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Wellington Drive

Wellington

Well "Beyond the Motor"

Ticker: WDT

Price ($):0.235
Market Cap ($m):$53.4

52-wk Range: $0.08 - $0.265

- Under the leadership of Greg Allen over the past five years, a strategy to improve market diversification and volumes through expanding geographical markets, developing new advanced motors and connected refrigeration controllers, improve margins through supply chain cost reduction, and reduce operating costs and inventory turn has met with considerable success.
- Under this strategy Gross Margins have improved from 5.0% FY11 to 24.0% FY16 and resulted in the delivery of a modest maiden EBITDA surplus.
- Frequent capital raisings since listing have been exhausting for investors but there is now significant light at the end of the tunnel with the company expecting significant growth in profitability over the medium term on the basis of recent new product launches.
- In FY17 the company expects further very significant revenue growth and earnings growth as customer wins and the adoption of new products occurs. Revenue growth is expected in the range of 30-40% and EBITDA likely in the low millions (we forecast $2.6m).
- WDT recently announced the signing of customer terms & conditions for SCS™ Connect with a very large unnamed global consumer brand that may come on stream during FY17. However we note the timing and quantum of revenue growth is difficult to forecast and is likely to be lumpy near term as new customers on-board and existing customers adopt WDT's new products.
- Electric motors, and the systems they drive, are the largest single consumer of electrical power. Changing consumer behaviour, government incentives and regulations are expected to fuel very strong (double digit) growth for energy efficient motors for the foreseeable future according to industry research.
- The company's new strategy goes well beyond specialised electric motors where the market is relatively fragmented, commoditised and price sensitive. It has been extended to include proprietary connected smart refrigeration controllers and cooler fleet management software, taking the company into the Internet of Things (IoT) sector – where there is increased opportunity to add value for customers and margins are significantly more attractive.
- Assuming the company is successful and meets its expectations, it will create significant shareholder value in our view. Nevertheless while early indicators are positive, WDT must remain innovative and ahead of the pack in what remain very competitive markets, particularly for motors and an investment carries significant risk given it is in the early stages of a turnaround.
- At the current share price of 23.5c the market appears to be implying significantly lower margins, lesser volume growth or lower pricing or a combination relative to our expectations all else being equal.

Investment Fundamentals

Financial and valuation metrics					
Year to 31 December	**2015A**	**2016A**	**2017F**	**2018F**	**2019F**
Adjusted Earnings ($m)	-2.9	-2.5	0.5	3.1	5.9
EPS Adjusted (c)	NA	-1.0	0.2	1.2	2.2
EPS Growth (%)	NA	NA	-120%	495%	84%
P/E (X)	NA	-24.0	119.6	20.1	10.9
EV/EBITDA (X)	NA	NA	25.6	13.8	8.6
Net DPS (c)	NA	0.0	0.0	0.0	0.0
Imputation (%)	NA	0.0	0.0	0.0	0.0
Net Yield (%)	NA	NA	0.0	0.0	0.0
Gross Yield (%)	NA	NA	0.0	0.0	0.0
Source: Company data, estimates					

Executive Summary

Founded in 1986 and listed in 2001 and coming from a very long period of losses and associated capital raisings, **investors may now recapture lost value and more as the company guides to a period of significant growth and profitability.** The company has raised $117.2m of capital since listing, incurred accumulated losses of $112m and had closing equity of $2.7m FY16. We understand around 50% of shareholders by number are small investors, many of whom have been significantly diluted over the years.

As a backdrop, **ever rising energy prices, increasing awareness about the benefits of using energy efficient motors, increasing concern over greenhouse emissions and Government incentives and regulations will push the demand for energy efficient motors and controllers** in low power requirement applications. Electric motors, and the systems they drive, are the largest single consumer of electrical power. In aggregate, they use twice as much energy as lighting applications. Industry research points to very strong growth rates for energy-efficient motor systems.

In the case of SCS Connect adoption, this is mainly driven by the accelerating demand for connecting industrial equipment (in this case commercial coolers) to the internet, gathering Big Data from fleets of equipment, increasing the intelligence of the equipment and improving the sales and cost performance of the fleet through deploying cloud based software and reporting tools to assist operating teams in making better business decisions (the Internet of Things or IoT). Gartner Inc. forecast 6.4bn "things" would be connected in 2016 (supporting total service spending of US$235bn) rising to 20.8bn "things" by 2020 (growth of 15%-20% per annum) and that consumer uses will continue to account for the greatest number of connected things, while enterprise will account for the largest spending.

WDT had earlier flagged and then achieved a modest EBITDA profit for FY16 and management has expectations for strong growth in revenues and earnings thereafter.

Prior to 2012 WDT had historically not been profitable for a variety of reasons including high costs of production, poor manufacturing economics in the ventilation market, carrying of excess inventory, the ordering of significant quantities of product that were not demanded by the market as EC motor adoption was still in the very early stages, a lack of scale and a general lack of operational focus.

These issues have been addressed since 2012. **The company now has a customer-centric strategy versus a 'build it and they will come' strategy, a completely new approach to managing product demand and supply, and a new supply chain model with low cost factories in Vietnam, Malaysia and China that has significantly improved its working capital position** with receivables and payables near matched. Inventory turnover has improved from ~3X to ~8X between 2014 and 2016.

A strategy to improve product cost and thus margins through improvements in the supply chain and reduce operating costs has been met with great success with Gross Margins improving from 5.0% FY11 to 24.0% FY16 with further, albeit smaller, improvements in motor margins expected in FY17. The company is targeting motor margins of 25% which is understood to be in line with tier 1 manufacturers. The rollout of new technologies (e.g. SCS™ Connect controllers) with higher margins should see group margins continue to increase over the medium term even as lower margins on motors stabilise.

The SCS™ (SCS stands for Smart Control Solutions) controller system has been three years in development with its first sales made in 1H16 . The company has high ambitions for its success in the market near term. SCS™ Connect offers a cloud-based cooler fleet management solution to customers who need to connect industrial devices to the Internet. The SCS™ Connect System unlocks the business information sitting in a customers' cooler fleet and lets customers use that data to improve commercial and operational performance.

Wellington's new strategy is to deliver solutions to solve customers' refrigeration energy consumption, system control and fleet management problems through the development of Advanced Motor and Intelligent Control Solutions. Wellington terms this strategy "Beyond the Motor".

The company's strategy is now much more than motors where the market is relatively fragmented, commoditised and price sensitive and has been extended to include smart controllers and software where margins are more attractive.

WDT see its customers as beverage bottlers (who are the ultimate consumer of the product), brands (who steer what technology they adopt in their coolers) and OEMs (who actually manufacture product into coolers and ship to the bottler). In essence the primary customer is a bottler, but the transactional customer is the OEM. Over the last two years the company has added supermarket and food service refrigerator manufacturers to its primary target customer list – with the ultimate consumer of the product being large international supermarket brands and restaurant chains.

WDT is mainly a B2B company and doesn't sell through distributors at any scale, although does have two smaller distribution relationships (in the UK and USA). Consequently, most sales are direct and WDT has a small global sales force.

WDT supports two of the largest consumer branded food and beverage retailers in the world and a number of large beer brands and global refrigeration original equipment manufacturers (OEMs). Two large global beverage brands are currently driving the largest share of EC motors and SCS™ controller growth. The two largest direct customers are OEMs who support these branded food and beverage retailers. Both OEM customers also support major beer brands, ice cream brands and supermarket display case customers, providing a channel to market for WDT to access these customers.

WDT's functional currency is the USD. Its main currency exposure is to its short NZD position arising from its NZD denominated cost base estimated at around NZD $5m per annum.

Recent customer wins, and new brand relationships forged, are likely to see revenue diversification begin to emerge in the current year and beyond as those new customers and brands adopt the new products WDT has launched in the market place.

Assuming the company is successful and meets its expectations, it will create significant shareholder value in our view. Nevertheless, while early indicators are green, WDT must remain innovative and ahead of the pack in what remain very competitive markets.

We have not assumed any dividends being paid over the forecast period for two main reasons; first is that with substantial tax losses available, dividends may not be imputed for the foreseeable future and any capital return would be more likely through a buy-back or share cancellation in our view.

Secondly, and more importantly, the company still has product expansion opportunities and cash generated may be applied to further product development.

Catalysts for Share Price Performance

- Announcement of contract wins for SCS™ and/or ECR2 beyond current market expectations.
- Earnings announcements ahead of guidance.
- Increased "marketing" of the new WDT story to increase investor knowledge.
- Further margin improvement beyond market expectations.
- New product launches and expansion of new product platforms.
- Implementing a dividend policy (although tax losses mean the company would not be able to pay imputed dividends, so more tax efficient distribution methods such a share buybacks may be more appropriate).
- Corporate activity in the sector.

About The Company

Wellington was founded in 1986, as Clark Automotive Developments Ltd. The company specialized in power electronics, including Inductive Power Transfer technology. It also developed a novel design of ironless, slotless BLDC motor, which was patented in 1989. In 1996 the company changed its name to Wellington Drive Technologies Ltd, as it changed its strategy to focus on EC motors and their applications.

From the late 1990s until the mid 2000's, Wellington operated primarily as a technology development company, working with manufacturers in the appliance and other industries to license and apply its EC motor technology. By this time, the original patents had been superseded, and Wellington's technology was based on new developments in low-iron slotless motors and control systems. The company listed on the New Zealand Stock Exchange in 2001.

Wellington began manufacturing its own EC motors in 2001. By the mid 2000s it was primarily manufacturing and selling motors under its own brand, and technology licensing was becoming a secondary activity. Its first products were targeted at the domestic ventilation market. In 2011 the company withdrew from the ventilation market due to the poor economics of its "make to order" approach.

In 2004 WDT added refrigeration fan motors to its product range, under the "ECR" brand. Since that date, WDT has supplied over 7 million ECR motors with the guidance to near term profitability driven through a substantial strategic and operational clean-up led by CEO Greg Allen, who has cut costs of production, cleared excess and unwanted inventories, increased the scale of the company's marketing plans and developed innovative technology for new markets.

In 2011, the company decided to focus solely on its commercial refrigeration business and withdraw from the ventilation market; and to develop a range of "beyond the motor" technology products specifically for the commercial refrigeration industry.

Associated with a simplification of the business the company now has a customer-centric strategy, improved its margins through cost control including restructuring its supply chain and has significantly improved its working capital position with receivables and payables near matched. Inventory turnover has improved from ~3X to >7X between 2014 and 2016.

The product range now includes airflow solutions, cloud connected refrigeration controls, and telemetry and refrigeration fleet management software. Wellington has closed its Singapore office and now outsources manufacturing to suppliers in Vietnam, China and Malaysia. The company has offices in 3 countries (and representation in a further 7), and manages supply chain, logistics and R&D from its headquarters in Auckland, New Zealand.

Core Strategy

WDT's key strategy is to go beyond the fragmented commoditised and price sensitive motor sector to providing solutions to the commercial refrigeration market. The commercialisation of its IoT based SCS Connect technology to deliver valuable information to owners and operators of commercial refrigeration fleets should deliver significant revenue and margin growth.

WDT currently has high customer concentration risk with two major OEM customers comprising 57% of FY16 revenues (in 2012 there was only one) although the number of end customers has increased; as a result another key strategy is to diversify its revenue streams by both increasing the number and type of customers it sells to and geographies it operates in. In this respect, the company is endeavouring to foster new supermarket display case and food service cooler customer relationships.

The company also believes it can further improve its supply chain, albeit it has already picked the low hanging fruit in terms of cost reduction through the step changes already undertaken.

The SCS™ Connect System

The SCS™ product has been three years in development and its first sales were made in 1H16. SCS™ Connect offers a cloud-based solution to customers who need to connect industrial devices to the Internet. It effectively unlocks the business information sitting in a customer's cooler fleet (that has not been previously accessible) and lets customers use that data to improve commercial and operational performance. SCS™ allows the customer to track assets, simplifies maintenance, predicts and diagnoses faults in the equipment, improves energy consumption, provides connectivity that can manage coolers in the field and allows customers to monitor cooler activity and relocate coolers where utilisation is low.

WDT manages the telemetry data and provides tools to allow the customer to monitor their fleet, or can feed the raw data to the customer for their own analysis.

Where WDT provides data solutions for the customer, WDT currently derives small additive annuity revenue streams.

SCS™ controls have an automatic power-saving standby, saving up to 40% of energy consumption compared to an electronic thermostat. They also feature other advanced energy saving features such as LED light dimming and fan speed adjustment, letting OEMs optimise the control of any cooler.

For the security of recorded and traceable food storage conditions, SCS™ Connect controllers log several months' of temperature and performance data, which is viewable via a smartphone application or at the desktop.

Wellington's SCS™ refrigeration controls also have a built-in iBeacon. **iBeacon®** is Apple's name for a small Bluetooth transmitter (beacon) which can be used to trigger Apps in the smartphones of people who pass nearby. Although the name and technical specification are Apple's, the beacons can be made by anyone, and work with most modern smartphones, whether Apple or Android.

Because Apps react to the specific locations of beacons, marketers can target shoppers with offers or information that relates specifically to where they are or what they're doing (providing the potential for location based marketing). In return, marketers can learn about users' behaviour and habits. Because the SCS™ controller is mains voltage powered, it lasts the life of the cooler, and the iBeacon never runs out of battery.

To make the best use of an iBeacon, the customer needs to know where it is. This lets them target marketing activity to specific brands, stores, or geographies, and build the best picture of consumer behaviour. Wellington's SCS™ Connect identifies its location as part of the fridge installation process, and sends the location to the SCS™ database.

Conventional iBeacons are not interactive: communication from the iBeacon to the phone is one way only. Because the SCS™ beacon is also a Bluetooth connection to the fridge control, it potentially allows interactive behaviour between the fridge and the phone. For example the fridge lights could blink when the App beeps, telling the customer why they are being beeped at. Or the SCS™ Connect could send a message to the phone when the door is opened, telling the marketer whether their message has really generated a sale.

SCS Connect also support Google's alternative to iBeacon, called Eddystone. Eddystone has some different features than iBeacon, such as the ability to operate via the user's web browser (i.e. without the need to download an app) and to pass limited device status data. The majority of WDT's customers are currently iBeacon.

It is understood that Wellington is researching a number of new wireless technology platforms to further advance the connectivity of its SCS Connect and expand the service offerings available to its customers. These technologies may take it beyond Bluetooth to emerging 'always on' communication technologies. Wellington intends to invest in advanced connectivity solutions as part of its long range research and product development plans – something that is well 'beyond the motor'.

WDT Energy Efficient EC Motors

While there has been some customer resistance to purchasing EC motors due to their higher capital cost (around US$16-20 versus $4-6 for a traditional shaded pole motor) and in spite of having a short pay-back period and very attractive economics, new energy regulations around the globe are likely to stimulate higher demand over the medium term.

In the USA, Federal Department of Energy (DOE) regulations effective in 2017 are targeting commercial "reach-in" cooler energy usage reductions of 30%-50%, numbers which are achievable with a WDT motor solution (it is understood this is further improved when a refrigerator is controlled with the SCS Connect). Further as OEM's move away from HCFC refrigerants and instead use less complex hydrocarbons (like propane), they tend to adopt EC motors as they migrate.

EC (**E**lectronically **C**ommuted, or **E**lectronically **C**ontrolled) motors are electric motors which have permanent magnets on the rotor and use electronics to control the voltage and current applied to the motor.

EC motors have no brushes and therefore avoid the sparking and shorter life of brushed motors. Because they have electronics controlling the stator, and do not need to waste power inducing the rotor field, they give better performance and controllability.

EC motors are used today in many fractional-horsepower applications where high motor efficiency, reliability, and/or controllability are desired.

Refrigeration accounts for up to half of the electricity use in a typical supermarket and because of the risk of product damage, reliability and performance are critical.

In most cases EC motors use from less than one third to one half of the electricity used by the traditional "shaded pole" induction motors used in the ventilation and refrigeration industries, which translates into lower operating costs and short payback periods.

EC motors' high efficiency also means that the motors run "cool", and dramatically reduce the amount of waste heat produced. Reduced waste heat at the evaporator motor level also typically results in reduced operation at the compressor level, which allows further energy savings. Also, running cooler improves the life of highly loaded motor parts like windings and bearings.

EC motors also have a wider operating range than traditional induction motors, which means that one EC motor can replace a number of induction motor models. In this way, the number of models required by a typical customer is significantly decreased, which decreases and simplifies inventory. This is the main reason why EC product lines usually include less motor models than their induction counterparts.

Because the motor's operation is controlled by software, EC motors allow customers to optimize and integrate the motor, fan and controller with the application, and to include features like data communications, constant volume control, variable speed, etc.

EC motors are also quieter (an important consideration in multi-motor environments such as supermarkets), have longer design life and generally require less maintenance.

As a general rule of thumb, shaded pole motors range from 15-25% efficiency. This means for every Watt used to generate airflow, another 4-5 Watts are wasted as heat. Permanent split capacitor motors range from 30-50% efficiency and EC motors achieve 60-75+% efficiency.

Payback analysis involves many factors such as the local electricity rate, duty cycle of the motors (and in conjunction with compressors), lifetime failure/replacement costs, efficiency of the air movement and operating conditions.

For high duty cycle applications such as refrigeration fans, payback can be as short as a few months, while for low duty cycle applications, energy savings may not be a driver for moving to EC motors. As noted, in general EC motors cost 2-4x the price of an equivalent size AC motor, however the total cost equation often comes out in favour of the EC motor.

As an example, changing remote or integral (plug-in) display cases to use WDT ECR motors, with efficiency up to 70%, can reduce electricity consumption by over two thirds. This leads to a cost saving of $45 or more, per motor per year (based on a power cost of $0.11/kWh). Payback can be measured in months.

WDT ECR motors are tested to a design life of over 10 years, so replacement and warranty costs can be reduced also.

WDT's new ECR2 motors give very low levels of motor-induced noise and vibration and as much as 4.5dBA less than other EC motors. WDT ECR motors can be programmed in place, allowing individual cabinets to be tuned to maximum performance once installed, and can be combined with the SCS™ refrigeration controller to control fan speeds in real time. Further, the ECR2 model can still operate efficiently under extreme conditions.

To cater for customer demand for non EC motors, Wellington also sells a rebranded Chinese manufactured shaded pole motor, mainly to China based customers, a market where EC motors have a low penetration rate.

About the Markets

The Market for Motors

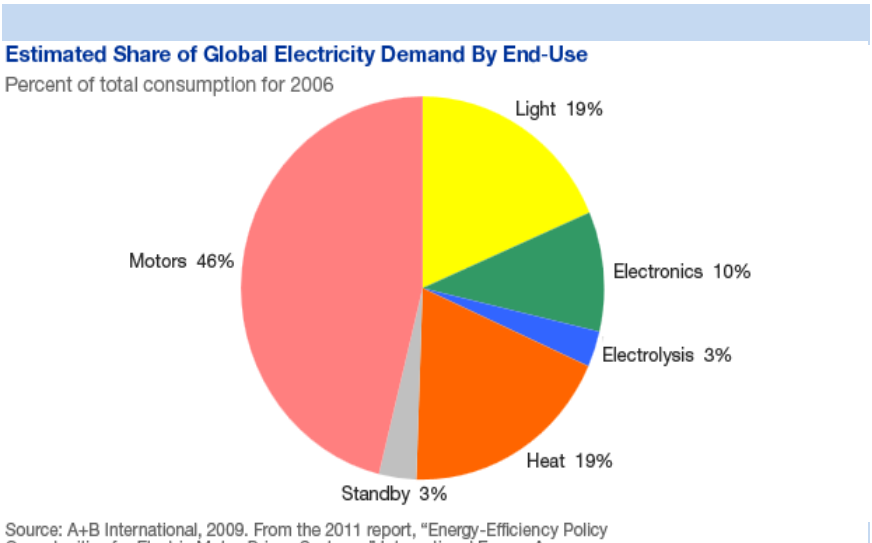
Ever rising energy prices, increasing awareness about the benefits of using energy efficient motors and smart refrigeration controllers, increasing concern over reducing greenhouse gas emissions and an increase in government incentives and regulations will push the demand for energy efficient motors and control solutions in commercial refrigeration applications.

Energy-efficient motors are manufactured with higher quality raw materials and newer technologies that comply with the energy-efficiency standards. In addition, changing regulatory policies, along with incentives offered by the governments to support energy saving products, have increasingly incentivised OEMs to switch to newer technologies. The maintenance, operation and energy costs of energy efficient low horsepower motors contribute significantly towards the life cycle costs, resulting in higher demand by end customers, for better energy saving products.

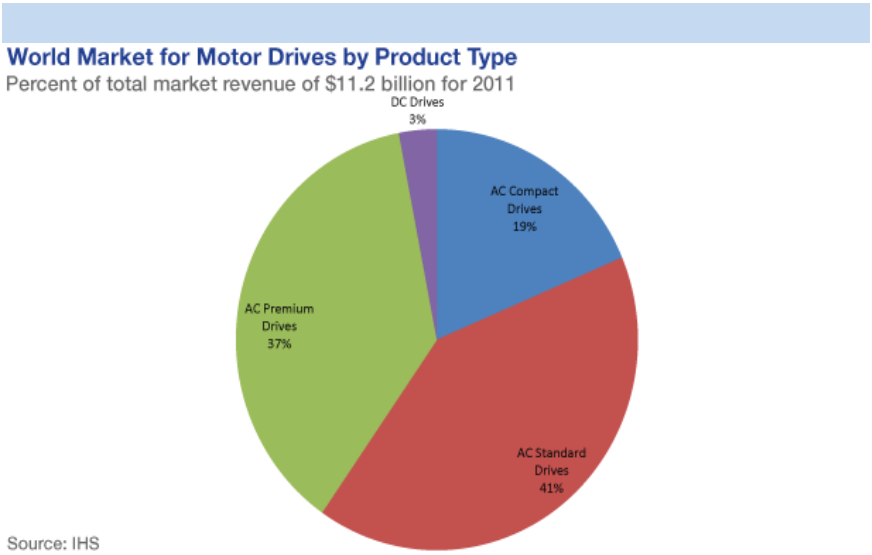
The global electric motor sales market size (all motors) was estimated to be around US$91.75bn in 2015 and is expected to grow at a CAGR of 6.38% during 2015-2020 according to MarketsAndMarkets research.

Electric motors, and the systems they drive, are the largest single consumer of electrical power. In aggregate, they use twice as much energy as lighting applications, which are the next largest user, according to a working paper by International Energy Agency (IEA)[1].

It is estimated, electric motors and the systems they drive account for approximately 50 percent of total global energy consumption, which equates to about 6 billion metric tons of CO2 a year.



Source International Energy Agency (IEA)



Source International Energy Agency (IEA)

These numbers highlight why efforts to increase motor energy efficiency are a priority among industrialized countries worldwide. Motor-efficiency performance standards (MEPs) from multiple countries, including the U.S. and Europe, as well as potential end-user energy and cost savings, are the key drivers accelerating demand for energy-efficient motor drives. Most developed countries already have energy standards in place while expectations are most developing nations to have standards by 2018.

MarketsAndMarkets estimate the total Global Energy Efficient Motors Low Horsepower market to be around US$35bn in 2016 (this is the market segment where WDT can compete) and growing at a CAGR of ~12% p.a. Of that, refrigeration accounts for around US$3.7bn, which is WDT's current focus.

Technavio's research analysis predicts the global brushless DC motors market to grow steadily at a CAGR of around 13% during its forecast period 2016-2020, similar to and supporting that forecast by MarketsandMarkets.

The key point to note is that electric motor markets are very large and expected to grow strongly and while WDT participates in only a small fraction of the market currently, there may be high value adjacent markets, which WDT may choose to enter in the future. However the markets are very competitive with a large number of competitors both large and small.

Global Energy Efficient Motors Low HP By Application US$bn (Type)

Type	2012	2013	2014	2015	2016	2017	2018	CAGR % (2013-2018)
FHP AC motors	17.54	18.61	19.86	21.23	22.75	24.37	26.12	7.01
1hp-3hp Energy Efficient AC Motors	5.53	6.63	8.01	9.74	11.93	14.67	18.20	22.37
Total Market	23.07	25.25	27.86	30.98	34.67	39.04	44.32	11.91

Source: marketsandmarkets

Global Energy Efficient Motors Low HP By Application US$bn (Application)

Application	2012	2013	2014	2015	2016	2017	2018	CAGR % (2013-2018)
Consumer	10.53	11.21	12.02	12.96	14.05	15.30	16.76	8.39
Industrial	5.62	6.29	7.10	8.08	9.27	10.70	12.47	14.68
Refrigeration	2.18	2.46	2.79	3.18	3.66	4.24	4.96	15.08
Medical	1.47	1.65	1.85	2.10	2.39	2.74	3.14	13.83
Others	3.27	3.65	4.11	4.65	5.30	6.06	6.98	13.84
Total	23.07	25.25	27.86	30.98	34.67	39.04	44.32	11.91

Source: marketsandmarkets

According to MarketsAndMarkets, the segments where WDT currently participates, vending machines, freezers and display cases are expected to be among fastest-growing products over the five years from 2013 to 2018, growing at CAGRs of 17.33%, 15.70% and 18.0% respectively.

Bottle coolers held the highest revenue share at 35% in 2012 and are expected to retain this dominant share over the forecast period.

The total global low horsepower market for refrigeration applications is forecast to be US$3.7bn, growing at a CAGR 15% from 2012 to 2018 and reaching ~US$5bn at the end of the forecast period. Growth rates by application were forecast to be highest for display units and growth across all categories of between 10% and 18%. Geographically, growth is expected to be 14%-19% across all markets with APAC (15.8%) and ROW (18.6%) highest as infrastructure is built out driving refrigeration demand.

WDT has only a small presence in vending machines at present as the bulk of that segment uses smaller DC motors than WDT currently has in its product range. However it is an extremely accessible adjacent segment and might be a key target market for the company's planned smaller low cost motor.

Global Energy Efficient Motors Low Horsepower By Application US$bn

Application	2012	2013	2014	2015	2016	2017	2018	CAGR % (2013-2018)
Bottle coolers	0.77	0.86	0.97	1.09	1.24	1.42	1.64	13.77
Vending machine	0.07	0.08	0.09	0.10	0.12	0.15	0.17	17.33
Freezer cabinets	0.37	0.42	0.48	0.55	0.63	0.74	0.87	15.70
Display units	0.64	0.74	0.86	1.00	1.19	1.41	1.69	18.00
Others	0.34	0.36	0.40	0.43	0.48	0.53	0.59	10.30
Total	2.18	2.46	2.79	3.18	3.66	4.24	4.96	15.08

Source: marketsandmarkets

Global Energy Efficient Motors Low Horsepower By Geography US$bn

Geography	2012	2013	2014	2015	2016	2017	2018	CAGR % (2013-2018)
North America	0.59	0.66	0.75	0.84	0.96	1.11	1.29	14.30
Europe	0.51	0.57	0.64	0.71	0.81	0.93	1.08	13.68
APAC	0.90	1.01	1.15	1.34	1.54	1.78	2.09	15.56
ROW	0.18	0.21	0.25	0.30	0.35	0.42	0.50	18.58
Total	2.18	2.46	2.79	3.18	3.67	4.24	4.96	15.08

Source: marketsandmarkets

APAC accounted for the largest share of the market in 2015 and is expected to grow at a CAGR of around 14% during the forecast period.

For further illustration of the size of the market, the research estimates Coca Cola alone has 13m coolers in market with the total global fleet estimated at 30m at an average cost of US$800 per cooler unit, implying capital deployed of ~US$24bn (although this capital spend is in part undertaken by Coca Cola's independent bottler network).

The Market for IoT and Connected Controllers

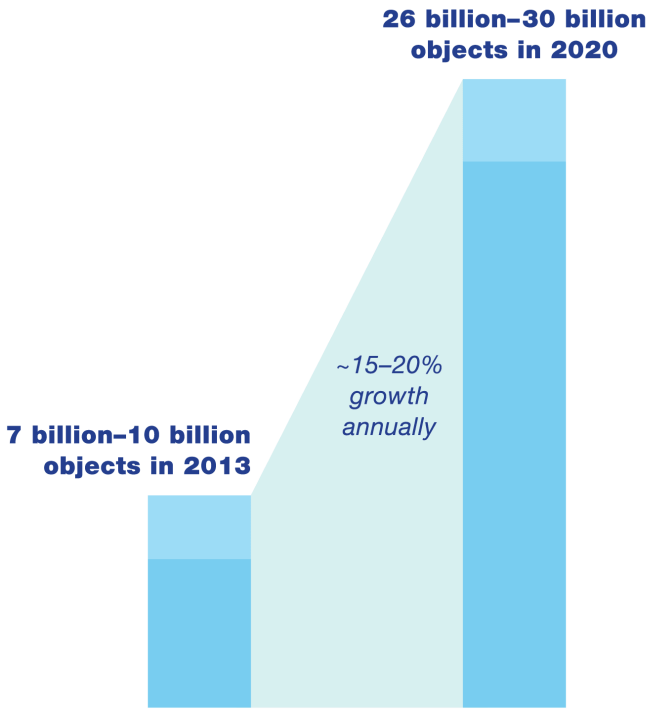
For SCS Connect, growth is likely to be driven around demand for "the internet of things". The Industrial Internet (of things) is still at an early stage, similar to where the Internet was in the late 1990s.

The internet of things refers to the networking of physical objects through the use of embedded sensors, actuators, and other devices that can collect or transmit information about the objects. The data amassed from these devices can then be analysed to optimise products, services, and operations improving product sales, equipment efficiencies and driving down costs.

Growth in demand for the Internet of Things is forecast to be very strong with Gartner Inc. forecasting that from 6.4bn "things" connected in 2016 (supporting total service spending of US$235bn), this would rise to 20.8bn "things" by 2020 (growth of 15%-20% per annum).

McKinsey Global Institute research estimates that number may be as many as 26bn to 30bn and that the impact of the Internet of Things on the global economy might be as high as $6.2 trillion by 2025. Vast amounts of money are being expended in the technology by both Corporates and Governments (e.g. Cisco has committed to spending US$1bn over 5 years).

Some 30 billion objects may be connected to the Internet of Things[1] by 2020.



[1]A networking of physical objects via embedded devices that collect and/or transmit information.

Source: Forecasts derived from ABI Research; expert interviews; Gartner; IDC; McKinsey analysis

Obstacles to growth include;

- The current absence of industry standards (including connectivity and API's).
- That security and data privacy issues need to be addressed.
- Many applications will require devices that are self-sustaining and rely on energy harvesting or long-life batteries.
- Connectivity loads where billions of devices will be connected at any one time.
- Some applications will require low-power, low-data-rate connectivity across a range of more than 20 meters, an area in which cellular technologies and Wi-Fi often fall short.
- Legacy environments where brownfield innovation will be required to support existing equipment on the ground.
- Lack of skilled workers (data scientists).
- Uncertainty around returns on investment.

AT Kearny estimates that of its forecast US$344bn of IOT revenues in 2020, US$45bn or 13% will be spent on sensors and devices and US$237bn (or 69%) on services and applications, with the residual on infrastructure and platforms.

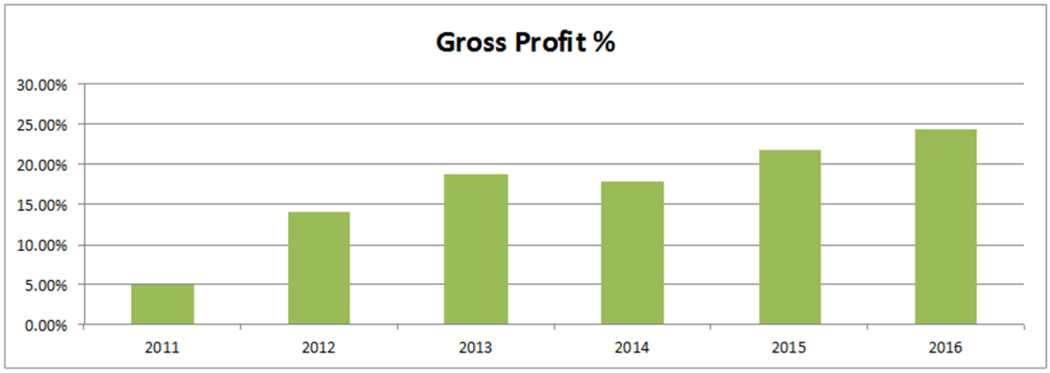
While it seems likely these obstacles will be overcome, what is much less clear is who and which industries would capture the value of this growth. The chief executive of CSR plc, Joep van Beurden, hypothesises only about 10 percent of the financial value to be captured is likely to be in the "things" and the rest is likely to be in how these things are connected to the Internet (and the creation of big data). CSR is a large, fabless semiconductor company, previously listed on the LSE and since acquired by Qualcomm for US$2.5bn. CSR specialises in products utilising wireless technologies including Bluetooth and WiFi.

The technology will be disruptive and there will be winners and losers. The important point to note is that with the SCS Connect controller in market, WDT has firmly marked its territory in the space, which we consider essential to remain competitive.

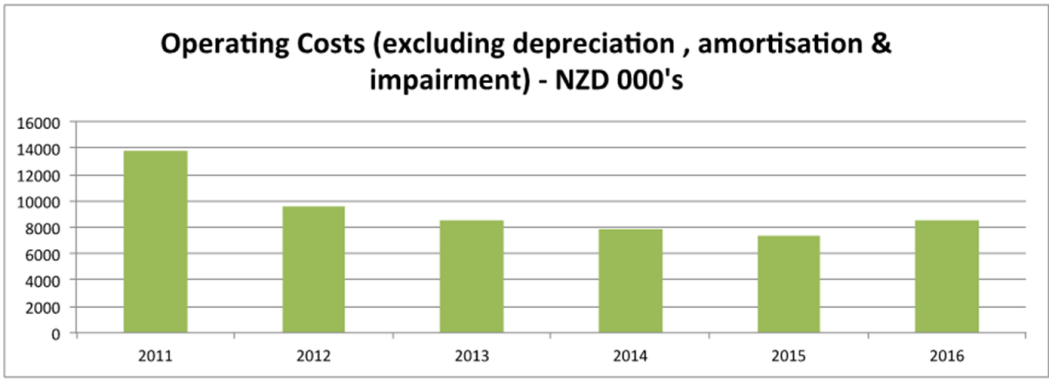
Margins and Costs

Since 2011, WDT's Gross Margins have seen steady increases year on year, with the exception of FY14 when lower volumes in Latin America conspired to modestly reduce margins FY14 over FY13. This margin improvement has been generated through a significant improvement in WDT's entire supply chain including outsourcing manufacturing to low cost manufacturing companies, introducing new competitive suppliers in Vietnam and Malaysia, discontinuing low margin business lines and the development of higher value products (e.g. ECR2 and SCS) and more recently the targeting of higher value customers (e.g. supermarket refrigerator manufacturers). The company is targeting motor margins of 25% (in line with our forecasts) and expects margins on its SCS™ controllers to be higher than EC motor margins.

At its interim result 1H16, WDT disclosed margins of 22.4% and subsequently 25.7% in the 3rd quarter and 24.0% FY16 and is now achieving margins in line with world-class motor companies.



Likewise opex has been in steady decline over the same period dropping from $13.8m FY11 to $7.4m FY15 mainly attributable to lower staff costs, the closing of the Singapore office (in June 2014), the relocation of the Auckland office to cheaper premises and business simplification enabling the company to do more with less people. FY16 the company increased its investment in headcount to enable the delivery of growth from its SCS and ECR2 businesses increasing opex to $8.5m. Looking forward, we expect opex to correlate with revenue and profit growth.



The motors market is very fragmented with many global and regional vendors although most specialize by motor size and/or applications. Vendors are investing in R&D to compete in the market in terms of technology and pricing. They are facing constant price pressure from regional vendors, which is leading to a decline in the average selling price of these motors globally. Increasing standardization and less price and quality differentiation among competitors is intensifying competition. While there are many motor manufacturers, WDT sees its main competitors as a privately owned German Company, ebm-pabst, two subsidiaries of listed American Company Regal Beloit (Morrill-USA and Elco-Italy), and a Chinese privately owned motor manufacturer, Weiguang. There are many smaller scale motor manufacturers, several of them VC backed, based in the USA, Asia and Europe which the company also occasionally competes against.

Some segments and markets are more competitive than others, for example (ice cream is more competitive than beer and Europe more competitive that Asia or LatAm) and so WDT has a product range with different attributes and price points although it does not currently cover all segments. WDT expects its new motors in development, including a planned very low cost EC motor, to help compete further in ice-cream and lower end coolers more broadly in the future.

Wellington's new ECR2 motor platform is seen as providing a competitive advantage due to its industry leading 70% efficiency, its extremely quiet operation (at around 37 dBA) and its ability to simplify the customer supply chain by having just one SKU operating on any worldwide mains voltage. It delivers all of these attributes at a cost that delivers value to its customers.

The demand for technically advanced brushless DC motors may see increases in the ASP over the forecast period. For a list of leading vendors in the motor market see appendix 2.

While still competitive, the connected commercial refrigeration controller market is much less developed and it appears, anecdotally at least, that WDT has a very strong beachhead product in the market. The IoT products and services that go hand in hand with the connected hardware are certainly nascent in the commercial refrigeration market, but with significant investment happening in IoT infrastructure and Cloud based data tools and services by major players such and IBM, Amazon, Cisco, Apple, Google, Microsoft, GE, Intel, Siemens, AT&T and Vodafone the opportunity to leverage the available tools and provide IoT solutions is developing quickly.

While there are a number of competitor products in market (Eliwell owned by Schneider EPA.SU, Emerson EMR.N, Danfoss, Carel, Elstat and Sollatek), feedback from customers support SCS™ as being a functionally superior product.

Longer term there is risk from the bigger players like Carel and Danfoss upping their game and it is imperative WDT stays ahead of its competitors in terms of innovation.

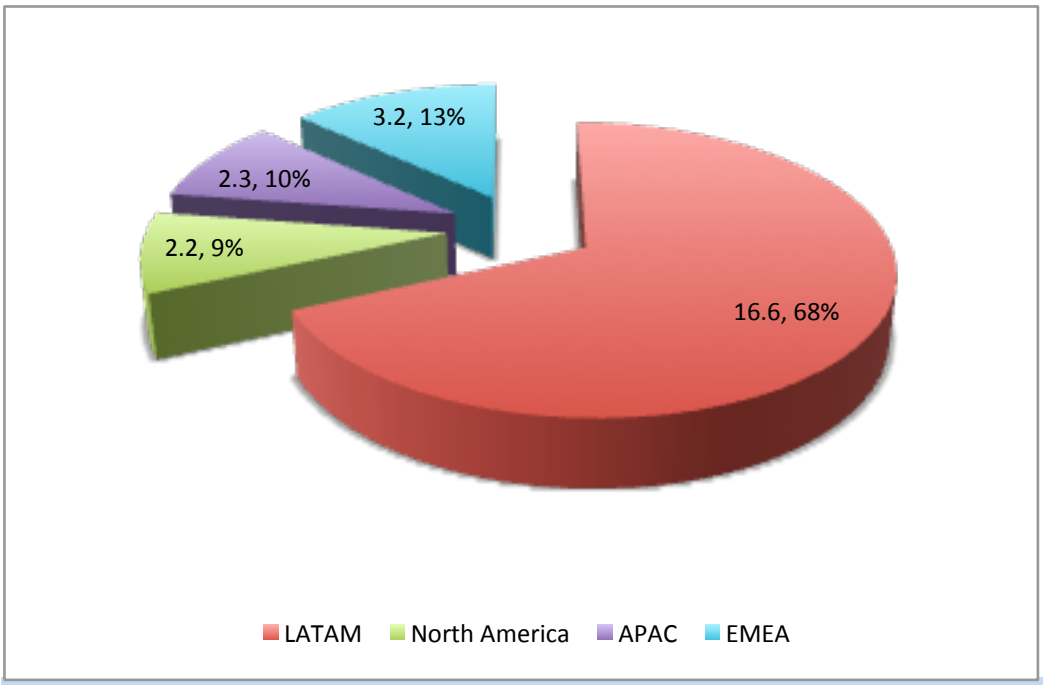
WDT believes it was first with the idea of using Bluetooth to provide low-cost communications in the commercial beverage refrigeration market and hence developed a market leadership position. The technology needs a lot of development effort and fine-tuning to acquire the desired level of performance and customer feedback suggests competing Bluetooth solutions don't perform as well at both a device and application level relating to accessing the connectivity based tools. Secondly WDT's controller hardware is 'next generation' in that it has multiple inputs and outputs and hence can 'drive' or manage a number of sophisticated electronic components within the refrigerator.

Many competing refrigeration controllers are essentially previous generation hardware to which a Bluetooth transceiver has been added meaning the underlying electronic and control capability is less capable (e.g. WDT's controller can control its variable speed EC motors). Also, WDT's 'SCS Report' cloud analytics platform, 'SCS Track' cooler tracking software and 'SCS field' smart maintenance tool suite are generally considered to be best in breed with many hardware competitors not providing the same level of platform functionality, which can be a major drawback for some customers who want a single supplier for both controller hardware and software.

Current WDT Markets and share

In FY16, WDT's revenues were geographically derived 68% from LatAm, 13% EMEA, 10% APAC and 9% USA/Canada. LATAM saw a strong resurgence FY16 from both new customers and existing customers as LATAM economies improved although Brazil remained weak.

FY16 Global Revenues US$m and %



Source: Company

In Asia, WDT's largest customer market is Thailand followed by China (which is mainly a shaded pole market).

Since 2004 the company has sold in excess of 7 million motors in 26 countries. The company has sales teams in New Zealand, Mexico, Brazil, China, Singapore, Turkey, Italy, Canada and the USA. Customers include supermarkets, food and beverage brands, and refrigeration OEM's and parts distributors.

In 2013 WDT estimated its relevant market for beverage cooler motors was 10.5m units. WDT had only a small share of the remote cooler market but around 56% of the plug-in cooler market. This number excludes adjacent opportunities including vending machines ice-makers, compressors, retro-fit and spares.

Manufacturing has transitioned to a lower cost base with improved capacity

The company has supply chain partner factories in China, Malaysia and Vietnam, ensuring product supply is distributed according to cost and capability, and reliance on one supplier is reduced.

WDT's long standing EC motor supplier is Changzhou Match-Well, headquartered in Changzhou China. It is understood they have been a manufacturing partner with Wellington since 2005. In March 2016 Match-Well opened a new 60,000 m^2 factory in the Hi-Tech District of Changzhou City, China. WDT's 2015 interim report indicates that this new facility has a dedicated factory for Wellington's motor products and provides significant capacity for growth.

In June 2014 WDT transitioned its motor and controller electronics manufacturing from a China supplier to Singapore headquartered electronics manufacturing supplier MEI. MEI produces electronic parts for Wellington in its North Malaysia factory. In WDT's 2016 interim report it stated that "In the first half of 2016, MEI scaled production of the SCS Connect product to support Wellington's new product launch and has an installed capacity to meet our customers' requirements throughout 2017".

Also in 2014, WDT initiated a strategic partnership and manufacturing agreement with East West Manufacturing, headquartered in Atlanta, USA. This partnership included manufacturing of EC motors and controller electronics in East West's Vietnam factory and East West acquiring an 8% shareholding in WDT's common stock. East West has recently completed a minority recapitalisation with a large US based private equity fund to provide growth capital and assist with capacity expansion to ensure they continue to meet WDT's growth needs.

As a result of these supply chain changes it appears that WDT has implemented significant capacity for growth.

Opex savings, as a result of eliminating internal supply chain roles, were estimated at $0.6m and an unquantified amount of Working Capital improvement was also realised. Having three interchangeable suppliers increases competitive tension across the supply base.

WDT now has three competitive supplier arrangements for its EC motors, motor electronics and controller components. The moves have been associated with margins improving from 5.0% to 22.4% over the last 5 years, through less inventory waste, increased production efficiencies and improved component and production costs.

The Outlook looks strong

The Company said in its it Annual Report it is experiencing a strong start to the 2017 financial year both for new and legacy products and expects revenue in the first quarter to be around $NZ14m with an EBITDA profit expected.

Gross Margins for the current year are expected to be higher than FY16 mainly due to the impact of higher component volumes reducing per unit cost (scale) partially offset by commodity price increases (copper and silicon).

Early estimates for the FY17 year are for revenue growth in the 30% to 40% range and (as had been previously guided), EBITDA profit in the "low millions of dollars". The company has premised these forecasts off an exchange rate of NZD:USD 0.70 (spot 0.6920). The company also said at its projected cost structure an "EBITDA of around $2 million would deliver an approximate breakeven net profit".

We understand FY16 the average NZD:USD cross rate was $0.695 and that a 10c depreciation of the NZD would have improved EBITDA $1.0m while a 10c appreciation of the NZD would have reduced EBITDA $0.6m. On higher forecast USD revenues this sensitivity will be likely to increase.

In FY16, WDT shipped 54% of its annual motor volume in 1H16. For FY17, WDT expects 1H17 volumes to represent around 50% of the full year volume.

Most bottlers work on annual budgets for cooler purchases – and decide in the 4th quarter what they will spend and what they will spend their budget on (coolers, compressors, LED systems, controllers and motors etc.) and some volume for FY17 will have been allocated already. WDT expects to close a number of deals with OEMs and bottlers for the major brands it is currently trialling with.

Bottlers will have largely finalised their plans for FY17 and ordering OEM coolers to be delivered from January 2017 onwards, with OEMs in turn ordering components (motors and controllers) ahead of this. With long lead times for controllers, logistics around actual demand for the season ahead is always uncertain with very large customers often leaving orders to the last minute meaning suppliers must be very nimble in managing their own supply of components and often have to invest in advance in component stock.

WDT is currently trialling SCS Connect products with a large number of bottlers with small and large fleets of coolers (those bottlers range from having a few 1000 to >100,000 deployed coolers). In addition WDT is developing a retrofit solution expected to launch in 2017. Large bottlers may have 300-500 thousand coolers in market, which may need a retrofit solution.

The company had previously provided preliminary guidance for FY17 revenue growth in the 20% to 30% range (now 30-40%) with EBITDA in the "low millions of dollars" (guidance retained). These forecasts were based on SCS™ volumes more than doubling in FY17 (and then growing by around 50% each year for the foreseeable future). Delivering this growth has been noted as potentially requiring additional working capital and further investment in WDT's skill base to support customers and product innovation through FY17.

A reasonable Capital Position but could do with more to fund a quality growth problem

At the end of FY16, the company had net cash of $0.6m. During 2H16 the company announced it had arranged an expensive, unsecured debt facility for $2m with its largest shareholder SuperLife (holding around 28% of WDT's common equity and around 71% of its mandatory convertible preference shares).

WDT has $5.0m of mandatory convertible preference shares on issue, which convert to ordinary equity in May 2017. Treating this as equity and excluding cash, net working capital stood at ~$1.0m.

While we think the capital position is adequate and the company expects to payoff its facility with SuperLife in the current year (it expires in September 2017), with further very strong growth expected it may be desirable to secure further funding. However with favourable terms on receivables and payables, working capital was well controlled FY16.

Recent News

On 9 March 2017 the company announced an exclusive partnership with iProximity, an innovative proximity marketing solutions and consumer intelligence company based in Melbourne.

WDT said it undertook a global search for an enterprise capable beacon management provider with advanced digital marketing expertise, choosing iProximity as the best platform available. The partnership will allow iProximity's contextual marketing technology to integrate with WDT's SCS Connect System, giving customers the ability to move from simple consumer activation to true consumer engagement at the point of purchase enabling WDT's customers to sell more food and beverage product.

Examples of what a Wellington and iProximity Smarter Cooler platform can offer are:

- Waking a consumer's phone with a branded message in store with an SCS™ enabled Smarter Cooler
- Delivering contextual, personalised promotions based on consumer purchasing habits
- Delivering partnering opportunities by engaging with retail partner Apps
- Driving messages to digital signage based on who is standing close by
- Building real-time data insights on consumer actions
- Understanding marketing campaign attribution with complete end to end analysis
- Engaging consumers with personalised and relevant offers driving brand engagement.

Wellington and iProximity are presently demonstrating the Smarter Cooler technology internationally to several prospective clients and expect to commence customer trials in 2017.

By partnering with iProximity, WDT offers a one-stop shop. Prior to this partnership customers would have needed to acquire beacon management software from an alternative supplier. The marketing function of WDT customers are only beginning to experiment with proximity based marketing and therefore offering an integrated product for trialing is appealing to customers. Also iProximity's product is 'Enterprise Grade' (i.e. capable of scaling to hundreds of thousands of beacons).

Under the commercial model WDT own the customer relationship and all commercial transactions with customers, with iProximity's digital marketing solution being delivered through WDT's SCS Connect Platform.

While the direct economics are unlikely to be material for WDT over the next year or two, the immediate benefit is WDT's assertion that it will offer best available proximity based digital marketing capability, further strengthening WDT's product offering.The end customers phone will need an app which can be triggered by the beacon.

iProximity have developed an app which can be re-skinned for customers if they desire and this will be the trial format. Longer term, customers are likely to become increasingly sophisticated in the functionality they will require and app development will probably in conjunction with their advertising agencies, marketing divisions etc.

On 1 February 2017 the company pre-announced some unaudited figures for FY16. Revenue was $35.3m (+44%). EBITDA was positive (we forecast $0.3m). WDT also reported net cash on hand of $0.6m (including $1.5m drawn on the SuperLife facility). The outlook for FY17 was reaffirmed and the company continues to expect an EBITDA profit for 2017 in the low $ millions. Gross margin for the year was 24.0% compared to 22.2% in 2015. Over the period the company sold 1.2m EC motors and 1.4m motors in total (+33% year on year). The new SCS Connect and ECR2 products contributed $6m to the Company's revenue. Fourth quarter trading performance was very strong, with revenue of $10m compared to $6m for the same period in the prior year.

On 6 December 2016 the company advised that a major global beverage brand had approved it to supply its SCS Connect solution. The company stated that this approval followed the conclusion of the customer's comprehensive technology sourcing process and that it was now an approved supplier of connectivity hardware for use in the brand's coolers. The company also indicated that it continued to work with the brand and its network partners (OEMs and bottlers) to establish the timing of programmes to adopt SCS Connect and the volumes Wellington will supply over the coming twelve months.

We believe that this is a significant indicator that a major customer is about to order product and start deployment of the SCS product in 2017. While the company didn't disclose the brand name or volumes it is likely that this announcement supports, at least in part, WDT's expectations for 2017 growth and profits.

On 23 September 2016 the company advised it had secured a $2.0 million loan facility from SuperLife, WDT'S largest shareholder (and a wholly-owned funds management subsidiary of NZX). The loan facility is intended to provide additional working capital to support the company's growth initiatives and while expensive, will be a useful bridge until the company is conventionally bankable.
The key features of the loan facility are:

- It is an unsecured loan for a maximum of NZ$2.0m to be drawn as required;
- It has a term of one year (expiry is in September 2017);
- Interest is payable at 14.75% p.a. calculated on a quarterly basis in arrears;
- A revolver fee of $20,000 allows the loan to be repaid and redrawn inside the term.

At 31 December 2016 the facility was drawn to $1.5m.

At its AGM on 3 May the company made some very positive comments around the outlook for the company and said it had "never been more positive about the path to profitable growth".

Where it was more circumspect was around FY16 outcomes and in particular Gross Margins lower than the 25% targeted (21.4% reported 1H16), through underestimating the complexity of the SCS™ launch and delays in component cost reductions.

The company described its three pillars for growth. These are firstly developing and growing its motor business with its recently launched ECR2 model selling well. Secondly the company is "introducing and leveraging value chain partners to improve sales and lower costs" with improving Gross Margins evidencing that success.

Thirdly the launch of its cloud connected smart controls business firstly with its SCS™ Connect system but followed by a broadening of the product range of both hardware and software.

Requests for trials of the SCS™ Connect system were described as oversubscribed and that it saw developing demand in the "low hundreds of thousands".

The company said second quarter motor volumes were "flexing" as brands and manufacturers work out their demand for the reminder of 1H, but still expected 2Q volume to be well above 2Q FY15.

With the stronger start to the year, and new products in the market, USD revenues were expected to be significantly higher in FY16. We understand the company expected to sell ~1.3m motors FY16 (actually sold 1.4m FY16) and ~50,000 SCS™ controllers (sold 52,000 FY16) with the majority of those already committed.

Medium term based on expected growth rates, we forecast SCS™ volumes to grow to around 500,000 (100,000 FY17) and 1m units over our forecast period.

The company has said following an expected doubling in volumes FY17 and it expected 50% growth for the foreseeable future.

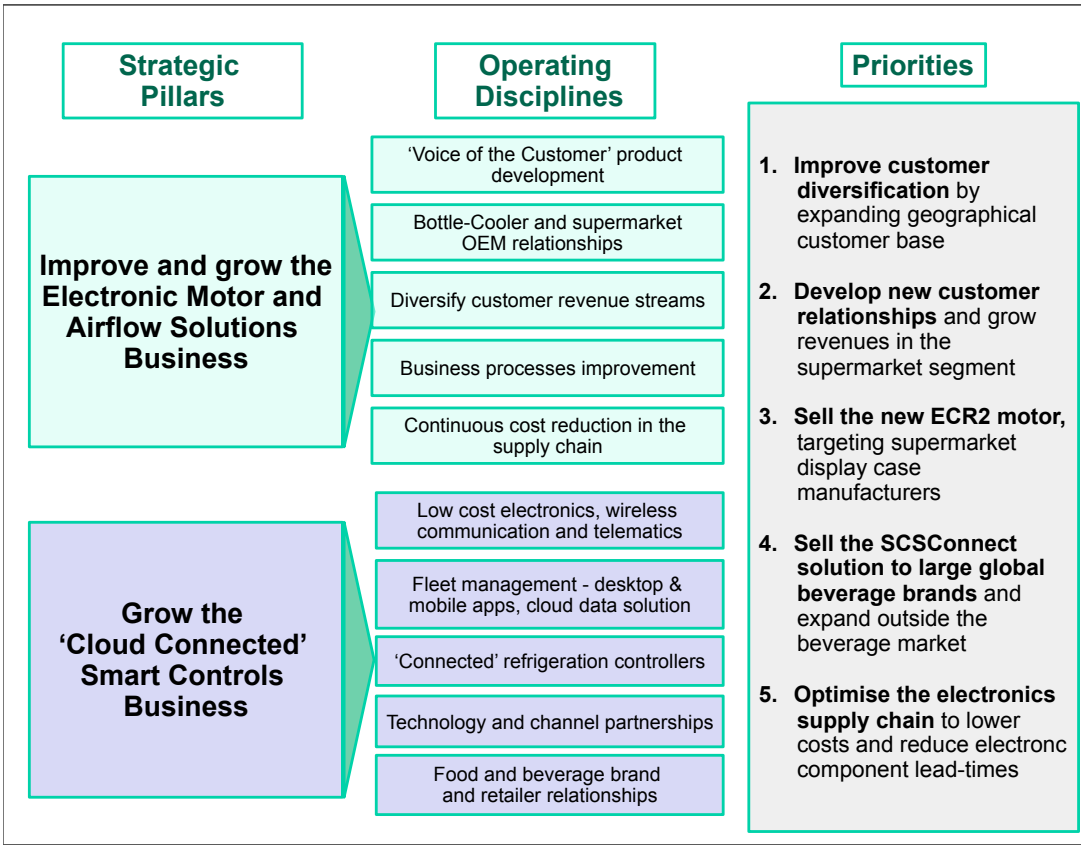
The company said it needed increased costs to support revenue growth. In FY16 it added new engineering skills to support the rollout of the SCS™ Connect solution and software skills to help broaden its SCS™ Connect System offering. With longer lead times a challenge, it may also be necessary to hold increased strategic inventories.

The company said it expected to breakeven at the EBITDA level and its priority was for EBITDA profits which "if demand patterns continue will see significantly higher revenues and could result in an EBITDA profit FY16".

It expected to see growth in Europe although there was some seasonal uncertainty around sales in LATAM. Cash balances were expected to be maintained in a $1m-$2m range ($2.1m reported).

…and its FY16 and beyond Strategic Priorities were to;

- Further improve customer diversification by expanding the geographical customer base;
- Develop new customer relationships and grow revenues in the supermarket segment (it is estimated around ½ the electricity used in a typical supermarket is from refrigeration);
- Sell the new ECR2 motor targeting supermarket customers and bottle cooler customers;
- Sell the SCS™ Connect fleet management solution to large global beverage brands and expand the marketing process outside the beverage market; and
- Further optimise the electronics supply chain to further lower costs and reduce electronic component lead- times



In terms of diversification the company is benefitting from the roll out of ECR2 and further developing the market for SCS™ Connect. With ECR2, there are trials underway with a beer company and a supermarket chain (and other trials planned), with the company's new UK distributor noted as having initial success with UK supermarket channels.

East West is also completing the development of a fan coil motor for ventilation applications, with the assistance of WDT on electronics design. Sales are expected FY17 with East West responsible for all North American sales and marketing activities. At this early stage the success of this product cannot be assured. It is understood that this is a contract design and commercialisation project to support a strategic partner (East West), and does not indicate the company is moving back into the Ventilation space.

In addition the company is exploring the potential for SCS™ retrofit technologies and alternative wireless technologies, opportunities which could in their own right be large with attractive margins, although retrofits will be a one-off exercise.

The company has forecast SCS™ volumes doubling next year and growing by 50% each year after that for the balance of its 5 year planning model (based on the company winning further global retail brands and expanding into different end-markets).

The ECR2 motor business is also expected to continue to grow as more supermarket display OEMs adopt the motor and as the company expands its range to higher power ECR2 motors.

On the back of the cost structure implemented, and anticipated new product wins, the company expected continued revenue growth in 2017 with EBITDA performance in the "low millions of dollars" (our forecast is $2.6m EBITDA FY17) which will prove that the company's new strategic path of diversifying its customers base, improving its EC motor business with the ECR2 product , partnering with new suppliers to improve manufacturing costs and entering the 'Internet of Things' space with the SCS Connect is starting to deliver results.

On 10 May 2016 in a company update, the company reported strong revenue growth for the 1st quarter with revenue increasing by 40% to NZD$9.2m (USD +26% to USD$6.2m) with EC Motor volumes increasing 24% year on year. It also said "several thousand SCS™ Connect controller units were shipped to a global beverage customer under a multi-year agreement". Continued supply chain cost reductions improved gross margin to 22.8%. For the quarter the company returned an EBITDA profit of $92k (pcp -$231k).

Recent Results

FY16 delivers in line with its pre-announcement

For FY16 on revenues of revenue of $35m, (a 44% increase over the pcp), WDT delivered its maiden full year EBITDA profit, with an EBITDA profit (adjusted) of $325,000 which was a $2.3 million improvement on 2015. EBIT improved by $0.5m to a $1.3m loss, while the net loss improved by $0.3 million to a $2.4 million loss.

Of the 44% growth, 12 percentage points was from the ECR2 motor, 19 percentage points was from the legacy ECR01, ECR82 and ECR92 motors and 13 percentage points was delivered by SCS Connect.

The result was consistent with the market update on 1 February 2017 but provided considerably more detail.

WDT's new SCS Connect and ECR2 products contributed $6m to the reported revenue and the Company sold a record 1.4m motors in 2016, including 1.2m EC motors, an increase of 33% on FY15.

The average NZD/USD rate for the 2016 year of 0.695 was relatively flat over the prior years 0.699.

Fifteen new customers were added globally FY16 with two of these customers being acquired due to the SCS Connect product offering. Most of these new customers are focused in the supermarket display case and food service market, as WDT expand beyond its traditional beverage market core.

Latin American business grew revenues by 44% versus FY15, from US$11.5m to US$16.6m.

WDT added two new motor customers in the region and experienced stronger demand from existing bottle cooler customers, with motor volumes growing by 30%.

Mexico continues to be the companies largest market and further growth is expected in FY17 as major customers begin to adopt the SCS Connect product.

Brazil demand was weak as a result of difficult economic conditions but demand is now improving for the SCS Connect product.; The rollout of SCS Connect to a large food and beverage brand in Mexico commenced in 2016 and the company started working with other new SCS customers in Central America.

USA/Canada: The USA and Canada regions saw 130% revenue growth FY16, with US$2.2m of revenue compared to $1.0m in FY15. Two new customers for the ECR2 motor product contributed the majority of this growth. While WDT is continuing several SCS field trials in the USA, it is becoming apparent that the adoption rate for SCS may take longer.

Asia Pacific revenues of US$2.3m were up 9% on the US$2.1m reported FY15. Eight new customers were won in the region; two of those for SCS and the balance for EC motors, including several smaller Chinese display case manufacturers.

EMEA revenues grew by 17% to US$3.2m compared to US$2.8 million in FY15. Growth resulted from three new customer wins in Europe and increased volumes from a new Italian customer won at the end of the prior year. Turkish demand was weak in the latter half of the year as a result of continuing political and economic issues in that country which is expected to continue.

The Gross Margin for the year was 24.0%, increasing from 21.4% in FY15. This was a result of continuing cost reduction programmes with all major suppliers and component pricing benefits being realised from increased volumes. Gross Margin gains were somewhat offset by pricing reductions needed to grow share with large bottle cooler customers. The Gross Margin improvement was also assisted by revenue from new products.

Operating costs increased by 15%, from $7.4m to $8.5m as the company invested in more people to support SCS Connect software development and customer field support. 10 new people were added to the business between the fourth quarter FY15 and the end of FY16. Operating cost as a percentage of revenue improved to 24% from 30% in FY15 reflecting an overall increase in productivity.

The company noted Inventory performance as an operational highlight of the business with inventory turns improving to 7.8 times from 7.0 times in 2015.

The cash balance at the end of FY16 was $2.1 million with $1.5 million drawn down under the SuperLife debt facility for a net cash position of $0.6 million. Forecasts prepared by the Company show that cash generated from operations should be sufficient to repay SuperLife in September 2017.

The Company said it is experiencing a strong start to the 2017 financial year both for new and legacy products and expects revenue in the first quarter to be around $NZ14m with an EBITDA profit recorded. Gross margins for the current year are expected to be higher than FY16 mainly due to the impact of higher component volumes (scale) partially offset by commodity price increases (predominantly copper and silicon).

Early estimates for the FY17 year were for revenue growth in the 30% to 40% range and as previously guided, EBITDA profit in the “low millions of dollars”. The company has premised these forecasts off an exchange rate of NZD:USD 0.70 (spot 0.6920).

The company also said at its projected cost structure an “EBITDA of around $2 million would deliver an approximate breakeven net profit”.

We understand FY16 the average NZD:USD cross rate was $0.695 and that a 10c depreciation of depreciation of the NZD would have improved EBITDA $1.0m while a 10c appreciation of the of the NZD would have reduced EBITDA $0.6m. On higher forecast USD revenues this sensitivity sensitivity will be likely to increase.

3Q16 seasonally lower revenue growth but on track, margins strong
Revenue for the quarter was $6.3m compared to $5.1m in the pcp (a 25% improvement). EBIT for the quarter was a loss of $0.90m. Adjusted EBITDA was a loss for the quarter of $0.4m (versus a $0.6m loss in the pcp).

Year to date revenues were 34% over the same period last year. Gross margins improved to 23.6% for the first three quarters of FY16, from 21.9% for the same period last year, with a 3Q16 Gross margin at 25.7%. The company said "Whilst further supply chain cost reductions will have less measurable impact, we are seeing some benefits flowing with overall volume increases".

Stronger revenues were expected in 4Q16 and the company said "it is confident that the Company will achieve its full year guidance of significantly higher revenues than those recorded for 2015 and the possibility of a modest EBITDA profit.

Q3 2016 Highlights. The average NZD:USD exchange rate for the quarter was 0.703 compared to 0.656 for the same period in FY15.

The company also said sales were seasonally lower over the quarter compared to the preceding half but were continuing to build growth momentum with its ECR2 and SCS products as it entered the 4th quarter and that it was also seeing "an uptick" in demand for its ECR1 motor product and expected a strong 4th quarter, "closer to revenue levels earlier in the year" (US$6.2-US$6.4m), and expected a modest EBITDA profit FY16. It also said it expected to update FY17 guidance as demand for the new season is known. We would expect this to be late FY16 early FY17.

1H16 revenue growth still accelerating and margins improving
1H16 WDT reported further significant revenue growth with NZ Dollar revenue of $18.7 million, a 38% increase compared to the pcp. In US Dollar terms revenue increased by 25% to US$12.6m from US$10.1m. The period reported was the 5th consecutive period of USD revenue growth with the trend expected to continue.

Gross Margins continued to climb increasing to 22.4% from 20.7% in the pcp due to continuing supply chain cost improvements but with much of the low hanging fruit already achieved, margin gains going forward are expected to be lower albeit increasing over the next few months.

The company reported its maiden positive EBITDA (adjusted) of $0.3m compared to a $0.6m EBITDA loss in the pcp and positive operating cash flow of $0.6m compared to $0.5m 1H15.

Operating costs 1H16 increased to $4.2m from $3.4m for pcp. The lower NZD:USD exchange rate meant that NZD reported amounts for offshore office costs were higher by $0.3m. The remaining $0.5m of the operating cost increase was due to the addition of necessary new skills in engineering, customer management and field service to support the new SCS™ Product growth, additional marketing costs required to support the development of Wellington's new products and selected salary adjustments to retain key skills.

Amortisation increased by $0.5m due to the commencement of amortisation of previously capitalised development costs for the ECR2 motor and SCS™ Connect products on commercialisation.

In volume terms the company reported 18% volume growth in EC motors resulting from increased demand in the Americas and Asia Pacific regions, customer wins in Europe and growing sales of the new ECR2 motor. 1H16 WDT delivered over 600,000 motors to customers across 26 countries.

The SCS™ product was noted as "off to a strong start" with 24,000 units sold to its inaugural customer including data services and there was a continued expansion of SCS™ Connect field trials in Asia North America, Europe, Africa and Latin America. WDT said the customer had awarded further business to other regions in the America's which were expected to begin to ship 1H17 and that further opportunities were being explored and they hoped to convert to shipments also in 1H17.

As regards the ECR2 motor, the company said in addition to the three customer wins reported in the annual report, It had won a further large customer for the ECR2 motor that would begin volume shipments in 2H16, with annual volumes in the 50,000 units range. In total it had secured customers for ECR2 with an annual run-rate volume of approximately 150,000 units per year. Of the four customers won, three are in the supermarket display and food service market and one is in the bottle cooler market.

US Dollar revenue growth in 1Q16 was 26% and in 2Q16 24% with all regions experiencing growth over the pcp.

LATAM USD revenues increased 20% compared to 2015 attributable to WDT gaining share with key customers and the commencement of volume sales of the SCS™ Connect product.

North America grew 119%, attributed primarily to strong demand for the new ECR2 motor in support of OEM's preparing for the new Department of Energy 2017 (DOE17) energy standards.

APAC grew 16% with "stable" ordering patterns from major customers. The Chinese market in this region was noted as not as heavily reliant on EC motors with the company focusing on the support of the South East Asian customer base and winning customers for SCS™ Connect.

EMEA grew 43% after a disappointing FY15 attributable primarily to sales to new customers won at the end of FY15. These customers were in the ice-cream freezer, supermarket display and bottle cooler markets. The EMEA market continues to be the company's most competitive, price sensitive and politically unstable market.

The company said it was on track to achieve its 2016 full year guidance and was anticipating further growth and EBITDA profits in 2017 with revenue growth potentially as high as 30%. Seasonally the company expects an EBITDA loss 3Q16.

The company said preliminary forecasts for FY17 project revenue growth next year in the 20% to 30% range with EBITDA performance in the low millions of dollars. These forecasts project SCS™ volumes more than doubling and growing by around 50% each year for the foreseeable future. Delivering this growth was noted as potentially requiring additional working capital and further investment in WDT's skill base through FY17.

Cash balances 1H16 were $2.5m on an improving working capital position. Inventory 1H16 of $4.0m, a $0.3m increase over the pcp was a result of additional inventory to manage short lead-time orders, and initial investment in SCS™ Connect inventory. WDT is now operating at close to 7 inventory turns per annum, compared to 2 turns at the end of 2014.

During the period WDT invested $1.1m in plant & equipment and new product development, equivalent to pcp and $2.2m FY15.

FY15 a year of real improvement

FY15 2015 the company reported revenue of $24.6m (US$17.4m or +18%) and a gross margin of 21.4%. (pcp 18%). The NPAT for the year was a loss of $2.8m compared to a $4.5m in FY14. An EBITDA loss of $1.4m was a significant improvement compared to the $4.0m loss in FY14. One particular highlight was the 48% growth achieved in the Americas. For the period the company was cash positive to the amount of $0.8m mainly due to improvements in working capital and after including a capital raise of $2.2m, finished the year with $2.9m cash. Over the period the company invested $2.2m to complete the development of the ECR2 motor and SCS™, a similar level of investment to the prior year. Operating costs were $0.6m lower at $7.8m through lower employment costs including LTI's and through closing the Singapore office in June 2014.

In the 4th quarter the company rolled out ECR2 and SCS™ connect products and achieved its 1st orders. In June 2015 the company raised $2.3m by way of an underwritten pro-rata renounceable rights issue.

Volume growth for the period was 23% with 1.1m motors shipped compared to the prior year's 0.9m. Margins were assisted by supply chain partners and margins higher again were expected FY16 although revenue growth was the main focus. ECR01 (higher spec) volumes were up 20%, a sign proving customers will pay for superior performance. Over the year the company picked up 8 new supermarket display case and food service customers.

In South America the company regained market share with increased investment by retail brands in bottle coolers. USA was flat as the market deferred purchases until the ECR2 motor was launched making it easier to comply with 2017 energy saving requirements but expect growth to be rekindled in FY16. The company said it had not had as much success selling its existing EC products to non-bottle cooler and non-supermarket customers.

EMEA was very weak with revenues down 35% due to stagnant economies and one large customer moving to dual supply arrangements but at the time of the result, the company expected growth FY16.

APAC was up 18% with new customer wins, the ability to transact in China in Yuan and improved distribution through East West China. China remains predominantly shaded pole market.

Sales growth of legacy motors was up 28%. Operating costs were noted as having halved over the past 4 years.

Over the period the company received regulatory approvals in both the USA and Europe for its ECR2 motor and in the FY16 1st quarter, made its 1st shipments to the USA and to a larger European supermarket display case manufacturer.

FY14 a year of improving the fundamentals

FY14 saw the supply chain restructured and improvements in the operating cost structure. Financial results were disappointing primarily due to large reductions in Latin American demand. For the year the company reported a comprehensive loss of $4.4m. Revenue for the period of US$14.6m compared with US$22.5m in the prior year. Revenues from Latin America were 46% lower due to weak demand from several customers mainly due to the overall decline in carbonated Soft drink (CSD) volumes due to sugar tax issues in Mexico and restrictions on imports into Argentina but also due to some loss of market share. However the company said it was seeing some regaining of share early in FY15.

EMEA markets were up 27% on higher customer demand and the impact of gaining a new supermarket manufacturer. Over the period the company commenced new sales distribution partnerships in the USA and South China and appointed agents in Australia, South Africa and the United Kingdom to assist diversification geographically and from product mix.

Gross Margins were lower at 18.0% (pcp 18.7%) as a result of lower volumes which delayed the realisation of manufacturing cost reductions but the company reiterated its 25% Gross Margin target. The Gross Margin in dollar terms was $3.2m (FY13 $5.1m).

Operating expenses were $1m lower at $8.4m through closing the Singapore office, reducing overhead and process efficiencies.

Delays in development of the ECR2 impeded growth from what was expected from the supermarket segment and the company said it expected to ship both ECR2 and SCS™ in 2H15 (first shipments were made 1H16).

The company finished the year with $1.2m cash. Over the year it raised $4.7m through the issue of convertible preference notes to fund new product development, the purchase of plant and equipment and fund operating cash outflows.

On March 1 2015 the company announced a further capital raise of $3.2m by way of a pro-rata renounceable underwritten rights issue.

Forecasts point to strong growth medium term

The selling prices of EC motors and SCS Connect controllers vary considerably depending on customer volume agreements and end user markets. We assume the company achieves Gross Margins of around 25%, rising to around 30% on positive sales mix changes.

Further, for the EC motor business which remains competitive, we assume 3% price erosion each year but that the company is able to maintain Gross Margins through keeping one step ahead by achieving cost efficiencies. We understand the EC motor market is not as commoditised as the shaded pole motor market but view this eventuality as likely.

We understand IoT software and data services gross margins are higher than controller hardware margins but we have not included these revenues in our forecasts and WDT will need to maintain the fixed costs of software development and support teams to support customers. We understand data service revenues are likely to be relatively small and are more strategic in nature through assisting in the sales of hardware and the winning and retention of customers.

We have assumed group revenue growth rates (USD) below the lower end of management estimates of 25%-40% over the medium term, (these rates are variable as they depend on product mix and growth rates over time).

However as WDT has a relatively small number of large customers – and a number of large 'potential' customers – revenue growth can be 'lumpy' depending on the timing of customer wins, and the product adoption cycle. Further the success of the adoption of new products in-market is difficult to forecast (ECR2, SCS™, EC-L). The EC-L product is a lower cost simplified EC motor product targeted at lower end refrigerators where shaded pole use is prevalent (with a goal to covert the shaded pole usage to EC).

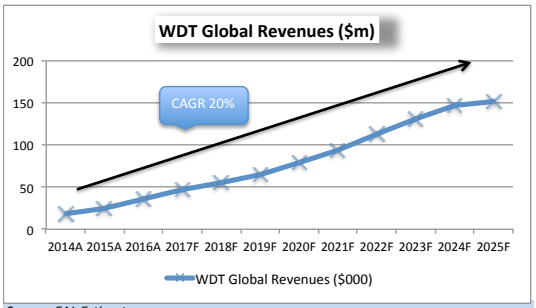
SCS™ controller volumes are assumed to double in FY17 to 104,000 units and then exhibiting 50% growth for 4 years before growth begins to decline as the market matures.

Motor volumes are assumed to grow ~32% FY17 (33% FY16) as it cycles a full year of new customers gained over FY16 and new customers being on-boarded before declining to 15% per annum system growth implicitly assuming no market share gains after FY17 for the residual forecast period. This could well prove conservative and we understand a number of bottle cooler customers are looking to convert to ECR2 motors given their superior performance and when combined with display case and food service customers recently won, volume and revenue growth could be much stronger over the next two years at least.

Also the launch of the ECR2 "FanPack" airflow solution will increase the addressable market for motors, particularly in the supermarket display case segment. We assume SCS™ controller volumes grow 100% in FY17 before the growth rate reduces to 50% per annum over the medium term in line with guidance. We note that WDT's customer agreements are typically not exclusive in nature, and volumes will be highly dependent on orders from agreements recently made with bottlers and whether they will be specified into coolers for the FY17 northern summer. Revenue growth under these assumptions is a CAGR of 20% over the total forecast period (tail end volume growth is assumed to mature).

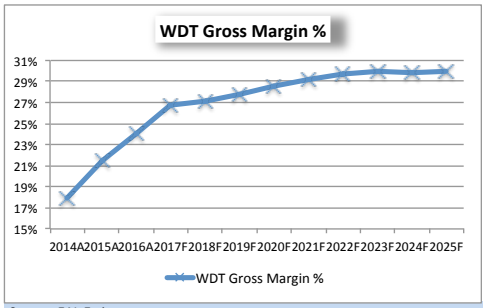
The recently acquired ability to sell in local currency in China is likely to assist sales in that market through the establishment of a legal presence. Wellington also has the ability to sell in Mexican Peso, Euros and Turkish Lira, with legal presences set-up in these regions also. Wellington offers local currency sales to specific customers in these regions and uses hedging strategies to manage risk.

Forecast Revenue Track ($m)



Source: EAL Estimates

Forecast Gross Margin Track (%)



Source: EAL Estimates

Terminal year volumes (2025) are forecast at 4.8m motor units and ~0.9m SCS™ units (FY16 ~1.4m motor units, ~50,000 SCS™ units). The company was reported in the media as saying it would probably sell five times as many ECR2 units FY17 as it did FY16 (98,000) with our forecast FY17 total motor volume standing at 1.8m compared to FY16 volumes of 1.4m . We understand that over the longer term the company has aspirations for sales of between 1.5m and 1.6m SCS™ controllers and therefore our assumptions are significantly lower than the expectations of the company. Our forecasts correspond to only a small share of the addressable market.

FY17 we expect a further step up in opex to around $10m p.a. as the company provides further in market support for its controller product (training and engineers) although we understand there may also be a one-off step-up in warranty provisions given the new products in market. Also we suspect some other aspects of overhead have been starved in recent years and may require some catch-up. We assume two thirds of Opex is NZD denominated and one third is USD denominated, corresponding with the ratio disclosed in the 2015 annual report.

Depreciation is assumed at NZD $0.3m per annum in line with the recent run-rate. We assume product and patents etc. cost the company around NZD 1.4m p.a. cash with development amortised over 5 years and assume steady state amortisation of $1.2m p.a.

We have modelled our revenues and margins in USD which assume while significant sales are made outside of the USA, the underlying sales pricing currency in our view is, in the main, the USD. Our FY16 NZD:USD assumption is $0.69 and long-run assumption is for a cross rate is $0.63 (as per Credit Suisse forecasts). We understand the main currency exposure is overhead incurred in New Zealand at around NZD 400k per month (the USD is the company's functional currency).

The Company's guidance for 30%-40% revenue growth is premised off an NZD:USD exchange rate of 0.70 which is similar to our FY17 exchange rate assumption.

We assume the mandatory convertible notes preference shares are converted in FY17 based on the prescribed ratio and using the current share price this would result in a further 26.8m shares being issued (assuming conversion based on a $0.235 share price). At valuation, this would result in a conversion ratio of 1:1 or the issue of 25m new ordinary shares with SuperLife hold 71% of these securities. What is evident is that SuperLife will have increased control if the exercise is executed off a low share price (see Appendix for conversion ratios) at different share prices. In addition to these mandatory convertible shares there are 12.9m partly paid shares issued at between 5.2c and 18.2c, 1.9m options with exercise prices in the range of 5.6c and 18.2c that we have adjusted for their dilution in our forecasts and valuation.

We have not assumed any dividends are paid over the forecast implicitly assuming cash generated is retained, in our view any cash distribution would be by way of a capital distribution given the company's tax position (no imputations and significant tax losses).

We have assumed a Weighted Average Cost of Capital (WACC) of 12.9%.

WDT Income Statement ($m)					
Year to 31 March	**2015A**	**2016A**	**2017F**	**2018F**	**2019F**
WDT Revenues	24.6	35.3	47.2	55.1	65.3
Other Revenues	0.0	0.0	0.0	0.0	0.0
Total WDT Revenue	**24.6**	**35.3**	**47.2**	**55.1**	**65.3**
Total COGS	19.3	26.8	34.6	40.1	47.2
Total Gross Margin	**5.3**	**8.5**	**12.6**	**15.0**	**18.1**
Non operating income	0.7	0.0	0.0	0.0	0.0
Operating Expenses	7.5	8.5	10.0	10.5	11.1
Total EBITDA	**-1.5**	**0.0**	**2.6**	**4.4**	**7.0**
Depreciation	0.3	0.3	0.3	0.3	0.3
Amortisation	0.1	1.2	1.2	1.2	1.2
EBIT	**-1.9**	**-1.5**	**1.1**	**3.0**	**5.6**
Finance Costs (Revenues)	0.9	1.1	0.6	-0.1	-0.3
PBT	**-2.9**	**-2.5**	**0.5**	**3.1**	**5.9**
Tax	0.1	0.0	0.0	0.0	0.0
Reported NPAT	-2.9	-2.5	0.5	3.1	5.9
Non recurring items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	**-2.9**	**-2.5**	**0.5**	**3.1**	**5.9**
Underlying Earnings	**-2.9**	**-2.5**	**0.5**	**3.1**	**5.9**
EPS c	-1.1	-1.0	0.2	1.2	2.2
Underlying EPS c	**-1.1**	**-1.0**	**0.2**	**1.2**	**2.2**
Dividend per share c	0.0	0.0	0.0	0.0	0.0
Payout Ratio	0.00	0.0	0%	0%	0%
Net Debt/EBITDA (X)	-4.86	-289.6	2.6	-0.74	-1.26
EBITDA Margin (%)	-6%	0%	5%	8%	11%
Gross Margin %	21.4%	24.0%	26.7%	27.2%	27.8%
Revenue Growth	38%	44%	34%	17%	19%
Shares on issue (m)	260	260	260	260	260
Cumulative Tax Losses utilised ($m)	-	-	0.14	1.00	2.65
Source: Company data, estimates					

Guidance for EBITDA in the low $m's

At $2m EBITDA the company expects to breakeven

Revenue growth between 30-40% FY17.

WDT Cashflow Statement ($m)	2015A	2016A	2017F	2018F	2019F
Cash Flow Analysis					
EBITDA	**-1.5**	**0.0**	**2.6**	**4.4**	**7.0**
Net Working Capital	0.0	0.2	-0.5	-0.4	-0.5
Operating Cashflow	**-1.5**	**0.2**	**2.1**	**4.1**	**6.6**
Net Interest	-0.3	-0.3	-0.6	0.1	0.3
Tax Paid	-0.1	-0.1	0.0	0.0	0.0
Other	-0.1	0.0	0.0	0.0	0.0
Free Cashflow	**-2.0**	**-0.2**	**1.4**	**4.2**	**6.9**
Maintenance Capex	-0.2	-0.3	-0.3	-0.3	-0.3
Expansion Capex	0.0	0.0	-0.2	0.0	0.0
Intangibles	-2.0	-1.9	-2.2	-1.9	-1.9
Divestments	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	**-2.2**	**-2.2**	**-2.7**	**-2.2**	**-2.2**
Distributable Cashflow	**-4.2**	**-2.4**	**-1.3**	**2.0**	**4.7**
Gross Dividends	0.0	0.0	0.0	0.0	0.0
Minority interests/ Other	0.0	0.0	0.0	0.0	0.0
Equity Issues/Redemptions	0.0	0.0	0.0	0.4	0.8
Change in Net Debt	**-4.2**	**-2.4**	**-1.3**	**2.5**	**5.5**
Opening Cash	**-3.3**	**-2.3**	**-5.4**	**0.8**	**3.3**
Change	-4.2	-2.4	-1.3	2.5	5.5
Closing Cash	-7.5	-4.7	-6.7	3.3	8.8
Source: Company data, estimates					

WDT Balance Sheet ($m)					
Year to 31 March	**2015A**	**2016A**	**2017F**	**2018F**	**2019F**
Cash	2.9	2.1	0.8	3.3	8.8
Receivables	5.9	9.0	12.0	14.0	16.7
Inventories	3.7	3.5	4.7	5.5	6.5
Other Current	0.0	0.0	0.0	0.0	0.0
Plant and Equipment	1.0	1.0	1.2	1.2	1.2
Intangibles	5.3	5.9	6.9	7.6	8.3
Deferred Tax	0.0	0.0	0.0	0.0	0.0
Total Assets	**18.8**	**21.5**	**25.7**	**31.7**	**41.5**
Payables	7.8	10.9	14.6	17.0	20.2
Other	0.2	0.3	0.3	0.3	0.3
Term Liabilities	5.2	7.5	0.0	0.0	0.0
Total Liabilities	**13.2**	**18.7**	**14.9**	**17.3**	**20.5**
Net Equity	5.6	2.8	10.8	14.4	21.1
Book Value Per Share $	0.02	0.01	0.04	0.05	0.08

Source: Company data, estimates

Note the Term Liabilities amount from FY14 through FY16 consists of WDT's mandatory convertible preference shares. In FY17 these convert to ordinary shares resulting in the value transferring to Net Equity.

Valuation

Unsurprisingly valuation is strongly dependent on assumed revenue growth, volumes and margins and the following tables demonstrate key sensitivities with our base case valuation centralised.

At the current share price of 23.5 cps and even following the strong share-price appreciation, the market appears to be implying significantly lower margins, lesser volume growth or lower pricing or a combination relative to our expectations all else being equal.

Sensitivities							
		Motors Margin %					
		10.00%	**15.0%**	**20.0%**	**25.0%**	**30.0%**	**35.0%**	**40.0%**
SCS Controller Margin %	**25.0%**	0.05	0.17	0.29	0.33	0.42	0.50	0.58
	30.0%	0.10	0.22	0.34	0.37	0.46	0.54	0.62
	35.0%	0.15	0.27	0.39	0.40	0.48	0.58	0.66
	40.0%	0.20	0.32	0.35	**0.44**	0.52	0.60	0.69
	45.0%	0.25	0.37	0.39	0.48	0.56	0.64	0.73
	50.0%	0.30	0.33	0.42	0.50	0.59	0.67	0.76
	55.0%	0.35	0.37	0.46	0.54	0.63	0.71	0.80

Source: estimates

Sensitivities								
		Motors Volumes (Growth)						
		5.0%	**8.0%**	**11.0%**	**14.0%**	**17.0%**	**20.0%**	**23.0%**
SCS Controller Volumes (Growth)	**20.0%**	0.08	0.14	0.20	0.28	0.36	0.37	0.45
	30.0%	0.14	0.19	0.26	0.33	0.34	0.41	0.49
	40.0%	0.23	0.28	0.35	0.34	0.40	0.47	0.54
	50.0%	0.37	0.34	0.38	**0.44**	0.50	0.56	0.64
	60.0%	0.44	0.49	0.54	0.58	0.64	0.71	0.79
	70.0%	0.65	0.69	0.74	0.80	0.86	0.91	0.99
	80.0%	0.97	1.01	1.06	1.09	1.15	1.22	1.30

Source: estimates

Further given most revenues have the USD as the underlying transactional currency, earnings are sensitive to changes in the NZD:USD but we note there is a partial hedge with manufacturing performed offshore and inputs USD denominated. We have assumed all COGS are USD denominated and 40% of operating expenses with the remainder mainly NZD.

Under our base case assumptions our DCF valuation is 44cps As noted above this effectively assumes stable price points and margins for SCS™. Motor volume growth is in line with industry research estimates for market growth (from 2018) and near term SCS™ volume growth is in line with management expectations although top-out at a lower number than the company's ambitions (0.9m units vs. 1.5m-2.0m). Of this 44cps value and based on our profit track, the utilisation of tax losses account for 7cps of this value. Based on spot exchange rates, our valuation declines to 39cps.

At the current share price of 23.5cps (and fully diluted) under our forecasts, the company grows into its share price FY18 where the implied multiples appear around fair (P/E 16.7). **At valuation** this is pushed out to FY19-FY20. Note that these P/E multiples are on an untaxed basis given WDT's tax loss position. While we note the share-price is at a substantial discount to our base case valuation, we do not expect it to fully close the gap in the near term but to be associated with further evidence of high levels of earnings growth.

Valuation metrics					
At Share Price	**2016A**	**2017F**	**2018F**	**2019F**	**2020F**
EV/EBITDA	-3714.5	23.3	13.7	8.6	5.7
EV/EBITA	-41.2	52.8	20.3	10.9	6.6
P/E	-24.0	119.6	20.1	10.9	6.5
At Base Case Scenario					
EV/EBITDA	-7004.9	43.9	25.8	16.2	10.7
EV/EBITA	-77.7	99.5	38.3	20.5	12.4
P/E	-45.1	224.5	37.7	20.5	12.3

Source: EAL estimates

Comparable Company Multiples (see Appendix 2)

While many of the companies contained in the appendix are large and much more diversified, what is evident are the surprisingly high multiples being applied by the market given relatively low forecast growth. Revenue growth (median) CAGR is flat and EPS in the high single, low double digits. Also, apart from a few outliers, multiples are relatively tightly clustered.

Calenderised to 31 December, on a P/E basis the universe selected is on a median P/E of ~21X FY16 declining to 16.3X FY18. Implied EBIT multiples are also elevated at 16.4X FY16 declining 12.5X FY18.

These multiples compare with Bloomberg 1-year blended forward on the S&P 500 Industrial Index's EPS which implies a 12m FWD PE of 16.4x (calendarised to 10/10/2017 rather than a December Y/E).

Key Risks

- Two major customers (defined as customers representing 10% or more of revenues), each account for revenues of $7.3m and $6.5m respectively of total revenues FY15 or 56% (2014: three customers each with revenues of $3.9m, $3.4m and $3.3m or 60%) illustrating a key risk and the strategic rationale to diversify across more customers and into product areas other than motors.
- The company is small in scale and therefore must be innovative to compete, as it is unlikely to be able to compete directly on cost to manufacture.
- Most of the company's direct competitors are significantly larger with the resources and capabilities to potentially disrupt WDT's current business.

- The electric motor market in particular is very competitive and while volumes are growing strongly, may be subject to price erosion
- The IoT market opportunity and large and growing rapidly. The company may be driven by customers to quickly broaden its portfolio to stay current in this market, thus driving the need for additional unforecasted development costs.
- Currently the company has limited cash resources to cater for expected growth and unexpected demands placed on it my large multinationals and may need to raise further capital in the future.
- With most sales transacted in foreign currencies and a large proportion of expenses NZD denominated, a strong NZD may impact the company's competitiveness and earnings.

SWOT Analysis

Strengths	**Weaknesses**
Strong culture of innovation	Relatively small scale relative to competitors
Potentially leading edge products in market	Currently heavily exposed to/overreliant on few customers
Product volume and revenue growth currently very strong	Not well capitalised
Strong governance and management	Growth may need to be met with increased investment
Operating costs relatively fixed therefore high leverage to revenue growth	Considerable currency risk with most product sold offshore
Good relationships with large and valuable customers	Breadth of product portfolio
Much improved supply chain network	
Opportunities	**Threats**
New energy efficiency regs are driving increased demand	Motors now off patent
Only have small market share in large markets	Motor market very fragmented market with many participants
Some opportunity to improve motor margins	SCS controllers has less competion than motors but still has several
Growing SCS volumes will improve revenues, margins and earnings	large and strong potential competitors
Growing SCS volumes will diversify risk	Must stay ahead of the competition with innovative product
ECR2 motor should improve market share in cooler and supermarket channels	
New channel development opportunities	
Adjacent/new market opportunies	
Potential for industry consolidation	

Source: Company, Eastbourne Advisory Limited

Appendix 1- Directors, Key People and Major Shareholders

Greg Allen – Chief Executive Officer

Mr Allen was appointed CEO of Wellington Drive in November 2011. Prior to joining Wellington Mr Allen spent 23 years working internationally leading business development, supply chain and manufacturing organisations in Europe, North America and Asia. He is an experienced operational and business leader, having previously been responsible for the Industrial and Green Technology business unit for Celestica, a highly regarded multinational supply chain services provider. Prior to Celestica Mr Allen led a Canadian public company focused on VOIP products and also held senior roles with global contract manufacturing and engineering services companies. Originally from New Zealand, and with a technical background gained from six years in the New Zealand armed forces, Mr Allen brings to Wellington a broad market experience covering many industrial segments such as telecommunications, aerospace, capital equipment, consumer products and enterprise computing. Greg has bought significant focus to the WDT since his arrival, simplifying the company with a more cohesive strategy, diversifying away from motors, reducing operating costs, driving stock-turn up and as a corollary promoting revenue and margin growth.

Tony Nowell, CNZM Chairman

Mr Nowell was appointed a director of Wellington in March 2010 and Chairman in December 2010. He is an experienced company leader in major New Zealand and international businesses and also Chairs Scion (the Forest Research Institute of New Zealand) and the Omega Lamb Primary Growth Partnership between the New Zealand Government and Primary Industry participants. He is a board member of New Zealand Food Innovation (Auckland), Food Standards Australia New Zealand, and the Export Advisory Board of Business New Zealand. Mr Nowell is also a New Zealand representative on the APEC Business Advisory Council. He was formerly Deputy Chair of Leadership New Zealand and Chief Executive of Zespri International, and Griffin's Foods Limited. Prior to returning to New Zealand business in 2000 from an extended period of international business experience, Mr Nowell was Regional Vice President of Sara Lee Asia, President Director of Sara Lee Indonesia and President Director of L'Oreal Indonesia.

Dr Lisbeth Jacobs

Dr Jacobs, a native of Belgium, holds a PhD in Materials Engineering from the University of Auckland and a Master of Science in Materials Engineering from the Katholieke Universiteit Leuven, Belgium, where she also completed a post graduate degree in Business Studies. Dr Jacobs has also completed the Executive General Management programme at CEDEP- INSEAD, France. Dr Jacobs is currently General Manager International at UniServices, a wholly owned subsidiary of The University of Auckland. In this role Dr Jacobs is responsible for all commercial activities that the University of Auckland undertakes outside of New Zealand and Australia. She is also a member of the board of Energia Potior, a Joint Venture between UniServices and Yunca which delivers technology solutions to the global aluminium industry. Before taking up her current role Dr Jacobs was Director Strategy & Development at The Icehouse, following a 13 year international career with Belgian corporate Bekaert, a world market and technology leader in steel wire and steel cord products and applications. Dr Jacobs is Honorary Consul of Belgium since August 2013.

Gottfried Pausch

Mr Pausch currently serves as an independent director of McKay Ltd in Whangarei, Blackhawk Tracking Systems Ltd in Auckland and as Executive Chairman of Aucom Electronics Ltd in Christchurch. Mr Pausch was the former CEO at Actronic Technologies and an Executive in Residence at The Icehouse, following a 22 year career with German engineering and electronics conglomerate Siemens, one of the world's leading suppliers of a wide range of products, solutions and services in the field of technology, which included the roles of CEO Siemens Energy Services Ltd. and Managing Director of Siemens New Zealand.

John McMahon

Mr McMahon has over twenty years' experience in the Australasian equity markets, predominantly as an equity analyst covering a range of industries including telecommunications, media, gaming transport and industrials. He was a former Head of Research and Head of Equities for ABN AMRO NZ and was Managing Director of ASB Securities for three years. John now manages his own investment portfolio through Sydney-based Auro Investment Management and is Chairman of NZAX-listed Solution Dynamics Ltd (SDL). He has a Bachelor of Commerce (Honours), an MBA and is a CFA (Chartered Financial Analyst) charter holder. John has significant credibility having been instrumental as chairman in the early stage turnaround of SDL.NZ.

Significant Shareholders

Shareholder	Number (m)	% of shares on issue
SuperLife Trustee Nominees Ltd	63.8	27.5%
Harbour Asset Management Ltd	13.6	5.9%
East West Manufacturing LLC	10.6	4.6%
Wairahi Trust	9.4	4.1%
John McMahon	9.1	3.9%
Graham Trustees Ltd	8.1	3.5%
Source: Company		

Appendix 2- Comparable Companies

Company Name	Domicile	Market Cap (Local $mn)	Calendarised P/E			Calendarised EV* / EBIT			Calendarised EV* / EBITDA		
			31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-16	31-Dec-17	31-Dec-18
ABB Ltd	Switzerland	50,409	22.1x	19.2x	15.3x	14.4x	12.8x	11.6x	10.9x	10.2x	9.2x
Nidec Corp	Japan	2,771,530	28.6x	25.1x	21.9x	n.a.	n.a.	n.a.	14.5x	13.4x	11.9x
Ametek Inc	USA	11,096	20.7x	19.1x	16.4x	14.9x	13.9x	13.3x	12.6x	11.8x	11.2x
Regal Beloit Corp	USA	2,735	13.9x	12.7x	12.2x	16.4x	11.9x	10.4x	8.7x	7.7x	6.9x
Danaher Corp	USA	54,035	22.0x	20.1x	18.2x	20.8x	18.6x	17.7x	15.4x	13.9x	12.2x
Emerson Electric Co	USA	33,914	18.0x	17.4x	15.6x	12.2x	12.1x	11.3x	9.9x	9.7x	9.0x
Johnson Electric Holdings Ltd	Hong Kong	17,559	90.6x	81.3x	77.5x	76.9x	65.7x	63.8x	48.7x	43.8x	42.8x
Minebea Co Ltd	Japan	401,164	11.4x	11.4x	11.1x	n.a.	n.a.	n.a.	6.3x	6.0x	5.4x
Omron Corp	Japan	804,483	19.0x	18.1x	16.3x	n.a.	n.a.	n.a.	8.1x	7.7x	6.9x
Rockwell Automation Inc	USA	15,489	20.2x	19.4x	17.9x	13.9x	14.0x	13.3x	12.3x	12.4x	11.6x
Schneider Electric SE	France	36,770	17.3x	15.7x	14.4x	13.2x	12.2x	11.1x	10.7x	9.8x	9.0x
UQM Technologies Inc	USA	29	-4.3x	-5.6x	-24.2x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
WEG SA	USA	29,026	24.8x	21.7x	18.6x	25.1x	20.0x	16.5x	19.6x	16.2x	13.8x
Crompton Greaves Ltd	India	48,165	25.4x	17.7x	13.8x	23.6x	15.1x	12.6x	13.0x	10.2x	8.1x
Kirloskar Electric Company Ltd	India	4,360	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
			23.5x	**21.0x**	**17.5x**	**23.1x**	**19.6x**	**18.2x**	**14.7x**	**13.3x**	**12.2x**
			20.4x	**18.6x**	**15.9x**	**15.7x**	**14.0x**	**12.9x**	**12.3x**	**10.2x**	**9.2x**

Source: EAL Estimates, Bloomberg

Appendix 3- Mandatory Convertible Notes Dilution Scenarios

SuperLife Holding	SL Convertible Holding (m)	Other Convertible Holding (m)	Conversion Ratio	SL new ordinary Shares	Other holder new ordinary shares	Total new ordinary shares	SL existing ordinary Shares	SL new total ordinary shares	Total ordinary shares post conversion	Super Life Control
Share Price (c)										
10	18.0	7.19	2.50	45.1	18.0	63.0	63.8	108.8	294.7	37%
11	18.0	7.19	2.27	41.0	16.3	57.3	63.8	104.7	289.0	36%
12	18.0	7.19	2.08	37.5	15.0	52.5	63.8	101.3	284.2	36%
13	18.0	7.19	1.92	34.7	13.8	48.5	63.8	98.4	280.2	35%
14	18.0	7.19	1.79	32.2	12.8	45.0	63.8	96.0	276.7	35%
15	18.0	7.19	1.67	30.0	12.0	42.0	63.8	93.8	273.7	34%
16	18.0	7.19	1.56	28.2	11.2	39.4	63.8	91.9	271.1	34%
17	18.0	7.19	1.47	26.5	10.6	37.1	63.8	90.3	268.8	34%
18	18.0	7.19	1.39	25.0	10.0	35.0	63.8	88.8	266.7	33%
19	18.0	7.19	1.32	23.7	9.5	33.2	63.8	87.5	264.9	33%
20	18.0	7.19	1.25	22.5	9.0	31.5	63.8	86.3	263.2	33%
21	18.0	7.19	1.19	21.5	8.6	30.0	63.8	85.2	261.7	33%
22	18.0	7.19	1.14	20.5	8.2	28.6	63.8	84.3	260.3	32%
23	18.0	7.19	1.09	19.6	7.8	27.4	63.8	83.4	259.1	32%
24	18.0	7.19	1.04	18.8	7.5	26.3	63.8	82.6	258.0	32%
25	18.0	7.19	1.0	18.0	7.2	25.2	63.8	81.8	256.9	32%
26	18.0	7.19	1.0	18.0	7.2	25.2	63.8	81.8	256.9	32%
27	18.0	7.19	1.0	18.0	7.2	25.2	63.8	81.8	256.9	32%
28	18.0	7.19	1.0	18.0	7.2	25.2	63.8	81.8	256.9	32%
29	18.0	7.19	1.0	18.0	7.2	25.2	63.8	81.8	256.9	32%
30	18.0	7.19	1.0	18.0	7.2	25.2	63.8	81.8	256.9	32%

Source: Company data, estimates; SL=SuperLife

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