

Finances secured to grow cashflows

\$1.56m convertible loan; lower interest

Recommendation

STRONG BUY, Medium Risk

Price

1.5c

Valuation

5.1c

Business

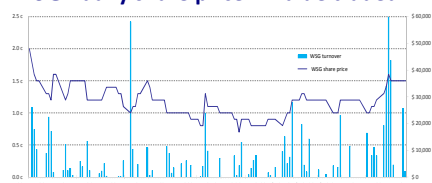
Technology rental to retail & hospitality

- On 30 August, WSG announced that it had issued a Convertible Loan for \$1.56m.
- The interest rate on this loan is 10.5%, so the loan benefits WSG's pre-tax cashflow by \$70k a year, with a consequent small gain in expected NPAT.
- The real value of the loan is that it ensures that WSG does not need the March 2017 2.0c options to be exercised to ensure that it is always funded.
- The conversion terms, at a 20% discount to the 30 day VWAP, virtually ensures conversion.
- Beer & Co's valuation remain 5.1c/share and we affirm our recommendation of **STRONG BUY, Medium Risk**.

Snapshot

Market Cap	\$12.6m
Fully diluted	\$21.6m
Net debt (est.)	\$0.3m
After sale of inventory	
Shares on Issue - now	843m
Plus vendor shares to be earned	1,439m
52 Week High	2.0c
52 Week Low	0.8c
1 month / 6 month VWAP	1.3c / 1.2c

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 customers and, more significantly, by increasing the number of products its rents.

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WSG issues a \$1.56m Convertible Loan

On 30 August, WSG announced that it had issued a Convertible Loan Facility and raised \$1.56m under this facility. The terms are :

- Unsecured;
- Two year term
- Convertible any time after 1 year into ordinary WSG shares, at a 20% discount to the 30 day VWAP;
- Interest rate of 10.5%, payable monthly in arrears on funds drawn.

Facility subscribers receive one option to buy a WSG share at 2.0c for each \$2.00 subscribed, with an exercise date of 24 months from the date of issue. These options will be un-listed.

Earnings and Valuation benefit

Funds from this facility will save WSG about \$70k in annual interest expense. While positive, the impact on our valuation and earnings is not significant.

Major impact is on WSG funding

Beer & Co's original modelling showed a funding gap for WSG, largely due to fixed overheads, including sales, of nearly \$2.0m. In our original analysis, we expected that 116m options exercisable t 2.0c by March 2017 would be exercised and fill this gap.

Following the re-structuring of WSG's sales, which removed inventory funding and sales overhead from WSG's balance sheet, Beer & Co's modelling reduced the shortfall to just under \$1.0m.

The Convertible Loan facility eliminates this potential shortfall.

Beer & Co's affirms valuation and recommendation

WSG's business is now significantly de-risked.

Beer & Co affirms our valuation of 5.1c/share and our **STRONG BUY, Medium Risk**, recommendation.

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Beer & Co Research

Wolfstrike Group Limited (WSG.ASX)

September 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	9	14	18	24
Interest revenue	\$A m	0	0	0	0	0	0
Other revenue	\$A m	0	0	2	0	0	0
Total Revenue	\$A m	8	7	11	14	18	24
Cash COGS	\$A m	(1)	(1)	(1)	(2)	(2)	(2)
Sales Costs		(1)	(1)	(3)	(2)	(2)	(3)
Sales Overhead	\$A m	(2)	(1)	(2)	(2)	(2)	(3)
Corporate	\$A m	(1)	(1)	(1)	(1)	(1)	(1)
Other Expenses	\$A m	0	0	0	0	0	0
Total Operating Expenses	\$A m	(4)	(5)	(7)	(7)	(8)	(9)
EBITDA	\$A m	4	3	4	7	11	20
Dep'n & Amort'n	\$A m	(0)	(0)	(1)	(1)	(1)	(1)
EBIT	\$A m	4	2	4	6	10	18
Interest Expense	\$A m	(1)	(1)	(1)	(1)	(2)	(2)
Other	\$A m	0	0	0	0	0	0
Pre-Tax Profit	\$A m	3	2	3	5	8	13
Tax Expense	\$A m	(1)	(0)	(1)	(1)	(2)	(5)
NPAT	\$A m	2	1	2	4	6	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
Fully diluted shares on issue	m	1,338.4	1,438.4	1,554.1	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
Earnings per Share		0.3 c	0.2 c	0.2 c	0.2 c	0.4 c	0.6 c
Dividends Per Share		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	11	30
Receivables	\$A m	1	0	0	0	3	5
Inventory	\$A m	2	0	0	0	2	3
Other	\$A m	0	0	0	0	0	0
Current Assets	\$A m	5	3	0	1	16	38
Receivables	\$A m	7	0	0	0	0	0
P, P & E	\$A m	1	0	0	55	54	61
Intangibles	\$A m	5	25	30	30	25	19
Other	\$A m	0	0	0	0	0	0
Non-Current Assets	\$A m	14	25	30	85	79	80
Total Assets	\$A m	19	28	30	86	95	118
Unearned Income	\$A m	1	1	1	1	2	2
Payables	\$A m	1	0	0	0	0	0
Debt	\$A m	0	1	0	3	4	5
Provisions		0	0	0	0	0	0
Other		0	0	0	0	0	0
Current Liabilities	\$A m	2	2	1	5	6	7
Long Term Debt	\$A m	7	3	5	6	7	8
Other	\$A m	0	0	0	0	0	0
Non-Current Liabilities	\$A m	7	3	5	6	7	8
Total Liabilities	\$A m	9	5	6	11	13	15
NET ASSETS	\$A m	10	23	24	75	82	104
Accumulated Profit (Loss)	\$A m	(14)	(12)	(10)	(7)	(1)	8
Reserves	\$A m	3	2	(1)	(11)	(15)	(26)
Contributed Equity	\$A m	20	22	24	24	24	24
Total Equity	\$A m	10	12	12	6	8	13

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
Customers	1,544	2,839	3,498	4,098	4,698	5,298	5,898
Contract Size	\$ 1,916	\$ 2,766	\$ 3,123	\$ 3,183	\$ 3,243	\$ 3,303	\$ 3,363
Contract Book	\$A 3.0m	\$A 7.9m	\$A 10.9m	\$A 13.0m	\$A 15.2m	\$A 17.5m	\$A 19.8m
Customers	0	195	1,110	2,865	4,665	6,465	8,265
Contract Size	\$ 0	\$ 2,458	\$ 2,533	\$ 2,653	\$ 2,773	\$ 2,893	\$ 3,013
Contract Book	\$A 0.0m	\$A 0.5m	\$A 2.8m	\$A 7.6m	\$A 12.9m	\$A 18.7m	\$A 24.9m
TOTAL BOOK	\$A 3.0m	\$A 8.3m	\$A 13.7m	\$A 20.6m	\$A 28.2m	\$A 36.2m	\$A 44.7m

Section 4 - Cashflow

New Zealand							
Operations	\$A m	(0)	(0)	2	2	3	3
Finance	\$A m	1	1	(1)	(1)	(1)	(1)
Overhead	\$A m	(1)	(1)	(1)	(1)	(1)	(1)
Taxes Paid	\$A m	0	0	0	0	0	(0)
Australia							
Operations	\$A m	0	(0)	(2)	(0)	1	3
Finance	\$A m	0	0	2	2	1	(0)
Overhead	\$A m	0	(0)	(1)	(1)	(2)	(2)
Taxes Paid	\$A m	0	0	0	0	0	0
Corporate Overhead	\$A m	(1)	(1)	(1)	(1)	(1)	(1)
Operating Cashflow	\$A m	(1)	(1)	(1)	(1)	0	1
Change in Equity	\$A m	0	2	2	0	0	0
Dividends Paid	\$A m	0	0	0	0	0	0
Other	\$A m	0	0	0	0	0	0
Financing Cashflow	\$A m	0	2	2	0	0	0
Free Cashflow	\$A m	(1)	(1)	(1)	(1)	0	1
Net Cashflow	\$A m	(1)	1	0	(1)	0	1

Asset based Valuation

discount rate = 10 %	risk :	30 June 2016		1-Sep-16	
		100%	Product	per share	
New Zealand	100%	\$ 20m	\$ 20m	1.3 c	1.3 c
Australia	100%	\$ 55m	\$ 55m	3.5 c	3.6 c
Franking credits	60%	\$ 19m	\$ 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		\$ 86m	\$ 78m	5.0 c	5.1 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	11	14	18	24
EBITDA	\$A m	4	3	4	7	11	16
EBIT	\$A m	4	2	4	6	10	15
NPAT (reported)	\$A m	2	1	2	4	6	9
Adjusted EPS (cps)		0.3 c	0.2 c	0.2 c	0.2 c	0.4 c	0.6 c
EPS Growth (%)			(46%)	30%	20%	50%	60%
DPS (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%
PE adj. (x)	x	5.2	9.5	7.3	6.1	4.1	2.5
EV / EBITDA (x)	x	1.5	4.1	3.3	2.2	2.2	2.6
EV / EBIT (x)	x	1.6	4.7	3.8	2.4	2.4	2.8
Gearing (%)		43%	12%	17%	7%	8%	7%
Return on Assets		20%	8%	12%	7%	10%	12%
Return on Equity		22%	5%	8%	5%	7%	9%
EBITDA Margin (%)		47%	36%	45%	50%	58%	66%
Interest Cover (x)	x	(4.6)	(3.9)	(4.1)	(5.0)	(6.0)	(9.5)

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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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