



# ***GROWTH*** **RECOMMENDATION**

**JOHNS LYNG  GROUP**

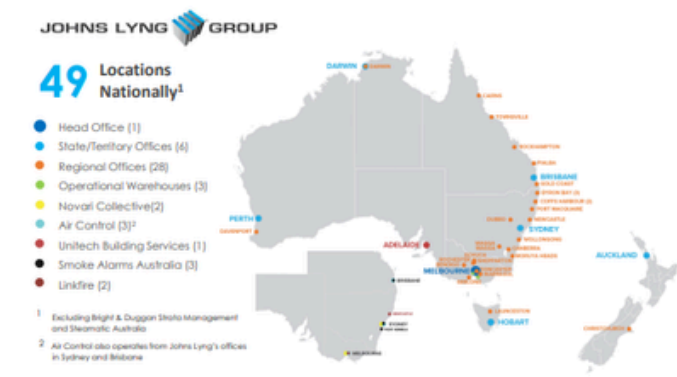
**JLG:ASX**  
**November 2024**

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### GROWTH RECOMMENDATION

#### Johns Lyng Group JLG:ASX

Johns Lyng Group is a leading integrated building services provider, specializing in insurance building and restoration services across Australia, New Zealand, and the United States. The company's core business revolves around rebuilding and restoring properties and contents after damage from insurable events such as storms, fires, floods, and other disasters. JLG operates through four main segments: Insurance Building and Restoration Services (IB&RS), Commercial Building Services, Strata Building and Management, and Commercial Construction. The IB&RS segment, which accounts for over 90% of revenue, provides 24/7 emergency services, fire damage restoration, storm damage repair, mould remediation, contents restoration, and hazardous waste removal. The company has established long-term panel partnerships with major insurance companies, giving it a strong market position. JLG's business model combines recurring, non-discretionary revenues from insurance work with growth opportunities in commercial services and international expansion. The company's ability to rapidly mobilize its workforce of over 16,000 subcontractors allows it to respond effectively to both routine insurance claims and large-scale catastrophic events across its operating regions

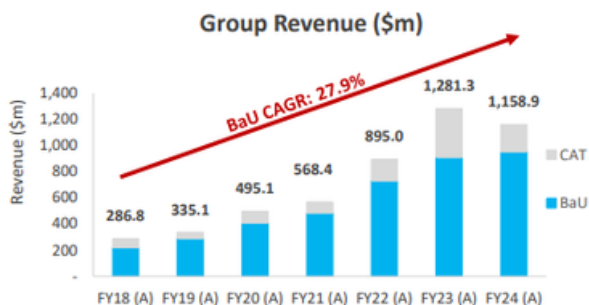


## INVESTMENT CONSIDERATIONS

### Leadership

Johns Lyng Group is led by an experienced and committed management team with a proven track record in the building and restoration industry. Scott Didier AM, the founder, serves as Group CEO and Managing Director, bringing over 20 years of industry experience to the role. His significant ownership stake (0.49% of shares worth A\$5.13 million) aligns his interests with those of shareholders. Nick Carnell, the CEO of Australia, has been with the company for over 20 years and possesses extensive knowledge of the construction industry. Matthew Lunn, the Group CFO, brings strong financial management expertise to the team. The leadership team's average tenure of 4.2 years demonstrates stability and continuity in management. The board of directors, with an average tenure of 5.5 years, provides experienced oversight. The company's management structure includes a mix of long-serving executives and newer additions, balancing institutional knowledge with fresh perspectives. This leadership team has successfully guided JLG through significant growth, including international expansion and strategic acquisitions, while maintaining the company's core focus on insurance building and restoration services

### Financial Performance

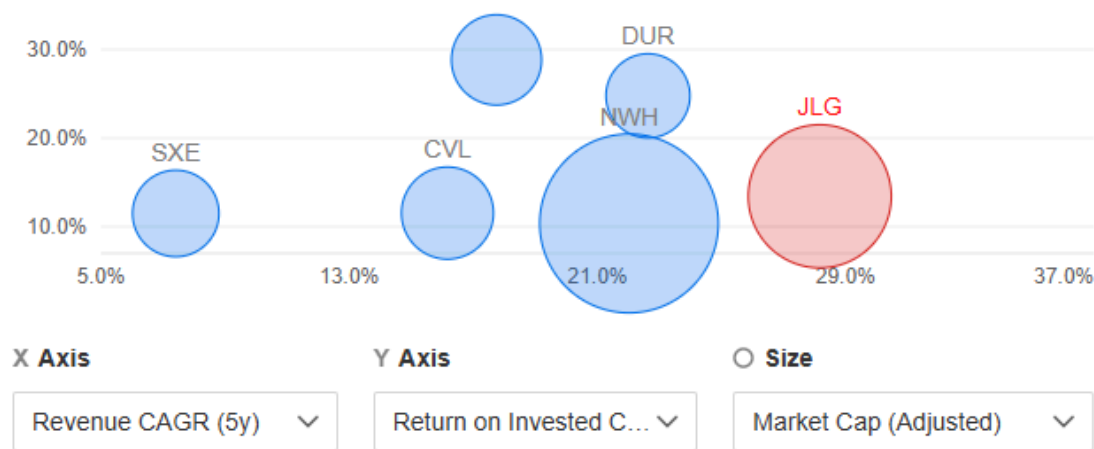


Historical Revenue (\$m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24
BaU	217.6	288.9	406.1	481.8	730.2	910.1	953.2
CAT	69.2	46.2	89.0	86.5	164.8	371.3	205.6
<b>Total Revenue</b>	<b>286.8</b>	<b>335.1</b>	<b>495.1</b>	<b>568.4</b>	<b>895.0</b>	<b>1,281.3</b>	<b>1,158.9</b>
<b>CAT % of Total Revenue</b>	<b>24.1%</b>	<b>13.8%</b>	<b>18.0%</b>	<b>15.2%</b>	<b>18.4%</b>	<b>29.0%</b>	<b>17.7%</b>
<b>IB&amp;RS Revenue</b>	<b>222.8</b>	<b>261.0</b>	<b>396.7</b>	<b>444.6</b>	<b>751.3</b>	<b>1,146.6</b>	<b>1,050.9</b>
<b>CAT % of IB&amp;RS Revenue</b>	<b>31.1%</b>	<b>17.7%</b>	<b>22.4%</b>	<b>19.5%</b>	<b>21.9%</b>	<b>32.4%</b>	<b>19.6%</b>

## INVESTMENT CONSIDERATIONS

### Valuation

Johns Lyng Group's valuation metrics reflect its strong market position and growth potential, albeit with some recent compression due to market conditions. As of the latest financial results, JLG reported revenue of A\$1.159 billion and EBITDA of A\$138.3 million (excluding Commercial Construction) for FY24. The company's price-to-earnings (P/E) ratio stands at 22.4x, which is above the market average but below its historical levels, indicating a potential value opportunity. The stock has experienced a significant pullback, trading about 40% below its all-time high, which may present an attractive entry point for investors. JLG's valuation should be considered in the context of its consistent revenue and EBITDA growth, strong balance sheet with net cash of A\$20.9 million, and ample liquidity with over A\$80 million in undrawn credit facilities. The company's ability to generate strong cash flows, with a pro-forma cash conversion rate of 90.3% in FY24, supports its valuation. While not cheap by traditional metrics, JLG's valuation reflects its market leadership, defensive business model, and significant growth opportunities, particularly in the US market.



### Sociological Factors

Johns Lyng Group significantly impacts disaster recovery and community resilience. The company aids in rebuilding after catastrophes, boosting local economies by engaging local trades. This approach supports physical reconstruction and preserves employment, maintaining social structures. JLG's engagement with Aboriginal and Torres Strait Islander communities shows cultural sensitivity in recovery processes. Their focus on environmental protection during recovery aligns with societal concerns about sustainability. The company's expansion into essential home services and strata management improves living conditions in multi-family housing. Overall, JLG's practices foster community resilience, support local economies, and promote sustainable recovery, resulting in positive sociological impacts.

## RISKS

### Risks

Investing in Johns Lyng Group carries several risks that potential shareholders should consider.

Firstly, the company's revenue is significantly dependent on weather events and natural disasters, particularly for its Catastrophe (CAT) revenue. While this provides upside potential during severe weather seasons, it also introduces volatility and unpredictability to earnings.

Economic downturns could impact the construction and property markets, potentially reducing demand for JLG's commercial building services.

The company's expansion into the US market, while offering growth opportunities, also exposes it to new competitive landscapes and regulatory environments, which may present challenges. Integration risks associated with acquisitions and international expansion could lead to unexpected costs or operational difficulties.

JLG's reliance on long-term panel arrangements with insurance companies means that any loss of major contracts could significantly impact revenue.

The company's business model, which involves managing a large network of subcontractors, exposes it to potential quality control and liability risks. Additionally, as the company grows, maintaining its high levels of customer service and operational efficiency may become more challenging.

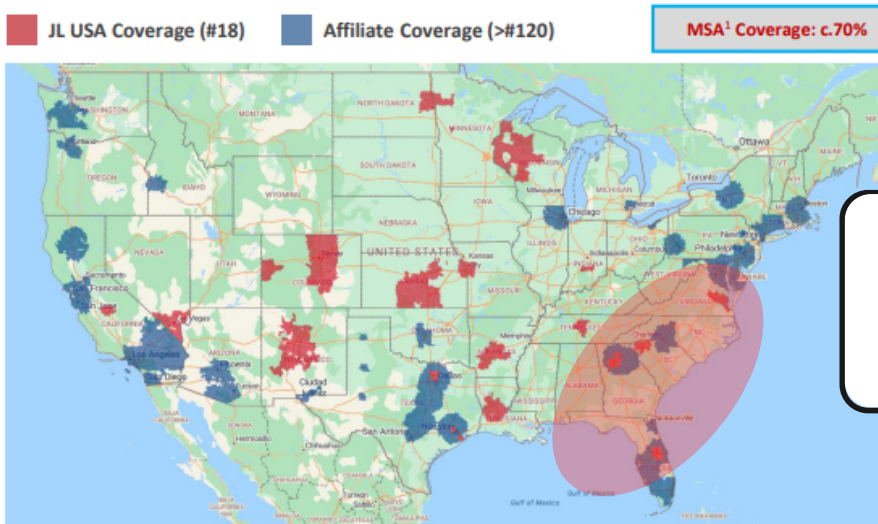
Investors should also be aware of the potential for increased competition in the insurance building and restoration sector, which could pressure margins

Recent CAT & Peak Events <sup>2</sup>			
NSW & QLD Bushfires (Sept-19) – CAT	Central QLD Hailstorm (Apr-20)	VIC Earthquake (Sept-21)	Auckland Floods & Cyclone (Feb-23) – CAT
Rappville, NSW Bushfires (Oct-19) – CAT	SE QLD Hailstorm (Oct-20) – CAT	SA, VIC, TAS Severe Storms (Oct-21) – CAT	QLD Tropical Cyclone Jasper (Dec-23) - CAT
QLD, NSW, VIC & SA Bushfires (Nov-Feb-20) – CAT	Perth Hills, WA Bushfire (Feb-21) – CAT	SE QLD & NSW Floods (Feb-22) – CAT	East Coast Xmas/NY Storms (Dec-23) - CAT
SE QLD Hailstorm (Nov-19) – CAT	NSW & SE QLD Floods (Mar-21) – CAT	VIC, NSW & TAS Floods (Oct-22) – CAT	JLG does not forecast for CAT events. Forecast CAT revenue and EBITDA relates to the contracted work-in-hand from various recent CAT events
ACT, VIC & NSW Hailstorms (Jan-20) – CAT	Cyclone Seroja, WA (Apr-21) - CAT	Hurricane Ian (Oct-22) – CAT	
East Coast Low (Feb-20) – CAT	VIC Storms & Floods (Jun-21) - CAT	SA River Murray Floods (Dec-22)	

The recent back-to-back hurricanes in the US is expected to have over \$200B in repair work

## WHY HOLD THE COMPANY?

Investors should consider owning shares in Johns Lyng Group for several compelling reasons. Firstly, the company's defensive growth model combines stable, recurring revenues from insurance work with significant growth potential, providing both stability and upside. JLG's leading position in the Australian IB&RS market, supported by long-term panel partnerships, gives it a strong competitive advantage. The company's geographic and service diversification across Australia, New Zealand, and the USA reduces risk and offers multiple avenues for growth. JLG has demonstrated consistent organic growth complemented by strategic acquisitions, expanding its service offerings and market reach. The company's growing presence in the US market, including the recent Allstate partnership, presents substantial growth potential in a much larger market. JLG's business model is resilient to economic cycles due to the non-discretionary nature of its core services. The company has shown strong financial performance with consistent revenue and EBITDA growth, maintaining a solid balance sheet and ample liquidity for future growth initiatives. JLG offers an attractive dividend yield with a 40-60% payout ratio policy, appealing to income-focused investors. The company's role in disaster recovery and community rebuilding aligns with socially responsible investing principles. Lastly, the experienced management team with a proven track record of executing growth strategies and navigating industry challenges provides confidence in the company's future prospects.



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### Insurance customers



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