



The small company specialists

# COMPANY INFORMATION

Voller Energy Group PLC (LSE - VLR)

Sept 2006

Company Eye Ranking

26/50

## EDITOR'S NOTE

Voller Energy Group (VLR) plc is one of the world's first commercial developers and manufacturers of portable fuel cell systems for use as battery chargers and mobile generators. Voller Energy is initially targeting commercially attractive areas including the cordless power tool, temporary buildings, leisure boating, recreational vehicle (RV) and military markets. These are likely to be early adopters of the technology as the benefits of using fuel cells, such as low noise, low vibration, no toxic emissions and health and safety issues, are important driving factors.

To date, VLR has two products on the market although they are not sold under its own brand name. There have also been two important Memorandum of understanding initiatives signed, with Calor gas and Conergy AG, which should drive the company forward.

In our opinion Voller Energy Group Plc could have a promising future ahead and is well placed within the sector. If you like this sector this could turn out to be a good investment.

## CHART / RSI - 14



## FUNDAMENTALS

Company Name	Voller Energy Group plc
Current Price	32.00
Status	AIM
Market Cap	7.36 m.
Shares in Issue	23.00 m.
Activities	commercial developers and manufacturers of portable fuel cell systems
Sector	electronic & electrical equipment sector
Corporate advisor	Arden Partners
Registrar	Capita Registrars

## HISTORY

The Company was founded in 2002 by Stephen Voller and Mike Clarke to produce battery chargers and mobile generators based on patented fuel cell technology. Uniquely, the products create electricity without producing any toxic emissions, the only output from the current systems being pure water. Voller Energy's products are aimed at recharging the batteries used in cordless tools in

the construction industry, generating power for the leisure industry and for use in the military. Voller Energy are members of Fuel Cell Europe (World Fuel Cell Council), Executive Member's of Fuel Cells UK, members of the British Compressed Gas Association (BCGA), the North Hampshire Chamber of Commerce and the Quoted Companies Alliance (QCA).

## THE BUSINESS

The portable power market is generally defined up to 10kW and is expected to be worth \$17 billion by 2011 (Canadian Fuel Cell commercialisation Roadmap - Price Waterhouse Coopers, March 2003). Importantly, Voller Energy's business is not dependent on the emergence of a hydrogen infrastructure, which may take many years to develop. Through its acquisition of intellectual property

from KAT-Chem in February 2005, Voller Energy has acquired a low cost fuel processor technology, which means that it can extract the hydrogen found in fuels such as propane, butane (LPG), diesel and the military fuel JP8. This supply of hydrogen from commonly available fuels should ensure the early and widespread adoption of fuel cell technology.



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### ACTIVITIES

Voller is initially targeting commercially attractive areas including the cordless power tool, leisure boating, recreational vehicle and military markets. These are likely to be early adopters of the technology as the benefits of using fuel cells, such as low noise, no toxic emissions and health and safety issues, are important drivers. The portable power market is generally defined up to 10kW and is expected to be worth \$17 billion by 2011 (Canadian Fuel Cell Commercialisation Roadmap - Price Waterhouse Coopers, March 2003).

Importantly, Voller's business is not dependent on the emergence of a hydrogen infrastructure, which may take many years to develop. Through its acquisition of KAT-Chem in February 2005, Voller has acquired a low cost fuel processor technology which means that it can extract the hydrogen found in fuels such as propane, LPG, diesel and the military fuel JP-8. This supply of hydrogen from commonly available fuels should ensure the early and widespread adoption of fuel cell technology.

### FUTURE

Voller is currently the only fuel cell company that has a portable fuel cell ready for commercial use featuring a mains adapter in its design. The unit has been certified under gas and electrical directives and Voller is 100% confident that the unit can be operated safely, meeting any emerging or imposed standards for the fuel cell industry.

The company is a member of various working groups aiming to establish and adopt a series of codes and standards for the fuel cell industry. Although work continues towards this goal Voller believes that such groups will not be able to report on their findings until at least 2009/2010.

In terms of cost, Voller found that during its first two years of operation the product liability insurance was by far the most expensive element. This was due to the use of hydrogen in the fuel cell system and a lack of prior experience in this field. The company has since reduced this cost thanks to successful demonstration of its technology. To reduce future costs Voller believes that the industry must move towards automation. Voller believes

that if all stack materials were provided free of charge to a manufacturer, the cost of production would only be reduced by 20% implying that 80% of the current stack manufacturing cost is attributed to labour charges. By automating the stack production process, Voller believes the high cost of manual labour can be reduced and the price of the stack would also be dramatically reduced.

The ultimate plan for Voller is to make its military units on a commercial scale and sell these systems to consumers to power general portable electronic applications. The company does not intend to become active in stack manufacture but will focus on production of its complete fuel cell systems. If Voller is able to achieve mass commercialisation of its portable technology, the company hopes to make a significant contribution to UK fuel cell employment opportunities.

The Energy Review published by the UK Government in July 2006 clearly highlighted the continuing importance of alternative and renewable energy. Fuel Cell technology is vital to the future, and Voller Energy is well positioned in the field.

### DEVELOPMENT HIGHLIGHTS

\* Voller Energy Group PLC is the winner of the Power category of the IEE Innovation in Engineering Awards for their VE100 portable fuel cell system.

\* 2003 - Launched the world's first hand-held fuel cell system

\* The Company is also the winner of the Environmental Innovation & Technology Category in the Hampshire Sustainable Business Awards - sponsored by Business Link. Voller Energy was a finalist in the Growth Company of the Year awards sponsored by the CBI.

### ABOUT FUEL CELLS

Fuel cells work by converting the chemical energy in hydrogen to electrical energy. Hydrogen is combined with oxygen from the air across a special membrane. The outputs from the reaction are electricity, heat and water. No toxic emissions are produced. In order to provide sufficient voltage for a useable electrical load, several membranes are assembled between plates and assembled into a stack. The fuel cell stack that Voller Energy previously used, the VE100, is about the size and

weight of a small box of chocolates, and each plate about the size of an 'after eight' mint. Normally 20 to 30 plates are assembled in a fuel cell stack.

Core technology, developed at Voller, is the fuel cell control system that allows integrated battery charging systems to operate at high efficiency. These systems involve the close monitoring of all inputs and outputs, with software written by Voller Energy that controls the fuel cell system effectively.



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### MARKETING STRATEGY

Voller Energy is active in five market areas: the VE100 product available now through its distributor network, cordless power tools, yachts, cabins & temporary buildings and military & customised battery chargers.

Market areas under consideration are: DIY and laptop markets, general battery chargers and recreational vehicles, caravans & trucks. Each of these markets is addressed by three different product groups:

**The VE100 product group** (including distribution product) includes a robust version for Speedy Hire and also special OEM versions. Initially these products will be sold with hydride canisters but later versions will use an LPG fuel processor and military versions a JP8 reformer. The VE100 v3 portable fuel cell is being replaced by two new fuel cell products. The Fuel Cell ABC is an automatic battery charger with enhanced software which allows it to simultaneously charge an iPod®, a laptop and mobile phone. The Company also introduced the Fuel Cell RBC, a rack mounted fuel cell battery charger.

**The Battery Box group** (including distribution product) includes low cost cordless tool chargers and potentially special versions for the DIY market, for charging laptops and for the military market.

Shipments of the Site Safe Porta-Charger began to Speedy Hire in March 2006. This was the first product based on the Voller Energy Battery Box design. The system was fully CE certified and included in the 2006 Speedy Hire Catalogue.

**The VE1000 product group.** This includes the VE600 yacht charger and the VE1200 cabin generator. These products are dependent on LPG and diesel fuel processor technology being available.

The Battery Box and the VE100 are available now, and the VE1000 family is currently in development and due to be available in 2006, along with the first of our fuel processor technologies.

Generally, Voller Energy does not plan to sell products under its own brand name but rather to manufacture products for OEM's (Original Equipment Manufacturers) that they will market under their own brand such as Speedy Hire, Saft etc. In the near future the company will sell the VE100 products to distributors under its own brand. These products are really demonstration units to build market awareness and to generate potential for OEM orders internationally.

### DIRECTORS

#### **Stephen Voller, Chief Executive Officer**

Stephen Voller founded Voller Energy in 2002 with Mike Clarke, to focus on the manufacturing of portable fuel cell systems for use as battery chargers and mobile generators. The Company received two UK Government development grants before floating on the London Stock Exchange in February 2005. Previously Stephen was Managing Director of Netscape UK and a Sales Manager at IBM. Stephen has a degree in Data Processing from the University of Leeds, is a Chartered Engineer, a Member of the Institute of Electrical and Electronics Engineers (IEEE), a member of the Parliamentary Renewable and Sustainable Energy Group (PRASEG) and an independent member of PITCOM - the UK Parliamentary IT Committee. Stephen is also an executive member of Fuel Cells UK.

#### **John Brown, Non-executive Chairman**

John Brown has served as Non-Executive Chairman of Voller Energy since April 2004. He has recently retired as Chief Executive of Speedy Hire PLC (LSE: SDY) a FTSE 500 company. John joined the Allen Group, a private building company in 1973 as Finance Director and Company Secretary. In 1977, he started the Speedy Hire business with one depot in Wigan and has masterminded its expansion since then. He became Chief Executive of Allen plc in February 2001 and was responsible for the transformation of the Allen Group into Speedy Hire PLC.

#### **Colin Bonsey FCA, Finance Director and Company Secretary**

Colin Bonsey is a Chartered Accountant (ACA 1969, FCA 1971), and from 1999 to 2003 served as Group Finance Director and Company Secretary of Bullough plc, a small cap mini conglomerate with group turnover of £250m. Colin was an Audit Senior at KPMG before joining Philip Morris as Corporate Controller in 1973. In 1976 he joined Siebe plc (now part of Invensys plc) a world leader in controls and automation with turnover of £3.7bn. He joined the Board of Siebe in 1990 and remained on the Board until his departure in 1999. Colin is a Non-executive Director on Densitron Technologies plc.

#### **David Cranston CBE, Non-executive Director**

After a 30-year career in the Army, initially in the Artillery but mainly as an Army Aviator, David Cranston's final appointment was as Deputy and then Commander of the Germany based Multinational Airmobile Division with 26,000 personnel from four nations, a capital budget of £8 billion, and an £800 million annual operating budget. Leaving the army in 1995, he became a financial regulator joining the Personal Investment Authority (PIA) as Head of Member Relations and in 1997 became Head of Group Compliance at The Royal Bank of Scotland. From 2000 to 2002 he was Director General of The National Association of Pension Funds. Currently, David has a small portfolio of non-executive and voluntary appointments; the latter includes being a Member of the British National Olympic Committee.



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### Mike Clarke, Chief Operating Officer

Mike Clarke has twenty-five years of management experience of the production of complex electronic and electro-mechanical products with companies such as Aston Electronic Designs Limited, Perex Limited, Sintrom plc, and Sperry Rand Inc. As Chief Operating Officer he will be responsible for manufacturing and meeting production, quality and shipment targets. Mike has designed and built the Voller Energy VE100 fuel cell systems, and has been largely responsible for the intellectual property development and patent filings. Mike is one of the technical experts advising the British Standards Institute (BSI) for the International Standards Organisation (ISO) Micro Fuel Cells Standards Committee.

### David Port, Non-executive Director

David Port is a Fellow Chartered Management Accountant and widely experienced in the energy sector. David is the Non-executive Chairman of ATH Resources plc (LSE:ATH), the mining group, and is a former Chairman of the Coal Trade Benevolent Association. He is also a Non-executive Director of Global Natural Energy plc (LSE: GNE) and the Non-executive chairman of Petrol Express Limited. Global Natural Energy through its principal subsidiaries is a distributor of gas and petrol in the UK and steel in Europe and Russia. Petrol Express operate a chain of 60 petrol stations in the UK. David is also a Non-executive Director of TRS Developments Limited. David is a keen yachtsman.

## SHAREHOLDINGS

	Number	%
Schweco Nominees Limited	2,046,567	8.8980

	Number	%
David Port	16,865	0.07

## FINANCIAL HISTORY

### Unaudited profit and loss account for the year ended 30 June 2006

£'000	2006	2005
TURNOVER	120	42
Cost of sales	85	114
GROSS PROFIT	35	(72)
Administrative expense		
Exceptional costs	-	(194)
Other	(2,087)	(783)
Other operating income	-	66
OPERATING LOSS	(2,052)	(983)
Interest Receivable	342	171
Loss on ordinary activities before taxation	(1,710)	(812)
Taxation	149	-
Loss on ordinary activities after taxation	(1,561)	(812)
Retained loss for the financial year	(1,561)	(812)
Basic and diluted loss per ordinary share	(6.78)p	(5.31)p

### Unaudited consolidated balance sheet for the year ended 30 June 2006

£'000	2006	2005
Intangible assets	-	-
Tangible assets	203	150
FIXED ASSETS	203	150
Stock	29	56
Debtors	190	175
Cash at bank and in hand	6,748	8,429
CURRENT ASSETS	7,003	8,660
Creditors	(232)	(275)
NET CURRENT ASSETS	6,771	8,385
Total assets less current liabilities	6,974	8,535
Called up share capital	459	459
Share Premium account	8,884	8,884
Merger Reserve	161	161
Profit and Loss Account	(2,530)	(969)
SHAREHOLDERS' FUNDS	6,974	8,535

## COMPANY GROWTH

**July 2006** - MOU\* signed with Conergy AG - to develop the market for fuel cell generators.

**June 2006** - Launch of a Fuel Cell ABC – Automatic Battery Charger

**April 2006** - Key technology milestones announced

**April 2006** - Launch Fuel cell RBC - industrial fuel cell

**February 2006** – MOU\* signed with Calor Gas - reformer programme extracting hydrogen from LPG.

The Group will continue to look for new opportunities for growth both domestically and on an international basis and is on track for delivering commercially available fuel cells by the end of 2007.

\* MOU – Memorandum of understanding



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### RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

### CONTACT

Rawdon House,  
Bond Close  
Kingsland Business Park  
Basingstoke  
Hampshire,  
RG24 8PZ

### RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	29
Customers	32
Low cost	25
Management	
- corporate governance	
- quality	26
- shareholding	20
Product	26
Sector	26
<b>Financial evaluation</b>	
Early and profitable exit potential	24
Financial strength	
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	32
Risk	21
<b>Overall average rating</b>	<b>26</b>



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### FURTHER INFORMATION ABOUT THE RANKING

#### **Competitive advantage**

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### **Competition**

How intense is the competition and are there barriers to entry?

#### **Customers**

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### **Low costs**

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### **Management**

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### **Product**

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### **Sector**

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### **Profitable exit potential**

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### **Financial strength**

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### **Growth at a reasonable price**

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### **Risk**

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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