StoneBridge SnapShot

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SECTOR: CONSUMER DURABLES

UPDATE

# Vmoto Limited | VMT

BUY

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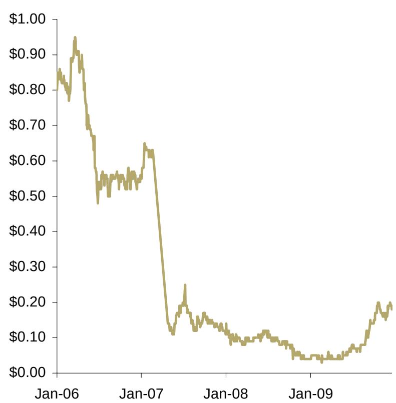
Last Price | $0.18
Market cap | $88.9m
Fully diluted shares | 496.6m
12 mth price target | $0.31

**Historic Share Price**




## Acquisition of Electric Scooter Manufacturer

### KEY POINTS

- Vmoto has announced the acquisition of German Electric Scooter manufacturer E-Max
- Under the terms of the acquisition agreement, Vmoto will acquire a 60% interest in the assets and intellectual property of E-Max for approximately AUD$1.6m, plus the issue of 5.0m shares in Vmoto.
- Vmoto will also inject AUD$4.1m of working capital into the new entity.
- Vmoto will issue AUD$6m in new equity to fund the acquisition, with demand from institutional and sophisticated investors, at $0.20 per share (representing an 8% premium to the share price prior to the announcement.)
- The E-Max acquisition is expected to be cash flow positive immediately, with synergies available from internalisation of scooter manufacture, and removal of E-Max overheads.
- Delivery on initial Vietnam order (petrol scooters) has been delayed, as a result of delays in testing and delivery of fuel injection components by a key supplier. Initial delivery is now expected in February 2010.
- Scart (4wd) deliveries have commenced to key suppliers (18 units shipped to date as sample units)

***We see the E-Max acquisition as a long term positive for the Vmoto business, although we note the news of delivery delays on the initial Vietnam scooter order is disappointing. Despite delays in initial deliveries, management remain confident of achieving 20,000 scooter sales in FY2010.***

***We retain our Buy recommendation on Vmoto. We see a short term price catalyst as deliveries commence from the Nanjing factory, and longer term price appreciation as profitability grows through increased Vmoto branded scooter sales.***

### OVERVIEW OF VMOTO

Vmoto is a scooter manufacturer and distributor.

Vmoto operates a scooter distribution business under the Freedomotor Corporation brand, which was acquired in 2007. Freedomotor sells third party scooters through an international distribution network.

In 2009 Vmoto completed a scooter manufacturing site in Nanjing, China, which will manufacture Vmoto branded scooters. An initial order has been secured to supply 30,000 scooters per year to Vietnam, at a gross margin of approximately $200 per unit.

### E-MAX ACQUISITION

E-Max is a private electric scooter manufacturer, headquartered in Germany, which currently manufactures and distributes electric scooters worldwide.
Vmoto have announced they will acquire 60% in a new entity, which will own the assets and intellectual property of E-Max, as follows:

- New E-Max entity established to acquire all the assets and intellectual property of the old E-Max business.

51% acquired for AUD$1.6m plus a capital injection of AUD$4.1m in working capital into the new business

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- Further 9% acquired for the issue of 5.0m shares in VMT to E-Max shareholders

The result is that Vmoto will own 60% of the new E-Max entity, which will include AUD$4.1m in cash, plus the assets and intellectual property of the old E-Max assets.

## UPDATE ON FIRST SCOOTER DELIVERIES TO VIETNAM

Vmoto was expecting initial petrol scooter deliveries from the new Nanjing (China) manufacturing site to commence at the end of November. Delays from the fuel injection supplier (Siemens) have resulted in a delay of initial deliveries which are now likely to commence in February. Sample units have been delivered to Vietnam to commence government compliance requirements. Although we note delays are disappointing, management remain confident of achieving 20,000 scooter sales this year.

Vmoto management have noted that a small number of the Scart product (4wd vehicle) have commenced delivery, with 18 units being shipped to key distributors worldwide.

It is essential that Vmoto management deliver a quality product to Vietnam, in a timely manner. Delays on the initial delivery are disappointing, but unlikely to affect long term production forecasts. From an investor perspective we see the commencement of large scale production of scooters as a key short term de-risking event, which immediately turns the business into a cash flow positive entity.

## E-MAX OVERVIEW

E-Max is a private electric scooter manufacturer, headquartered in Germany, which currently manufactures and distributes a range of electric scooters worldwide. Vmoto management estimate that 3,000 E-Max scooters have been sold over the past 18 months.

E-Max scooters are based on an electric hub motor, contained within the rear wheel, with a battery cell (either Silicon or Lithium Ion) contained below the foot rest.

Various power and battery combinations are available, with power comparable to a 125cc scooter, and a driving range of between 50 and 150km per battery charge, depending on the product. Top speed varies between 50km/h and 100km/h depending on the model. Battery charge times vary between 3 and 5 hours.

*Current E-Max Electric Scooter*

*Hub Motor – (located in real wheel)*

E-Max has historically been run under capital constraints, reducing the ability for E-Max to capitalise on strong demand for their electric scooter products. As a result of limited funding, E-Max has traditionally produced only small manufacturing runs, to minimise the working capital requirements of the business.

Under the terms of the acquisition, Vmoto is injecting AUD$4.1m in working capital into the E-Max business, which will be used to fund inventory and working capital. This will enable larger production runs, and ensure product is available to sell on demand.

E-Max margins are currently much higher than traditional petrol scooters (approximately US$600 per scooter.) It should also be noted that E-Max currently manufactures scooters through a third party contract assembler in China. Vmoto estimate margins could increase by around US$200 when assembly is transferred into the Vmoto Nanjing site.

## OVERVIEW OF ELECTRIC SCOOTERS

Vmoto Managing Director Patrick Davin has previously expressed a long term vision for Vmoto to add electric scooters to their range. Our view was that the process of moving into the electric scooter market would take at least 2 years through design, testing, marketing and production ramp up. Vmoto has been able to fast track this process through the acquisition of E-Max.

How realistic are electric scooters based on current technology?

We note that electric vehicles in general are currently not a widely accepted alternative to fossil fuel driven vehicles, as a result of cost, limited driving range, and long battery recharge times. Due to the light weigh, electric scooters are viable based on current technology for short range commuting and some commercial applications. The growth potential for electric scooters has been recognised by key motorcycle manufacturers, Yamaha in particular has offered an electric commuter vehicle since 1991.

The E-Max scooters have a driving range of between 50 and 150km per battery charge, with the ability to easily change over battery packs for a fully charged unit if required. With a reasonable range and top speed, current units are suitable for inner city commuting, and commercial applications such as postal vehicles and security patrols.

We see further acceptance of electric scooters as a result of:

- Technological advances (in particular battery advances)
- A focus on reducing engine emissions

### *Technological Advances:*

The key drawback of electric vehicles has historically been a limited range, limited speed, long battery recharge time and limited battery life. The current technology platform allows a scooter which satisfies commuter and requirements for working vehicles. With technological advances (particularly in batteries) range and top speed will increase, while battery recharge times will decrease. We therefore see battery technology advancement as driving any increase in demand for electric vehicles.

They key to future development of electric vehicles is focused on battery development, whereby a higher charge capacity can be stored in a lighter battery. Historically the transition has occurred from heavy lead acid batteries, to lighter Nickel Metal Hydride (NiHM) to the current lighter and more reliable Lithium Ion batteries.

With advances in battery technology, vehicle driving range is increasing and battery recharge times are decreasing. Importantly, E-Max acquires components from specialist manufacturers, so as new battery technologies become more widely accepted, E-Max is simply able to substitute in the new technology into the existing E-Max chassis and drive train for a longer range.

The current range of E-Max scooters provides a driving range which is suitable for the daily driving commitments of a commuter, or a work vehicle (postal scooter, security patrol vehicle etc.) From a practical perspective, the E-Max battery system can easily be removed from the scooter, and taken indoors for charging overnight, or easily changed over to install a fully charged battery, for immediate use.

### *Engine Emissions:*

Reducing pollutants and engine emissions is a focus for governments worldwide. Electric vehicles are one area of focus.

Although environmentally conscious commuters are one source of sales, Vmoto is also anticipating an increase in the number of electric vehicles operated by government organisations and corporates. With increasing pressure to reduce emissions, Vmoto see logical progression to electric postal delivery vehicles, security patrol vehicles and delivery vehicles.

It is important to also note that governments also offer rebate systems on electric vehicles sales, with schemes in place across UK, Europe and USA, whereby the acquirer of an electric vehicle will receive a rebate of up to 60% on the purchase price of the vehicle.

## E-MAX SUMMARY

Vmoto estimate that approximately 3,000 individual electric scooters have been sold by E-max over the last 18 months, based on small production runs (as a result of capital constraints.) With strong demand from customers, and an increased distribution footprint available through the existing Vmoto distribution network (Freedomotor Corporation,) we expect an increase in units sold over the next 18 months.

E-Max margins are approximately USD$600 per scooter, with the potential for margin increase as manufacture and assembly is transferred in-house to the Vmoto manufacturing site in China. We understand the acquisition to be cash flow positive immediately, with potential cost savings to result from assembly at Vmoto's Nanjing factory, and additional cost synergies possible with integration of head office functions.

## SUMMARY

We see the E-Max acquisition as a positive for Vmoto in the long run, by shortcutting the internal development path for a Vmoto Electric scooter.

In the short term the value driver for Vmoto is a ramp up in production of the core petrol scooters, which will commence with initial deliveries to Vietnam. Following a 1-2 months delay as a result of supplier issues, we await positive news from Vmoto in February 2010, when deliveries are expected to commence.

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