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

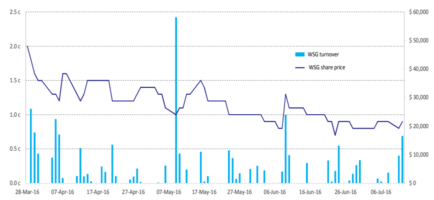
Technology rental to retail & hospitality

- **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.

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.

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

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

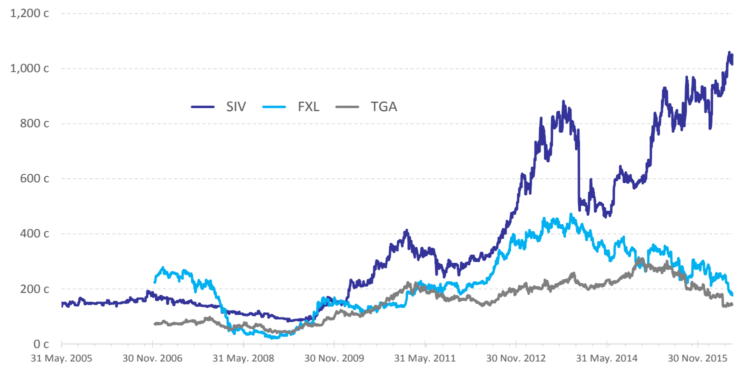
Figure 4 shows the share price performance of the 3 companies that have been listed on the ASX for a period of more than 4 years. It shows :

- 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.

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 : 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

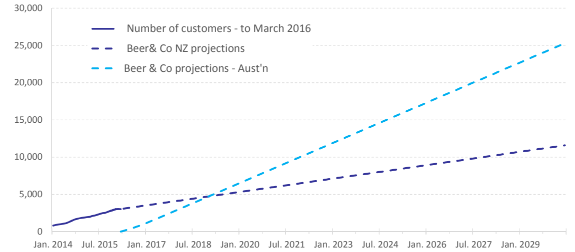
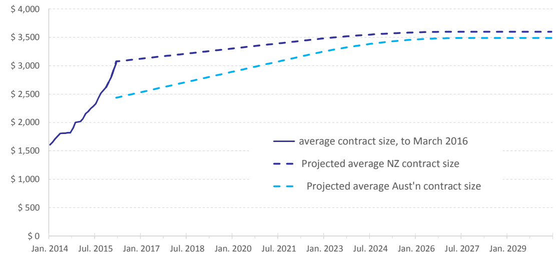


Figure 5b : average contract size



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%.

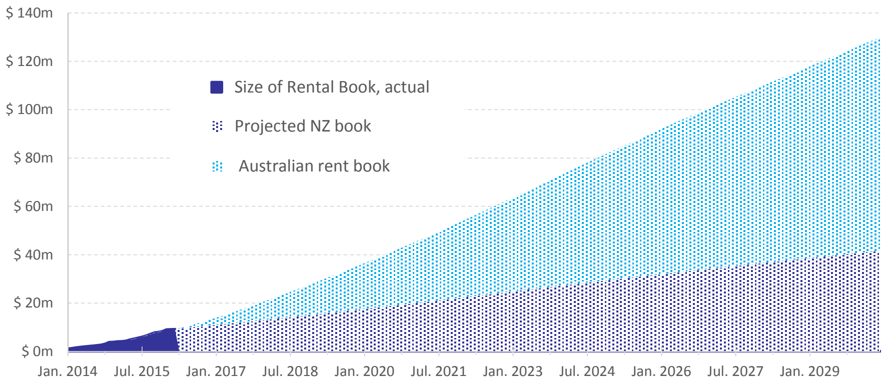
Beer & Co expects this growth to continue, though at a more subdued rate

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

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

However, WSG is a relatively new company and 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 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.

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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								
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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