

# **Wolfstrike Rentals Group Ltd**

*We Back Success*

Market Update – 24th April 2017

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## Introduction

- WolfStrike Rentals Group Limited (WSG) a technology leasing provider has entered into a conditional share purchase agreement to acquire 100% of the issued shares in FE Investments Limited (FEI), a New Zealand based finance company offering services in New Zealand and Australia ("The Acquisition")
- FEI is a regulated specialised financial institution, focussing on SME finance, cashflow lending and provision of financing rental contracts in New Zealand and Australia while also taking retail deposits via its New Zealand Non Bank Deposit Taker Licence (NBDT)
- FEI is already a significant lender to WSG and the parties have a long term commercial relationship
- The merged entity will continue to trade under current ASX listed entity: WSG
  - FEI will be maintained as the regulated subsidiary of WSG
- The Acquisition provides an ideal opportunity for WSG to implement its stated strategy of lowering its cost of financing and expanding its product offering
- The Acquisition will achieve integration in the technology rental supply chain, providing the Company with more efficient access to funds for its rental book by virtue of FEI's licence as a Non-Bank Deposit Taker

**FEI business provides a significant value upside given its assets are 3x higher than WSG**

Note: All financials in presentation are in AUD. Exchange rate NZD/AUD 0.96 as at December 2016

## Company Overview - FE Investments Limited

- FEI is a licenced Non-Bank Deposit Taker and Lender operating in New Zealand and Australia

### Overview

- Total Assets as at 31 December 16A - \$49m
- Distinguished history since 2003
- Regulated by Reserve Bank of New Zealand under NBDT Regulations - Currently rated S&P “B Stable”
- Banking type model = Deposits and Loans

### Deposit Provider

- Term Deposits for customers looking for stable returns
- FEI offers deposits for periods over 12, 18, 24 & 36 months
- Deposits can be made in NZD, AUD, USD, GBP, Yen

#### Key Deposit Metrics (December 16A)

- \$39m deposits
- Average deposit amount \$45,000

### Specialised Lending

- Specialises in cashflow lending to companies via:
  - Provision of financing for rental contracts
  - Leasing discounted contracts secured via long term contracts
  - Working capital facilities, acquisition financing, term loans
  - Broad and diverse customer base across New Zealand and Australia
  - Mezzanine funding for boutique apartments and town house developments in Auckland
  - Residential mortgages

#### Key Lending Metrics (December 16A)

- \$43m receivables
- 5,383 lending customers
- WSG makes up 23% of FEI funding book

## Company Overview - WolfStrike Rentals Group Limited

- WSG is a leasing and rental company providing technology leasing to SME's and retailers

### Overview

- Listed on the ASX in March 2016 as WSG
- Total Assets as at December 2016 \$16m
- Currently provider of a broker model to a number of agents
  - Eftpos Warehouse, XCR, Bluesky
  - LeaseTech – Major dealers include Repco & BNT

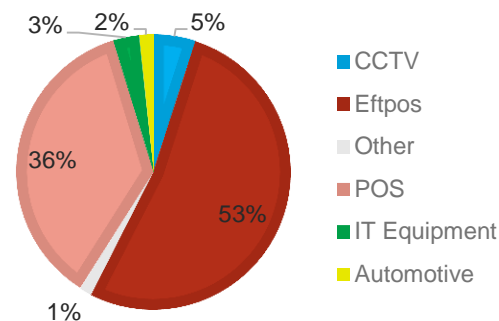
### Leasing / Rental Contracts

- Rental of equipment on 3-4 year fixed term contracts
- Leasing – point of sale, SME vendor program
- Leasing of merchant technology
- Manager / originator of rental contacts
- Leasing/discounting of contracts for equipment
- Funding facilities provided by FEI

### Key Products

- Extensive product range
- Product ranges include:
  - Eftpos terminals
  - POS Systems
  - CCTV
  - Digital Signage
  - Automotive products
  - IT equipment

WSG Product Allocations – Dec 16A



#### Key Metrics (December 16A)

- \$9m receivables
- 3,513 customers

## Transaction Highlights

### Transaction Highlights

Post Acquisition the company will be a vertically integrated finance and rentals leasing group with the ability to raise funds directly from the public markets

- Increase in tangible asset base
- Lower cost of funding
- Acquisition is earnings accretive on a pro forma basis
- Provides wider range of funding products to customers/ leverage of customer base
- Provides direct access to significant growth opportunities
- Niche target market providing strategic advantage

## Transaction Overview

### Transaction Detail

- WSG has entered into a conditional share purchase agreement to acquire 100% of the issued shares in FEI
- Existing FEI shareholders will ultimately own 60% of fully paid ordinary shares consisting of:
  - An initial upfront issue of 1.65bn settlement shares; and
  - Subject to FEI achieving 90% of FEI's FY17 NPBTBD (net profit before tax and bad debts), up to an additional 566,549,223 shares (Earn-Out Shares)
  - WSG expects that FEI will achieve this threshold (to be verified by the Audited YE17 FEI accounts)
- FEI Directors TK Shim and Mel Stewart will join the WSG board

### Current Status / Timing

- The Acquisition was approved by WSG's shareholders at a general meeting held on 8 March 2017
- WSG has completed due diligence on FEI and this condition precedent has been satisfied
- WSG and FEI have formally applied for RBNZ approval of the Acquisition and are continuing to liaise with RBNZ in relation to the application
- Based on discussions to date and professional advice received, WSG is not aware of any reason why RBNZ approval of the Acquisition will not be given
- WSG and FEI have agreed to extend the completion date which is now anticipated to be late April or early May 2017

## FEI Funding Structure

### Funding Structure of FEI

- Historically FEI has funded via equity contributions and depositors' funds
- Continued focus on maintaining an optimised and conservative capital ratio of more than 9% to 10%
- The lack of access to additional shareholder funds currently restricts the growth of lending

### Funding Structure as at 31 December 16A (AUD)

Depositor Base	\$39m	Cash	\$4m
Existing Shareholder Funds	\$9m	Loans / Rental contracts	\$43m
Other Liabilities	\$1m	Other assets	\$2m
<b>Total Liabilities &amp; Equity</b>	<b>\$49m</b>	<b>Total Assets</b>	<b>\$49m</b>

- **\$100 of new equity capital will allow FEI to generate \$500 of income earning assets**
- **Historical Average return on assets to Dec 16A - 3.5%**
- **Historical Average return on Equity to Dec 16A – 19.37%**

The only restriction to FEI's growth has been access to equity capital



## Capital Structure – FEI & WSG Combined

### Post Acquisition

- Share consolidation of 30:1 (every 30 shares will be consolidated into 1 share) to occur post acquisition
- Options on issue have a strike price ranging from 0.02c – 0.025c (post consolidation 0.60c – 0.75c)

Capital Structure	Pre Consolidation	Post Consolidation	% Shareholding
Existing Shares on issue	842,775,340	28,092,511	22%
Shares to be issued on conversion of convertible notes	218,454,365	7,281,812	6%
Final earnout shares to original vendors of Wolfstrike business	500,000,000	16,666,667	13%
Shares to be issued to the FEI Vendors	2,216,549,223	73,884,974	59%
<b>Total shares on issue</b>	<b>3,777,778,928</b>	<b>125,925,964</b>	<b>100%</b>
Existing Options on issue	150,000,000	5,000,000	
Attaching Options to convertible notes	1,021,055	34,035	
<b>Total Options on issue</b>	<b>151,021,055</b>	<b>5,034,035</b>	

#### Note:

- Assumes issue of Earnout shares to FEI vendors
- Convertible notes are convertible at the option of WSG on completion of the Acquisition

# Strategic Rationale For Merger

## 1) Scale of Company

- Significant value creation for WSG
- Vertically integrated finance company with emphasis on leasing/discounting and cashflow lending
- Large long term pipeline of contracts and leasing opportunities
- Low cost broker model for rental/leasing implemented by WSG
- Lending diversity provided by FEI

## 2) Funding

- Access to increased funding lines from FEI which supports acquisition strategy for WSG
- Lower cost of funding provided by FEI
- Certainty and sustainability to finance at a cost of funds usually only available to financial institutions

## 3) Customers & Products

- Enables a wider range of funding products offered to customers
- Ability to increase revenue per customer (leverage off existing customer base)
- Access to wider customer base with further expansion into Australia

## Overview of Merged Entity

## Business Divisions – Depositors

### Overview

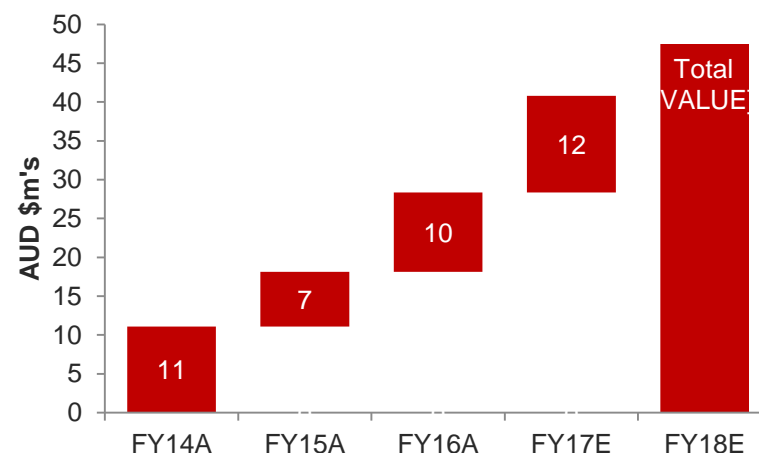
- S&P Credit rating of “B Stable” (March 2017)
- FEI offers term deposits of varying terms over 12, 18, 24 & 36 months
- Deposits can be made in NZD, AUD, USD, GBP and Yen
- Average size of deposit is \$45,000 ensures diversification of deposit base
- On average approximately 70% of depositors roll their investment at time of expiry
- FEI captures predominately Asian depositors given they have a proportionate higher net worth
- Considerable growth in FY17E due to a targeted campaign run in NZ paper and online platform

### Term Deposit Rates - NZD

Term	\$5,000 or over (%p.a)
8 months	5.8%
12 months	6.15%
18 months	6.3%
24 months	6.6%
36 months	6.6%

*Subject to change at any time by FEI*

### Consistent Deposit Growth



**Note:** FY17E and FY18E should be read in conjunction with the Assumptions and Risks on page 23

## Business Divisions – Lending

### Lending Overview

- Focus on cashflow lending and discounted contracts to SME's

Lending is predominately composed of :-

- SME and corporate loans
- 99% of lending facilities are via secured loans of which 52% are first ranking securities
- 97% of lending facilities are in NZ while 3% are in Australia
- The loan loss provision is less than 1%
- All borrowers are sourced via inbound enquiries given FEI outstanding track record of supporting the SME sector
- Average lending size is \$8,000 and continues to increase supported by a wide customer base of over 5,000

### Typical Lending Clients

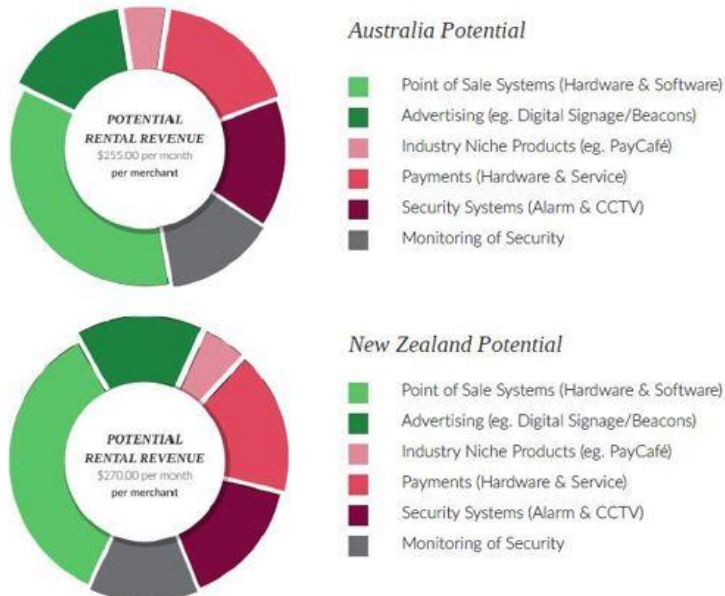
Counterparty	Description
Leading payment solutions supplier	▪ Discounting of POS/ EFT POS rental contracts and stock funding
Telecom Provider	▪ Convertible notes
Security monitoring firms	▪ Discounting of rental contracts
Point of Sale systems	▪ Discounting of rental contracts

## Business Divisions – Leasing / Rental Contracts

### Potential Markets

- Growing revenue base generated by bundling multiple products, such as POS systems, payment terminals, security systems and in-store advertising solutions, and renting these over a contract period of 36-48 months.
- Scalable business without compromising credit quality

### Market Opportunity



### Large Geographic Reach

- All products are provided on a monthly rental basis, with product ownership remaining with WSG
- Broad and diverse customer base across Australia & New Zealand.

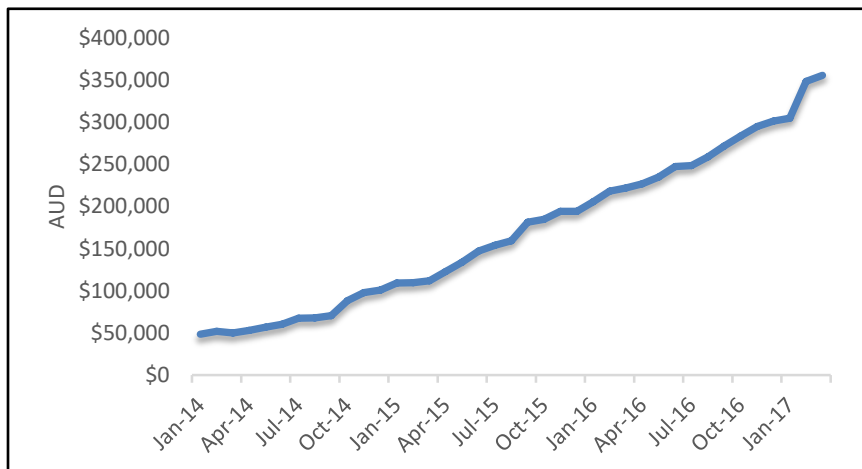


- Australia is a growth opportunity via agent sales network and business acquisition

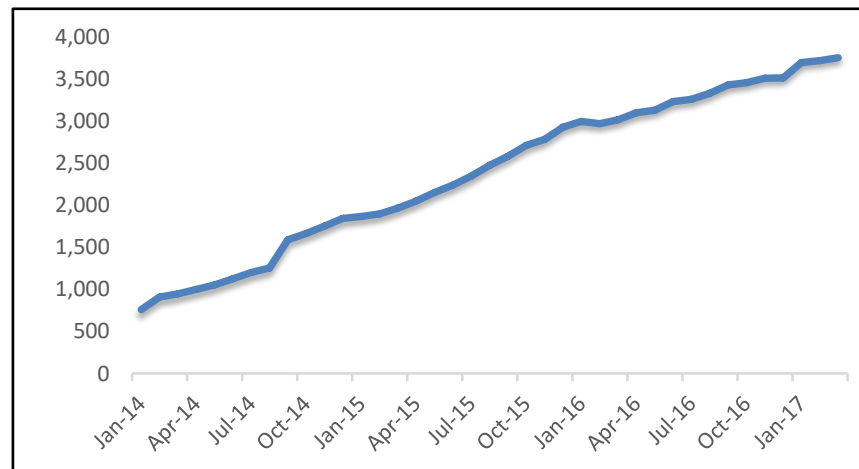


## Business Divisions – Leasing / Rental Contract growth

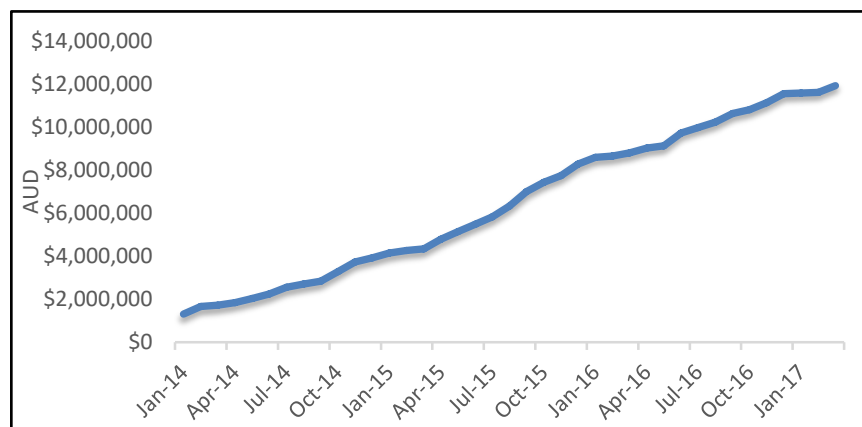
### Contracted Monthly Cash Flows



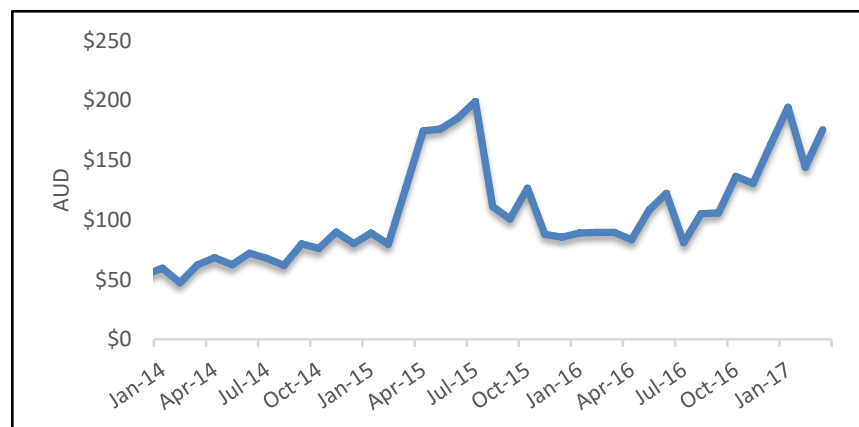
### Number of Rental Contracts



### Rent Book Value (including GST)



### Average Monthly Rental Rate (New Contracts)



Source: WSG management reports

## Business Divisions – Leasing / Rental Contracts

### Leasing / Rental Product Suite



#### *Point of Sale Hardware*

Supply of a range of all-in-one POS systems & peripherals.



#### *CCTV Systems*

Supply/install of Samsung, HIK Vision CCTV Systems



#### *Alarm Systems*

Supply/install of Paradox Alarm Systems and Monitoring Solutions



#### *Cash Registers*

Countertop and mobile cash register solutions for retail and hospitality use.



#### *Payment Terminals*

EFTPOS and Contactless payment terminals. WiFi/GPRS/Broadband.



#### *Smartphone/Tablet Accessories*

Powerful, ultra-portable POS solutions for the retail, warehousing, ticketing and hospitality industries.



#### *Proximity Beacons*

Beacon-based advertising system allows direct target marketing to a customer's smartphone.



#### *Table Pagers*

Hospitality paging system which notifies customers with a flash/vibration when their order is ready.



#### *Audio & PA Systems*

Ceiling and wall-mounted speakers for indoor & outdoor hospitality environments. Multi-zone amplifiers.



#### *Digital Signage*

Hardware, software and content management systems for digital display/menu/advertising signage.



## Prudential Governance Regulation

### Licensing Regime

- Reserve Bank of New Zealand (RBNZ) has implemented a licensing regime for Non-Bank Deposit Takers.
- The licensing regime has enhanced the value of FEI as it will act as a major hurdle for any new entrants to the finance sector.
- RBNZ issued FEI with a deposit taking licence
  - Very strong capitalisation levels
  - Well-defined niche as a specialised finance provider
  - Sufficient balance-sheet flexibility to meet its liquidity
  - Very strong risk adjusted capital ratios

### Capital Requirements

- Current regulation specifies that the minimum capital ratio requirement for NBDTs with a credit rating be set at 8% of risk weighted exposures
- Key Ratios
  - Liquidity & Risk Adjusted Capital
- NBDTs are required to have a risk management programme that outlines how the NBDT identifies and manages its key risks. This programme is to be submitted to, and approved by the NBDT's Supervisor

#### Rating Points from S&P – March 2017

- Very strong capitalization, underpinned by expectations of further support from shareholders
- Credit risk on cash-flow based lending is well-mitigated

## Financials – Overview

## Key Metrics

### FEI Metrics (December 16A - AUD)

Customers	5,000
Total Assets	\$49m
Revenue	\$5.34m
Lending Size (Avg)	\$8,000

### WSG Metrics (December 16A - AUD)

Customers	4,000
Total Assets	\$16m
Revenue	\$3m
Contract Size (Avg)	\$3,000

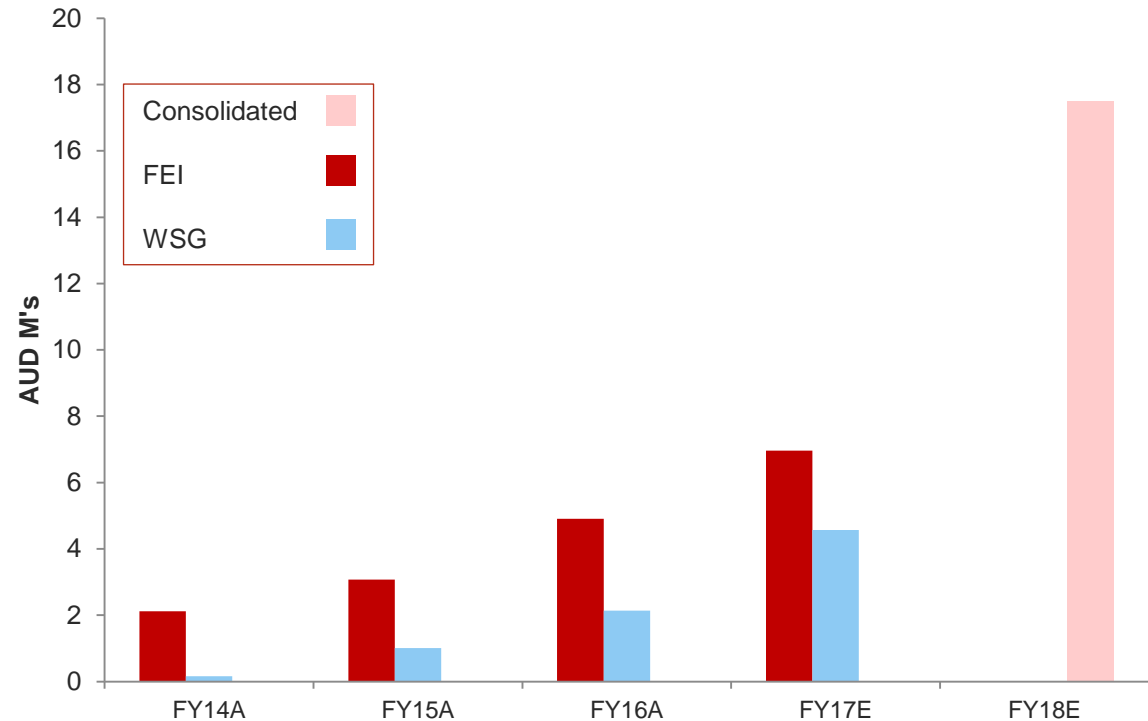
### FEI & WSG Consolidated (AUD) - Projected

	FY18E
Revenue	\$17.5m
NPBT	\$2.1m
Cash NPBT	\$2.1m
Total Assets	\$68.1m
Total Loans	\$51.8m
Anticipated Return on Assets	3.0% - 3.5%
Anticipated ROE	8.5% - 11%
Capital Adequacy (based on FEI only)	13.4%
Impairments Losses - Provision	1.9%

**Note:** FY18E should be read in conjunction with the Assumptions and Risks on page 23

## Revenue – Continued Growth

- FEI has shown **consistent growth since FY14A –FY17E CARG 49%** due to increasing demand from cashflow lending and rental contracts
- Significant upside under merged entity
- Consolidated FY18E growth on account of acquisitions, access to low cost funding and synergies in operations



**Consistent growth since FY14 due to significant lending and rental demand**

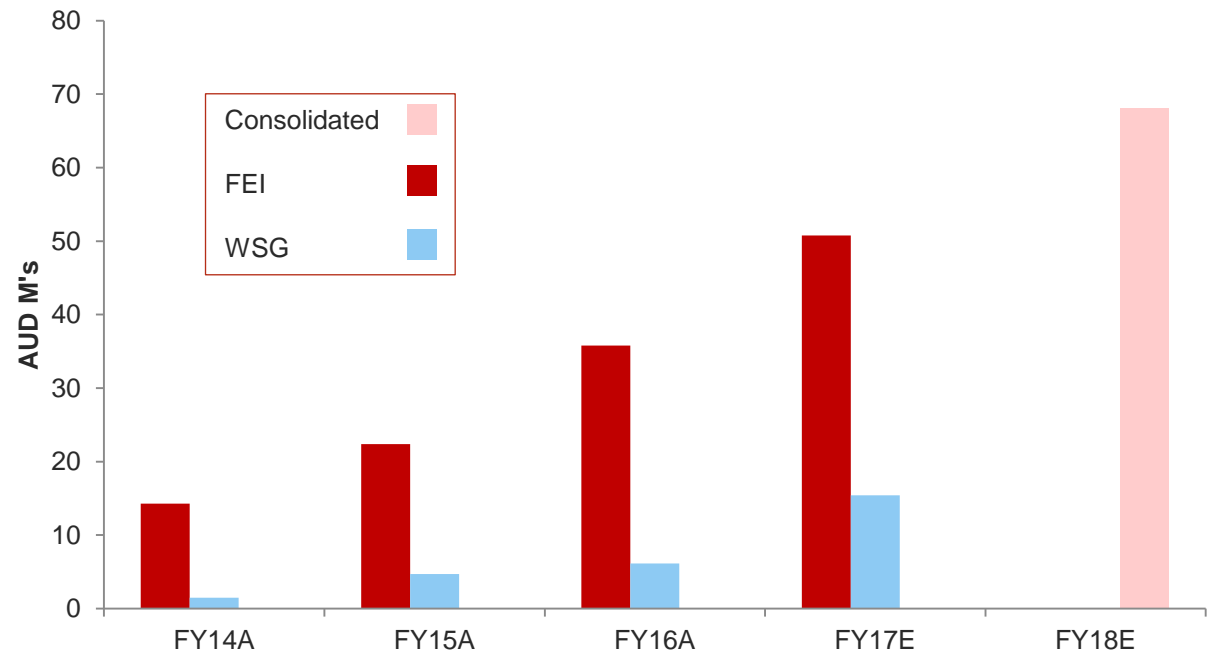
**Note:**

- WSG FY17E is for 9 months from July 16
- FY18E projections should be read in conjunction with the Assumptions and Risks on Page 23
- Financial year end is March 31<sup>st</sup>.
- FEI revenue includes interest from WSG
- WSG FY14A, FY15A & FY16A are based on pre acquisition WRS NZ accounts under operating lease

## Growing Asset Base

### Total Assets

- FEI total assets have been **growing at compounded rate of 53% p.a.** since FY14A and are at \$51m as at FY17E
- FY18E consolidated asset growth due to venturing into new markets, innovative products and expanding product range to existing customer base



**Note:**

- FY17E and FY18E should be read in conjunction with the Assumptions and Risks on page 23
- Financial year end is March 31<sup>st</sup>. Management forecasts are based average capital investments of \$3.8m each year
- FEI assets include loans to WSG
- WSG FY14A, FY15A & FY16A are based on pre acquisition WRS NZ accounts under operating lease

## Unique Positioning

### Established Track Record

- FEI has established a reputation in New Zealand as a leading financier providing innovative funding for the SME sector over the last 13 years.
- Including secured debenture financing, cashflow lending, trade finance and bridging finance facilities.

### “Sticky” Customer Base

- FEI will have an established brand name and proven network to raise deposits in New Zealand. It is a household name amongst the high saver Asian community in New Zealand:
- Long term rental contracts with diverse customer base
- High rates of re-investments ensure deposit base grows sustainably

### Stringent Governance

- Regulatory climate has tightened with high entry barriers
  - Limited competition in the marketplace.
  - Conservatively operates with risk-adjusted capital ratio of 9% to 10% as opposed to statutory mandated capital ratio of 8%

### Financially Profitable

- FEI total assets have steady growth rates
  - At compounded rate of 53% FY14A - FY17E
  - ROE of 19% FY17E
  - ROA 3.5% FY17E
  - Needs more equity capital to support growth directly linked to asset base growth

**Note:** Projected ROA, ROE and compounded growth should be reads in conjunction with the Assumptions and Risks on page 23.

## Assumptions and Risks

The projections contained in this presentation are based on the following assumptions and there are risks, which could result in positive or negative material variances from the projections relied in this presentation, should any of these assumptions change or vary.

- All projections are based on an exchange rate of NZD/AUD 0.96.
- All figures are rounded to the nearest thousand or million
- WSG FY14A, FY15A and FY16 have been based on Wolfstrike Rental Services accounts prior to the acquisition by WSG (in March 2016) and accounting treatment is defined as operating leases. From March 17 onwards, the WSG accounts have accounted for leases as finance leases under AASB117.
- The projections assume continued growth of both loans and deposits in line with the average of previous years.
- The forecasts assume an increase in capital of \$3.8M end FY18 to meet ongoing Capital Adequacy ratios which directly relate to the Asset growth of the business (see page 8).
- The assumptions assume that there will be no significant increase in Cost of Funds or interest rates paid to depositors
- The assumptions are based on no change to the current loss ratios or bad debts
- The assumptions are based on current market conditions in both New Zealand and Australia
- No depreciation expense of the equipment leased or rented out by WSG or any of its subsidiaries is provided in the projections as these leasing/rental contracts are finance leases. In addition, no inventory of equipment shall be held by WSG or any of its subsidiaries

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