BELL POTTER

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Analyst
Sam Brandwood 612 9255 2850

Authorisation
Chris Savage 612 8224 2835

IPD Group (IPG)

Midnight oil

Recommendation
Buy (Initiation)
Price
$1.365
Target (12 months)
$1.80 (Initiation)

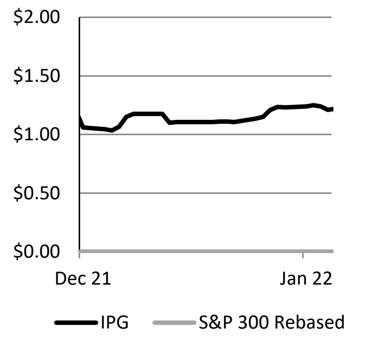
GICS Sector
Commercial Services and Suppliers

Expected Return	
Capital growth	**31.9%**
Dividend yield	**4.1%**
Total expected return	**36.0%**
Company Data & Ratios	
Enterprise value	**$100.2m**
Market cap	**$117.8m**
Issued capital	**86.3m**
Free float	**38.9%**
Avg. daily val. (52wk)	**$54,000**
12 month price range	**$1.02 - $1.55**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.22		
Absolute (%)	11.89		
Rel market (%)	14.71		

Absolute Price



SOURCE: IRESS

A high quality play on electrification

IPD Group (IPG) is a leading Australian distributor of electrical equipment and industrial digital technologies with a focus on buildings, infrastructure and process sectors. Electrification is likely to be one of the dominant market narratives over the next decade with IPD in our view high quality leverage to this growth trend. In addition, our favourable view is supported by (1) a process driven commercial logistics advantage, providing scope for over-the-cycle share gains; (2) a significant turnaround opportunity with the manufacturer of the industry leading, or second leading, technical product; (3) the most supportive pricing backdrop in over a decade; (4) possible early leadership in the rapid growth EV charging market; and (5) an undemanding valuation.

Long-life cycle demand

IPD's core leverage is to buildings through its supply of equipment that reduces energy use and/or reliance on the transmission network. We see sector demand developing into a long life replacement cycle driven by new technology adoption, supportive policy measures and changing consumer tastes.

Robust inflation play: Buy and $1.80ps Price Target

Inflation largely acts as a tailwind for distributors with strong value propositions and efficient cost controls as these companies should have pricing power to pass on input costs. IPD's supply program is targeted at EPC contractors, offering high stock availability close to customers and service of an asset's full lifecycle via the company's Electrical & Instrumentation division, which competitors largely do not have. Further, IPD is capital and asset light, operates in segments with few direct competitors and generates a strong gross margin. We consider these to be defining characteristics for a distributor in a tight market for critical spares.

In our view, IPD is positioned for mid-term EPS growth towards the top end of peers (6-8%), however on a FY23e EV/EBITDA basis is priced at a significant 46.5% discount to the competitive set. We believe this presents compelling value for a high quality service business with the potential to enter an earnings upgrade cycle.

Earnings Forecast

Year end 30 June	FY21	FY22e	FY23e	FY24e
Revenue ($m)	142.6	174.5	193.5	206.5
Operating EBITDA ($m)	15.4	20.1	21.7	23.6
EBITDA ($m)	16.0	20.4	21.7	23.6
NPAT (normalised) ($m)	7.9	11.2	11.8	12.8
EPS (adjusted) (cps)	9.2	13.0	13.7	14.8
EPS growth (%)	11.3%	41.7%	5.9%	7.7%
PE (x)	14.9	10.5	9.9	9.2
FCF Yield (%)	6.5%	0.8%	6.3%	8.6%
EV/EBITDA (x)	6.3	4.9	4.6	4.2
Dividend (¢ps)	nm	2.8	6.1	6.7
Franking (%)	100%	100%	100%	100%
Yield (%)	nm	1.7%	4.5%	4.9%
ROIC (%)	37.0%	39.9%	37.9%	38.7%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Investment Thesis

We initiate on IPD with a Buy recommendation and a price target of $1.80 per share. Our favourable investment thesis is driven by the following factors:

Long life cycle demand: IPD is a high quality play on an electrification growth trend that is likely to be a central market narrative over the next decade. The company's core leverage is to buildings, with IPD supplying equipment that reduces energy use and/or reliance on the transmission network. We see sector demand as a long life replacement cycle driven by new technology adoption, supportive policy measures and changing consumer tastes.

Robust inflation play: Inflation largely acts as a tailwind for distributors with strong value propositions and efficient cost controls as these companies should have pricing power to pass on input costs. IPD's supply program consists of (1) high stock availability close to customers; (2) a process driven advantage in commercial logistics; and (3) Electrical & Instrumentation (E&I) service capabilities, which competitors largely do not have. In a tight market, we view these as defining capabilities for superior customer outcomes.

Turnaround opportunity and scope for further categories: IPD has recently secured +$35m in product categories with the electrical manufacturer ABB, on an exclusive basis. ABB generally makes the industry leading (EV chargers, medium voltage) or second leading (low voltage) technical product, however market share in Australia (5-10%) is far lower than Europe (20-30%) due to customer service deficiencies of IPD's predecessor.

Track record of self-funded growth: Long standing relationships with customers and suppliers has driven organic revenue growth of ~8.6% (17-year CAGR to FY22e), which is roughly double the headline rate of its underlying markets. Further, all eight acquisitions (~$75m revenue) have been funded using internally generated cash and scrip.

Structural gross margin upside: Following a 'lost decade' of industry pricing (-1% to +1.5% p.a.), raw inflation should enable IPD to restore normal margins on legacy priced products. Over time, we also envision IPD's E&I division 'Addelec' becoming a primarily source feeder for projects of increased value in Engineering and Construction.

Cyclical drivers: Our analysis of conversion rates and the existing 'V-shaped' equipment capex cycle suggests growth continuing in the region of 5-7% through FY22-23e. PMI growth has also been driven by the gradual recovery of Australia's process industries which in our view IPD has relatively higher leverage to than peers.

Free option: Supported by state government incentives, Australia's EV sales grew +205% to 21,000 in 2021 suggesting adoption has reached a significant inflection point. IPD is contracted to distribute ABB's AC and DC electric chargers and any certainty surrounding these earnings could see material upgrades to our EPS estimates from FY23/24e onwards.

Near term upside: IPD has had a strong start as a listed entity and in Feb '22 issued a c.17% upgrade to FY22e guidance. Our pro-forma FY22e estimate of $20.4m is at the top end of guidance ($19.7m to $20.5m BPe) although below run-rate FY22e of $21.8m.

Clean capital structure and strong cash flow: IPD begins listed life with zero debt and a $17.6m net cash position (excl. leases). The company's lean operating footprint carries only minimal fixed assets, requires limited ongoing capex and hence generates a high level of cash. OCF and FCF realisation have historically averaged >90%, providing optionality for further acquisitions or a higher payout ratio over time, in our view.

Undemanding valuation: In our view, strategic footprints in attractive end markets, sound operating metrics, and strong free cash flow generation positions IPD for mid-term EPS growth towards the top end of peers (6-8%). Further, IPD's FY23e EV/EBITDA is priced at a significant 46.5% discount to its competitive set and we believe represents compelling value for a high quality business with the potential to enter an earnings upgrade cycle.

Key Risks

Key risks to IPD include, although are not limited to:

Supplier risk: IPD's distribution agreement with ABB, its largest supplier, can be terminated by ABB unilaterally without cause and without any significant penalty with 180 days' notice. Whilst this would have material impact on IPD's profit generating capability, overall we attribute low risk to this event: (1) IPD's relationship with ABB's predecessor General Electric dates back over 28 years; (2) ABB has increased scope with IPD by a cumulative +$35m since FY20; and (3) in our view, the only competitor capable of replacing IPD would be NHP, who are already exclusive with Terasaki.

Inventory risk: IPD's agile value proposition involves taking a large, directional view on its stock position and the company's low turn of ~3x accentuates realised gains or losses on inventory. For example, we suspect $1.0m to $1.5m of EBITDA will be realised through positive pricing revisions over FY22e. Conversely, in a falling market the burden of risk for slow moving or dead inventory is marginally greater for a company like IPD.

Indemnity risk: IPD provides a range of indemnities to its employees and customers. Adverse events reported from the use, misuse or defect of products could expose IPD to product liability claims or litigation.

Operating leverage: IPD is a relatively high operating leverage distribution business operating in industries experiencing high input and labour cost pressures. At present, a +/- 1ppt change in GM has a +/- $1.7m impact on EBIT, which equates to c.10% of FY22e.

Risk to gross margin assumptions: IPD's 1H22e GM of (38.6%) is forecast to normalise in 2H22e and FY23e (37.2%). However, our forecasts beyond then incorporate some structural improvement to GM based on product mix, increased project size and scale. Whilst we believe forecasts are conservative it is possible that IPD does not realise these benefits.

Competition: Some commodity segments of low voltage are becoming more competitive, including through the rise of domestic markets competition. Increased capacity and/or unusual pricing behaviour by new competitors may present a risk to future earnings.

Capital expenditure cycle: IPD is dependent on activity and cycles of replacement/refurbishment across buildings, resources, energy and process sectors.

Force majeure and COVID-19: A combination of factors including supply to shipping, government mandated shutdowns and rising input costs may put pressure on sourcing materials and also limit IPD's ability to supply to customers on time. ABB flagged component and semi shortages in Oct '21 which we think impacted IPD's HTC in 1H21.

Risks of labour shortages and costs: Although somewhat a by-product of strong demand during cycle expansion, labour shortages or increases in labour rates could impact IPDs growth and/or ability to fulfil contractual obligations.

Acquisition and integration risk: IPD's growth strategy involves acquisitions that have inherent due diligence, capital allocation and business integration risk.

Liquidity risk: IPD's daily liquidity is restricted by >60% of the float being currently locked up in voluntary escrow. As a total of 57.1m shares are scheduled for release in Aug '22, this possible liquidity event may currently be overhanging the stock.

Key personnel risk: IPD's growth has been driven by its culture, industry relations and a service oriented business proposition, all of which we see as heavily influenced by existing management. A loss in key personnel could have a substantial impact on IPD until the skills that are lost are adequately replaced.

Business Overview

IPD is a leading Australian distributor of electrical equipment and industrial digital technologies with a focus on buildings, infrastructure and process sectors. The company can trace its history back to 1950 as the first English Electric Company of Australia and for over 50 years served as a 'sister' distribution branch to global manufacturers General Electric and Alstom prior to an MBO in 2005. Headquartered in Wetherill Park NSW, IPD operates out of nine distribution centres and services 4,200+ customers nationally.

IPD's supply program is defined by: (1) a process driven competitive advantage in commercial logistics; (2) an agile service proposition focused on high stock availability close to customers; (3) an Electrical & Instrumentation vertical in EPC, and; (4) a portfolio of leading brands centred on the attractive end markets of electrification and automation.

Electrification: Broadly the process of replacing industry technologies that use fossil fuels with technologies that are more efficient and use electricity as a source of energy. Through an exclusive distribution partnership with ABB, IPD supplies industry leading medium voltage (used in industrial plants, mining, tunnels) and transport hardware[1] (electric vehicle chargers), as well as industry's second leading low voltage equipment for buildings. IPD's largest category, low voltage, is benefiting from heightened product churn rates due to new technologies that are becoming more cost and energy efficient[2].

Industrial automation: The use of control systems, such as computers or motor drives, to automate production flows and reduce human interaction – also known as control engineering and the Industrial Internet of Things (IIoT)[3]. Automation was entered through the acquisitions of Control Logic (2020) and High Technology Control (2021) and has become a fast growing segment. Whilst we think critical mass is still yet to be reached, these product lines generally move through the same distribution channels, are used by the same customers, and utilise the same logistical capabilities as low voltage.

Figure 1 - IPD business

Segment	Product Distribution		Services
FY22e Revenue	89%		11%
Channel	Electrification	Automation	Addelec Power Services
Description	Australia's #1 or #2 third party master distributor, exclusive channel partner to ABB and Elsteel	Recently entered through acquisitions of Control Logic and HTC	Turnkey subcontractor providing Electrical & Instrumentation (E&I) services to EPC
Business Model	Master distribution arrangements with OEMs for low to medium voltage equipment and EV chargers Value-added services include engineering design, inventory management, post-sales support	Sale of digitalisation hardware and software - project style contracts Also earns "soft margins" in the form of rebates from various OEM vendors	Project management and sale of labour Widens value proposition, diversifies IPD's customer base and provides an additional touch point to feed product division

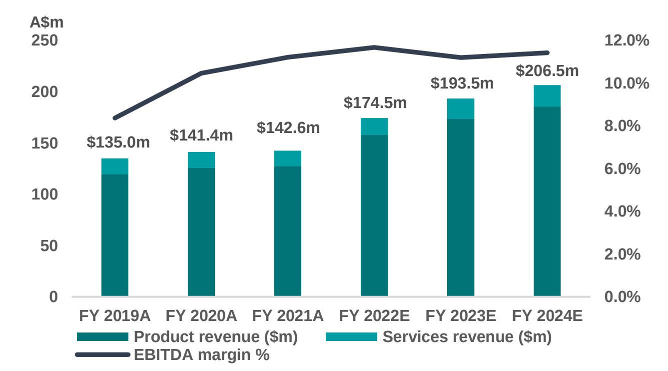
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 – Company history

2005	Existing management team buy IPD Group out of Alstom in MBO
2010	IPD's support services division in Sri Lanka formed
2015	Mr Michael Sainsbury elected CEO of IPD Group
2019	Acquisition of Addelec and formation of MRO services division
2019	ABB acquires General Electric, in initial trial appoints IPD 415V category
2020	Control Logic accelerates automation exposure and "IoT gateways"
2020-21	ABB awards IPD electrification below 1,000V (A$7.0bn global division)
2021	16-year organic CAGR revenue growth of ~6.8%, 11.6% incl. acquisitions
Sep-21	Exclusive partner to ABB for EV chargers (transitioning revenue c.$25m)
Oct-21	HTC acquisition enters motor control space - HVAC, process drives
Dec-21	Normalised pro-forma 1H21 EBITDA $10.9m (FY22 prospectus was $16.0m)
2022e	Normalised guidance upgraded to $19.7m - $20.5m (vs run-rate $21.8m)

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 – IPD pro-forma revenue and margin



SOURCE: IPD PROSECPTUS AND BELL POTTER SECURITIES ESTIMATES

[1] Defined in terms of global OEM market shares. IPD also supplies volume segments of OEMs Emerson, Red Lion, Belden, etc, on a non-exclusive basis.

[2] Low voltage is driven by the secular energy transition of buildings – i.e. 'smart' and 'zero energy' buildings that are decentralised and do not feed the transmission network, but rather provide generating capacity near point of consumption.

[3] May include controlling motor function (discrete), monitoring temperature specifications (e.g. HVAC), or converting raw materials into finished goods (process).

Competitive environment and barriers to entry

Although Schneider and Eaton still operate direct to customer, the most common route to market for overseas electrical manufacturers (ABB, Emerson, Siemens, etc) in Australia is through a master distributor, such as IPD. Master distributors gate the sales for the OEM whilst providing a range of locally customised services[4]. Generally, the customers of a master distributor include prime contractors, resellers (branch distribution), and other intermediate users, instead of direct end users.

Protection against wholesale bypass: Engineering standards and technical specifications of equipment vary significantly by country, meaning most of IPD's product segments are 'multi local' – for example, in its most simple form power sockets in Australia differ to those in the US or EU (and require the use of adapters). This presents challenges in specifying product and influences the logistics, support capabilities and inventory decisions of IPD, which in our view are relatively difficult to replicate.

Other barriers: IPD's industries rely heavily on the supply of imported equipment. Particularly in commercial and industrial settings market share is also heavily influenced by branding. For example, specifiers (e.g. architects) will often detail exact products to be used by contractors in the construction of a new build, which can leave little scope for cheaper alternatives or share gains for less prominent brands. In instances where this decision is left to the contractor cost can often be the defining factor. However, tightening markets for labour and capital equipment (with delays out to 18 months for some larger kit) should favour service-intense distributors, such as IPD.

Table 1 – Competitiveness of IPD's product portfolio

Product category	Description	Drivers	Europe market share	Australia and IPD	Comments
Low voltage power distribution – 50% E.g. distribution boards (and enclosures), circuit breakers and contactors Critical to machine uptime and effective use	• "Smart power" and "smart buildings" • Products divide electricity feed into separate circuits for different loads • Downstream of connection to medium voltage electricity supply	• Mostly late cycle – refurbishment, industrial production, GDP • Some early-cycle – works approvals, infrastructure • National Energy Productivity Plan – 40% productivity improvement by 2030	• Schneider (20-30%), ABB (15-25%), Hager (10-20%), Eaton (10-20%), Siemens (5-10%) • Legrand "giant in niches" – smart buildings • Hager leader in enclosures (20-30%)	• Schneider 40%, NHP 15-20%, IPD 15-20% • Schneider dominates after acquiring Clipsal for $1.3bn in '03 • IPD is exclusive distributor of number one panel board Elsteel	• IPD distributes c.40% of ABB's electrification division • ABB market share in Aus (c.5%) yet to reflect full potential in Australia – large turnaround opportunity for IPD
Medium voltage (secondary distribution) – 7.5% E.g. tranformers, circuit breakers and surge protectors	• Larger ticket equipment used to step-down power at secondary sub-station • Increasing requirement for higher service voltage	• Early-cycle due to project nature of end-markets • Industrial plants, utilities, mine sites, data centres, tunnels	• Secondary distribution dominated by ABB (20-30%) and Schneider (20-30%), Siemens (10%), Eaton (5%)	• IPD has recently been awarded the additional category by ABB • Initial product and service opportunity in mining	• Note ABB still sells >1,000 V category direct to utilities. IPD will still provides post sales support for these products
Electric vehicle chargers - <1% E.g. Alternating Current (AC) and Direct Current (DC) chargers	• AC wall-box charging (home, apartment, workplace) • DC rapid-charging (commercial, shopping centre, petrol stations)	• Early-cycle – secular energy transition, EV take-up • Government spend on charging infrastructure	• ABB largest,10% of the global $5bn market • ABB charger revenues 60% CAGR FY17-21 • Chargepoint, Tritium, Evbox, Schneider, Siemens, Delta (NHP)	• IPD will be sole distributor of AC, joint initiative partner for DC chargers (with ABB) • Will be a highly competitive market	• Integration opportunity with IPD's low voltage and E&I • Incentives by state governments finally driving EV adoption. • EV sales +205% in 2021
Industrial and motor control – 27.5% E.g. industrial motors, variable speed drives and soft starters, cooling products	• Conversion and control of electrical to mechanical power • Basic motor automation, largest segment is HVAC	• Process: late cycle. IE3 & IE4 motor efficiency. • Discrete: earlier cycle and more industrial than low voltage - minerals processing, O&G, utilities	• Siemens and Schneider dominate O&G, Rockwell • ABB largest in industrial motors and drives for process industry	• IPD distributes ABB drives (non-exclusive via HTC and Control Logic) • More leveraged to process industries (vs discrete manufacturing).	• NHP the market leader in Australia (Rockwell) • Possible exclusive arrangements with ABB or other channel partners over time (BPe)
Automation and communication – 15% E.g. distributed control systems (DCS), programmable logic controllers (PLC), Human-machine interface (HMI) software, cyber security	• The use of computers and software to mitigate human interaction and create autonomous processes • "IoT gateways", "Machine to machine connections (M2M)"	• Growth in IP networked devices – M2M • Demand for automated production. Supportive demographic and skills gap • Data usage • Cyber security spend	• PLC: Siemens (30%) and Rockwell (20%) – discrete automation • HMI: Schneider (20-30%), • DCS: ABB (20%) and Emerson (15%) – process industries	• IPD distributes Emerson for PLCs, Red Lion for HMI, Belden cyber security, IDEC • Weak ABB segment, besides DCS	• IPD small versus domestic competitors, but Control Logic growing fast • Large data centre MRO service opportunity via Addelec

SOURCE: EUROPEAN COMMISSION, VARIETY OF COMPANY SOURCES, PRODUCTS AS % OF GROUP REVENUE ARE BELL POTTER ESTIMATES

[4]IPD provides a range of value-added services, including custom assembly, engineering design, inventory management, technical compliance, procurement, transport, storage, regulatory management, commissioning support, as well as service of equipment (where those capabilities exist).

We make the following observations with respect to IPD and the competitive landscape:

- **Turning around a leading technical product:** ABB's low voltage market share in Australia (5-10%) is materially less than its share in Europe (20-30%). We think has been driven by prolonged customer service deficiencies of ABB's direct distribution model in Australia before categories began transitioning to IPD in 2019. In our view, the opportunity for IPD to reintroduce a service-intense proposition to a leading technical product in a large market segment (>$1bn) presents significant upside to the Group.
- **Five main competitors:** IPD is one of only three distributors offering national logistics and an exclusive arrangement with one of the world's leading OEMs. IPD's like-for-like competitors include privately owned distributors NHP (exclusive Rockwell, Terasaki, Delta) and APS (exclusive Siemens). As prior mentioned, global OEMs Schneider[5] and Eaton also compete directly in Australia.

  Beyond the top five players, distribution channels are highly fragmented. Switchboard manufacturers and EPC subcontractors (who may also be IPD product customers) can tender against IPD in project oriented end markets – e.g. Colterlec (process industries) and Nilsen (infrastructure). Commodity products (c.40% of IPD's portfolio) are also heavily contested in less formal markets, including online. Additionally, we believe large branch distribution wholesalers Rexel ($800m sales) and Lawrence & Hanson are able to bypass master distributors, such as IPD, for some of these products.
- **IPD vs NHP vs APS:** Master distributors in Australia have trended towards a broad-line offering over time, however they are still closely associated with a specific product and/or end market that we think can influence their ability to capture market share.

  NHP has a highly established communication and motor control offering through industry leader Rockwell (c.40% of revenue BPe) and dominates Australian utilities and O&G (discrete automation)[6]. Although not considered to be a core strength, note that NHP likely has a comparable to slightly larger low voltage division to IPD due to the company's size, which we believe is about 3x IPD (~$480m). We believe APS turns over ~$80m per year, with key end markets including healthcare and discrete factory automation.

  In comparison, IPD has a high exposure to buildings and relatively greater exposure to process industries than competitors[7]. An important differentiator for IPD is its E&I service segment (Addelec) which offers a complete lifecycle solution for EPC customers.
- **Product mix and exposure:** IPD's product and service mix is split roughly 65% electrification and 35% automation and control. Within electrification IPD primarily supplies low voltage 'distribution', 'power' and 'smart buildings' products that modify load and/or add capacity by upsizing existing electrical infrastructure. This means IPD's core leverage is relatively late cycle with demand driven mainly by the cycle of refurbishment, and to a lesser extent new commercial construction and infrastructure.

  Earlier cycle opportunities for IPD should continue to arise as IPD expands further into the same markets as NHP and APS through medium voltage and automation (e.g. resources, utilities, and O&G).
- **Low cost/high-value ratio:** From a customer's perspective electrical distributors are a very small part of overall project cost, but are essential for uptime and critical process. We believe this helps support strong gross margins of 35-45%.

[5] Schneider is the global number one in low voltage and factory automation (discrete). We believe market share in Australia may be as high as 40%.

[6] Discrete automation: Involves the assembly of engineered components into an end product such as automobiles, appliances, and electronics.

[7] Process automation: Continuous batch processes such as minerals refining, paper manufacturing, chemical production, packaging, etc.

Upside risk to margin through pricing and mix

We estimate undiscounted gross margins available to IPD and other volume distributors vary from a low of 30% for major brand commodity products (e.g. LV 'finish' and basic automation) to north of 40% for specialised products (e.g. LV 'power' and medium voltage).

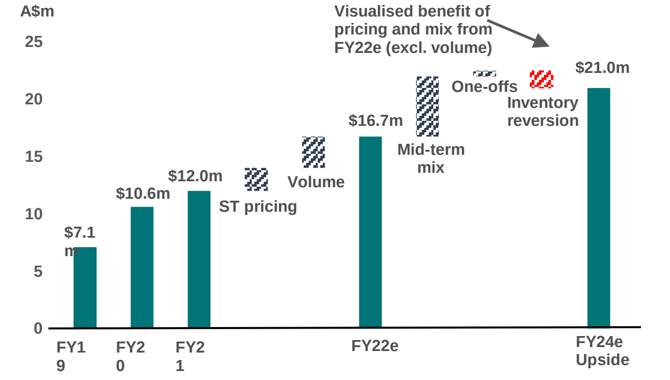
For a non-branch distributor IPD is relatively high operating leverage. At present, a +/-1ppt change in GM has a +/- $1.7m impact on EBIT, which is c.10% of FY22e. Based on mix and pricing alone, over the mid-term we can see the company's sustainable margin approaching 40%, or between +2ppts and +3ppts higher than current levels.

- **ABB:** We estimate over the last two years IPD's core business has won $35m in transition business from ABB. Near-term pricing on c.$25m of these sales will be maintained at similar levels to when ABB was supplying the market D2C. Combining this lower price point with a service proposition should see IPD recoup market share, at which point a likely outcome could be to restore normal margins on these categories.
- **Average order value leverage:** IPD formed an electrical maintenance, repair and operations division (MRO) through the acquisition of Addelec in 2019. Although product sales are IPD's main earnings driver, we envision MRO to become a primarily source feeder for the group over time. In effectively pivoting towards operations of an integrated EPC subcontractor, access to higher value projects (and 'trading up' the product mix) could shift IPD up the margin curve, in our view.
- **Best pricing environment in over a decade:** Raw material and labour cost pressures have translated into a handful of price increases by global OEMs in the region of +3% to +6% over the last year. Whilst the current pace of these changes poses challenges to timing (distributor pricing tends to lag inflationary trends), we see IPD as having the power to maintain its margins given the company's service-intense model, which we think is well-suited to provide superior customer outcomes in a tightening market.

  In the near-term we see upside to IPD's net pricing via (1) rebasing legacy priced products, important when considering the range of pricing growth over the last decade has been between -1.0% and +1.5% p.a.; and (2) stock rotation benefits from realising pricing gains on inventory – e.g. IPD holds >$30m stock equating to potentially +$1.5m in FY22e (BPe). Note that in our FY23e+ these conditions are assumed to mean revert.

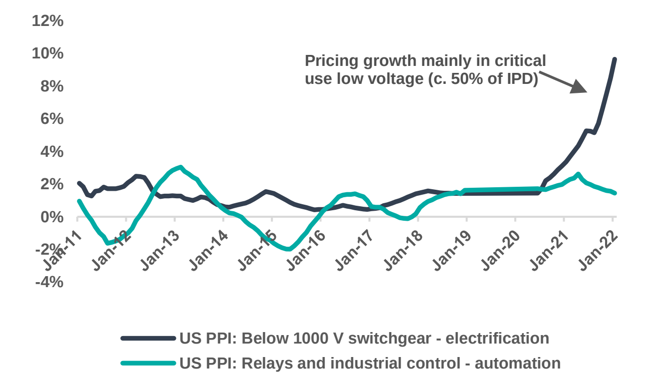
IPD's management of logistics costs has also saved ~$2.5m in nominal terms (or ~6% of the cost base) over the last two years, more than offsetting near-negative pricing in FY19 and pandemic affected volumes (mainly services) during FY20-21. Notwithstanding IPD targeting additional efficiencies (unquantified but presumably small in nature) through removing duplicate cost structures of Control Logic and HTC (e.g. warehouse consolidation, sales channels, ERP), overall we see IPD's business as well run in its current state, with the majority of cost out benefits achieved by FY22e end.

Figure 4 – Visualised possible EBIT benefit of mix and pricing



SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 5 – Industry pricing proxy for IPD's products (% YoY)



SOURCE: BELL POTTER SECURITIES

Bred-in-the-bone of suppliers and customers

We see IPD's competitive advantages and formulation of IP as being largely process driven in relation to the company's commercial logistics capabilities, inventory decisions, knowledge of local application sectors, along with customer and supplier relationships.

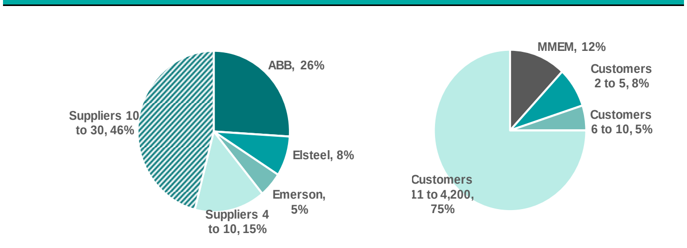
An agile supply program: Underpinning IPD's historic outperformance is a level of service that prioritises (1) significant stock availability close to customers; (2) additional customised solutions, including site kitting, custom assembly, engineering design and post-sales customer service; and (3) market leading on time fulfilment rates of >95% (on upwards of 550,000 orders p.a.).

In managing inventory on behalf of resellers and contractors, IPD reduces customer carrying costs and mitigates lead times. Generally, the company targets stocking the equivalent of around 3 turns (>$30m). Proportionately, this is about 3x times the amount of branch distributors such as Rexel. IPD also sees its Addelec service division as a key differentiator versus competition.

Well-entrenched relationships: IPD also has a strong track record of forming long-term relationships with its customers and suppliers, in some cases dating back more than 35 years. The average tenure of the company's top ten customers and suppliers is 25 years and 16 years, respectively. Additionally, c.35% of company revenue is through agreements with ABB and Elsteel that are exclusive to IPD, providing a level of protection for the IP of these relationships[8]. Notably, since MBO in 2005 no supply partner has terminated a distribution agreement with IPD.

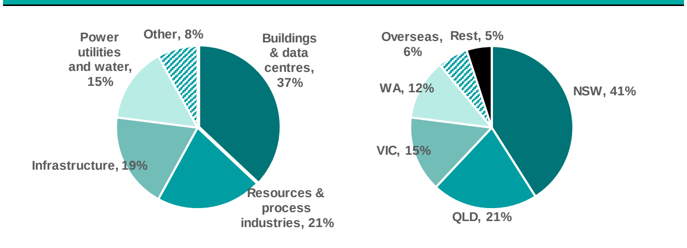
Generally low concentration: IPD has developed a significant customer base now extending to over 4,200 active resellers, contractors, switchboard manufacturers, systems integrators and power utilities. The company's largest customer, MM Electrical Merchandising (12% of revenue), is one Australia's largest electrical distributors, with more than 300 individual stores nationwide with each store ordering individually from IPD under its own master supply agreement. No other customer represents more than 3% of revenue.

Figure 6 – IPD supplier and customer concentration



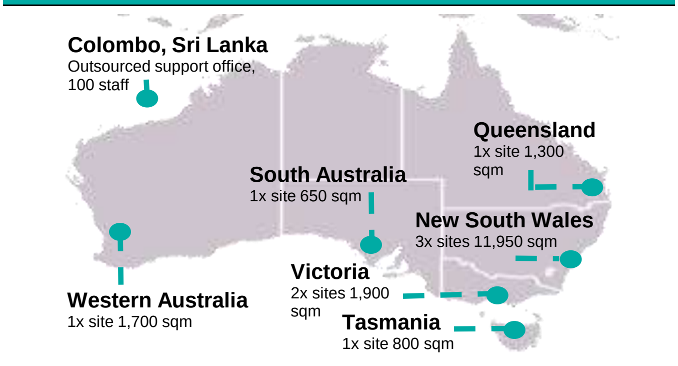
SOURCE: IPD PROSPECTUS, EXCLUDES SUPPLIER REBATES

Figure 7 – IPD revenue by end market and geography



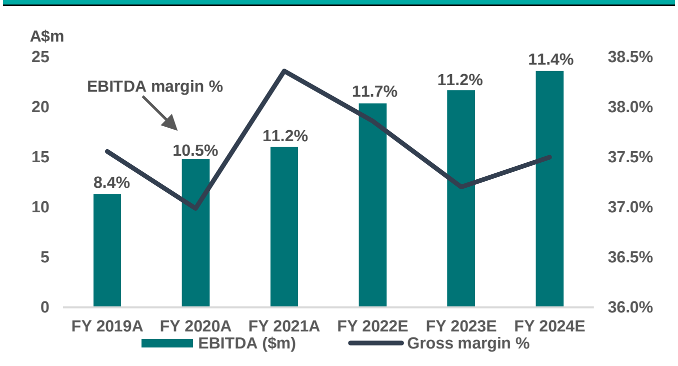
SOURCE: IPD PROSPECTUS, BELL POTTER SECURITIES ESTIMATES

Figure 8 - IPD electrical coverage Australia



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 9 – IPD pro-forma gross margin and EBITDA



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

[8] Suppliers may enter into distribution agreements with distributors, such as IPD, to sell part or all of their product ranges on an exclusive or non-exclusive basis. These agreements generally set out that a distributor is unable to sell like-for-like products from other manufacturers. Over the course of time this reduces the ability of an OEM to move distributors or internalise distribution and we believe provides an additional level of protection for IPD's relationships.

Opportunities to grow ahead of the system

TECHNICAL INNOVATION DRIVING CHURN

Technological advances in energy storage and generation are leading to more cost-efficient, source decentralised energy options for buildings[9]. This is translating into accelerated product churn of low voltage, however from a top-down perspective the zero energy building transition (ZEB) is still an under penetrated opportunity for IPD. To date, only 2% (0.6m sqm) of Australia's buildings are currently zero energy despite a further 18% (5.3m sqm) having made a commitments by 2030. Further, it is anticipated that all new builds from 2030 onwards will be decentralised from the grid.

With over 70% (21.0 sqm) of Australia's building supply now with some form of energy reducing policy, the next phase of commitment to net zero will be driven by (1) energy prices and an ageing transmission network; (2) an increasingly mature micro grid; (3) prosumer incentives from government in order to reach 40% energy reduction by 2030; and (4) private willingness to pay, as currently reflected in rental premiums, occupancy rates and increased sales prices[10].

INDUSTRIAL CONTROL SYSTEMS AND CYBER SECURITY

Private spend on cyber security is broadly a double digit growth trend, totalling $5.6bn in Australia in 2020. Prior to being acquired in October '20, Control Logic experienced strong earnings growth in FY20 (+179% to $5.3m) before momentum was slowed in FY21 due to COVID-19 (annualising the pro-forma adjustment in FY21 implies earnings fell by about $0.7m[11]). We believe Control Logic contributed strongly to IPD's 1H21 after the company capitalised a new distribution agreement with Idec in early FY22.

SCALABLE ACQUISITION STRATEGY

In addition to accelerating IPD's entry into new end markets, acquisitions offer the benefit of increasing suppliers' reliance on IPD. Control Logic (2020) and HTC (2021), for example, both had non-exclusive wholesale arrangements with ABB (known as 'house accounts') prior to purchase. We believe this may have contributed to IPD Group's future contract wins with the manufacturer in electrification and see scope for additional consolidation of IPD's existing suppliers. Note: this is also a similar industry consolidation strategy to Dicker Data's in the adjacent computer hardware wholesaling market.

In moving up the value curve in project size, there is also a need to add skill sets and capacity that aren't in the business. We see there being potential for IPD to expand Addelec into underserved regions of QLD and WA. Moreover, it is also possible that the company will acquire additional service capabilities in automation and EV charging. Past multiples for acquisitions are not disclosed however we expect 3-4x EBITDA to be a reasonable parameter.

NEW SPECIFICATIONS AND STANDARDS

A new series of engineering safety standards covering low voltage switch and control gear enclosure systems – AS/NS 61439 – is driving strong growth for IPD's modular switchboard range. Elsteel and IPD have partnered together to provide the market leading panel board solution that helps address the need for supply portability between Australia and international suppliers.

DATA CENTRE OPPORTUNITY

IPD has recently established a distribution arrangement with Malaysian based PPB Powerduct, who manufacture a cabling alternative called busduct that is commonly used in

[9] Decentralised generation is power that doesn't feed the transmission network, but rather provides generating capacity and storage close to point of consumption.

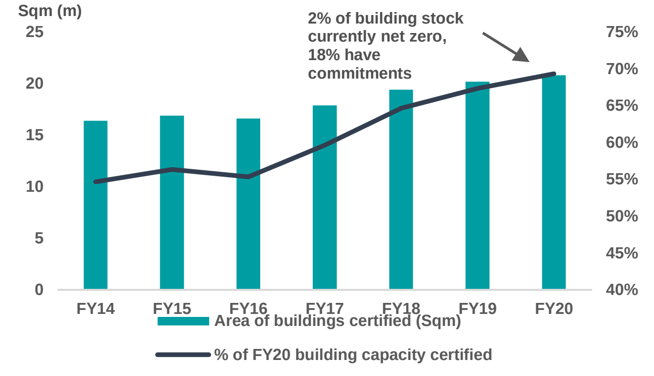
[10] Offices with NABERS energy ratings of up to 4.5 stars are worth 8% more than unrated buildings on a per square metre basis. Buildings rated between five and six stars are estimated to command an 18% premium. Occupancy rates and rents in green certified buildings can also be as much as 23.1% and 5% higher.

[11] Also includes ~$1.0m of acquisition costs.

data centres. Central to the demand for data is the number of IP network connected devices per household (machine to machine connections or M2M). The rollout of NBN and uptake of hyperscale cloud services[12] has also driven a step change in data usage and planned data centre construction.

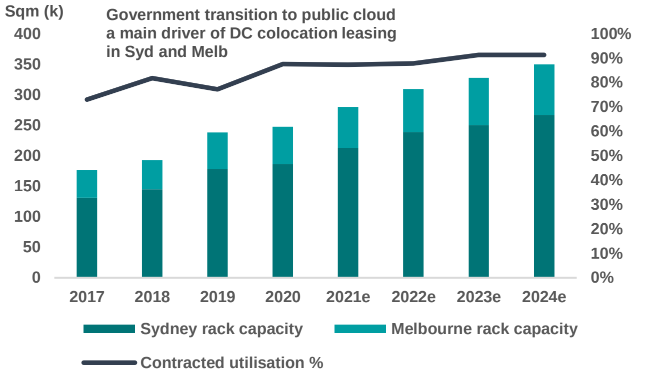
As of 2021, consumer adoption of M2M in Australia reached 5.4 M2M devices per person, which is up nearly 3-fold on 2015 although still amongst the lowest of developed nations. Cisco estimates that global M2M adoption will grow at around 19% p.a. over the next three years.

Figure 10 - NABERS Australia energy rating uptake



SOURCE: IPD PROSPECTUS, NABERS, ABS

Figure 11 Rack capacity and utilisation forecasts (Syd & Melb)



SOURCE: AUSTRALIA DATA CENTRE REPORT 2020, STRUCTURE RESEARCH, CISCO

[12]Hyperscalers include the likes of AWS, Azure, Google, IBM, Oracle and Alibaba Cloud. Note that the improved shared capacity of hyper-scaling greatly increases the efficiency of data storage and hence partially offsets the growth outlook for busduct and related data centre equipment and servicing

Market Drivers

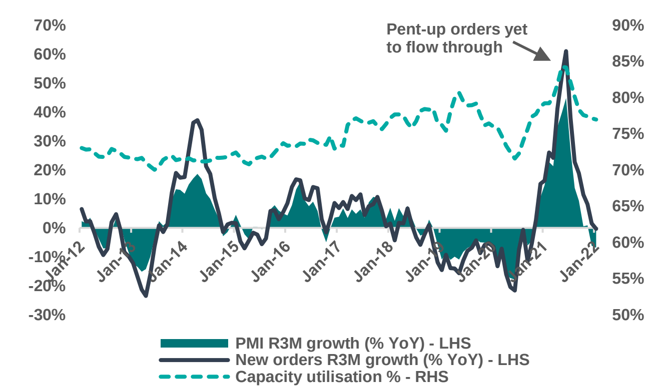
Based on import data, we estimate the total end-user value of product categories currently handled by IPD in Australia is $14.3bn, with growth over the last decade having averaged about 4.0% p.a. The adjacent addressable market for electrical MRO is a larger $25.2bn, with growth generally in line with GDP.

LATE CYCLE LEVERAGE – REFURBISHMENT, PRODUCTION AND CAPEX

IPD is traditionally a distributor of low voltage 'power' products so its core leverage is late cycle. Whilst commercial construction is an important factor, we look at sector demand being driven mainly by a cycle of refurbishment (i.e. industrial production and capital expenditure on equipment). The transition to low energy or 'smart' buildings also generally involves load modifications and/or new capacity requiring adding or upsizing existing electrical infrastructure. For this reason, we think demand over the medium term in IPD's key segments is likely to exceed the historical 4.0% sector average.

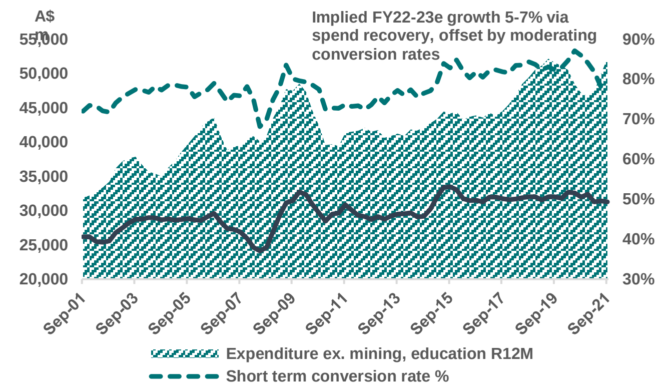
For the most part we are seeing improved forward dynamics for IPD's later cycle segments. Despite some offsetting conversion rates exiting September '21, we think the existing equipment capex cycle trend ('V-shaped') suggests growth continuing in the region of 5-7% through FY22-23e[13]. Prior to declining to an eight month low in January '22, Australia's PMI growth has been principally driven by the gradual recovery of Australia's process industries (minerals production, food and beverage) which in our view IPD has relatively higher leverage to than its peers.

Figure 12 - Australia PMI, new order growth, capacity utilisation



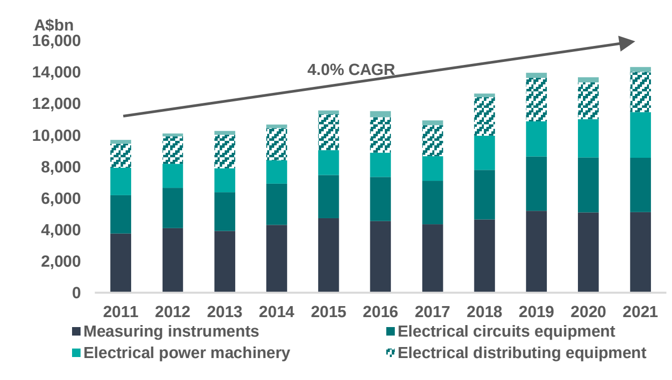
SOURCE: AUSTRALIAN INDUSTRY GROUP, BLOOMBERG

Figure 13 – Equipment capex and conversion rates on intentions



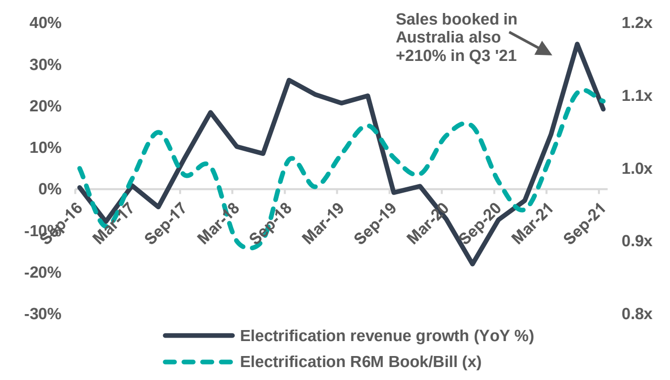
SOURCE: ABS, BELL POTTER SECURITIES

Figure 14 - Expenditure on IPD categories - end-user prices



SOURCE: DFAT IMPORT DATA, FROST & SULLIVAN, ADJ. FOR END USER PRICES (BPE)

Figure 15 - ABB Electrification book growth and book/bill



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

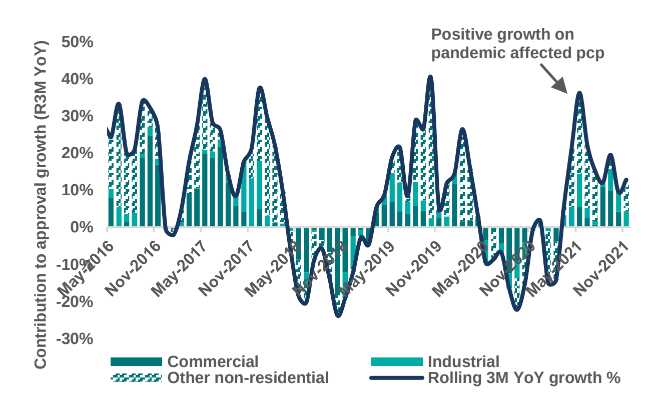
[13] Our view is formed by extrapolating three quarters of high single-digit two-year change growth (growth on corresponding quarters in 2019), using weaker conversion rates of 49% (50.3% in 2019).

EARLY CYCLE – COMMERCIAL CONSTRUCTION AND INFRASTRUCTURE

Earlier cycle opportunities for IPD should continue to arise in new construction (mainly commercial), infrastructure, resources, utilities, and O&G as medium voltage and automation (via HTC and Control Logic) become a larger part of IPD's portfolio. These products are generally more project oriented with longer component lives – e.g. once building foundations are laid secondary medium voltage infrastructure is sold to connect a building or industrial plant to the substation. Our proxy for this equipment (which also includes some low voltage) correlates at about 50% to total commercial and EPC work done.

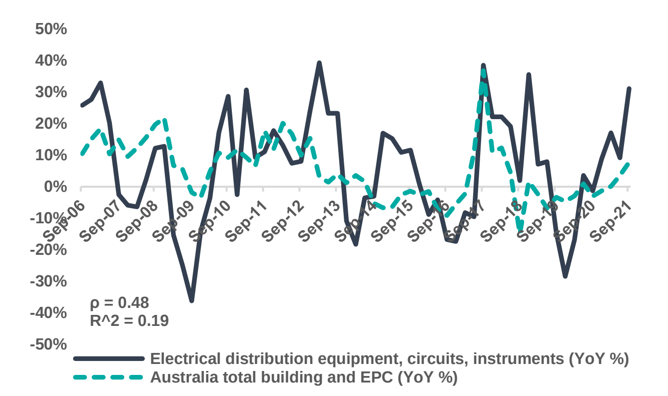
Commercial construction is a main driver of this equipment and can be volatile month to month. Prior to the Dec '21 Omicron wave Commercial work approved on a 3-month basis had recovered beyond pre-pandemic levels and the months of Sept to Nov '21 provide us with a reasonable measure of underlying momentum – as these cycle the prior year pick-up in EPC and commercial activity. Value approved was up strongly +12.8% YoY to $13.5bn during this time, albeit still someway off the peaks in Apr to June '21 of $15.2bn.

Figure 16 – C&I building approvals growth by value (R3M YoY)



SOURCE: ABS, BELL POTTER SECURITIES

Figure 17 – Work done vs switchgear, basic automation (% YoY)



SOURCE: ABS, BELL POTTER SECURITIES

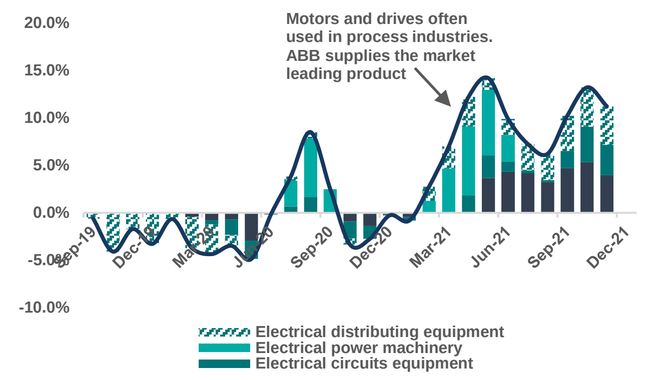
SUPPLY LINE DISRUPTIONS AND IPD

IPD's service proposition involves taking a large directional view on inventory (>$30m) from a number of different sources. Relative to pure-play distributors Schneider and Eaton we think this offers some protection against the recent disruptions to supply chains. Most of IPD's stock held in its warehouses is low voltage – or OEM 'manufactured to order' products that IPD then specifies for Australian requirements.

In October '21 ABB and Schneider both reported that component and semiconductor shortages had been leading to lower global deliveries (see figure 15 book/bill). We think it is likely that this impacted parts of IPD's automation segments during 1H22 (e.g. High Technology Control). Tentatively improving supply lines, in our view, should offer some support to IPD's 2H22e pro-forma EBITDA guidance ($8.8m to $9.6m).

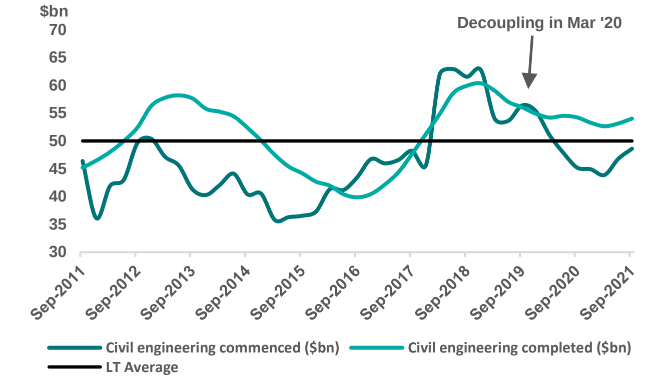
During the last two years there have been times when up to ~40% of new starts have experienced project delays of 3 months or more. Whilst supply chain bottlenecks for capital supplies (and more recently Omicron staff shortages) have reportedly been the largest contributors, existing data suggests that the overall number of delays has remained relatively stable since 2019. Whilst cancellations of work are still not present, we believe this will result in an extended building and refurbishment cycle for electrical kit.

Figure 18 - Monthly electrical infrastructure growth (% YoY)



SOURCE: DFAT IMPOTRT DATA, BELL POTTER SECURITIES

Figure 19 – Civil commencements vs completions R12M



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

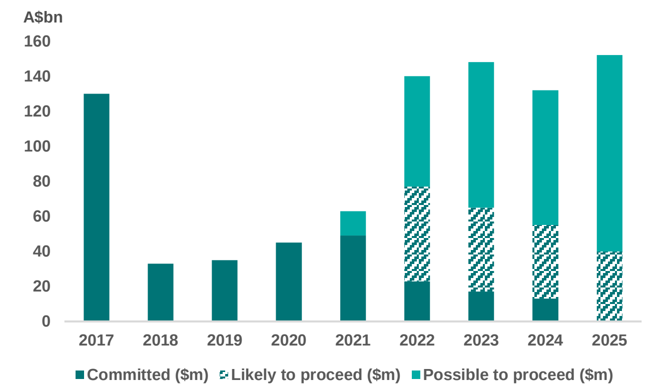
INFRASTRUCTURE, RESOURCES AND NEW ENERGY

IPD's focus on digital transformation in mining is largely in automation of extraction and processing activities, however over time we envision this extended to other areas of the value chain including mine design and planning, transport, logistics and trade.

In 2021, the number of committed resources and energy projects grew 24% to $54bn with almost 40% of the pipeline out to 2027 categorised as committed or likely to proceed (up from around a third in 2020). Given extended lead times, there is a fair chance that FY22e projects will be pushed out into FY23-24e, with only ~30% of these projects physically underway, by value.

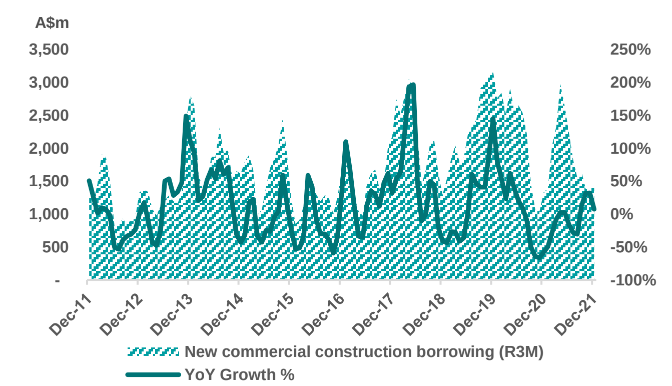
The outlook for civil construction particularly down the East Coast of Australia remains strong. Approximately $225bn has been allocated for general government sector infrastructure funding in Australia over the four years to FY24e – a 26% increase over last year's Federal Budget.

Figure 20 – Resources and energy project investment outlook



SOURCE: DEPARTMENT OF RESOURCES AND ENERGY

Figure 21 - New borrowing for new commercial construction R3M



SOURCE: ABS, BELL POTTER SECURITIES

Financials

Forecast Profit & Loss

We forecast revenue and EBITDA to grow organically at a CAGR of 13.1% and 13.8% from FY21-24e. Core drivers include a mix of market growth, new products and distribution contracts, average order value and absorption of available capacity from new acquisitions.

Figure 22 - Forecast Profit & Loss

Income Statement Year End 30 June	Jun-19 2019a	Jun-20 2020a	Jun-21 2021a	Dec-21 1H22E	Jun-22 2H22E	Jun-22 2022e	Jun-23 2023e	Jun-24 2024e	Prospectus FY22e	IPD Guidance Feb 2022e
Product Distribution	119.7	125.6	127.6	76.0	82.0	158.0	173.5	185.5	154.4	
Services - Electrical and Instrumentation	15.3	15.8	15.0	9.5	7.0	16.5	20.0	21.0	15.0	
Total Revenue	**135.0**	**141.4**	**142.6**	**85.5**	**89.0**	**174.5**	**193.5**	**206.5**	**169.4**	
Growth (%)		*4.7%*	*0.8%*	*nm*	*nm*	*22.4%*	*10.9%*	*6.7%*	*18.8%*	
Gross Profit	50.7	52.3	54.7	33.0	33.1	66.1	72.0	77.4	61.8	
Gross Margin	*37.6%*	*37.0%*	*38.4%*	*38.6%*	*37.2%*	*37.9%*	*37.2%*	*37.5%*	*36.5%*	
Operating EBITDA	**10.8**	**14.1**	**15.4**	**10.7**	**9.3**	**20.1**	**21.7**	**23.6**	**17.8**	
Growth (%)		*30.6%*	*9.2%*			*30.3%*	*7.9%*	*8.9%*	*15.6%*	
Group Underlying EBITDA	**11.3**	**14.8**	**16.0**	**10.9**	**9.5**	**20.4**	**21.7**	**23.6**	**18.1**	**19.7 - 20.5**
Group Underlying EBITDA Margin	*8.4%*	*10.5%*	*11.2%*	*12.7%*	*10.7%*	*11.7%*	*11.2%*	*11.4%*	*10.7%*	
Growth (%)		*31.0%*	*8.1%*			*27.3%*	*6.4%*	*8.9%*	*13.1%*	*23.1% - 28.1%*
Total D&A	(4.2)	(4.2)	(4.0)	(1.8)	(1.9)	(3.6)	(4.0)	(4.2)	(3.6)	
Total EBIT	7.1	10.6	12.0	9.1	7.6	16.7	17.7	19.4	14.5	15.7 - 16.4
EBIT Margin	*5.3%*	*7.5%*	*8.4%*	*10.7%*	*8.6%*	*9.6%*	*9.1%*	*9.4%*	*8.6%*	
Net Interest	(0.6)	(0.6)	(0.6)	(0.3)	(0.3)	(0.6)	(0.7)	(0.9)	(0.5)	
Profit Before Tax	**6.5**	**10.0**	**11.4**	**8.8**	**7.3**	**16.1**	**16.9**	**18.5**	**14.0**	
Tax Expense	(2.3)	(2.9)	(3.5)	(2.7)	(2.2)	(5.0)	(5.1)	(5.5)	(4.3)	
Underlying NPAT	**4.2**	**7.1**	**7.9**	**6.1**	**5.1**	**11.2**	**11.8**	**12.9**	**9.7**	
Group Underlying NPAT Margin	*3.1%*	*5.0%*	*5.5%*	*7.2%*	*5.7%*	*6.4%*	*6.1%*	*6.3%*	*5.7%*	
Growth		*69.0%*	*11.3%*			*41.7%*	*5.9%*	*9.2%*	*22.8%*	
Underlying EPS (¢ps)	4.9	8.2	9.2	7.1	5.9	13.0	13.7	15.0	11.2	
Reported EPS	4.9	8.2	9.2	7.1	5.9	13.0	13.7	15.0	11.2	
Dividend (¢ps)	2.3	5.3	0.0	0.0	2.8	2.8	6.1	6.7	2.8	

SOURCE: COMPANY DATA AND BELL POTTER ESTIMATES, IPD GUIDANCE FOR FEB '22 ADJ. BY BELL POTTER FROM STATUTORY TO PRO-FORMA

PRODUCT DISTRIBUTION OUTLOOK

- **ABB transition volumes:** IPD's forecast top-line growth of +22.4% in FY22e is principally driven by the ~$25m expanded distribution agreement with ABB (effective 1 September '21). Note that we estimate roughly ~50% of this agreement consists of new products (e.g. 1,000V distribution equipment, AC EV chargers) and ~50% new customers – i.e. old product, formerly ABB 'house accounts'. In IPD's prospectus 9 months contribution (~$17.0m) was included in FY22e, meaning a portion of organic growth in FY23e will come from annualising this agreement. We carry forward a churn assumption of $1.5m in FY23e for conservatism.
- **Comparable volume growth:** Global electrical manufacturers generally target over-the-cycle organic growth of between 3-8% per annum. We use this mid-range as the basis of our volume forecasts – that is, market share is assumed to be held relatively constant – however we highlight upside risk for IPD through the: (1) large turnaround opportunity for ABB in Australia in low voltage (e.g. 5% market share in Australia vs 30% in Europe); (2) still nascent replacement cycle of electrical equipment required for energy efficient buildings; and (3) network upside of IPD's services division as a source feed for higher value projects.
- **Cyclicality:** We are largely constructive on the 'V-shaped' equipment capex cycle, with market momentum in our view implying mid-to-high single digit market growth in FY22-23e. Approvals growth and limited work cancellations also suggests the current building cycle is being pushed out and lengthened as opposed to declining. Additionally, we are positive on the directional trend of Australia's recovering process industries.
- **Seasonality:** According to management, there is generally limited seasonality in IPD's business. Historically the 1H to 2H bias can skew 48:52 between either half based on the timing of project related contracts.

- **Electric vehicle chargers:** Our forecasts at this point include negligible sales or growth from this opportunity.

SERVICE DIVISION OUTLOOK

- **COVID-19 impacted:** IPD's service division principally involves selling labour which, since acquiring Addelec in 2019, has been constrained by project delays, restrictions to sites and more recently forced isolation of staff. Services are likely to be the focus of M&A for IPD and we forecast mid-single digit growth over the forecast horizon.

NEAR-TERM TAILWINDS AND REVERSALS

- **Guidance:** In Feb '22 IPD upgraded its FY22e statutory EBITDA guidance to between $17.6m and $18.4m (prev. $16.0m). Our pro-forma adjustments include normalising statutory 1H22 EBITDA of $8.8m for $1.7m IPO costs and $0.4m contribution from HTC prior to acquisition in Oct '21 (BPe). This implies normalised pro-forma EBITDA of $10.9m in 1H22 and guidance of $19.7m to $20.5m. Our FY22e estimate of $20.4m is at the top end of guidance although below run-rate FY22e ~$21.8m.
- **Pricing power and gross margin:** In our view, the degree of availability for critical spares (or lack thereof) is a strong driver of marginal pricing power for service-intense distributors, such as IPD. We believe the opportunity for IPD to rebase legacy priced products against a favourable pricing backdrop should structurally support GM, although in FY23e we assume that this is more than offset by recently realised gains on inventory (up to $1.5m BPe). Whilst we highlight mid-term upside to GM based on increasing per order value leverage and product mix, sustainable margin grows only incrementally from FY23e to 37.5% in FY24e.

OPERATING COSTS

- **Overhead cost out largely complete:** Management has achieved material cost savings of ~$2.5m in nominal terms (or ~6% of the cost base) over the last two years through improving the operating footprint. We suspect residual improvements (e.g. the removal of duplicate cost structures from acquisitions) are small in nature and hence IPD's forecast cost base begins to assume some catch up in labour and systems costs in 2H22e and onwards.

OTHER

- **Currency risk:** IPD hedges currency risk by taking forex cover on a rolling 4 month basis or the equivalent of about one stock turn.

Balance sheet

The consolidated pro forma balance sheet for IPD is shown in Figure 23 below.

Figure 23 - IPD balance sheet

Year End 30 June	2021a	2022e	2023e	2024e
Cash	17.6	18.5	20.9	25.7
Total Debt	0.0	0.0	0.0	0.0
Core Net Debt/(Cash) - excl. lease liabilities	(17.6)	(18.5)	(20.9)	(25.7)
Core Net Debt/(Cash) - incl. lease liabilities	(3.0)	(3.9)	(6.3)	(11.1)
PP&E	2.7	3.0	3.2	3.5
Intangibles & Goodwill	5.2	5.2	5.2	5.2
NTA per share	0.55	0.68	0.76	0.84
Net Assets	50.0	61.2	68.0	75.5
Working Capital	22.0	32.0	36.3	38.6
Average Per Dollar of Revenue	15.4%	18.4%	18.7%	18.7%
Return on Equity (ROE)	15.8%	19.1%	17.9%	17.6%
Return on Invested Capital (ROIC)	37.0%	39.9%	37.9%	39.3%
CAPEX as % of Revenue	0.5%	0.7%	0.6%	0.6%
CAPEX to PPE D&A	70.0%	125.0%	125.0%	125.0%
EBIT Net Interest Coverage (x)	20.0	28.7	24.2	22.1
Capital Ratio (CA/CL)	2.1	2.1	2.2	2.3
Fixed Charge Coverage (x)	4.0	5.9	5.5	5.6

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key take-outs include:

Clean capital structure: IPD begins listed life with zero debt and a pro-forma net cash position of $17.6m (excl. $14.5m lease liabilities), providing fire-power to pursue both organic (i.e. to invest in inventory) and inorganic opportunities which we expect to provide synergy opportunities. Flexing FY22e against a 1.5x net-debt/EBITDA covenant implies debt funding headroom of nearly $50m.

Attractive return metrics: As a non-branch distributor IPD's lean operating footprint carries only minimal fixed assets and requires limited ongoing capex. Return on capital metrics are thus relatively high – for example FY21 ROIC was 37.0% and ROE 15.8%.

Further, IPD had been entirely self-sufficient prior to IPO, including all eight acquisitions to date having been funded using internally generated cash and scrip.

Variable stock turn: As a distribution business, IPD's cash flow is directly linked to its rate of growth and the corresponding need to fund working capital. We forecast a material inventory build in FY22e consisting of (1) a required one-time investment for the new ABB category (conversion should normalise in FY23e); and (2) additional stock to mitigate supply chain disruptions. Although stock turn may also fluctuate at times due to the project nature of IPD's business (e.g. 'long cycle' medium voltage, drives, PLCs) our steady state turn is held relatively constant at 3.3x.

Inventory stocking is a blessing and a curse: When raw materials prices are increasing the company has shown it can book a larger spread through a combination of timely offsetting pricing actions and realising gains on inventory. Conversely, in falling markets margins may be squeezed and we would also consider the burden of risk for slow moving (or dead) inventory to be marginally greater for an operator like IPD.

Cash flow

The pro forma cash flows for IPD are shown in Figure 24 below.

Figure 24 - IPD cash flow

Year End 30 June	2019a	2020a	2021a	2022e	2023e	2024e
Gross Cash Flow	9.2	17.8	15.2	10.3	17.4	21.2
Operating Cash Flow	6.8	16.0	11.4	4.8	11.6	14.8
Operating Cash Flow (adj. for finance leases)	4.2	13.9	8.4	2.2	8.6	11.7
Capex	(2.4)	(0.9)	(0.7)	(1.3)	(1.2)	(1.3)
Free Cash Flow	1.8	13.0	7.7	0.9	7.4	10.3
Dividends Paid	(2.5)	(2.0)	(4.6)	0.0	(5.0)	(5.5)
Acquisitions & Disposals	(0.1)	0.0	0.0	0.0	0.0	0.0
Share Issues	0.0	0.0	0.0	0.0	0.0	0.0
Change in Borrowings	1.2	(0.8)	(2.8)	0.0	0.0	0.0
Other Cash Flow Items	0.3	0.0	(0.4)	0.0	0.0	0.0
Net Change in Cash	0.9	10.3	(0.1)	0.9	2.4	4.8
FCF per share (¢ps)	2.1	15.1	8.9	1.1	8.5	12.0
FCF Realisation (%)	65.4%	160.5%	86.5%	7.4%	57.5%	73.8%
OCF Conversion (%) - incl. finance leases	63.0%	109.9%	81.2%	35.4%	63.1%	72.9%
OCF Conversion (%) - prospectus method	84.5%	118.3%	97.0%	47.9%	77.1%	86.3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, PROSPECTUS OCF CONVERSION EXCLUDES FINANCE LEASES

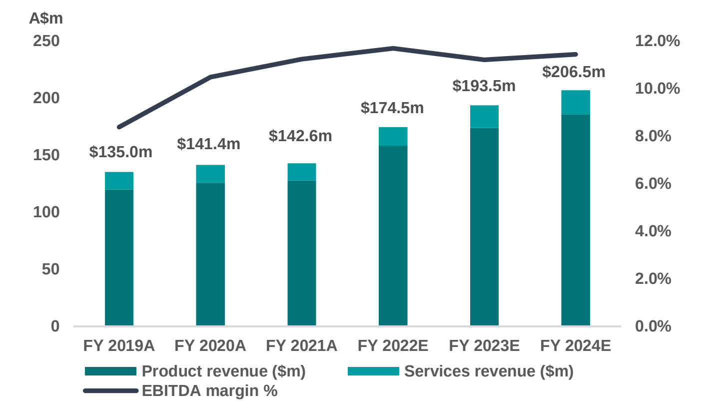
Key take-outs include:

Heightened free cash flow profile: The underlying IPD business generates a high level of cash. When there are no constraints to bulk carriage, the company is effectively on net-90 terms with suppliers and customers. Whilst realisation of OCF (against EBITDA) and FCF (against NPAT) have historically averaged >90%, we believe a sustainable range is between 70-80%. This should also support a higher payout ratio over time, in our view[14].

Dividend policy: The payout guidance range for IPD shareholder dividends is 40-60% of NPAT. Our forecasts currently assume a ~45% payout ratio given management's intention to invest back in the business to drive growth.

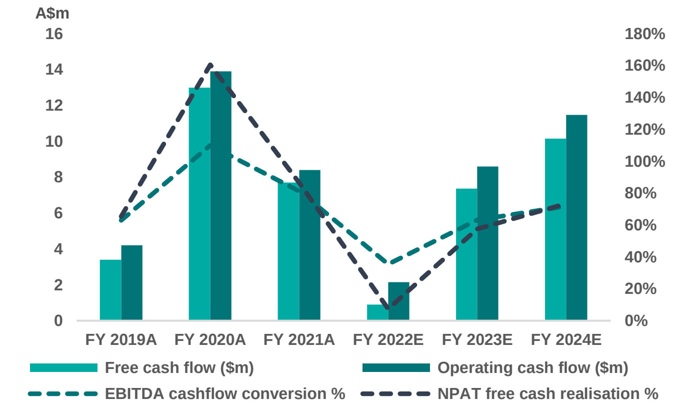
In the prospectus IPD estimated a maiden half yearly dividend of 2.8cps which would be payable for 2H22e in Oct '22. Note that this is still undeclared, however annualising the forecast dividend equates to a yield of 4.1%. At FY21 end IPD had a franking account balance of $16.3m.

Figure 25 – IPD pro-forma revenue and EBITDA margin



SOURCE: IPD PROSPECTUS

Figure 26 – IPD cash flow and realisation



SOURCE: BELL POTTER SECURITIES ESTIMATES, OCF ADJ. FOR FINANCE LEASE PAYMENTS

[14] We measure operating cash flow realisation using gross cash flow (excl. cash tax, incl. finance leases) as a percentage of operating EBITDA.

Valuation

In deriving our price target of $1.80ps for IPD we have blended two methodologies, being a DCF valuation and relative valuation approach. Our 12 month price target is at a 31.9% premium to the current share price. Including a fully franked dividend yield of 4.1% our analysis implies a total return of 36.0%.

Figure 27 - IPD valuation table

Implied P/E and EV/EBITDA multiples		FY21a		FY22e		FY23e		FY24e	
		PE (adj. EPS)	EV/EBITDA	PE (adj. EPS)	EV/EBITDA	PE (adj. EPS)	EV/EBITDA	PE (adj. EPS)	EV/EBITDA
FY22e EV/EBITDA	$1.83	20.0	8.8	14.1	6.9	13.3	6.5	12.4	5.9
DCF	$1.76	19.2	8.4	13.6	6.6	12.8	6.2	11.9	5.7
12 Month Price Targ	$1.80	19.7	8.9	13.9	6.8	13.1	6.4	12.2	6.6
Current price	$1.37	14.9	6.3	10.5	4.9	9.9	4.6	9.2	4.2

SOURCE: BELL POTTER SECURITIES ESTIMATES

Peer analysis table

We compare IPD against a group of ASX listed Trading Companies, Distributors and international industrial suppliers. Although there is no direct domestic peer for IPD's product distribution division, we note that Addelec provides like-for-like Electrical & Instrumentation (E&I) services to a number of listed EPC peers including Southern Cross Electrical Engineering (SXE:ASX).

Our domestic peer group screens companies that share similar business characteristics and may share one or several of the following characteristics:

- Distributors in markets reliant on the supply of imported goods;
- Asset and/or capital light;
- Leverage to construction (e.g. building materials); or
- Services an industry with annuity/relatively low volatility style growth.

Figure 28 - IPD peer valuation comparison

						EV/EBITDA			P/E			Div Yield%	
Company Name	Currency	Last Price	Mkt Cap	EV (A$m)	2021	2022	2023	2021	2022	2023	2021	2022	2023
Domestic Trading Companies & Distributors													
Dicker Data	AUD	$13.70	2,369	2,454	20.8	16.8	15.8	31.5	25.7	24.2	2.9%	3.1%	3.3%
Bapcor	AUD	$6.58	2,233	2,690	10.3	9.4	8.6	17.8	17.3	15.8	2.9%	3.2%	3.5%
GWA Group	AUD	$2.35	623	790	9.0	8.3	7.8	15.2	13.1	12.0	4.9%	5.9%	6.3%
Beacon Lighting	AUD	$2.46	549	663	8.0	8.1	8.1	14.9	15.8	17.2	3.5%	3.6%	3.4%
Supply Networks	AUD	$10.25	419	453	17.9	12.7	11.6	33.8	22.0	19.4	2.0%	2.7%	2.9%
Southern Cross Electrical	AUD	$0.53	136	94	3.5	3.1	2.7	9.7	8.6	7.4	5.7%	8.0%	8.8%
Coventry Group - *Bell Potter Estimates*	AUD	$1.62	148	162	6.8	6.2	5.5	40.0	15.8	12.3	1.9%	2.5%	3.4%
Average			***925***	***1044***	***10.9***	***9.2***	***8.6***	***23.3***	***16.9***	***15.5***	***3.4%***	***4.1%***	***4.5%***
International Electrical Distributors & General Industrial Supply													
Ferguson	USD	$11,275	24,676	37,394	15.2	13.5	13.0	17.2	13.8	13.1	2.5%	2.6%	2.8%
Bunzl	GBP	$2,738	9,238	10,914	12.0	12.0	11.9	17.7	17.8	17.3	2.0%	2.1%	2.2%
Rexel	EUR	$20.06	6,133	8,856	7.8	6.9	6.6	11.5	10.3	9.7	2.9%	3.7%	3.9%
Wesco	USD	$117.50	5,923	10,422	9.1	7.9	7.3	12.6	10.1	8.8	0.0%	0.0%	0.0%
Electrocomponents	GBP	$992	4,672	4,757	20.3	13.7	12.4	32.5	21.5	19.2	0.0%	0.0%	0.0%
ARB Electrical Wholesalers	ZAR	$780.00	1,833	1,676	5.0			9.2			0.0%		
Global Industrial Company	USD	$29.25	1,106	1,174	13.3	11.5	10.6	16.7	14.8	12.8	0.6%	0.0%	0.0%
Average			***7655***	***10742***	***11.8***	***10.9***	***10.3***	***16.8***	***14.7***	***13.5***	***1.1%***	***1.4%***	***1.5%***
ASX Emerging Companies Index	AUD					7.2			-11.8			1.0%	
ASX Small Industrials	AUD					13.2			23.6			3.0%	
IPD Group	**AUD**	**$1.37**	**118**	**100**	**6.3**	**4.9**	**4.6**	**14.9**	**10.5**	**9.9**	**N/A**	**4.1%**	**4.5%**

SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

Notable peers within this group are highlighted as follows:

- **Electrocomponents:** In our view, ECM is the leading Omni-channel distributor in IPD's end markets of electrification and automation. The company stocks 650,000+ products from 2,500+ suppliers and operates with the same value proposition of stock availability and fast dispatch, backed by a technical support and an MRO segment. Gross margins of 42% to 44% are between +420bps and +620bps ahead of IPD (BPe).

Although ECM's EV is nearly 50x times larger, cash flow (>80% OCF conversion) and return metrics (>20% ROIC) are comparable to IPD and in our view illustrate the scalability of a master distribution model.

- **Dicker Data:** DDR is an Australian master distributor in computer hardware and software. The main similarity to IPD is its business model (e.g. high volume logistics, exclusive agreements, non-branch distribution). Further, DDR's 10-year CAGR of 10.8% has been driven organically and through industry consolidation – e.g. strategically acquiring companies with market share across vendors they already represent, which we see as a similar growth strategy to IPD's.

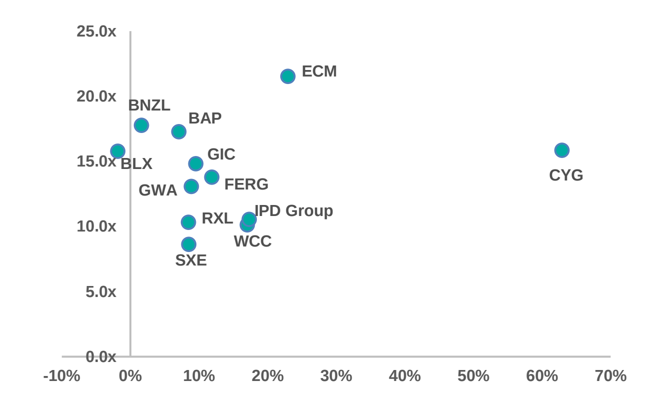
  DDR's holds an estimated 22% market share in Australia and is the leading supply partner to Hewlett Packard and Cisco (>25% of FY21 BPe).

- **Rexel:** Whilst RXL's global scale in electrical distribution is unmatched, the company has a high debt burden that constrains growth and this is reflected in lower trading multiples versus peers. We believe Rexel's branch distribution subsidiary in Australia is for the most part downstream from IPD as the company supplies mostly low voltage 'finish' products.

On an EV/EBITDA basis, IPD trades on a forward FY23e multiple of 4.6x; a material discount of 46.5% to domestic peers (8.6x) and 65.2% to the small industrials index (13.2x). IPD's forecast 4.1% dividend yield is broadly in line with the peer group although we note this estimate is relatively conservative. In addition, we see IPD capable of delivering EPS of at least 6-8% p.a. over the cycle after the step-up in FY22e, which compares favourably to the competitive set at current prices.

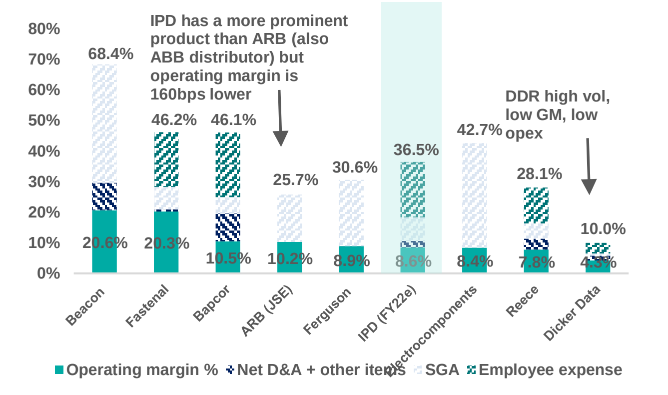
We judge that forward valuation metrics are undemanding due to (1) the company's attractive growth prospects with industry leading brands; (2) forecast heightened free cash flow profile (FY23-24e); and (3) high level of process intellectual property. We apply a liquidity and size discount of 25% to the domestic peer group which realises a valuation of $1.83ps.

Figure 29 - Comparable valuations (P/E vs FY21-24e EPS CAGR)



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

Figure 30 - Distributor margin comparisons



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Discount cash flow

Key assumptions used in our DCF valuation include:

- **Post-tax WACC of 10.0%:** Our WACC utilises a risk-free rate of 4.0%, a Market Risk Premium of 6.0% and an Equity Beta of 1.2. We feel a lower beta is appropriate for IPD compared to other industrial companies given its relatively low risk profile, however we have adjusted the beta higher considering IPD’s size;
- **Long-term growth rate of 2.5%:** We utilise a 2.5% terminal growth rate based on: (1) key macro drivers of civil infrastructure construction and mineral production being population growth and economic growth; (2) exposure to supportive structural trends; and (3) the growth opportunities and funding available to the company; and
- **Target gearing:** Following the IPO, IPD is carrying no debt. However there are implied debt facilities available to the Group and we feel these will likely be used over the mid-term in the event of an acquisition or similar. We assume a modest target gearing level of 15.0%.

We highlight possible upside to our valuation via the following:

- **Structural changes to margins:** We forecast incremental gains to GM of +30-50bps in FY24/25e, noting our margin assumptions before that are conservative (in FY23e -60bps) and reflect the possibility of some reversals to gains made on inventory today. If IPD is instead able to hold or improve margin in FY23e, which we think is possible, this could be a major catalyst towards a re-rating.
- **Additional exclusive distribution agreements:** Could possibly include ABB’s motion or process automation divisions or agreements with other suppliers in automation.
- **EV charging:** IPD is contracted to distribute ABB’s AC and DC electric chargers and any certainty surrounding these earnings could see material upgrades to our EPS estimates from FY23/24e onwards.
- **Accretive acquisitions:** IPD’s track record of successful business integrations, and likelihood of more given it’s well-capitalised balance sheet (net cash of $17.6m excl. leases), in our view presents further upside to the valuation.
- **Liquidity event:** IPD’s daily liquidity is restricted as c.61% (57.1m) of IPD’s shares outstanding are currently subject to voluntary escrow. This lock-up period is scheduled to end following IPD’s FY22e financial results in Aug ’22 and we believe that this possible liquidity event may be currently overhanging the stock.

Figure 31 - IPD DCF valuation

Year End 30 June	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
Gross Cash Flow	**10.3**	**17.4**	**21.2**	**23.6**	**26.2**
Notional Tax	**-5.0**	**-5.1**	**-5.5**	**-6.0**	**-7.0**
Interest paid	**-0.6**	**-0.7**	**-0.9**	**-1.0**	**-1.0**
Operating Cash Flow	**4.8**	**11.6**	**14.9**	**16.5**	**18.2**
Maintenance capex	(1.0)	(1.0)	(1.1)	(1.1)	(1.2)
Growth capex	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Payments of leases	(2.6)	(3.0)	(3.4)	(3.8)	(4.2)
Free Cash Flow	**0.9**	**7.4**	**10.1**	**11.3**	**12.4**
PV of Free Cash Flow	**0.9**	**6.5**	**8.1**	**8.2**	**8.2**

Operational NPV	**31.9**	Terminal growth rate	2.5%	
PV of perpetuity value	102.2	Cost of equity	11.2%	
Net debt/(cash)	(17.6)	Cost of debt (post tax)	3.2%	
Equity value	**151.7**	**WACC**	**10.0%**	
Equity value per share ($)	**$1.76**			

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Management & Board

Management team

Michael Sainsbury (CEO and Executive Director) – Mr Sainsbury has over 25 years' experience in sales, business development and management within the electrical industry. He joined IPD in 2013 as the National Sales Manager and has been CEO since 2015. Prior to IPD, Mr Sainsbury spent over 13 years working at Schneider Electric where he held various senior management roles in the electrical solutions and power monitoring space.

Mohamed Yoosuff (CFO and Executive Director) – Mr Yoosuff has been an employee and Board member of IPD since the company's MBO in 2005. He has held various roles within IPD and has been the CFO since inception. Mr Yoosuff has also held various senior management positions in manufacturing and distribution companies, including as CFO of Ludowici Group (a manufacturing and distribution business previously listed on ASX) and as Financial Controller of Otis Elevators.

Board of directors

David Rafter (Independent Non-Executive Chairman) – Mr Rafter is currently the CEO at Web FM, a global provider of construction and facilities management consulting and software solutions. Major roles across his 30-year building services career include the CEO of O'Donnell Griffin, a $600 million electrical engineering/contracting business and CEO of Haden Engineering a $300 million HVAC construction and service company, both part of the ASX-listed Norfolk Group via an IPO in 2007. Previously, David was an Executive General Manager at Transfield Services, an ASX-listed operations, maintenance and construction services business. David was appointed as a Director on 14 August 2019 and is a member of the AICD.

Andrew Moffat (Independent Non-Executive Director) – Mr Moffat has 23 years' of corporate and investment banking experience, including serving as a director of Equity Capital markets and Advisory for BNP Paribas Equities. He is currently a NED of Sports Entertainment Group Limited, 360 Capital Group Limited and ICP Funding Pty Limited. Past public company directorships include Rubik Financial Limited, Keybridge Capital Limited, CCK Financial Solutions Limited, itX Group Limited and Infomedia Limited. Mr Moffat was appointed as a Director on 24 March 2020.

Michael Sainsbury (CEO and Executive Director) – *Abovementioned*

Mohamed Yoosuff (CFO and Executive Director) – *Abovementioned*

Directors' interest

Director ownership is classified as follows.

Figure 32 - IPD director interest

Director	Shares Held	% Held
Michael Sainsbury	1,200,000	1.4%
Mohamed Yoosuff	11,221,666	13.0%
David Rafter	145,834	0.2%
Andrew Moffat	62,500	0.1%
Total	**12,630,000**	**14.6%**

SOURCE: COMPANY DATA

Substantial shareholders and lock-up

The company's current free float is 38.9%. In total, 52.7 million Shares held by escrowed shareholders will end following the release of IPD's FY22e financial results in Aug '22.

Figure 33 - IPD substantial shareholders

Shareholder	Shares Held	% Held
Mohamed Yoosuff & Mary Yoosuff	11,221,666	13.0%
The Geoffrey Thomas Bacon Family	11,189,965	13.0%
Dinshaw Katrak	7,292,931	8.5%
Keith Toose & Kirry Toose	7,127,647	8.3%
Pendal Group Limited	4,708,334	5.5%
Total	**41,540,543**	**48.1%**

SOURCE: COMPANY DATA

Total proceeds raised under IPD's public offering in Dec '21 was $40.0m, with this consisting of $20.0m new funds and a $20.0m sell-down from some long-standing employees and prior management who led IPD to its MBO in 2005.

IPD's largest shareholder is current CFO and Executive Director Mr Yoosuff, who did not sell down into the listing and purchased an additional 470,000 shares on market in late Dec '21.

IPD Group
as at 24 February 2022

Recommendation	Buy
Price	$1.365
Target (12 months)	$1.80

Table 2 - Financial summary

Income Statement (A$m)	FY19	FY20	FY21	FY22e	FY23e	FY24e
Revenue	135.0	141.4	142.6	174.5	193.5	206.5
... Growth %		*4.7%*	*0.8%*	*22.4%*	*10.9%*	*6.7%*
Gross profit	50.7	52.3	54.7	66.1	72.0	77.4
... Margin %	*37.6%*	*37.0%*	*38.4%*	*37.9%*	*37.2%*	*37.5%*
Operating EBITDA	**10.8**	**14.1**	**15.4**	**20.1**	**21.7**	**23.6**
... Growth %		*31%*	*9%*	*30%*	*8%*	*9%*
Other income	0.5	0.7	0.6	0.3	-	-
Total EBITDA	**11.3**	**14.8**	**16.0**	**20.4**	**21.7**	**23.6**
Depreciation & amortisation	(4.2)	(4.2)	(4.0)	(3.6)	(4.0)	(4.5)
EBIT	7.1	10.6	12.0	16.7	17.7	19.1
Net interest	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)	(0.9)
Pre tax profit	6.5	10.0	11.4	16.1	16.9	18.2
Tax expense	(2.3)	(2.9)	(3.5)	(5.0)	(5.1)	(5.5)
Tax rate	*35.4%*	*29.0%*	*30.7%*	*30.7%*	*30.0%*	*30.0%*
Normalised NPAT	**4.2**	**7.1**	**7.9**	**11.2**	**11.8**	**12.8**
... Growth %		*69.0%*	*11.3%*	*41.7%*	*5.9%*	*7.7%*
Reported NPAT	4.2	7.1	7.9	11.2	11.8	12.8

Cashflow (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Gross cashflow	17.8	15.2	10.3	17.4	21.2
Operating cash flow	**16.0**	**11.4**	**4.8**	**11.6**	**14.9**
Finance lease payments	(2.1)	(3.0)	(2.6)	(3.0)	(3.4)
Capex	(0.9)	(0.7)	(1.3)	(1.2)	(1.3)
Free cash flow	**13.0**	**7.7**	**0.9**	**7.4**	**10.1**
Cash payments for acquisitions	-	-	-	-	-
Proceeds from issuance	-	-	-	-	-
Movement in borrowings	(0.8)	(2.8)	-	-	-
Dividends	(2.0)	(4.6)	-	(5.0)	(5.5)
Sale of PPE	0.1	-	-	-	-
Other	-	(0.4)	-	-	-
Change in cash held	**10.3**	**(0.1)**	**0.9**	**2.4**	**4.6**
Cash at beginning of period	7.4	17.7	17.6	18.5	20.9
Cash at year end	17.7	17.6	18.5	20.9	25.5

Balance Sheet (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Cash	-	17.6	18.5	20.9	25.5
Receivables	-	27.1	32.9	37.2	39.7
Inventory	-	23.2	34.7	38.2	40.7
Property, Plant & Equipment	-	2.7	3.0	3.2	3.5
Right of use assets	-	13.2	13.2	13.2	13.2
Intangibles (incl. goodwill)	-	5.2	5.2	5.2	5.2
Other	-	8.4	8.4	8.4	8.4
Total assets	**-**	**97.4**	**115.9**	**126.4**	**136.1**
Trade payables	-	28.3	35.6	39.2	41.7
Debt	-	-	-	-	-
Lease liabilities	-	14.6	14.6	14.6	14.6
Other	-	4.5	4.5	4.5	4.5
Total Liabilities	**-**	**47.4**	**54.7**	**58.3**	**60.8**
Net Assets	**-**	**50.0**	**61.2**	**68.0**	**75.3**
Share capital	-	31.1	31.1	31.1	31.1
Reserves	-	0.1	0.1	0.1	0.1
Retained earnings	-	18.8	30.0	36.8	44.1
Shareholders Equity	**-**	**50.0**	**61.2**	**68.0**	**75.3**

IPD Group			Year Ending June 30
Share Price:	**$1.37**	**Target Price:**	**$1.80**
No. of issued shares:	**$86.3m**	**Market cap:**	**$117.8m**

Segment Earnings	FY19	FY20	FY21	FY22e	FY23e	FY24e
Product Distribution	**119.7**	**125.6**	**127.6**	**158.0**	**173.5**	**185.5**
Revenue growth		*4.9%*	*1.6%*	*23.8%*	*9.8%*	*6.9%*
Engineering services	**15.3**	**15.8**	**15.0**	**16.5**	**20.0**	**21.0**
Revenue growth		*3.3%*	*-5.1%*	*10.0%*	*21.2%*	*4.9%*

Valuation Ratios	FY19	FY20	FY21	FY22e	FY23e	FY24e
Basic EPS (cps)	4.9	8.2	9.2	13.0	13.7	14.8
Diluted EPS (cps)	4.9	8.2	9.2	13.0	13.7	14.8
EPS growth (%)		*69.0%*	*11.3%*	*41.7%*	*5.9%*	*7.7%*
Adjusted PE (x)	28.0	16.6	14.9	10.5	9.9	9.2
EV/Sales (x)		0.8	0.7	0.6	0.5	0.4
EV/EBITDA (x)		8.0	6.3	4.9	4.6	4.2
EV/EBIT (x)		11.1	8.3	6.0	5.7	5.2
FCF per share (cps)	3.9	15.1	8.9	1.1	8.5	11.8
FCF yield %	2.9%	11.0%	6.5%	0.8%	6.3%	8.6%
NTA per share ($ps)		0.00	0.55	0.68	0.76	0.84
P/NTA (x)			2.5	2.0	1.8	1.6
Book value ($ps)			0.58	0.71	0.79	0.87
Price/Book (x)			2.4	1.9	1.7	1.6
DPS (cps)			0.0	2.8	6.1	6.7
Payout ratio %			0.0%	21.4%	44.4%	45.3%
Dividend Yield %			0.0%	1.7%	4.5%	4.9%

Performance Ratios	FY19	FY20	FY21	FY22e	FY23e	FY24e
EBITDA Margin - Post-AASB 16 (%)	8.4%	10.5%	11.2%	11.7%	11.2%	11.4%
EBIT Margin (%)	5.3%	7.5%	8.4%	9.6%	9.1%	9.2%
NPAT Margin (%)	3.1%	5.0%	5.5%	6.4%	6.1%	6.2%
Net debt/(cash)	0.0	0.0	(17.6)	(18.5)	(20.9)	(25.5)
ROE (%)			15.8%	19.1%	17.9%	17.4%
ROIC (%)			37.0%	39.9%	37.9%	38.7%
FCF Realisation (%)	65.4%	160.5%	86.5%	7.4%	57.5%	73.4%
OCF Realisation (%)	63.0%	109.9%	81.2%	35.4%	63.1%	71.8%
Asset turn excl. leases (years)			15.4	20.1	22.2	22.3
Capex/Depn excl. leases (x)			0.7	1.3	1.3	1.3
EBIT Net Interest Cover (x)	11.8	17.7	20.0	28.7	24.2	21.8

Interim Results (A$m)	0.0	2H21	1H22	2H22e	1H23e	2H23e
Total revenue		71.3	85.5	89.0	95.5	98.0
... Growth HoH %			*19.9%*	*4.1%*	*7.3%*	*2.7%*
EBITDA			10.9	9.5	10.7	11.0
... Growth HoH %			*NM*	*-12.7%*	*12.6%*	*2.7%*
Depreciation & amortisation			(1.8)	(1.9)	(2.0)	(2.0)
EBIT			9.1	7.6	8.7	9.0
Normalised NPAT			6.1	5.1	5.8	6.0
... Growth HoH %			*NM*	*-17.1%*	*14.9%*	*3.2%*

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Sam Haddad	Industrials	612 8224 2819	shaddad
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Michael Ardrey	Associate Analyst	613 9256 8782	mardrey
Daniel Laing	Associate Analyst	612 8224 2886	dlaing

Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Prosperity Tower, 39 Queens Road
Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street
London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929

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