
Gross Income (excl. D&A)	1.2	2.7	4.3	7.1	12.9
<i>% of revenue</i>	55.8%	63.2%	66.4%	67.1%	67.7%
EBITDA	0.0	1.0	2.3	4.1	8.8
<i>% of revenue</i>	1.9%	24.1%	35.2%	38.8%	46.2%
Depreciation & Amortization	0.03	0.40	0.42	0.44	0.46
EBIT	0	0.61	1.83	3.67	8.31
<i>% of revenue</i>	0.5%	14.6%	28.6%	34.6%	43.7%
EBT (GAAP)	0.01	0.58	1.80	3.64	8.28
<i>% of revenue</i>	0.5%	13.8%	28.1%	34.3%	43.6%
Net Income (GAAP)	0.01	0.58	1.80	3.64	8.28
<i>% of revenue</i>	0.5%	13.8%	28.1%	34.3%	43.6%
Earnings Per Share (GAAP)	0.00	0.12	0.36	0.73	1.66

Particulars	2020	2021	2022E	2023E	2024E
Net Income (GAAP)	0.01	0.58	1.80	3.64	8.28
+ Depreciation & Amortization	0.03	0.40	0.42	0.44	0.46
+/- Working Capital, Deferred Taxes & Other Adjustments	-1.57	0.40	-0.17	-0.41	-1.10
Cash Flow from Operations	-1.53	1.38	2.05	3.67	7.64

<i>% of EBITDA</i>	-3825.0%	136.6%	91.2%	89.2%	87.1%
Capital Expenditure	0.88	0.01	1.09	0.89	0.73
<i>% of revenues</i>	-40.9%	-0.2%	-17.0%	-8.4%	-3.9%
Other Investment Cash Flow items	3.18	0.22	0.22	0.22	0.22
Cash Flow after Investments	4.06	0.23	1.31	1.11	0.95
Free Cash Flow	-0.65	1.39	3.14	4.56	8.37
Growth & Margins	2020	2021	2022E	2023E	2024E
Sales Growth	0.0%	94.9%	52.7%	65.6%	79.2%
EBITDA Margin	1.9%	24.1%	35.2%	38.8%	46.2%
EBIT Margin	0.5%	14.6%	28.6%	34.6%	43.7%
Net Profit Margin	0.5%	13.8%	28.1%	34.3%	43.6%
Leverage Ratios	2020	2021	2022E	2023E	2024E
Net Debt	0.80	-0.04	-0.34	-0.64	-0.94
Net Debt/ Equity	0.2	0.0			
Net Debt/ EBITDA	20.0	NA	NA	NA	NA

- Now let us move on to Baptista Research's forecasts for Laser Photonics's income statement and cash flows.
- We forecast a top-line growth of -83.7% for 2022, around 927042.9% for 2023, and about 75.9% for 2024.
- This growth is expected to translate into an EBITDA of \$-7.993 million in 2022 with a margin of -114185.71%
- Laser Photonics's EBIT margin is expected to be -115385.71% in 2022, about 25.35% in 2023, and 38.34% in 2024.
- Our estimate for the company's Net Income (GAAP) is \$-8.577 million implying a net margin of -122528.57% and resulting in an earnings per share of \$-0.10.
- We expect the growth to follow a similar trend in 2023 and 2024.
- In terms of the cash flows, we expect Laser Photonics to generate around \$-6.626197 million in operating cash flows in 2022.
- This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of 82.90%
- Laser Photonics is expected to invest a lower amount in capex and other investing activities in 2022.
- Overall, the company is expected to generate free cash flows to the tune of \$-6.626197 million in 2022.
- Laser Photonics's Net Debt is expected to increase in 2022 and is expected to follow a similar trend over the coming years.
- The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- Laser Photonics's Net Debt-to-EBITDA ratio is expected to be -0.37 in 2022 which indicates that the company is not leveraged.
- Net-Debt-to-Equity ratio, also known as the gearing ratio shows how encumbered a company is with its debt.
- The company's Net Debt-to-Equity ratio for 2021 is 30.33 and it indicates that the company has high gearing.
- Return on assets is an excellent indicator of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.
- On the other hand, the return on equity of a company measures the value creation of the management and profitability in relation to stockholders' equity.
- The company's overall Return on Assets is 8.45%.
- Laser Photonics's Return on Equity is 10.43%. The company's Return on Equity is higher than its Return on Assets and this is because it uses debt to maximize shareholder returns.

DISCOUNTED CASH FLOW (DCF) VALUATION

Key DCF Assumptions

WACC	21.0%
CoD	0.0%
CoE	21.6%
Market Rate	6.0%
Risk Free Rate	3.5%
Beta	3
Perpetual Growth Rate (g)	151%
Terminal Value	131
Tax Rate	0.0%

- For the purpose of carrying out the discounted cash flow valuation of Laser Photonics, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 3.45%.
- The company's stock is more volatile than the market as a whole and has a beta of 3.0 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 21.5% which appears reasonable for a company like Laser Photonics.
- Based on the company's long term debt and interest payments, the cost of debt is 0.0%.
- After incorporating the CoE and the CoD and average tax rate of 0.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 21.5%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 7.1 to our forecasted revenues of 2024.

EV and Market Cap	Current	2022E	2023E	2024E
Price (\$)	4.9	10.0	18.5	27.1
Outstanding Number of shares (million)	5	5	5	5
Total Market Cap (billion)	0.02	0.05	0.09	0.14
Net Debt	0	0	-1	-1
Enterprise Value (billion)	0.02	0.05	0.09	0.13

- After applying the discount rate (WACC) of 35.0%, we arrive at a price target of \$10 for 2022.
- Our target price at the end of 2023 is \$18.5 and for 2024 is \$27.1 which implies a total appreciation of nearly 452.7% in the coming 3 years in the stock price.
- During this phase, we see the EV/ EBITDA to be in the range of 15.36 and 22.40
- The EV/ EBIT will be in the range of 26.48 to 50.31 over the coming 3 years.

Valuation Ratios	Current	2022E	2023E	2024E
EV/ Sales	5.7	7.6	8.7	7.1
EV/ EBITDA	23.7	21.5	22.4	15.4
EV/ EBIT	39.2	26.5	50.3	36.7
Price/Earnings	41.3	27.1	25.5	16.4

KEY RISKS

- It is important to highlight the key risks associated with an investment in Laser Photonics Holdings as well as the inherent risks associated with the financial projections and price forecasts presented in this report.
- Laser Photonics may be catering to a vast addressable market but it does face indirect competition from large laser companies like IPG Photonics and Coherent who currently act as vendors to the company but could easily carry out a vertical integration and enter their domain. With their buying power and technology, it could become difficult for smaller players like Laser Photonics to survive. The protection of the company's intellectual property rights could be difficult and it could be hard for the management to monetize the technology outside North America.
- In order to accommodate growth and compete effectively, Laser Photonics' management will need working capital to maintain adequate inventory levels, develop additional procedures and controls and increase, train, motivate and manage its work force.
- It is important to highlight that Laser Photonics is serving the global market since less than a decade which means it has a very limited operating history. As a result, many potential investors find it difficult to evaluate its business prospects and management.
- Laser Photonics' management may struggle to successfully implement and execute their business tactics, operating strategies and growth initiatives. If the management fails to accomplish their growth and organizational modification effectively, it may destroy their business and operational results.
- Laser Photonics relies on third party vendors for its systems which is why any change in pledged relationships or disruption of service run by these third-party manufacturers may adversely affect them and subject them to liability.
- It is worth highlighting that the extent to which Covid-19 impacts the financial results of the company is highly uncertain and could significantly disrupt the operations including sales, manufacturing and supply chain-related activities. It could also result in social, economic, and labor instability in the countries where the customers and suppliers operate.
- With respect to our price projection, we would like to clarify that the valuation of Laser Photonics Holdings in this report is specific to the date of the analysis i.e. 15-10-2022.
- Another one of the biggest risks to Laser Photonics Holdings' model is the fact that the company's top-line growth is assumed to be consistently growing by a certain rate in the model. There is a possibility that this assumption might not hold true if the COVID-19 situation persists for too long. With respect to our price projection, we would like to clarify that the valuation of Laser Photonics Holdings in this report is specific to the date of the analysis i.e. 15th October 2022.
- We must emphasize that the projected valuation and the share price of Laser Photonics Holdings are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts. There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

ANALYST RATINGS

- Buy: Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.
- Outperform: Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.
- Sell: Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.
- Underperform: Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.
- Hold: Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

ANALYST INDUSTRY VIEWS

- Attractive: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
- In-Line: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
- Cautious: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
- Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI EM Latin America Index; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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