Beer & Co. Equity Research

Wolfstrike Rentals Group (WSG.ASX) **13 July 2016**

Growing Secure Cashflows

Through renting technology solutions

Recommendation

STRONG BUY, Medium Risk

Price

0.9c

Valuation

4.7c

Business

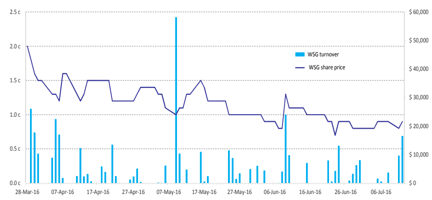
Technology rental to retail & hospitality

- **WSG was formed in January 2014 and has grown its rent book from $1m to now over $10m.**
- **With each order, WSG incurs upfront cost for the purchase of equipment, its installation and commissioning. This cost is covered by debt funds that are repaid over the typically 4 year life of the contract, securing net positive cashflows.**
- **Over time, as WSG's rental book matures from its current high growth, Beer & Co expects WSG will generate significant free cash.**
- **WSG currently trades on a P/E of about 5.5x Beer & Co's projected pro-forma FY16 earnings, which is very modest.**

Snapshot

Market Cap	$7.6m
Fully diluted	$12.9m
Net debt (est.)	$2.1m
Shares on Issue - now	843m
Plus vendor shares to be earned	1,439m
52 Week High	2.0c
52 Week Low	0.7c
1 month / 6 month VWAP	0.9c / 1.1c

WSG : daily share price v. value traded



WSG bundles into a single package the supply, installation, commissioning and integration of a range of technology products to SMEs in the Retail and Hospitality sectors on a rental contract basis, so that the business makes a single monthly payment. These products include Point of Sale equipment, including EFTPOS and payment terminals.

WSG is growing its business (ie. rent book) rapidly by aggressively increasing its number of customer and, more significantly, by increasing the number of products its rents. WSG has added CCTV, security, digital signage and other suitable product.

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WSG has secure cashflows

WSG rents equipment to the retail and hospitality equipment that is vital to the operation of the business. The average monthly rental on each contract has grown from about $50 2 years ago to about $100 now.

WSG is growing its rental book and cashflows

WSG is adding to its customer base and also selling more products to both new and existing customers. However, this growth requires investment in marketing and sales; for accounting purposes this investment is expensed.

WSG has increased its rental book from $1m in January 2014 to over $10m now by adding more customers and selling a wider range of products. WSG's starter products have been POS and EFTPOS terminals plus software.

WSG has added CCTV, alarm systems, digital signage, PA systems and other equipment used in retail and hospitality.

Maturing the Rental Book

WSG's contracts are typically 4 years in length, by which time the debt for equipment purchase and installation has been re-paid. However, the equipment still has years of useful life.

WSG's major gains come when expiring contracts are rolled over, either at a discount or with refurbished equipment

Capital

WSG is generating cash from its NZ operations, though not quite enough yet to cover corporate overheads plus investment in its Australian operations.

WSG has a range of options, including reducing its investment in growth, to manage its capital needs.

WSG's peers show good, long-term growth

WSG's operational cashflows are sound. The FY16 reported numbers will be very messy as 37 weeks will be from CFT Energy.

Beer & Co rates WSG as a Strong BUY. WSG has many ways to manage its growth capital needs, so Beer & Co gives WSG a Medium Risk rating.

Wolfstrike Rentals Group (WSG)

Introduction

WSG's founder and MD is Ian Bailey, who has about 30 years of experience in similar businesses.

WSG listed on the ASX in March 2016. The business was founded in January 2014 by Ian Bailey who has about 30 years' experience in the sector. He was a founder of Cadmus Technology, which he left to become the Managing Director of SmartPay.

Since Ian left SmartPay, it has changed its business focus to payments and payment software and hardware, with a specific focus on the taxi industry.

The business model for WSG is an updated and improved version of that which Ian successfully developed for SmartPay.

WSG's business model has been refined by Ian over his time with other entities.

Description of Business

WSG is a rentals company that supplies, installs, commissions and supports technology based equipment for the retail and hospitality sectors, on the basis of a monthly rental charge, which covers on-going servicing.

The basis of the business is EFTPOS terminals, as shown in Figure 1a, and Point of Sale (POS) hardware, as shown in Figure 1b.

WSG is enhancing the value of its customers by offering a larger product range

Fig 1a : EFTPOS

Fig 1b : POS hardware

Source : WSG Presentation, April 2016

Beer & Co understands that about 50% of WSG's revenue in 2015 was EFTPOS terminals with a further 40% being POS hardware.

WSG is now adding further products to its range, as shown in Figure 2, to leverage further value from each customer and reduce the risks of competing in the space of payment systems.

Figure 2a : CCTV

Figure 2b : Table pagers

Figure 2c: In store audio

Source : WSG Presentation, April 2016

The cashflows to WSG from each contract are secure and profitable, despite the high debt cost

Using the example of an EFTPOS terminal, WSG's business is

- Receive monthly rental payment $50; over
- A contract term of 4 years, which gives the total value of rental contract $2,400;.
- Cost of product : c. $440;
- Installation costs : c. $600
- Debt : $1,440, or 60% of the contract value;
- Monthly debt repayment : $42.

WSG's experience has been bad debts of less than 1%

This means that the debt taken on, of $1440, pays for the up-front cost of about $1,040 and makes a contribution to overhead

- Sales, which are largely covered by being incurred through sales by agents being paid purely on commission, and sales by staff being paid by retainer plus commission;
- Administration; and
- Corporate, which is both regulatory and also growth initiatives.

The analysis also shows that the monthly rental revenue more than covers the repayments.

The monthly payment is relatively small and the equipment is critical to the business, so WSG has a very low rate of bad debt.

Peers / Competitors

WSG's business is the rental of technology equipment. Similar businesses listed on the ASX are shown in Figure 3.

Figure 3 : Comparatives for WSG

ASX Code	Company name	Listed	Share price	Market Cap	e p s	P / E	Description
SIV	Silverchef	May 2005	1,015 c	$ 356.8m	53 c	19.1x	Commercial kitchen equipment
FXL	Flexigroup	Dec. 2006	177 c	$ 659.1m	25 c	7.2x	Consumer and commercial leasing
TGA	Thorn Group	Dec. 2006	143 c	$ 220.1m	20 c	7.2x	Leasing consumer products
SMP	SmartPay	Sep. 2013	18.5 c	$ 31.8m	0.2 c	101.5x	EFTPOS terminals, payment apps

Source : IRESS, Beer & Co

There are ASX listed companies with similar business models, though with different products

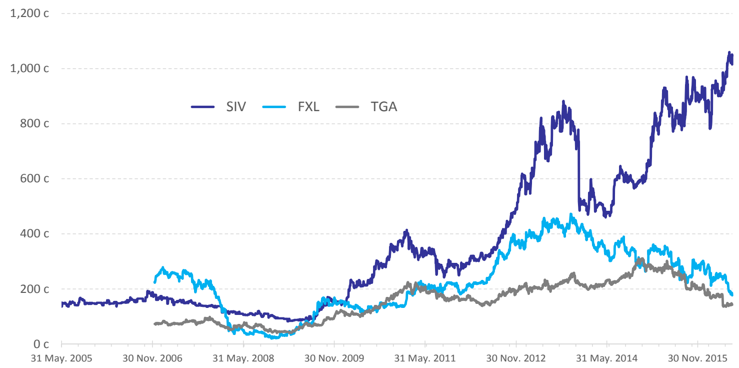
Each of the other ASX listed companies has taken time to mature.

The real gain to WSG is after the first 4 year contract has been completed.

Figure 4 shows the share price performance of the 3 companies that have been listed on the ASX for a period of more than 4 years. It shows :

- Each of these stocks has taken a period of time, roughly 3 to 4 years, for each of the stocks to being to reward shareholders; and
- The operating environment is dynamic and long term performance requires on-going adaptation.

Figure 4 : Share price performance of WSG's peers



Source :IRESS, Beer & Co

Business Growth

The real gains for WSG come when the typically 4 year contract is rolled over, as WSG no longer incurs the expense of installation, and is able to refurbish the equipment, or just roll over the contract at a discount.

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The key to WGS's business is the size of its rental book, which is the number of contracts by the average contract size.

One of the reasons for listing was for WSG to raise capital to help it expand into the Australian market. Figure 5 shows Beer & Co's projections for WSG's business.

Figure 5a : Number of customers

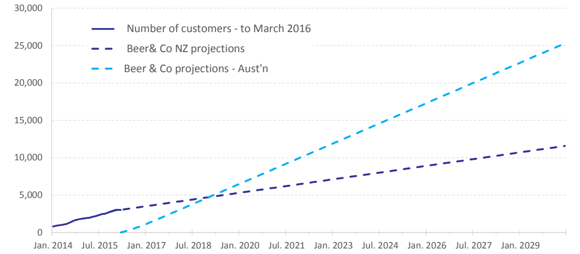
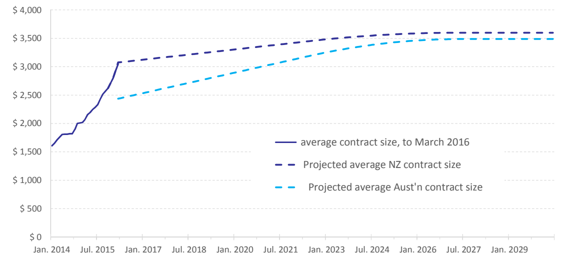


Figure 5b : average contract size



Source : WSG Presentation, April 2016, Beer & Co projections

WSG has grown its business, both in terms of the number of customers and also in terms of the value of each contract.

Figure 5a shows that :

- WSG has increased its customers from about 800 at the outset, in January 2014, to over 3,000 by March 2016, at an average rate of 89 a month;
- Beer & Co projects that WSG will continue to increase its number of customers in NZ at the rate of 50 a month, to more than 11,000 by 2030, which is a market penetration of 10% - 11%; and
- Beer & Co projects that WSG started from 0 and builds up over 12 months to adding 150 customers a month,
  - This is a rate of 3.0x that of NZ, despite the Australian market being 4.9x the size of the NZ market; and
  - This projection leads to a total of just over 25,000 customers, or a market share of about 5%.

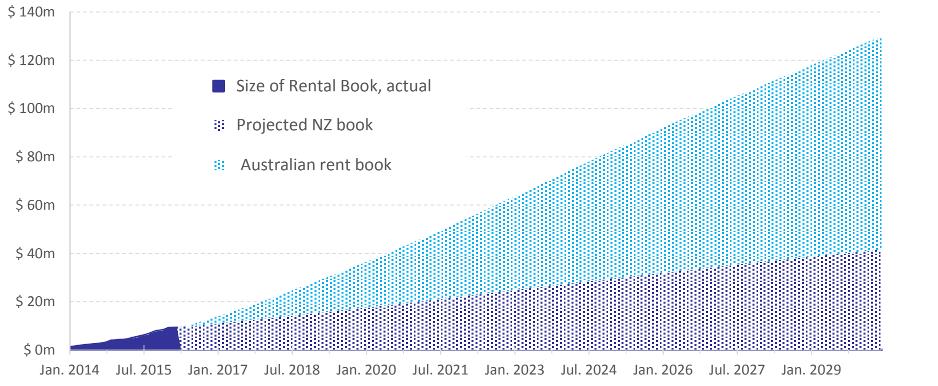
Beer & Co expects this growth to continue, though at a more subdued rate

Figure 5b shows that

- WSG has increased its average contract size from $1,607 at the outset, in January 2014, to over $3,000 by March 2016.
- Despite the increase in the product range, the rate of increase in the size of the average contract increases by only $5 a month, to a terminal value of $3,600;
- Australian contracts have a lower value than NZ contracts due a difference in structure of the contract.

Figure 6 shows the resulting increase in the size of WSG's rental book.

Figure 6 : WSG's historic rental book and Beer & Co's projections



Source : WSG Presentation, April 2016, Beer & Co projections

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Beer & Co's financial projections for WSG

ASIC has mandated that most of WSG's revenue is in the form of financial leases, so that reported revenue is 85% to 90% of the total value of the contract, at the time the contract is signed.

Under Australian Standard AASB117, WSG has determined that, due to the combination of WDL and WRS as a group, WSG must account for its rental contracts as financial leases, as opposed to operating leases, despite WSG retaining legal title to the equipment.

This means that revenue is reported as the total value of the payments under the contract, less the present value of the interest component, at the time the contract is signed. This is about 85% - 90% of the total contract value.

Figure 7 shows Beer & Co's financial projections for WSG's New Zealand operations, while Figure 8 shows Beer & Co's projections for WSG's Australian operations.

Figure 7 : Beer & Co's projections for NZ operations

AUD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Customers	2,839	3,498	4,098	4,698	5,298	5,898	6,498	7,098	7,698	8,298	8,898	9,498	10,098	10,698	11,298	11,523
Contract Size	$ 2,766	$ 3,123	$ 3,183	$ 3,243	$ 3,303	$ 3,363	$ 3,423	$ 3,480	$ 3,528	$ 3,563	$ 3,586	$ 3,590	$ 3,590	$ 3,590	$ 3,590	$ 3,590
Revenue	6.8	5.1	6.9	8.3	10.5	9.1	11.3	12.9	15.1	12.9	15.8	17.3	19.4	17.9	20.0	19.8
COGS	(0.9)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.8)	(1.0)	(1.3)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(1.1)	(1.0)
Installation	(1.2)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)	(0.8)	(0.9)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.3)
Sales & Admin	(1.1)	(0.9)	(0.9)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	(1.3)	(1.0)
Interest Expense	(0.6)	(0.7)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.3)
Depreciation	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.5)	(0.6)
Profit Before Tax	**2.8**	**2.2**	**3.9**	**5.4**	**7.5**	**6.1**	**7.8**	**9.0**	**10.7**	**9.2**	**12.1**	**13.7**	**15.8**	**14.3**	**16.0**	**16.7**

Source : Beer & Co projections

Figure 8 : Beer & Co's projections for Australian operations

AUD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Customers	195	1,110	2,865	4,665	6,465	8,265	10,065	11,865	13,665	15,465	17,265	19,065	20,865	22,665	24,465	25,140
Contract Size	$ 2,458	$ 2,533	$ 2,653	$ 2,773	$ 2,893	$ 3,013	$ 3,133	$ 3,248	$ 3,343	$ 3,414	$ 3,460	$ 3,467	$ 3,467	$ 3,467	$ 3,467	$ 3,467
Reveue	0.4	4.1	6.7	8.8	11.8	17.2	20.9	24.1	27.6	33.3	36.6	39.3	42.5	47.8	50.4	47.3
COGS	(0.1)	(1.0)	(1.3)	(1.4)	(1.5)	(1.7)	(1.8)	(1.8)	(2.0)	(2.9)	(3.1)	(3.1)	(3.2)	(3.3)	(3.0)	(1.8)
Installation	(0.2)	(1.4)	(1.8)	(1.9)	(2.1)	(2.2)	(2.4)	(2.5)	(2.5)	(2.8)	(2.8)	(2.7)	(2.7)	(2.7)	(2.2)	(0.6)
Sales & Admin	(0.3)	(1.4)	(1.7)	(1.9)	(2.1)	(2.3)	(2.6)	(2.8)	(3.0)	(3.2)	(3.3)	(3.4)	(3.6)	(3.7)	(3.3)	(2.3)
Interest Expense	(0.0)	(0.3)	(0.7)	(1.1)	(1.3)	(1.5)	(2.3)	(2.2)	(2.1)	(2.0)	(1.9)	(1.7)	(1.6)	(1.6)	(1.5)	(1.0)
Depreciation	0.0	(0.1)	(0.2)	(0.4)	(0.6)	(0.8)	(0.9)	(0.9)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(0.9)
Profit Before Tax	**(0.2)**	**(0.1)**	**0.9**	**2.1**	**4.1**	**8.7**	**11.0**	**13.8**	**17.0**	**21.3**	**24.4**	**27.3**	**30.4**	**35.5**	**39.3**	**40.7**

Source : Beer & Co projections

The costs of investing in growing the business are expensed for accounting purposes.

The investment by WSG in establishing and growing their Australian operations means that earnings are subdued in the near term.

Figure 9 shows Beer & Co's projections for WSG's projected earnings on a "pro-forma, underlying" basis.

WSG's reported earnings will be different as the reported earnings will be based on 37 weeks of the listed shell, CFT Energy, and there will be a number of adjustments, including the costs of

- the IPO; and
- establishing operations in Australia.

Figure 9 : Projected P&L for WSG

	2015-16	2016-17
Total Revenue	$A 7.2m	$A 9.8m
Cash COGS	($A 1.0m)	($A 1.5m)
Sales Costs	($A 1.4m)	($A 2.1m)
Sales Overhead	($A 1.3m)	($A 2.3m)
Corporate	($A 0.9m)	($A 1.0m)
E B I T D A	**$A 2.6m**	**$A 2.9m**
Depreciation	($A 0.3m)	($A 0.5m)
Net Interest	($A 0.6m)	($A 1.0m)
Tax Expense	($A 0.5m)	($A 0.4m)
N P A T	**$A 1.3m**	**$A 1.0m**

Source : Beer & Co projections

All of Beer & Co's projections are made on a "business as usual" basis, while WSG has demonstrated its capacity to make value adding acquisitions.

As a result, Beer & Co expects WSG to achieve better results in FY17 than we project in Figure 9, while the FY16 result is likely to be not as good.

Figure 10 shows Beer & Co's projected cashflows for WSG's NZ operations, while Figure 11 shows the same for WSG's Australian operations.

Figure 10 : Beer & Co's projected cashflows for WSG's NZ operations

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2029-30
Operations	$A 2.0m	$A 2.7m	$A 3.2m	$A 3.6m	$A 4.0m	$A 4.4m	$A 4.9m	$A 5.4m	$A 5.9m	$A 6.4m	$A 6.9m	$A 7.3m	$A 7.7m	$A 8.1m	$A 8.5m	$A 8.5m
Investment	($A 2.0m)	($A 0.9m)	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.5m)	($A 1.8m)	($A 2.2m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.7m)	($A 1.3m)
New Debt	$A 4.4m	$A 5.8m	$A 7.1m	$A 8.4m	$A 9.8m	$A 11.2m	$A 12.6m	$A 14.1m	$A 15.6m	$A 17.0m	$A 18.4m	$A 19.7m	$A 21.0m	$A 22.3m	$A 23.6m	$A 24.6m
Debt Re-pay't - P + I	($A 1.7m)	($A 2.3m)	($A 2.6m)	($A 2.4m)	($A 2.3m)	($A 2.0m)	($A 2.0m)	($A 2.1m)	($A 2.1m)	($A 2.1m)	($A 2.1m)	($A 2.0m)	($A 1.9m)	($A 1.9m)	($A 1.8m)	($A 1.4m)
Overheads	($A 1.1m)	($A 0.9m)	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.1m)	($A 1.1m)	($A 1.1m)	($A 1.1m)	($A 1.2m)	($A 1.2m)	($A 1.2m)	($A 1.2m)	($A 1.3m)	($A 1.3m)	($A 1.0m)
Net Cashflow	**$A 1.6m**	**$A 4.5m**	**$A 5.9m**	**$A 7.7m**	**$A 9.5m**	**$A 11.5m**	**$A 13.0m**	**$A 14.5m**	**$A 16m**	**$A 19m**	**$A 21m**	**$A 22m**	**$A 24m**	**$A 26m**	**$A 27m**	**$A 29m**

Source : Beer & Co projections

Figure 11 : Beer & Co's projected cashflows for WSG's Australian operations

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Operations	$A 0.0m	$A 1.0m	$A 2.8m	$A 4.7m	$A 6.8m	$A 8.8m	$A 10.8m	$A 12.8m	$A 14.9m	$A 17.1m	$A 19.1m	$A 21.1m	$A 23.1m	$A 24.8m	$A 25.9m	$A 26.6m
Investment	($A 0.3m)	($A 2.7m)	($A 3.1m)	($A 3.4m)	($A 3.6m)	($A 3.9m)	($A 4.2m)	($A 4.3m)	($A 4.6m)	($A 5.9m)	($A 5.9m)	($A 5.7m)	($A 5.9m)	($A 6.0m)	($A 5.2m)	($A 2.5m)
New Debt	$A 0.4m	$A 3.3m	$A 3.8m	$A 4.1m	$A 4.5m	$A 4.8m	$A 5.1m	$A 5.3m	$A 5.4m	$A 5.3m	$A 4.7m	$A 4.3m	$A 4.2m	$A 4.2m	$A 4.2m	$A 2.1m
Debt Re-pay't - P + I	($A 0.0m)	($A 0.8m)	($A 2.1m)	($A 3.3m)	($A 4.7m)	($A 5.5m)	($A 6.0m)	($A 7.0m)	($A 7.2m)	($A 6.9m)	($A 7.7m)	($A 8.0m)	($A 7.3m)	($A 7.2m)	($A 6.9m)	($A 5.5m)
Overheads	($A 0.3m)	($A 1.5m)	($A 1.7m)	($A 1.9m)	($A 2.1m)	($A 2.4m)	($A 2.6m)	($A 2.8m)	($A 3.0m)	($A 3.2m)	($A 3.3m)	($A 3.4m)	($A 3.6m)	($A 3.7m)	($A 3.3m)	($A 2.3m)
Net Cashflow	**($A 0.2m)**	**($A 0.6m)**	**($A 0.3m)**	**$A 0.3m**	**$A 0.8m**	**$A 1.8m**	**$A 3.2m**	**$A 3.9m**	**$A 5.5m**	**$A 6.4m**	**$A 7.0m**	**$A 8.3m**	**$A 10.5m**	**$A 12.1m**	**$A 14.6m**	**$A 18.3m**

Source : Beer & Co projections

It takes up to 4 years to establish a profitable business

Figure 11 shows that it takes until the 4th year before the Australian operations are cashflow positive and then grows well.

Figure 12 shows the net cashflows for WSG, which combines the data in Figures 10 and 11, and deducts corporate over-head and taxes paid.

Figure 12 : Beer & Co's projected cashflows for WSG's Australian operations

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Net New Zealand	$A 0.1m	($A 0.1m)	$A 0.1m	$A 0.6m	$A 1.1m	$A 1.6m	$A 1.8m	$A 1.9m	$A 2.0m	$A 3.0m	$A 3.5m	$A 3.9m	$A 4.3m	$A 4.7m	$A 4.9m	$A 5.7m
Net Australia	($A 0.2m)	($A 0.6m)	($A 0.3m)	$A 0.3m	$A 0.8m	$A 1.8m	$A 3.2m	$A 3.9m	$A 5.5m	$A 6.4m	$A 7.0m	$A 8.3m	$A 10.5m	$A 12.1m	$A 14.6m	$A 18.3m
Corporate	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)
Taxes paid - NZ	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	($A 0.3m)	($A 0.6m)	($A 0.7m)	($A 0.8m)	($A 1.0m)	($A 1.1m)	($A 1.3m)	($A 1.4m)	($A 1.5m)	($A 1.6m)	($A 1.8m)
Taxes paid - Aust	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	($A 0.4m)	($A 1.2m)	($A 2.0m)	($A 2.3m)	($A 2.6m)	($A 3.0m)	($A 4.0m)	($A 4.5m)	($A 4.7m)
Net Cashflow	**($A 1.0m)**	**($A 1.7m)**	**($A 1.3m)**	**($A 0.1m)**	**$A 0.9m**	**$A 2.1m**	**$A 3.4m**	**$A 3.7m**	**$A 4.4m**	**$A 5.5m**	**$A 6.0m**	**$A 7.4m**	**$A 9.5m**	**$A 10.3m**	**$A 12.4m**	**$A 16.6m**

Source : Beer & Co projections

Beer & Co's valuation of WSG

Figure 13 shows Beer & Co's projected earnings for WSG.

Figure 13 : Beer & Co's projected cashflows for WSG's Australian operations

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total Revenue	$A 7.2m	$A 9.8m	$A 14.4m	$A 18.5m	$A 24.3m	$A 29.0m	$A 34.8m	$A 39.7m	$A 45.7m	$A 49.8m	$A 55.8m	$A 60.2m	$A 65.8m	$A 70.1m	$A 73.8m	$A 70.7m
Cash COGS	($A 1.0m)	($A 1.5m)	($A 1.7m)	($A 1.8m)	($A 2.0m)	($A 2.1m)	($A 2.6m)	($A 2.8m)	($A 3.3m)	($A 3.8m)	($A 3.9m)	($A 3.8m)	($A 4.0m)	($A 4.1m)	($A 4.1m)	($A 2.8m)
Sales Costs	($A 1.4m)	($A 2.1m)	($A 2.3m)	($A 2.5m)	($A 2.7m)	($A 2.8m)	($A 3.1m)	($A 3.3m)	($A 3.5m)	($A 3.6m)	($A 3.5m)	($A 3.3m)	($A 3.4m)	($A 3.4m)	($A 2.9m)	($A 1.0m)
Sales Overhead	($A 1.3m)	($A 2.3m)	($A 2.7m)	($A 2.9m)	($A 3.1m)	($A 3.4m)	($A 3.6m)	($A 3.9m)	($A 4.1m)	($A 4.3m)	($A 4.5m)	($A 4.6m)	($A 4.8m)	($A 5.0m)	($A 4.6m)	($A 3.3m)
Corporate	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)
E B I T D A	**$A 2.6m**	**$A 2.9m**	**$A 6.7m**	**$A 10.4m**	**$A 15.5m**	**$A 19.6m**	**$A 24.5m**	**$A 28.7m**	**$A 33.8m**	**$A 37.0m**	**$A 42.9m**	**$A 47.4m**	**$A 52.7m**	**$A 56.6m**	**$A 61.2m**	**$A 62.6m**
Depreciation	($A 0.3m)	($A 0.5m)	($A 0.8m)	($A 1.0m)	($A 1.1m)	($A 1.2m)	($A 1.3m)	($A 1.5m)	($A 1.5m)	($A 1.6m)	($A 1.7m)	($A 1.6m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.4m)
Net Interest	($A 0.6m)	($A 1.0m)	($A 1.4m)	($A 1.6m)	($A 1.8m)	($A 1.9m)	($A 2.8m)	($A 2.7m)	($A 2.6m)	($A 2.5m)	($A 2.3m)	($A 2.2m)	($A 2.0m)	($A 2.0m)	($A 1.9m)	($A 1.3m)
Tax Expense	($A 0.5m)	($A 0.4m)	($A 1.3m)	($A 2.2m)	($A 3.5m)	($A 4.6m)	($A 5.7m)	($A 6.9m)	($A 8.3m)	($A 9.2m)	($A 10.9m)	($A 12.2m)	($A 13.7m)	($A 14.9m)	($A 16.2m)	($A 16.8m)
N P A T	**$A 1.3m**	**$A 1.0m**	**$A 3.3m**	**$A 5.6m**	**$A 9.1m**	**$A 11.9m**	**$A 14.7m**	**$A 17.6m**	**$A 21.4m**	**$A 23.7m**	**$A 28.0m**	**$A 31.4m**	**$A 35.4m**	**$A 38.2m**	**$A 41.6m**	**$A 43.1m**
shares on issue	843m	1,256m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m
e p s	0.2 c	0.1 c	0.2 c	0.4 c	0.6 c	0.8 c	0.9 c	1.1 c	1.4 c	1.5 c	1.8 c	2.0 c	2.3 c	2.4 c	2.7 c	2.8 c

Source : Beer & Co projections

However, WSG is a relatively new company and its business model means that it takes 4 years to become a mature business.

Beer & Co's DCF based valuation of WSG is 4.7c/share

Further, WSG has just begun a major expansion into the Australian market. Much of the cost of this expansion will be expensed through the P&L, depressing earnings.

For these reasons, in Beer & Co's view, the valuation of WSG is best done using a discounted cashflow analysis, on the cashflows shown in Figures 12.

Figure 14 shows the results. It shows that

- Beer & Co's base case valuation is 4.7c/share;
- Our valuation is dominated by Australian operations.

Most of WSG's value is in the Australian business, even though this is nascent at this stage

Figure 14 : Beer & Co's valuation of WSG

discount rate = 10.0 %		30 June 2016			28-Jun-16
	risk :	100%	Product	per share	
New Zealand	100%	$ 19m	$ 19m	1.2 c	1.2 c
Australia	100%	$ 52m	$ 52m	3.3 c	3.3 c
Franking credits	60%	$ 18m	$ 11m	0.7 c	0.7 c
Corporate	100%	($ 10m)	($ 10m)	(0.6c)	(0.6c)
Equity Raisings	100%	$ 2m	$ 2m	0.1 c	0.1 c
TOTAL		**$ 81m**	**$ 74m**	**4.7 c**	**4.7 c**
Shares on issue		842.8m	F P O shares	125.0m	Options
		595.7m	to be issued	125.0m	Ops. Ex'd

Source : Beer & Co projections

Beer & Co's sensitivity analyses generate values higher than the IPO prices

Sensitivity Analyses

The key sensitivities for Beer & Co's valuation are :

- WSG's capital structure; and
- Size of WSG's rental book, which is the number of customers and the size of the average contract.

Figure 15 and 16 test the sensitivity of Beer & Co's valuation for customer numbers and contract size, the base case being that shown in Figures 5 & 6.

Figure 15 : Customer growth

		New Zealand			
		25	**50**	**75**	**100**
Australia	**100**	2.8 c	3.3 c	3.7 c	4.0 c
	150	4.3 c	**4.7 c**	5.2 c	5.4 c
	200	5.7 c	6.2 c	6.6 c	6.9 c
	250	7.2 c	7.6 c	8.1 c	8.3 c

Source : Beer & Co projections

Figure 16 : Growth in contract size

		New Zealand			
		$ 0	**$ 2.5**	**$ 5**	**$ 10**
Australia	**$ 0**	3.4 c	3.5 c	3.6 c	3.7 c
	$ 5	4.0 c	4.1 c	4.1 c	4.3 c
	$ 10	4.6 c	4.6 c	**4.7 c**	4.9 c
	$ 20	5.7 c	5.8 c	5.9 c	6.1 c

Source : Beer & Co projections

There is further upside from the setting of the hurdles for the performance shares ;

Beer & Co's analysis assumes these shares are awarded, without hurdles.

Figures 15 and 16 show

- There is significant upside potential to WSG's IPO price and the current share price; and
- Beer & Co is not able to find values as low as the current share price.

However, in Beer & Co's view, WSG is presently under-capitalised. However, with the expected exercise of 125m of 2.0c options, mostly in March 2017, and opportunities with WSG's debt, given the security of its cashflows, Beer & Co is strongly of the view that WSG is able to manage these issues.

Conclusions

While WSG's capital structure is a potential risk, Beer & Co is confident that WSG is able to manage these issues, as there are many ways to do so

The cashflows for each of WSG's contracts are secure, as

- The monthly payments are small;
- Payment is made by automatic, periodic debit; and
- WSG supplies mission critical equipment, which can generally be easily removed and on-sold.

However, WSG is investing in growth to increase the size of its rental book. This investment is expensed to the P&L.

WSG's prospectus shows that the trading subsidiaries of WSG were profitable at the time it was listed. However, with the listing, WSG is expanding into Australia and Beer & Co expects that this will negatively impact the P&L for FY16 and FY17.

The nature of WSG's business model means that it takes 4 years to become a mature business. As a result, in Beer & Co's view, the valuation of WSG is best done using a discounted cashflow analysis.

Beer & Co's base case valuation is 4.7c/share.

Our sensitivity analysis shows there is significant upside potential to our valuation from

- More efficient financing sources;
- The hurdles for the award of performance shares;
- Reducing the cost of funds and resolution of the rent book funding structure;
- Growth in customer numbers, with Beer & Co projecting growth at less than historical rates and terminal market shares of 10% - 11% for NZ and about 5% for Australia; and
- Continued growth in average contract size, with Beer & Co projecting only modest further growth.

Importantly, Beer & Co's sensitivity analysis shows that the IPO price of 2.0c/share is below all of the values we generated.

Concluding Comments

Even though WSG's earnings are depressed by the investment in establishing the Australian operations, Beer & Co believes that WSG is a STRONG BUY

Beer & Co's base case valuation is 4.7c/share, which is a significant multiple of the current share price.

Due to the investment being made by WSG in growing its business, the costs of which are expensed, WSG has subdued earnings for the next 2 years.

Even so, a P/E of about 5.6x pro-forma FY16 is very modest, especially as the WSG business model has been refined over time by the MD in different entities.

Beer & Co rates investment in WSG as medium risk; the cashflows for each contract are known secure with a very low rate of bad debt. The major risks are

Due to the security of its cashflows, Beer & Co rates WSG as a Medium Risk

- Management, which is a feature of EVERY small company, but the MD, Ian Bailey, has significant experience and a proven track record; and
- Finance / capital, as WSG is not adequately capitalised, but in Beer & Co's view has enough options to get around this issue.

Beer & Co rates investment in WSG as a STRONG BUY, as our DCG valuation is a significant multiple of the current share price, and a multiple of the IPO price.

 See Page 28 for Disclaimer and Disclosures

WSG : Description

Background

The Managing Director and founder of WSG is Ian Bailey. Ian has been in the EFTPOS and technology rentals and related industries for about 30 years.

Ian had been the MD of the Australian operations of Provenco from 1991 to 1996.

Ian was subsequently the founder of Cadmus Technologies, a manufacturer of Electronic Funds Transfer – Point of Sale (EFTPOS) terminals and related software, led it to a listing on the NZX before resigning in 2007.

In August 2008, Ian was appointed Managing Director for the NZ company SmartPay, which was listed on the NZX as SPY. During his time as MD, Ian led SmartPay to:

- Re-structure the business to focus on rental of EFTPOS, similar equipment and to provide an ever widening array of value added service, and away from the pre-paid mobile phone market;
- Purchase the payments division of Provenco Cadmus;
- List on the ASX, as SMP.ASX, becoming a dual listed company; and
- Increase EBITDA from ($2.4m) in 2009 to $7.2m in 2011, as shown in Figure 17.

Figure 17 : SmartPay's performance while Ian Bailey was MD

Source : SmartPay (NZ) Annual Report, 2011, Beer & Co

In January 2012, a new CEO was appointed to SmartPay, and Ian Bailey stepped down as a Director on 30 May 2012.

The new CEO, and a new Chairman, led SMP to change its focus, with a primary focus on the payments segment, specifically the taxi industry, and development of software, to provide its advantage.

In January 2014, Ian Bailey established WSG, to learn from and improve the model that he had developed and was implementing at SMP, but that SMP had moved away from.

WolfStrike – General Description

WSG supplies, installs and commissions technology products, on a monthly rental basis, for merchants in the retail and hospitality sectors.

This provides WSG with an on-going cashflow and recurring revenue stream, as opposed to a lumpy, project driven, revenue stream when the payment is for the supply, installation and commissioning of equipment.

There are 3 means through which WSG adds value for its clients :

- WSG takes on the responsibility of hardware and software installation and integration, while other organisations will focus on either hardware or software or installation, rather than delivery of an integrated package;
- WSG charges for the complete bundle on a monthly basis, while financiers will offer to finance the hardware, they will, generally, fail to finance the complete package, leaving a merchant still with a significant up-front cost; and
- WSG supports the product through its life, providing the merchant with peace of mind.

The life of a typical rental contract is 4 years.

Any necessary software upgrades can be done on-line, almost in bulk, with many merchants being upgraded at one time.

At the conclusion of the rental period, the software has been kept up to date, and the hardware is usually still in good shape. The merchant is able to enter into a further contract, either at a discount to the original contract as an incentive to continue using the existing, but refurbished, hardware, or a new contract with new hardware.

WSG's true gains come from the renewed contract as the installation cost has been incurred and paid for by the initial contract.

WSG Comparatives

Peers / Competitors

WSG's business is the rental of technology equipment. Similar businesses listed on the ASX are shown in Figure 18.

Figure 18 : Comparatives for WSG

ASX Code	Company name	Listed	Share price	Market Cap	e p s	P / E	Description
SIV	Silverchef	May 2005	1,015 c	$ 356.8m	53 c	19.1x	Commercial kitchen equipment
FXL	Flexigroup	Dec. 2006	177 c	$ 659.1m	25 c	7.2x	Consumer and commercial leasing
TGA	Thorn Group	Dec. 2006	143 c	$ 220.1m	20 c	7.2x	Leasing consumer products
SMP	SmartPay	Sep. 2013	18.5 c	$ 31.8m	0.2 c	102x	EFTPOS terminals, payment apps

Source : IRESS, Beer & Co

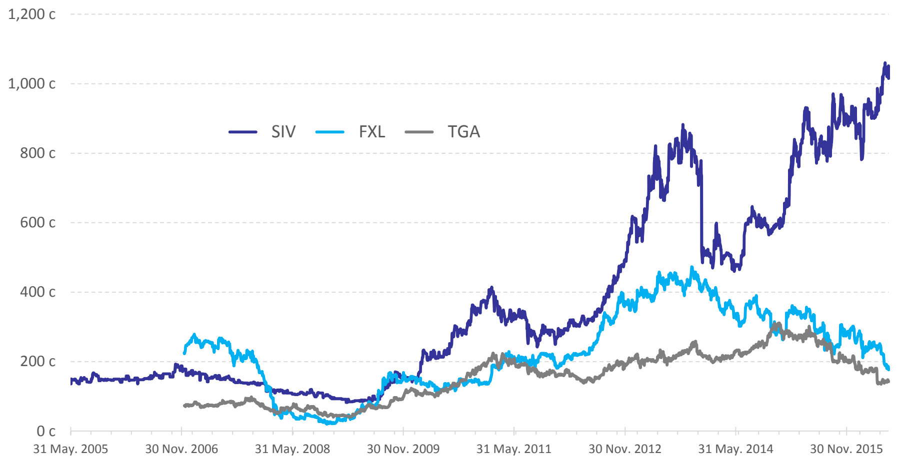
Note that September 2013 is the date that SMP listed on the ASX; it has been listed on the NZX May 2006.

Beer & Co has excluded from the comparatives those companies that are dominantly focused on technology, as WSG is focussed on rental of a physical product, with software as a supporting / enabling feature.

Figure 19 shows the share price performance of the 3 companies that have been listed on the ASX for a period of more than 4 years. It shows :

- Each of these stocks has taken a period of time, roughly 3 to 4 years, for each of the stocks to being to reward shareholders; and
- The operating environment is dynamic and long term performance requires on-going adaptation.

Figure 19 : Share price performance of WSG's peers



Source :IRESS, Beer & Co

However, Figure 19 shows that SIV, which leases commercial kitchen equipment, and as such has no significant barrier to entry, has performed well over the longer term, though the performance has been variable. SIV has recently branched out into other sectors, with a focus on construction for light equipment.

Strengths / Weaknesses / Opportunities / Threats

The discussion earlier, and Figure 3 also, suggest that WSG's first four years, until it gets into roll-over of contracts and hence no longer has to re-pay debt, will be a trying period, and then will become significantly better.

Figure 20 shows Beer & Co's assessment of WSG's SWOT

Figure 20 : Beer & Co's view of WSG's SWOT

Strengths

- Genuine value to clients by offering an "all-in-one" package on a rental basis;
- Integrated package, across hardware, installation, finance, service and software;
- Spread of products;
- Founder and MD has a long, and successful, history in the industry;
- No true competitors
- Business model has been refined in NZ

Weaknesses

- For an organisation that buys equipment and the leases it out, WSG has only a small value of contributed equity;
- No identifiable proprietary technology or exclusive advantage;
- Overheads, in total, currently greatly than the free cashflow generated by operations;
- High interest cost on debt

Opportunities

- Has only just begun operations in the Australian market;
- Rent more products to existing customer base
- Many options to manage balance sheet issues

Threats

- Balance Sheet needs strengthening;
- Identify and bring on board new rental financing facilities

While Beer & Co views WSG's business model has being sound, the main issue is that it has grown without ever being adequately capitalised.

The main issue that as WSG invests in sales and marketing, this cost is expensed through the P&L, but can yield benefits for many years

Financial Analysis

Rental Contracts

Beer & Co understands that, in 2015, WSG's revenue was

- 50% related to EFTPOS terminals (see Figure 21a)
- 40% related to Point of Sale hardware (see figure 21b); and
- 10% other.

Fig 21a : EFTPOS

Fig 21b : POS hardware

Source : WSG Presentation, April 2016

To explain the structure of a rental agreement, we will use the example of an EFTPOS terminal :

- Monthly rental payment $50;
- Term of contract 4 years;
- Total value of rental contract $2,400;
- Cost of prodcut : c. $440;
- Installation costs : c. $600
- Debt : $1,440, or 60% of the contract value;
- Monthly debt repayment : $42.

This means that the debt taken on , of $1440, pays for the up-front cost of about $1,040 and makes a contribution to overhead

- Sales, which are largely covered by being incurred through sales by agents being paid purely on commission, and sales by staff being paid by retainer plus commission;
- Administration; and
- Corporate, which is both regulatory and also growth initiatives.

The analysis also shows that the monthly rental revenue more than covers the repayments.

WSG's Rental Book

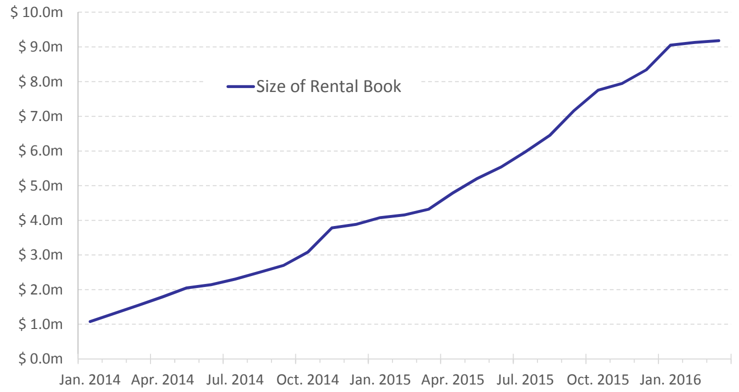
Each rental contract is fairly small. The total of all of WSG's rental contract is its rental book, which is the value of all contract payments outstanding.

A rental book will decay over time; as each monthly payment is made, the size of the book decreases by that payment.

To keep a book stable requires new contracts to be written that at least match the value that declines each month (one month of a 48 month contract is just over 2%.), at least until contracts mature (ie. 48 months) and are able to be rolled over.

Figure 22 shows how WSG's rent book has grown over time.

Figure 22 : Growth in WSG's rent book



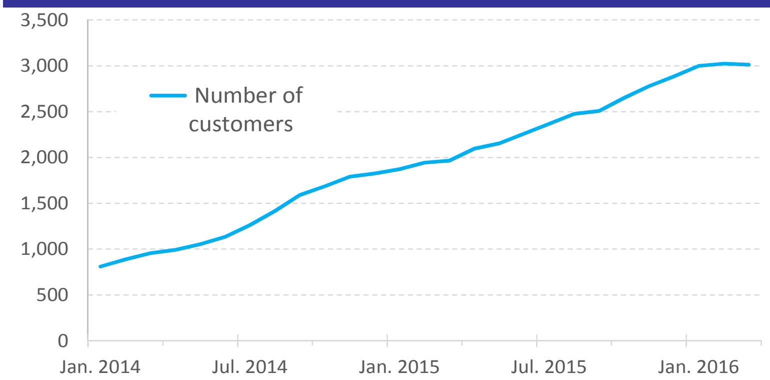
Source : WSG Presentation, April 2016, Beer & Co

There are 2 ways in which the rental book can be grown over time :

- Increasing the number of customers; and
- Increasing the number of items rented by each customer.

Figure 23 shows that WSG has continued to increase the number of customers it has.

Figure 23 : Growth in WSG's rent book

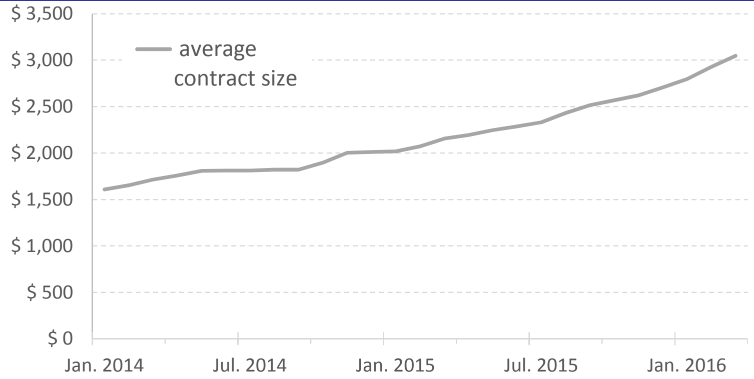


Source : WSG Presentation, April 2016, Beer & Co

Figure 24 shows that WSG has been successful in increasing the average size of its contract.

That this is both selling more to existing customers as well as more to each new customer, though in general newer contracts have tended to be larger than existing contracts.

Figure 24 : Growth average size of contract



Source : WSG Presentation, April 2016, Beer & Co

Figure 24 shows that the average contract size has grown from about $1,600, which is less than 3 years of rent at $50/month to over $3,000 in just over 2 years.

Given the natural decay in the average outstanding contract, this shows that WSG has been able to add products to its suite of rental products. Figure 25 shows some of the products recently added.

Figure 25a : CCTV

Figure 25b : Table pagers

Figure 25c: In store audio

Source : WSG Presentation, April 2016

WSG is continuing to seek more products to add to its sales.

Secure cashflows

WSG has been in operation for nearly 30 months. The MD has had many years of experience.

The experience to date has been :

- Bad debts of less than 1%; and
- Default rate of under 3%.

The reasons for this security are :

- Much of the equipment rented is “mission critical”;
  - WSG rents EFTPOS and POS equipment, which are the means through which businesses actually take in revenue;
- WSG receives revenue through automatic direct debt, so there is no discretion involved;
- If there is a default, WSG is able to take the equipment back and rent to another party, so that the only expenditure exposed is the installation cost; and
- The installation cost is recovered in one year, and it is rare for a business to fail in such a short period of time.

Beer & Co's projections for WSG

A major element in Beer & Co's projection is that, one of the reasons for listing on the ASX is to facilitate growth in Australia.

Beer & Co uses a 13 year projection period, so that

- The impact of contract roll-overs can be properly captured; and
- Further potential growth has little impact in an NPV sense.

WSG's Australian Business

Until recently, the RBA required that only authorised deposit taking institutions (ADI) could facilitate payments, which meant that Australian banks owned the business.

However, the RBA now allows others to access the payments network, through banks, rather than requiring full ADI ownership of the payments process.

The other difference to the NZ system, described earlier, is that the RBNZ does not allow the payments structure to receive payment on a "per use" basis, requiring total separation.

In contrast, the RBA allows facilitation payment.

This means that the size of the contract for NZ will be larger than for Australia, and that in Australia the monthly cashflows received, while approximately the same level as for NZ contracts, will have 2 components, being the monthly rental payment plus a facilitation payment.

In this analysis, all Australian data is adjusted to achieve an equivalent outcome to that of NZ, even though WSG's Australian business will be more leveraged to the success of the individual business and hence, indirectly, to the overall state of the economy.

Projected Rental Book

There are about 87,000 merchants in NZ, of which Figure 7 shows that WSG has a market share of about 3.5%.

According to the ABS, there are about 427,000 merchants in Australia, or about 4.9x the number.

New Zealand

Figure 26 shows WSG's historical growth in NZ customers with Beer & Co's projections.

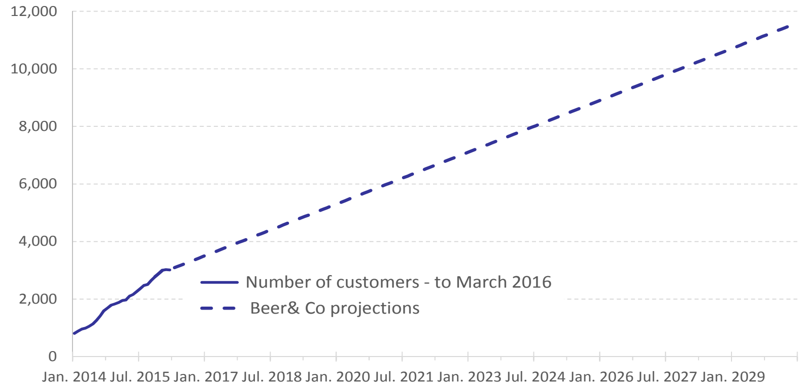
It shows that, compared with average monthly growth in customer numbers of 89 for the period to March 2016, Beer & Co is projecting average monthly growth of 50.

This rate of growth results in WSG having about 11,500 customers by June 2030, which is the end of our projection period.

Assuming that the overall market grows at the rate of 1.5% a year, this means that WSG will have achieved a market share of just under 10.5%.

The relatively subdued rate of growth is because the growth to date has included acquisitions and while we are confident that WSG will be able to continue to grow, we cannot be confident that it will be able to continue to find acquisitions of the same size.

Figure 26 : WSG's number of NZ customers and projected growth



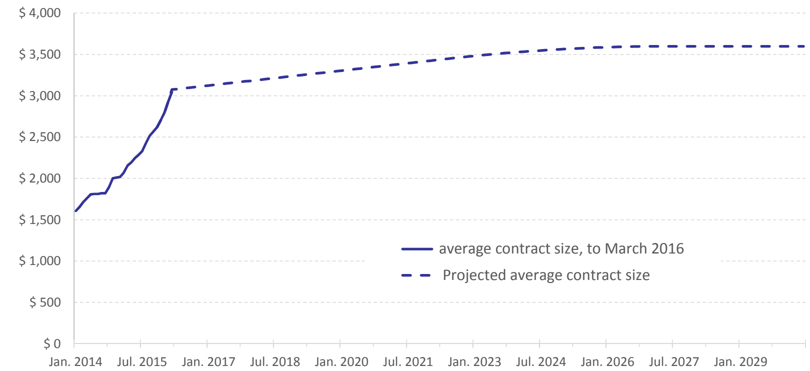
Source : WSG Presentation, April 2016, Beer & Co projections

While this growth projection may look brave, Beer & Co believes that it is a sound projection, given the resource that WSG invests in growth :

- Either the investment in growth is successful; or
- It is not successful and the investment continues for only a few months before it is cut back; and
- The commission structure reduces the risk to WSG.

Figure 27 shows the historical growth in average contract size together with the projections used by Beer & Co in this analysis.

Figure 27 : WSG's average NZ contract size and projected growth



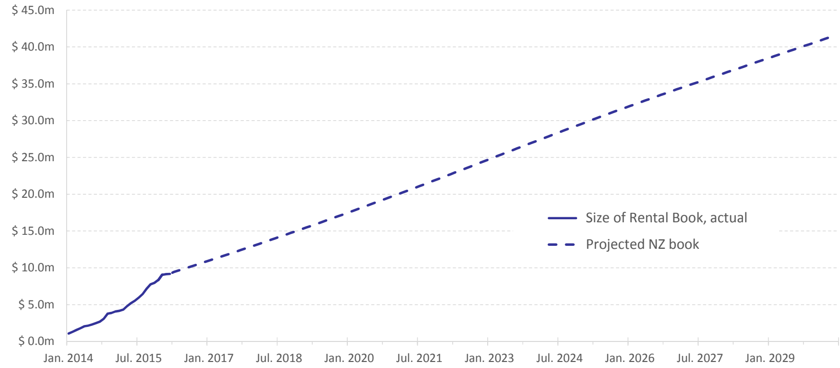
Source : WSG Presentation, April 2016, Beer & Co projections

Figure 27 shows that the average contract size has grown rapidly to date, from $1,600 in January 2014 to over $3,000 currently. Figure 11 also shows that Beer & Co projects continued, but very subdued, growth into the future, with the average contract size reaching a plateau of $3,600 in just over 10 years from now.

Figure 28 shows WSG's rental book, both its growth to date and also Beer & Co's projected growth.

The rental book is the product of the number of customers and the average size of contract. Figure 28 shows continued growth, though at a lower rate than that which has been achieved, and also that the rate of growth slows over time as the average contract size is projected to plateau.

Figure 28 : WSG's NZ rental book – actual and projected growth



Source : WSG Presentation, April 2016, Beer & Co projections

Australia

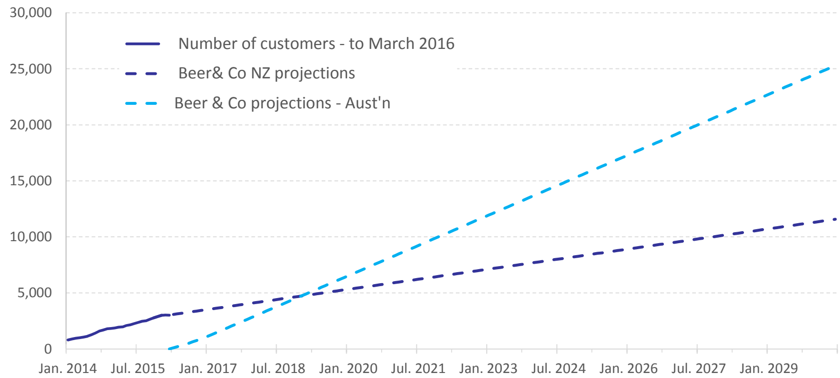
Australia is a new market. WSG began operations in Australian in 2016 and first contracts have been in place for only about 3 months.

In contrast to the New Zealand market, WSG's Australian operations have value outside of the rent book due to the receipt of monthly payments on the basis of revenue transacted through the payments network.

While the Australian market is about 4.9x the size of the NZ market, in terms of merchant numbers (and about 6x in terms of GDP) Beer & Co has used a factor of 3x in this analysis.

Figure 29 shows Beer & Co's projections for Australian customers, starting from zero at the start of 2016, to be about 25,000, or 2.2x the size of the NZ market by 2030.

Figure 29 : WSG's projected growth of NZ and Aust'n customers



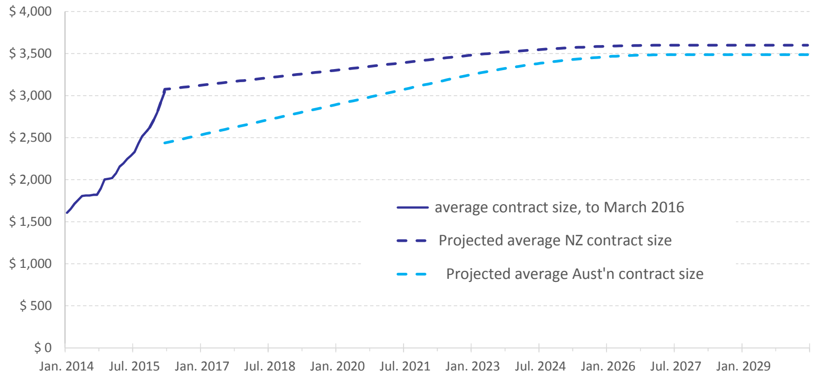
Source : WSG Presentation, April 2016, Beer & Co projections

In other words, WSG is projected to have a much smaller market share in Australian than it has in NZ.

Figure 30 shows the average contract size for both the NZ and Australian markets. It shows that

- The average contract size in Australia is less than in NZ as Australian contracts have a fee that is based on revenue; and
- The gap in average revenue diminishes over time as other products are added, which do not have a fee based on revenue.

Figure 30 : WSG's average contract size NZ v Australia



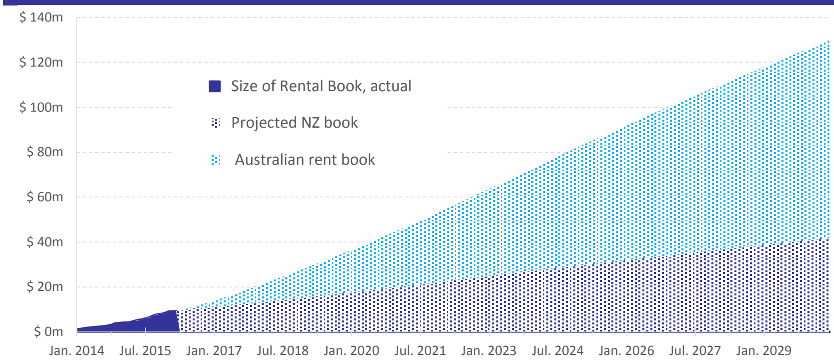
Source : WSG Presentation, April 2016, Beer & Co projections

Projected Total Rent Book

Figure 28 showed Beer & Co's projected total rent book for NZ, based on the number of customers and average contract size.

Figure 29 and Figure 30 show the same data for Australia and Figure 15 shows the total rent book for WSG, combining Australia and NZ.

Figure 31 : Beer & Co's projected total rent book



Source : WSG Presentation, April 2016, Beer & Co projections

Financial projections

Revenue and Costs

After reviewing Australian Standard AASB117, and based on the interdependency of WRS and WSD, WolfStrike has determined, as part of the listing process, that WSG's revenue are financial leases. This means that most of the revenue is recognised at the time the contract is signed, with the revenue, for NZ contracts, being the total value of the contract less the present value of the deemed interest income.

Installation and sales costs are expensed, while the cost of the physical product is depreciated over the 4 year life of the contract.

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New Zealand

Figure 32 shows the Beer & Co's long term projections for WSG's New Zealand operations.

Figure 32 : Beer & Co's projections for NZ operations

AUD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Customers	2,839	3,498	4,098	4,698	5,298	5,898	6,498	7,098	7,698	8,298	8,898	9,498	10,098	10,698	11,298	11,523
Contract Size	$ 2,766	$ 3,123	$ 3,183	$ 3,243	$ 3,303	$ 3,363	$ 3,423	$ 3,480	$ 3,528	$ 3,563	$ 3,586	$ 3,590	$ 3,590	$ 3,590	$ 3,590	$ 3,590
Revenue	6.8	5.1	6.9	8.3	10.5	9.1	11.3	12.9	15.1	12.9	15.8	17.3	19.4	17.9	20.0	19.8
COGS	(0.9)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.8)	(1.0)	(1.3)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(1.1)	(1.0)
Installation	(1.2)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)	(0.8)	(0.9)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.3)
Sales & Admin	(1.1)	(0.9)	(0.9)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	(1.3)	(1.0)
Interest Expense	(0.6)	(0.7)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.3)
Depreciation	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.5)	(0.6)
Profit Before Tax	**2.8**	**2.2**	**3.9**	**5.4**	**7.5**	**6.1**	**7.8**	**9.0**	**10.7**	**9.2**	**12.1**	**13.7**	**15.8**	**14.3**	**16.0**	**16.7**

Source : Beer & Co projections

Figure 32 shows that Beer & Co's projected revenue for FY17 is LOWER than that for FY16, despite the increase in customers and contract size.

However, as revenue is determined by financial lease accounting, revenue is driven by the increase in the number of contracts. In Beer & Co's analysis, the number of contracts in place

- Was 2,179 at 30 June 2015;
- Is expected to be 3,113 at 30 June 2016; and
- Is projected to be 3,713 at 30 June 2017.

This shows that the increase in the number of contract in FY16 is projected to be greater than for FY17, which drives a larger reported revenue for FY16 than FY17.

Australia

Figure 33 shows Beer & Co's projections for WSG's Australian operations.

Figure 33 : Beer & Co's projections for Australian operations

AUD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Customers	195	1,110	2,865	4,665	6,465	8,265	10,065	11,865	13,665	15,465	17,265	19,065	20,865	22,665	24,465	25,140
Contract Size	$ 2,458	$ 2,533	$ 2,653	$ 2,773	$ 2,893	$ 3,013	$ 3,133	$ 3,248	$ 3,343	$ 3,414	$ 3,460	$ 3,467	$ 3,467	$ 3,467	$ 3,467	$ 3,467
Reveue	0.4	4.1	6.7	8.8	11.8	17.2	20.9	24.1	27.6	33.3	36.6	39.3	42.5	47.8	50.4	47.3
COGS	(0.1)	(1.0)	(1.3)	(1.4)	(1.5)	(1.7)	(1.8)	(1.8)	(2.0)	(2.9)	(3.1)	(3.1)	(3.2)	(3.3)	(3.0)	(1.8)
Installation	(0.2)	(1.4)	(1.8)	(1.9)	(2.1)	(2.2)	(2.4)	(2.5)	(2.5)	(2.8)	(2.8)	(2.7)	(2.7)	(2.7)	(2.2)	(0.6)
Sales & Admin	(0.3)	(1.4)	(1.7)	(1.9)	(2.1)	(2.3)	(2.6)	(2.8)	(3.0)	(3.2)	(3.3)	(3.4)	(3.6)	(3.7)	(3.3)	(2.3)
Interest Expense	(0.0)	(0.3)	(0.7)	(1.1)	(1.3)	(1.5)	(2.3)	(2.2)	(2.1)	(2.0)	(1.9)	(1.7)	(1.6)	(1.6)	(1.5)	(1.0)
Depreciation	0.0	(0.1)	(0.2)	(0.4)	(0.6)	(0.8)	(0.9)	(0.9)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(0.9)
Profit Before Tax	**(0.2)**	**(0.1)**	**0.9**	**2.1**	**4.1**	**8.7**	**11.0**	**13.8**	**17.0**	**21.3**	**24.4**	**27.3**	**30.4**	**35.5**	**39.3**	**40.7**

Source : Beer & Co projections

Figure 33 shows that Beer & Co projects that WSG has a short period of Australian operations in FY16, and takes until FY17 to get to a profit.

WSG's Results

Figure 34 shows the pro-forma P&L from WSG's January 2016 Prospectus.

The pro-forma financials were constructed for a financial year ending 31 March, while WSG will now have a financial year ending 30 June.

Figure 34 : WSG pro-forma financials

AUD $000	Year ended 31 MAR 14	Year ended 31 MAR 15	Period 1 APR 15 - 31 OCT 15
Revenue	625	7,745	6,031
Cost of goods sold	(157)	(682)	(536)
Gross profit	468	7,063	5,495
Expenses			
Operating expenses	(660)	(3,457)	(2,377)
Interest	(101)	(546)	(548)
Depreciation	(76)	(64)	(48)
Total expenses	**(837)**	**(4,067)**	**(2,972)**
Net profit before tax	(369)	2,996	2,522
Income tax expense	-	-	-
Net profit after tax	**(369)**	**2,996**	**2,522**

Source : WSG Prospectus, January 2016

Beer & Co expect that WSG's FY 16 results will be not as good as suggested in Figure 34 due to

- The costs of the IPO;
- Increased expenses in the overall business due to the corporate entity;
- Other potential "one-off" costs; and
- The costs of establishing operations in Australia.

Figure 35 shows Beer & Co's projections for WSG's "pro-forma" projected earnings. It shows that Beer & Co projects that NPAT for FY16 to be LOWER than the 7 months to 31 October 2015 due to these costs, while also projecting a rise in revenue.

We would be surprised if WSG does not have better results than our projections for FY17 as our results are based on the current business, while WSG has shown its capacity to grow through acquisition.

Figure 35 : Projected P&L for WSG

	2015-16	**2016-17**
Total Revenue	$A 7.2m	$A 9.8m
Cash COGS	($A 1.0m)	($A 1.5m)
Sales Costs	($A 1.4m)	($A 2.1m)
Sales Overhead	($A 1.3m)	($A 2.3m)
Corporate	($A 0.9m)	($A 1.0m)
E B I T D A	**$A 2.6m**	**$A 2.9m**
Depreciation	($A 0.3m)	($A 0.5m)
Net Interest	($A 0.6m)	($A 1.0m)
Tax Expense	($A 0.5m)	($A 0.4m)
N P A T	**$A 1.3m**	**$A 1.0m**

Source : Beer & Co projections

Cashflow

WSG's Cashflows differ from those in the P&L due to the impact of

- Accounting for finance leases, with most of the revenue recognised when the contract is signed, while the cash is received over the life of the contract;
- Debt funding, with new debt being taken on with each contract, and providing the funds used for operations; and
- Re-payment of debt, through principal and interest payments.

Figure 36 shows Beer & Co's cashflow projections for WSG's New Zealand operations. It shows positive cashflow in each year, though that that is driven by the new debt that is taken on for each new contract.

In other words, WSG's financing structure leads to positive cashflows each year, but it takes a few years for WSG to generate net cash without the new debt.

Figure 36 : Beer & Co's projected cashflows for WSG's NZ operations

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2029-30
Operations	$A 2.0m	$A 2.7m	$A 3.2m	$A 3.6m	$A 4.0m	$A 4.4m	$A 4.9m	$A 5.4m	$A 5.9m	$A 6.4m	$A 6.9m	$A 7.3m	$A 7.7m	$A 8.1m	$A 8.5m	$A 8.5m
Investment	($A 2.0m)	($A 0.9m)	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.5m)	($A 1.8m)	($A 2.2m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.7m)	($A 1.3m)
New Debt	$A 4.4m	$A 5.8m	$A 7.1m	$A 8.4m	$A 9.8m	$A 11.2m	$A 12.6m	$A 14.1m	$A 15.6m	$A 17.0m	$A 18.4m	$A 19.7m	$A 21.0m	$A 22.3m	$A 23.6m	$A 24.6m
Debt Re-pay't - P + I	($A 1.7m)	($A 2.3m)	($A 2.6m)	($A 2.4m)	($A 2.3m)	($A 2.0m)	($A 2.0m)	($A 2.1m)	($A 2.1m)	($A 2.1m)	($A 2.1m)	($A 2.0m)	($A 1.9m)	($A 1.9m)	($A 1.8m)	($A 1.4m)
Overheads	($A 1.1m)	($A 0.9m)	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.1m)	($A 1.1m)	($A 1.1m)	($A 1.1m)	($A 1.2m)	($A 1.2m)	($A 1.2m)	($A 1.2m)	($A 1.3m)	($A 1.3m)	($A 1.0m)
Net Cashflow	**$A 1.6m**	**$A 4.5m**	**$A 5.9m**	**$A 7.7m**	**$A 9.5m**	**$A 11.5m**	**$A 13.0m**	**$A 14.5m**	**$A 16m**	**$A 19m**	**$A 21m**	**$A 22m**	**$A 24m**	**$A 26m**	**$A 27m**	**$A 29m**

Source : Beer & Co projections

In Figure 36 :

- Operations is the physical cash received on a monthly basis
  - The $2.0m in FY16 has a significant component from contracts written in FY15 and earlier
  - Figure 20 shows that this value grows at a steady rate over time, with most of the cashflow in any year driven by contracts written in earlier periods
- Investment refers to the costs of the physical hardware plus the cost of its installation;
- Overheads cover :
  - Sales, which are a combination of employed sales staff, for which we have assumed one person for each $750k of annual sales;
  - Administration, which is servicing contracts in place and we have assumed one person for each $100k of monthly contract revenue, remembering that each EFTPOS terminal is $50, so that one admin person has 2,000 such clients;
  - Sales commission, which we have assumed to be 4% of the contracts written in a period, comprising a balance of 2.5% for sales staff and 5.0% for agents;
  - Advertising; and
  - Other overheads such as accommodation expenses, etc.

Figure 37 shows Beer & Co's projected cashflows for WSG's Australian operations.

Figure 37 : Beer & Co's projected cashflows for WSG's Australian operations

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Operations	$A 0.0m	$A 1.0m	$A 2.8m	$A 4.7m	$A 6.8m	$A 8.8m	$A 10.8m	$A 12.8m	$A 14.9m	$A 17.1m	$A 19.1m	$A 21.1m	$A 23.1m	$A 24.8m	$A 25.9m	$A 26.6m
Investment	($A 0.3m)	($A 2.7m)	($A 3.1m)	($A 3.4m)	($A 3.6m)	($A 3.9m)	($A 4.2m)	($A 4.3m)	($A 4.6m)	($A 5.9m)	($A 5.9m)	($A 5.7m)	($A 5.9m)	($A 6.0m)	($A 5.2m)	($A 2.5m)
New Debt	$A 0.4m	$A 3.3m	$A 3.8m	$A 4.1m	$A 4.5m	$A 4.8m	$A 5.1m	$A 5.3m	$A 5.4m	$A 5.3m	$A 4.7m	$A 4.3m	$A 4.2m	$A 4.2m	$A 4.2m	$A 2.1m
Debt Re-pay't - P + I	($A 0.0m)	($A 0.8m)	($A 2.1m)	($A 3.3m)	($A 4.7m)	($A 5.5m)	($A 6.0m)	($A 7.0m)	($A 7.2m)	($A 6.9m)	($A 7.7m)	($A 8.0m)	($A 7.3m)	($A 7.2m)	($A 6.9m)	($A 5.5m)
Overheads	($A 0.3m)	($A 1.5m)	($A 1.7m)	($A 1.9m)	($A 2.1m)	($A 2.4m)	($A 2.6m)	($A 2.8m)	($A 3.0m)	($A 3.2m)	($A 3.3m)	($A 3.4m)	($A 3.6m)	($A 3.7m)	($A 3.3m)	($A 2.3m)
Net Cashflow	**($A 0.2m)**	**($A 0.6m)**	**($A 0.3m)**	**$A 0.3m**	**$A 0.8m**	**$A 1.8m**	**$A 3.2m**	**$A 3.9m**	**$A 5.5m**	**$A 6.4m**	**$A 7.0m**	**$A 8.3m**	**$A 10.5m**	**$A 12.1m**	**$A 14.6m**	**$A 18.3m**

Source : Beer & Co projections

Figure 37 shows that it takes until the 4th year before the Australian operations are cashflow positive and then grows well.

Figure 38 shows the net cashflows for WSG, which combines the data in Figures 36 and 37, and deducts corporate over-head and taxes paid.

Figure 38 : Beer & Co’s projected cashflows for WSG’s Australian operations

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Net New Zealand	$A 0.1m	($A 0.1m)	$A 0.1m	$A 0.6m	$A 1.1m	$A 1.6m	$A 1.8m	$A 1.9m	$A 2.0m	$A 3.0m	$A 3.5m	$A 3.9m	$A 4.3m	$A 4.7m	$A 4.9m	$A 5.7m
Net Australia	($A 0.2m)	($A 0.6m)	($A 0.3m)	$A 0.3m	$A 0.8m	$A 1.8m	$A 3.2m	$A 3.9m	$A 5.5m	$A 6.4m	$A 7.0m	$A 8.3m	$A 10.5m	$A 12.1m	$A 14.6m	$A 18.3m
Corporate	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)
Taxes paid - NZ	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	($A 0.3m)	($A 0.6m)	($A 0.7m)	($A 0.8m)	($A 1.0m)	($A 1.1m)	($A 1.3m)	($A 1.4m)	($A 1.5m)	($A 1.6m)	($A 1.8m)
Taxes paid - Aust	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	$A 0.0m	($A 0.4m)	($A 1.2m)	($A 2.0m)	($A 2.3m)	($A 2.6m)	($A 3.0m)	($A 4.0m)	($A 4.5m)	($A 4.7m)
Net Cashflow	**($A 1.0m)**	**($A 1.7m)**	**($A 1.3m)**	**($A 0.1m)**	**$A 0.9m**	**$A 2.1m**	**$A 3.4m**	**$A 3.7m**	**$A 4.4m**	**$A 5.5m**	**$A 6.0m**	**$A 7.4m**	**$A 9.5m**	**$A 10.3m**	**$A 12.4m**	**$A 16.6m**

Source : Beer & Co projections

Financing

Figure 38 shows that Beer & Co projects WSG to incur relatively small cashflow deficits for the next 2 years. Beer & Co projects that the deficit peaks at $2.3m.

WSG has on issue 125m options :

- All exerciseable at 2.0c, which is the price at which WSG listed in April 2016;
- 119m have an exercise date of March 2017; and
- The remaining 9m must be exercised by March 2018.

If all these options are exercised, as Beer & Co expects they will be, then WSg is short just over $0.1m.

WSG has other potential funding options.

The main drain on WSG’s cash is the repayment of the borrowed funds, on which WSG is currently paying 15%.

Beer & Co expects that as an ASX- listed company, with a very good credit risk, given that bad debts are less than 1%, WSG will be able to either secure term debt with a lower interest rate.

Valuation

Base Case - NPV

WSG is a relatively new company. Its business model means that it takes 4 years to become a mature business.

Further, WSG has just begun a major expansion into the Australian market. Much of the cost of this expansion will be expensed through the P&L, depressing earnings.

For these reasons. In Beer & Co’s view, the valuation of WSG is best done using a discounted cashflow analysis, on the cashflows shown in Figures 21 and 22.

Figure 39 shows the results. It shows :

- Beer & Co’s base case valuation is 4.7c/share;
- Our valuation is dominated by Australian operations;
- We do not have a separate line for debt as debt is embedded in the operations, as shown in Figures 37 and 38).

The equity raisings referred to are the conversion of the 125m of currently issued options.

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Figure 39 : Beer & Co's valuation of WSG

discount rate = 10.0 %		30 June 2016			27-Jun-16
	risk :	100%	Product	per share	
New Zealand	**100%**	$ 19m	$ 19m	1.2 c	1.2 c
Australia	**100%**	$ 53m	$ 53m	3.4 c	3.4 c
Franking credits	**60%**	$ 18m	$ 11m	0.7 c	0.7 c
Corporate	**100%**	($ 10m)	($ 10m)	(0.6c)	(0.6c)
Equity Raisings	**100%**	$ 2m	$ 2m	0.1 c	0.1 c
TOTAL		**$ 82m**	**$ 75m**	**4.8 c**	**4.8 c**
Shares on issue		842.8m	F P O shares	125.0m	Options
		595.7m	to be issued	125.0m	Ops. Ex'd

Source : Beer & Co projections

Earnings Basis

Figure 340 shows Beer & Co's projected earnings for WSG.

Figure 40 : Beer & Co's projected cashflows for WSG's Australian operations

	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Total Revenue	$A 7.2m	$A 9.8m	$A 14.4m	$A 18.5m	$A 24.3m	$A 29.0m	$A 34.8m	$A 39.7m
Cash COGS	($A 1.0m)	($A 1.5m)	($A 1.7m)	($A 1.8m)	($A 2.0m)	($A 2.1m)	($A 2.6m)	($A 2.8m)
Sales Costs	($A 1.4m)	($A 2.1m)	($A 2.3m)	($A 2.5m)	($A 2.7m)	($A 2.8m)	($A 3.1m)	($A 3.3m)
Sales Overhead	($A 1.3m)	($A 2.3m)	($A 2.7m)	($A 2.9m)	($A 3.1m)	($A 3.4m)	($A 3.6m)	($A 3.9m)
Corporate	($A 0.9m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)
E B I T D A	**$A 2.6m**	**$A 2.9m**	**$A 6.7m**	**$A 10.4m**	**$A 15.5m**	**$A 19.6m**	**$A 24.5m**	**$A 28.7m**
Depreciation	($A 0.3m)	($A 0.5m)	($A 0.8m)	($A 1.0m)	($A 1.1m)	($A 1.2m)	($A 1.3m)	($A 1.5m)
Net Interest	($A 0.6m)	($A 1.0m)	($A 1.4m)	($A 1.6m)	($A 1.8m)	($A 1.9m)	($A 2.8m)	($A 2.7m)
Tax Expense	($A 0.5m)	($A 0.4m)	($A 1.3m)	($A 2.2m)	($A 3.5m)	($A 4.6m)	($A 5.7m)	($A 6.9m)
N P A T	**$A 1.3m**	**$A 1.0m**	**$A 3.3m**	**$A 5.6m**	**$A 9.1m**	**$A 11.9m**	**$A 14.7m**	**$A 17.6m**
shares on issue	843m	1,256m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m
e p s	0.2 c	0.1 c	0.2 c	0.4 c	0.6 c	0.8 c	0.9 c	1.1 c

	2023-24	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**
Total Revenue	$A 45.7m	$A 49.8m	$A 55.8m	$A 60.2m	$A 65.8m	$A 70.1m	$A 73.8m	$A 70.7m
Cash COGS	($A 3.3m)	($A 3.8m)	($A 3.9m)	($A 3.8m)	($A 4.0m)	($A 4.1m)	($A 4.1m)	($A 2.8m)
Sales Costs	($A 3.5m)	($A 3.6m)	($A 3.5m)	($A 3.3m)	($A 3.4m)	($A 3.4m)	($A 2.9m)	($A 1.0m)
Sales Overhead	($A 4.1m)	($A 4.3m)	($A 4.5m)	($A 4.6m)	($A 4.8m)	($A 5.0m)	($A 4.6m)	($A 3.3m)
Corporate	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)	($A 1.0m)
E B I T D A	**$A 33.8m**	**$A 37.0m**	**$A 42.9m**	**$A 47.4m**	**$A 52.7m**	**$A 56.6m**	**$A 61.2m**	**$A 62.6m**
Depreciation	($A 1.5m)	($A 1.6m)	($A 1.7m)	($A 1.6m)	($A 1.5m)	($A 1.5m)	($A 1.5m)	($A 1.4m)
Net Interest	($A 2.6m)	($A 2.5m)	($A 2.3m)	($A 2.2m)	($A 2.0m)	($A 2.0m)	($A 1.9m)	($A 1.3m)
Tax Expense	($A 8.3m)	($A 9.2m)	($A 10.9m)	($A 12.2m)	($A 13.7m)	($A 14.9m)	($A 16.2m)	($A 16.8m)
N P A T	**$A 21.4m**	**$A 23.7m**	**$A 28.0m**	**$A 31.4m**	**$A 35.4m**	**$A 38.2m**	**$A 41.6m**	**$A 43.1m**
shares on issue	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m	1,563m
e p s	1.4 c	1.5 c	1.8 c	2.0 c	2.3 c	2.4 c	2.7 c	2.8 c

Source : Beer & Co projections

Figure 40 shows that while Beer & Co projects NPAT growth, the eps growth is hampered by the issue of further equity.

Figure 40 also shows the key dynamic as WSG matures : the revenue continues to grow but the cost almost flat-line as contracts reach the end of their initial 4 years period and are rolled over, with a discount, but without the need for further installation costs and only a small cost for hardware refurbishment.

Sensitivity Analyses

Shares on Issue

Figure 40 highlights one major issue with the valuation of WSG : 2 tranches of Performance Shares to be issued to the MD.

The conditions of the performance shares have yet to be set and will be determined at an appropriate General Meeting.

In Beer & Co's view, these shares gives us a lot of confidence:

- The MD will not be able to vote on the award of these shares;
- For the shares to be awarded, WSG must have achieved hurdles, probably higher than those in this valuation which is based on a "business as usual" case, while we have allowed for the issue of these shares in our valuation.

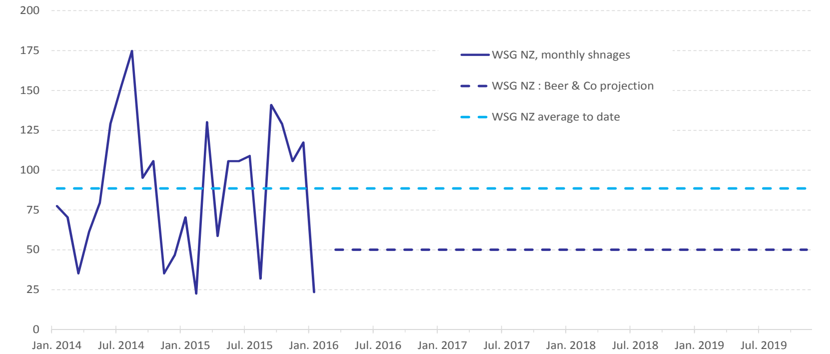
In Beer & Co's view, the greatest single value adding action would be to secure a form of debt with a lower funding cost with a deferral of the principal re-payment.

Beer & Co has assumed that the options are exercised.

Customer Growth

Figure 41 shows WSG's monthly growth in customer numbers.

Figure 41: WSG monthly customer growth v Beer & Co projections



Source : WSG April 2016 presentation, Beer & Co

It shows some very strong months, and an overall average of 89 customers per month. Beer & Co understands that some of the very high months are due to acquisitions of businesses.

Figure 24 also shows that Beer & Co projects, for New Zealand, average growth of 50 customers each month.

In the base case, Beer & Co projects that WSG's growth in the Australian markets will be 150 a month, or 3.0x that for NZ, despite the Australian market being 4.9x the size of the NZ market.

Beer & Co assumes a ramp-up for the Australian operations, starting at about 100 customers a month and taking a year to get to the benchmark rate.

Figure 42 : Sensitivity to customers

		New Zealand			
		25	**50**	**75**	**100**
Australia	**100**	2.8 c	3.3 c	3.7 c	4.0 c
	150	4.3 c	**4.7 c**	5.2 c	5.4 c
	200	5.7 c	6.2 c	6.6 c	6.9 c
	250	7.2 c	7.6 c	8.1 c	8.3 c

Source : Beer & Co projections

Figure 42 shows that Beer & Co's valuation of WSG is sensitive to the rate of customer growth, but even in the low cases, Beer & Co's valuation is still a premium to the price at the IPO.

Growth in Contract Value

WSG has, to date, shown strong growth in the average value of its rental contracts, climbing from about $1,600 in early 2014 to over $3,000 currently.

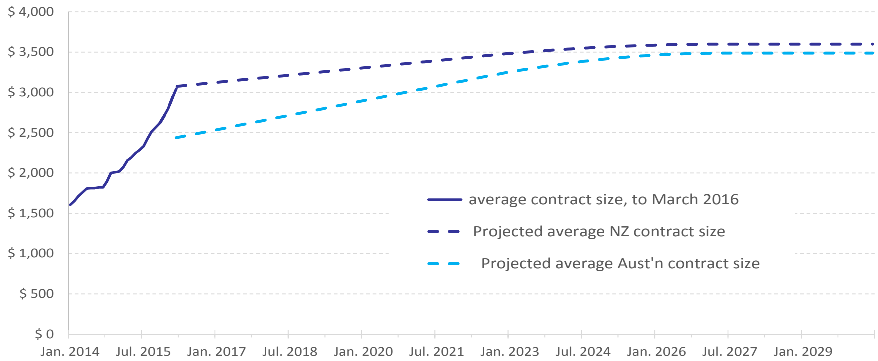
In this analysis, Beer & Co projects further growth as WSG sells more products to its customers; expanding from EFTPOS and POS terminals to other products used in retail and hospitality, including CCTV, audio systems, pagers, beacons and others.

However, as shown in Figure 26, Beer & Co's base case is for modest growth of $5/month, to $3,600 for the average contract in about 10 years from now, for New Zealand.

For Australia, Beer & Co assumes a lower average contract value as part of the revenue is related to the value transacted over the EFTPOS and POS systems.

As shown in Figure 43, Beer & Co assumes that the average contract value is about 80% of the NZ contract value, but as the range of products expands, the gap will close. Beer & Co assumes that the average value of the Australian contracts increases by $10 a month, to a terminal value of about 95% of the NZ contract.

Figure 43 : WSG's average contract size NZ v Aust'n and projected growth



Source : WSG Presentation, April 2016, Beer & Co projections

Figure 44 shows that Beer & Co's valuation is sensitive to this growth in contract value, particularly to the growth in the Australian contract value, which follows from the larger number of customers.

Figure 44 : Sensitivity to contract value

		New Zealand			
		$ 0	**$ 2.5**	**$ 5**	**$ 10**
Australia	**$ 0**	3.4 c	3.5 c	3.6 c	3.7 c
	$ 5	4.0 c	4.1 c	4.1 c	4.3 c
	$ 10	4.6 c	4.6 c	**4.7 c**	4.9 c
	$ 20	5.7 c	5.8 c	5.9 c	6.1 c

Source : Beer & Co projections

Putting Figures 42 and 44 together shows significant potential if WSG grows a the higher end of possibilities.

Conclusions

Summary

WSG listed on the ASX in April 2016. The business was founded in January 2014 by Ian Bailey who has about 30 years' experience in the sector. He was a founder of Cadmus Technology, which he left to become the Managing Director of SmartPay.

Since Ian left SmartPay, it has changed its business focus to payments and payment software and hardware, with a specific focus on the taxi industry.

The business model for WSG is an updated and improved version of that which Ian successfully developed for SmartPay.

WSG is a rentals company that supplies, installs, commissions and supports technology based equipment for the retail and hospitality sectors, on the basis of a monthly rental charge, which covers on-going servicing. The monthly payment is relatively small and the equipment is critical to the business, so WSG has a very low rate of bad debt.

WSG has a line of credit to fund the cost of supply, installation and commissioning of equipment and this debt is paid off over the life of the contract, which is typically 4 years.

The real gains for WSG come when the contract is rolled over, as WSG no longer incurs the expense of installation, and is able to refurbish the equipment, or just roll over the contract at a discount.

Beer & Co's valuation

While the cashflows for each contract are secure, WSG is investing in growth to increase the size of its rental book. This investment is expensed to the P&L., yet WSG's prospectus shows that WSG was profitable at the time it was listed.

However, with the listing, WSG is expanding into Australia and Beer & Co expects that this will negatively impact the P&L for FY16 and FY17.

The nature of WSG's business model means that it takes 4 years to become a mature business.

For these reasons. In Beer & Co's view, the valuation of WSG is best done using a discounted cashflow analysis.

Beer & Co's base case valuation is 4.7c/share.

Our sensitivity analysis shows there is significant upside potential to our valuation from

- More efficient financing sources;
- The hurdles for the award of performance shares;
- Growth in customer numbers, with Beer & Co projecting growth at less than historical rates and terminal market shares of 10% - 11% for NZ and about 5% for Australia; and
- Continued growth in average contract size, with Beer & Co projecting only modest further growth.

Importantly, Beer & Co's sensitivity analysis shows that the IPO price of 2.0c/share is below all of the values we generated.

Concluding Comments

Beer & Co's base case valuation is 4.7c/share, which is a significant multiple of the current share price.

Due to the investment being made by WSG in growing its business, the costs of which are expensed, WSG has subdued earnings for the next 2 years.

Even so, a P/E of about 5.6x FY16 is modest.

Beer & Co rates investment in WSG as medium risk; the cashflows for each contract are known secure with a very low rate of bad debt. The major risks are

- Management, which is a feature of EVERY small company, but the MD, Ian Bailey, has significant experience and a proven track record; and
- Finance / capital, as WSG is not adequately capitalised, but in Beer & Co's view has enough options to get around this issue.

Beer & Co rates investment in WSG as a STRONG BUY, as our dcf valuation is a significant multiple of the current share price, and a multiple of the IPO price.

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Beer & Co. Equity Research

Beer & Co Research

Wolfstrike Group Limited (WSG.ASX) — June 2016

Year ended June		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Section 1 - P&L								
Sales revenue	$A m	8	7	10	14	19	24	29
Interest revenue	$A m	0	0	0	0	0	0	0
Other revenue	$A m	0	0	0	0	0	0	0
Total Revenue	$A m	8	7	10	14	19	24	29
Cash COGS	$A m	(1)	(1)	(2)	(2)	(2)	(2)	(2)
Sales Costs		(1)	(1)	(2)	(2)	(2)	(3)	(3)
Sales Overhead	$A m	(2)	(1)	(2)	(3)	(3)	(3)	(3)
Corporate	$A m	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Other Expenses	$A m	0	0	0	0	0	0	0
Total Operating Expenses	$A m	(4)	(5)	(7)	(8)	(8)	(9)	(9)
EBITDA	$A m	4	3	3	7	10	16	20
Dep'cn & Amort'sn	$A m	(0)	(0)	(1)	(1)	(1)	(1)	(1)
EBIT	$A m	4	2	2	6	9	14	18
Interest Expense	$A m	(1)	(1)	(1)	(1)	(2)	(2)	(2)
Other	$A m	0	0	0	0	0	0	0
Pre-Tax Profit	$A m	3	2	1	5	8	13	16
Tax Expense	$A m	(1)	(0)	(0)	(1)	(2)	(4)	(5)
NPAT	$A m	2	1	1	3	6	9	12
Section 2 - Key Data								
Ordinary shares - year end	m	742.8	842.8	1,256.2	1,563.4	1,563.4	1,563.4	1,563.4
Fully diluted shares on issue	m	1,338.4	1,438.4	1,554.1	1,563.4	1,563.4	1,563.4	1,563.4
Weighted # shares	m	742.8	792.8	1,049.5	1,409.8	1,563.4	1,563.4	1,563.4
Earnings per Share		0.3 c	0.2 c	0.1 c	0.2 c	0.4 c	0.6 c	0.8 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Section 3 - Balance Sheet								
Cash	$A m	2	3	0	1	8	21	81
Receivables	$A m	1	0	0	0	3	5	7
Inventory	$A m	2	0	0	0	2	3	4
Other	$A m	0	0	0	0	0	0	0
Current Assets	$A m	5	3	0	1	12	29	92
Receivables	$A m	7	0	0	0	0	0	0
P , P & E	$A m	1	0	0	55	54	61	43
Intangibles	$A m	5	25	30	30	25	19	13
Other	$A m	0	0	0	0	0	0	0
Non-Current Assets	$A m	14	25	30	85	79	80	57
Total Assets	$A m	19	28	30	86	91	109	148
Unearned Income	$A m	1	1	1	1	2	2	2
Payables	$A m	1	0	0	0	0	0	0
Debt	$A m	0	1	3	3	4	5	5
Provisions		0	0	0	0	0	0	0
Other		0	0	0	0	0	0	0
Current Liabilities	$A m	2	2	4	5	6	7	7
Long Term Debt	$A m	7	3	5	6	7	7	8
Other	$A m	0	0	0	0	0	0	0
Non-Current Liabilities	$A m	7	3	5	6	7	7	8
Total Liabilities	$A m	9	5	9	11	13	14	15
NET ASSETS	$A m	**10**	**23**	**21**	**74**	**78**	**95**	**133**
Accumulated Profit (Loss)	$A m	(14)	(12)	(11)	(8)	(3)	6	18
Reserves	$A m	3	2	(1)	(11)	(15)	(20)	(27)
Contributed Equity	$A m	20	22	25	25	25	25	25
Total Equity	$A m	10	12	13	6	7	11	16

Major shareholders				fully diluted
Kingbird Limited	David Ritchie	164.3m	19.5 %	11.4 %
Ian Bailey	MD / CEO	63.0m	4.4 %	45.8 %

Key Operating Projections

Year ended June	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
New Zealand - Customers	1,544	2,836	3,488	4,088	4,688	5,288	5,888
Contract Size	$ 1,916	$ 2,766	$ 3,123	$ 3,183	$ 3,243	$ 3,303	$ 3,363
Contract Book	$A 3.0m	$A 7.8m	$A 10.9m	$A 13.0m	$A 15.2m	$A 17.5m	$A 19.8m
Ausrtralia - Customers	0	210	1,249	3,045	4,845	6,645	8,445
Contract Size	$ 0	$ 2,458	$ 2,533	$ 2,653	$ 2,773	$ 2,893	$ 3,013
Contract Book	$A 0.0m	$A 0.5m	$A 3.2m	$A 8.1m	$A 13.4m	$A 19.2m	$A 25.4m
TOTAL BOOK	**$A 3.0m**	**$A 8.4m**	**$A 14.1m**	**$A 21.1m**	**$A 28.6m**	**$A 36.7m**	**$A 45.2m**

Section 4 - Cashflow

		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
New Zealand								
Operations	$A m	(0)	(0)	2	2	3	3	3
Finance	$A m	1	1	(1)	(1)	(1)	(1)	(1)
Overhead	$A m	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Taxes Paid	$A m	0	0	0	0	0	0	(0)
Australia								
Operations	$A m	0	(0)	(2)	(0)	1	3	5
Finance	$A m	0	0	2	2	1	(0)	(1)
Overhead	$A m	0	(0)	(1)	(2)	(2)	(2)	(2)
Taxes Paid	$A m	0	0	0	0	0	0	0
Corporate Overhead	$A m	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating Cashflow	$A m	(1)	(1)	(2)	(1)	(0)	1	2
Change in Equity	$A m	0	2	2	0	0	0	0
Dividends Paid	$A m	0	0	0	0	0	0	0
Other	$A m	0	0	0	0	0	0	0
Financing Cashflow	$A m	0	2	2	0	0	0	0
Free Cashflow	$A m	(1)	(1)	(2)	(1)	(0)	1	2
Net Cashflow	$A m	(1)	1	1	(1)	(0)	1	2

Asset based Valuation

discount rate = 10 %		30 June 2016			27-Jun-16
	risk :	100%	Product	per share	
New Zealand	**100%**	$ 19m	$ 19m	1.2 c	1.2 c
Australia	**100%**	$ 53m	$ 53m	3.4 c	3.4 c
Franking credits	**60%**	$ 18m	$ 11m	0.7 c	0.7 c
Corporate	**100%**	($ 10m)	($ 10m)	(0.6c)	(0.6c)
Equity Raisings	**100%**	$ 2m	$ 2m	0.1 c	0.1 c
TOTAL		**$ 82m**	**$ 75m**	**4.8 c**	**4.8 c**
		842.8m	F P O shares	125.0m	Options
		595.7m	to be issued	125.0m	Ops. Ex'd

Financial Ratios

Year ended June		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue	$A m	8	7	10	14	19	24	29
EBITDA	$A m	4	3	3	7	10	16	20
EBIT	$A m	4	2	2	6	9	14	18
NPAT (reported)	$A m	2	1	1	3	6	9	12
Adjusted EPS (cps)		0.3 c	0.2 c	0.1 c	0.2 c	0.4 c	0.6 c	0.8 c
EPS Growth (%)			(46%)	(43%)	146 %	59 %	62 %	31 %
DPS (c)		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Dividend Yield (%)		0 %	0 %	0 %	0 %	0 %	0 %	0 %
PE adj. (x)	x	3.0	5.6	9.9	4.0	2.5	1.6	1.2
EV / EBITDA (x)	x	0.4	2.2	1.3	0.8	1.0	1.5	4.2
EV / EBIT (x)	x	0.4	2.4	1.6	0.9	1.1	1.6	4.4
Gearing (%)		43 %	12 %	18 %	8 %	8 %	7 %	6 %
Return on Assets		20 %	8 %	8 %	7 %	10 %	13 %	12 %
Return on Equity		22 %	6 %	5 %	4 %	7 %	10 %	9 %
EBITDA Margin (%)		48 %	37 %	29 %	47 %	56 %	64 %	68 %
Interest Cover (x)	x	(4.6)	(4.0)	(2.4)	(4.4)	(5.7)	(7.9)	(9.5)

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Beer & Co. Equity Research

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Beer & Co assisted the Lead Manager to the equity raising in March 2016 by WolfStrike and received fees for this service.

The author of this report participated in the public offer and has a relevant economic interest in WolfStrike.

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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