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Drone Volt

From distributor to service provider.

Opinion	Buy
Upside (%)	136
Price (€)	0.01
Target Price (€)	0.02
Bloomberg Code	ALDRV FP
Market Cap (€M)	14.9
Enterprise Value (€th)	18,427
Momentum	GOOD
Sustainability	5/10
Credit Risk	CC7

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PROS

- R&D efforts to develop and commercialise in-house drone solutions and AI applications allow the company to improve its pricing power and profitability
- Training is a key part of the strategy, where the development of a comprehensive regulatory framework should unleash demand for both drone and training
- Implementing a Drone-as-a-service strategy which could become highly lucrative, especially if applied to its LineDrone which is expected to enter into service by 2023

CONS

- Still nascent market, displaying high potential growth, but little visibility on contract timings and overall adoption of this technology
- US growth hopes reset lower after US partner failed to fund its ambitions
- Supplier risk for distribution segment, heavily exposed to Chinese players with a risk of dependency and limited pricing power

KEY DATA	12/21A	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	ns	-0.76	-4.69	ns	4.88
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-86.6	-9.95	-8.67	34.4	3.41
Adjusted EPS (€)	0.00	-0.05	0.00	0.00	0.00
Growth in EPS (%)	n/a	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00	0.00
Sales (€th)	8,617	13,736	23,865	29,050	35,736
Other margin (%)	48.9	21.1	14.4	19.0	24.0
Attributable net profit (€th)	5,551	-25,484	-2,893	-129	3,052
ROE (after tax) (%)	19.5	-89.5	-14.2	-0.56	13.0
Gearing (%)	-6.87	0.36	3.91	-8.77	-12.5

Conflicts of interest

Corporate broking	No
Trading in corporate shares	No
Analyst ownership	No
Advice to corporate	No
Research paid for by corporate	Yes
Corporate access	No
Brokerage activity at AlphaValue	No
Client of AlphaValue Research	No

Detailed financials at the end of this report

Key Ratios

		12/22A	12/23E	12/24E	12/25E
Adjusted P/E	x	-0.76	-4.69	ns	4.88
EV/EBITDA	x	-9.95	-8.67	34.4	3.41
P/Book	x	1.04	0.88	0.65	0.62
Dividend yield	%	0.00	0.00	0.00	0.00
Free Cash Flow Yield	%	-41.9	-33.9	-13.7	10.1
ROE (after tax)	%	-89.5	-14.2	-0.56	13.0
ROCE	%	-34.6	-29.1	-9.52	19.2
Net debt/EBITDA	x	-1.29	0.64	-4.17	-0.75

Consolidated P&L

		12/22A	12/23E	12/24E	12/25E
Sales	€th	13,736	23,865	29,050	35,736
EBITDA	€th	-2,799	-2,810	536	5,016
Underlying operating profit	€th	-4,960	-4,648	-1,439	2,729
Operating profit (EBIT)	€th	-22,039	-4,434	-1,200	2,995
Net financial expenses	€th	-108	-215	-202	-217
Pre-tax profit before exceptional items	€th	-22,147	-4,648	-1,402	2,777
Corporate tax	€th	-4,174	876	351	-694
Attributable net profit	€th	-25,484	-2,893	-129	3,052
Adjusted attributable net profit	€th	-21,284	-2,893	-129	3,052

Cashflow Statement

		12/22A	12/23E	12/24E	12/25E
Total operating cash flows	€th	-4,286	-2,695	2,126	5,643
Capital expenditure	€th	-3,350	-4,000	-3,960	-3,920
Total investment flows	€th	-5,087	-3,800	-3,960	-3,920
Dividends (parent company)	€th				
New shareholders' equity	€th	0.00	12,100	2,476	0.00
Total financial flows	€th	3,737	12,037	3,075	283
Change in net debt position	€th	-9,481	5,390	441	1,505
Free cash flow (pre div.)	€th	-7,744	-6,910	-2,036	1,505

Balance Sheet

		12/22A	12/23E	12/24E	12/25E
Goodwill	€th	685	678	698	719
Total intangible	€th	7,726	8,039	8,487	8,960
Tangible fixed assets	€th	1,549	1,595	1,643	1,693
Right-of-use	€th	122	128	135	141
WCR	€th	1,483	2,344	1,205	-16.5
Total assets (net of short term liabilities)	€th	19,761	19,608	19,127	18,596
Ordinary shareholders' equity (group share)	€th	17,818	23,067	22,971	23,886
Provisions for pensions	€th	65.0	0.00	0.00	0.00
Net debt / (cash)	€th	3,597	-1,793	-2,234	-3,739
Total liabilities and shareholders' equity	€th	19,762	19,608	19,127	18,596
Gross Cash	€th	1,261	6,803	8,044	10,049

Per Share Data

		12/22A	12/23E	12/24E	12/25E
Adjusted EPS (bfr gwill amort. & dil.)	€	-0.05	0.00	0.00	0.00
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.02	-0.01	0.00	0.00
Book value per share	€	0.04	0.02	0.01	0.01
Number of diluted shares (average)	Th	431,887	1,000,137	1,627,189	1,751,001

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Businesses & Trends

Drone Volt is a French company based at Villepinte, near the Roissy-Charles de Gaulle international airport. The company, created by Mr Dimitri Batsis, is specialised in the conception, assembly and distribution of aerial remote-controlled drones, as well as associated services, training and software. Its products address various ranges of markets and clients, from consumer to professional civil uses, mostly in sectors such as security, inspection, transportation, and topography.

The core activities of the company include product development, engineering & design and the manufacturing of hardware, flying sensors, data processing platforms and drones. The company has also developed software and Artificial Intelligence expertise in order to enhance customer services, proposing turnkey solutions. Drone Volt also provides after-sales services as well as training on its equipment and the regulations for drone pilots. Since 2023, the company has also developed a new service called Drone Volt Expert, which aims to provide a complete service for ad-hoc use instead of only selling a drone.

Drone Volt Group operates in France and internationally through subsidiaries in Denmark, Benelux, Canada, the Netherlands and has agents in the USA and Switzerland.

General market, expected to display high growth

The company addresses a market with huge potential, but which is today still in its early stages, for several reasons. The technology was reserved first for military use, starting as early as the 1970s, and only reached the civilian domain just a few years ago, thanks to progress in miniaturisation and a decrease in costs.

In terms of market projection, according to Strategic Market Research in a report published in December 2022, the global commercial drone market was valued at \$8.15bn in 2022 and is expected to reach \$47bn by 2030 with a CAGR growth rate of 28.6% in the forecast period from 2023 to 2030. The pace of growth is also expected to increase at the end of this timeframe when the major contributors in civil drone spending will be in agriculture, real estate/infrastructure, and energy & power. Additionally, in a report published in June 2019, Teal Group predicted that worldwide civil drone production will almost triple over the next decade. Non-military UAS (unmanned aircraft systems) production will total \$139bn over the next decade, soaring from \$7.2bn in 2022 to \$19.8bn in 2031, equivalent to a 9.1% CAGR. The study includes forecasts of commercial, consumer and civil government systems. By 2030, agriculture will be the world's largest end market because of significant Chinese investment in agricultural drone spraying subsidies and the introduction of more advanced but more reasonably priced UAS, especially for smaller farms.

The drone market can be subdivided into four categories of players:

- The assemblers, which can buy or design their components, and assemble them to create operational drone platforms.
- The distributors, generally addressing the consumer markets.
- The operators, which operate the drones in various conditions and utilisations.
- The training organisations, which provide the training and certification of the pilots willing to operate within the regulatory framework.

A very fragmented market, in the midst of transformation, chasing economic profitability

Despite impressive growth projections, the market is characterised by its relatively early stage of adoption and usages, as well as being extremely fragmented with a myriad of small players, and yet has to prove its economic viability. This translates into a highly competitive environment, where some players (the smallest) drive prices down by using leisure drones and where the added value in the service offered is very low. This partly explains the large number of bankruptcies in the last few years and the difficulties found by some players, while very few companies are currently profitable. Thus, players are switching from the “retailer” status towards design/assembly to improve along the value-added ladder.

The drone market is confronted with a variety of barriers, one of which is the fear of change. This has materialised with the relatively small contracts as tests in the first place, with the need to get to know and understand the technology, which can later be transformed into larger volumes and cross selling. A second barrier is more to do with regulation hurdles related to UAV flights, which is just at its beginning, with no harmonisation across countries or regions.

Growing regulation

While the former can be a barrier, we also believe that the development of a comprehensive regulatory framework should unleash demand, enabling drone flight, pilot training and clarify insurance matters. Indeed, in the absence of regulation, facing a legal limbo in many countries, the development of the drone industry has been slow, as operators can't rely on clear rules, causing insurance problems when the utilisation of drones is not simply banned. In the US, there has been no federal regulation for a long time, opening the way to local experimentation, until the Federal Aviation Administration (FAA) set restricting rules in early 2015, before slightly relaxing them in mid-2016. But, the 2020 COVID-19 health crisis accelerated what would seem to be inevitable at some point. The FAA granted two companies the rights to deliver equipment and products between hospitals via drones.

On its side, France has been a pioneer market for drones and, according to the DGAC (Direction Générale de l'Aviation Civile / the French Civil Aviation Authority), the country stands at third place worldwide in terms of drone pilots. DGAC established as early as April 2012 four different scenarios (detailed in Worth Knowing) which set precise limits to the operation of aerial drones. The French regulation is also very strict concerning the different registrations and

certificates necessary respectively for the drone makers, the operators, the pilots and the flight authorisations, establishing a complex regulatory environment but opening clear business opportunities. However, this regulatory framework evolved in the light of a new European regulation (published in June 2019), which gradually replaced national requirements in order to contribute to the emergence of a European market for the drone industry. The first regulation, which took place in January 2021, defined the categories of drone operations. The next major step to follow will be the implementation of the so-called U-Space at the European level, to allow traffic management for drones (expected to be operational by 2023).

In the meantime, emphasis is put on training and traceability. Online training and evaluation are being implemented to raise awareness amongst telepilots of recreational drones weighing more than 800 grams on the basic rules of safety, airspace traffic and privacy. Theoretical and practical training for professional telepilots, somewhat comparable but less demanding than the private pilot licence (PPL) and focused on the use of drones, the certificate of theoretical aptitude has been introduced. Lastly, safety instructions are now required in the packaging as well as the administrative registration of drones weighing more than 800 grammes.

Addressable markets

Thanks to its high-end products coupled with a high degree of customisation, Drone Volt addresses the niche markets of civil security, inspection and surveillance. For the industrial market, Drone Volt's products can be used in a wide range of areas, such as power or wind turbine inspection for utilities, with clients like Vietnam Electricity or Hydro-Quebec. This market should offer a wide range of opportunities for the company as the utility sector is shifting towards more digitalisation, exacerbated by the move to renewable energy, forcing players to lower their operating costs. Maintenance tasks and network monitoring performance by drone can indeed reduce the costs, along with improved quality through using artificial intelligence (AI). Dangerous inspection procedures, which are usually performed by humans, or by expensive helicopters or airplanes, could at some point be replaced by drones. In a study published in May 2016, PwC estimated the addressable market of drone-powered solutions in the power and utilities market at \$9.46bn. To date, Drone Volt has scored an important contract with French grid operator RTE to equip the company with inspection drones. The products can also be deployed for telecom tower inspection or the surveillance of industrial sites. AI, when embarked on a drone, can perform tasks rapidly and effectively with few resources by automatically spotting divergences or inefficiencies from a pre-established pattern (impact on wind turbines, on high-power lines, etc.). This can be a real game-changer for some industries, reducing costs and improving safety.

In addition, thanks to its knowledge and expertise in AI, the company can potentially propose pure software solutions for computer vision. This goes

beyond its original scope, which then becomes far wider (such as smart cities, production and logistics for quality control, etc.).

From a distributor to a design and service provider

Drone Volt organises its activity into two distinct segments;

- Distribution activity: sale of third-party drones
- Drone Volt Factory, Services & Academy: sale of own drones, drone as a service, after-sales service, and training

The company started its activity by assembling and distributing drone parts and systems coming from other manufacturers, such as the Chinese DJI. These products were aimed at the consumer market and addressed a small fraction of well-informed customers, which would buy spare parts for systems they built themselves. This business line (Distribution) is still contributing to the activity through a wholesale distribution model.

Since 2016, the company has gradually shifted towards the professional drone market, which is more lucrative and offers ever-growing opportunities. The Drone Volt Factory (DVF) proposes an integrated chain of services, from the drone system developed in house (Hercule drones) to the formation and administrative support to comply with French regulations. This integration represents a commercial and marketing strength, as the customer receives an almost immediate turnkey product. This activity, which mobilised R&D, production and development capacities in its early days, can now be largely subcontracted out for its production. France benefits from a high-flying aeronautical industrial fabric, which also ensures a certain flexibility in terms of opex. In addition, the Hercule range requires a greater need for after-sales service and maintenance than the Distribution activity (third-party brands), providing a steadier streamline of cash flows. In 2017, Drone Volt acquired the activities of its competitor Aerialtronics, adding to its portfolio the Altura Zenith drone, as well as the intelligent Pensar camera, beefing up at the same time its R&D capabilities.

DVF drove a progressive increase in the added value

Starting from zero in the professional sector, the company initially mostly assembled already-designed parts, which limited its capacity for innovation and set a situation of dependency on its suppliers but allowed it to deliver fast execution.

Subsequently, an own R&D effort was launched to design customised parts for its products, on its own initiative or in order to respond to customers' demands. This permitted an increase customisation as well as greater innovation, which resulted in some innovative drones (such as the Drone Spray) and established the reputation of the company as a major player in the business. This level of customisation remains limited to the "accessories", as the underlying technical basis remains external to the company, but it allows a significant premium with limited costs, as most of the production is outsourced.

Drone Volt Factory increased its share of the value chain thanks to the launch of an assembly line for internally-designed drones. The company follows its going upmarket strategy, with an exclusive design based on external parts as well as the development of the associated software, which represents the essential part of the added value. Combining the system, along with the software and the associated services, Drone Volt now offers turnkey solutions to its clients.

Training as a growth catalyst

In parallel, we estimate that the ongoing enhancement of the drone regulatory framework worldwide should: i) stimulate the demand for drones, and ii) enhance the need to train telepilots including to meet stricter regulations. Drone Volt has developed its regulation and training expertise in France, following on from the regulations established by the DGAC, which requires operators to be registered by the DGAC, to file requests to prefectures to obtain flight authorisations, and have pilots enlist in a compulsory training period and obtain certification. Drone Volt can facilitate administrative procedures by proposing additional packs to the drone system and has created its Academy to propose training sessions for future pilots. This Academy benefits from solid infrastructures in Villepinte, including an enclosed hall allowing flight sessions to be carried out when the weather is bad. Today, Drone Volt has seven training centres in Europe and North America and can leverage its French expertise in other countries.

Drone as a service as a strong growth catalyst

On top of distribution and training, the company launched in 2023 its new “drone as a service” offer called Drone Volt Expert, which aims to sell for usage instead of possession. This service was built after the acquisition of Aeraccess Services assets as well as the recruitment of their former employees (telepilots). The group did not give any figures as objectives for this new offer but it is, in our view, the most promising one and should be the most important earnings contributor in the medium term due to the high value-added service provided. The group will serve companies operating in the agriculture sector and also help in topography and inspections missions.

International expansion, strengthen with partnerships and licence agreements

The company chose to develop at first in Europe, with the opening of a Danish subsidiary in early 2015. International expansion accelerated in 2016 with a distribution contract signed for the Benelux, Switzerland, USA and Canada. The Aerialtronics acquisition in 2017 also helped the company to tie relationships with Asian customers.

However, apart from these self-financed developments, we believe that the company has recently forged constructive relationships with players across the Atlantic to expand its business in North America at a lower cost.

In late August 2020, the company also announced the signature of a Letter of

Intent with Aquiline Drones. Aquiline wished to produce the Hercules 2, the Altura Zenith and its Pensar camera, at an exciting rate of 1,000 units per month. In 2022 the ambitions of Aquiline had fallen flat on insufficient financing. The flow of monthly payments to Drone Volt for its IP usage stopped. Drone Volt cleaned up its books from the Aquiline disappointments in 2022 by provisioning receivables and the bulk of its stake in Aquiline but kept a commercial relationship as Aquiline acts as a US distributor for now.

In addition, a highly structured contract was announced in March 2020 and signed in October 2020 between Drone Volt and Hydro-Québec. It aims to reach an agreement on the exclusive industrial development and marketing of a drone designed to inspect high-voltage power transmission lines. This agreement with Hydro-Québec will further solidify Drone Volt's credibility in the power grids inspection area and should ultimately enable the company to expand its client portfolio in this area. Once the industrial and commercial partnership agreement is finalised, Drone Volt will be able to market the drone throughout the world. Delayed specs and plans saw the project finalized one year later than planned, in 2022.

Divisional Breakdown Of Revenues

Sector		12/22A	12/23E	12/24E	12/25E	Change 23E/22		Change 24E/23E	
						€th	of % total	€th	of % total
Total sales		13,736	23,865	29,050	35,736	10,129 +	100%	5,185 +	100%
Drone Volt Factory	Electrical Products-Misc	2,036 ⁽¹⁾	1,357	4,070	8,140	-679 -	-7%	2,713 +	52%
Distribution	Electrical Products-Misc	11,700	21,830 ⁽²⁾	22,267	22,712	10,130 +	100%	437 +	8%
Training	Electrical Products-Misc								
Consumer	Electrical Products-Misc								
Professional	Electrical Products-Misc								
Royalties	Electrical Products-Misc								
Drone as a service	Aerosp. & Defence Equipt.		678	2,713	4,884	678 +	7%	2,035 +	39%
Other									

1. The decrease is due to terminating the billing of production licences to Aquiline, which cost 8 points of turnover growth over the year 2022

2. Order of more than €20m in H1 2023

Key Exposures

	Revenues	Costs	Equity
Dollar	15.0%	25.0%	15.0%
Emerging currencies	0.0%	0.0%	0.0%
Long-term global warming	20.0%	0.0%	0.0%
Renminbi	0.0%	40.0%	0.0%

Sales By Geography

Europe	69.1%
France	22.4%
Other	8.5%

We address exposures (eg. how much of the turnover is exposed to the \$) rather than sensitivities (say, how much a 5% move in the \$ affects the bottom line). This is to make comparisons easier and provides useful tools when extracting relevant data.

Actually, the subject is rather complex on the ground. The default position is one of an investor managing in €. An investor in £ will obviously not react to a £ based stock trading partly in € as would a € based investor. In addition, certain circumstances can prove difficult to unravel such as for eg. a € based investor confronted to a Swiss company reporting in \$ but with a quote in CHF... Sales exposure is probably straightforward but one has to be careful with deep cyclicals. Costs exposure is a bit less easy to determine (we do not allow for hedges as they can only be postponing the day of reckoning). How much of the equity is exposed to a given subject is rarely straightforward but can be quite telling.

In addition, subjects are frequently intertwined. A \$ exposure may encompass all revenues in \$ pegged currencies and an emerging currency exposure is likely to include \$ pegged currencies as well.

Exposure to global warming issues is frequently indirect and may require to stretch a bit imagination.

Money Making

Changing of “Distribution”

Drone Volt quickly saw that there was little it could add to the sophisticated, ready to fly Chinese offering so abandoned any customisation efforts. It has kept the buy to sell line however, with lower (5%-10%) but good-to-have operating margins.

This segment offers a way for cross-selling, penetrating markets thanks to it allowing Drone Volt to propose its services and training as well as to introduce its own offers.

Regaining control of the value added

Thanks to the combined set-up of a dedicated R&D team for the assembly line in 2016, and the acquisition of Aerialtronics, Drone Volt created its own capabilities to sell in-house designed drones as well as cameras embedding artificial intelligence solutions, which can be customised to suit customer needs. Instead of building manufacturing chains, Drone Volt focuses on the sole design and assembly of the parts, the manufacturing itself being subcontracted. Although transferring part of the added value to an external partner, this allows greater flexibility and better overall margins due to the relatively small volumes expected compared to those necessary to amortise fully a factory, as the planned in-house production of the internally-designed machines is likely to remain limited in volumes. Drone Volt, however, keeps full control of the flight management systems, as well as artificial intelligence software. This allows the company to control both pricing and profitability. We estimate the gross margin of its drone and intelligent cameras at c. 50%.

The power of turnkey solutions

Addressing professional customers has permitted the development of an integrated offer, which binds the machine to services such as training and administrative registration, thus leveraging margins. The training of the operator is required by the DGAC, and Drone Volt has thus set up an Academy to provide the teaching of the theoretical and practical requirements for pilots, with the advantage of using the same machine that will be used during commercial operations. Moreover, thanks to its proven relation with the DGAC and its full knowledge of regulations, the company can ease the heavy administrative process necessary for commercial drone operations. With the growing complexity of regulations, these services are bound to represent a growing contribution to earnings (carrying an estimated gross margin c. 70%), as the end customers generally want a platform operational as soon as possible. The services are mostly bundled in the purchase price of the machines, as this integration allows for a substantial commercial leverage.

Optionality to diversify further away from hardware

On top of this, an additional part could be added to the current business model but is currently more at the consideration stage and has yet to prove its viability. This is related to computer vision capabilities developed in-house by

Aerialtronics, which could, at some point, become a fully-fledged business. Indeed, the software could be implemented on other platforms (not only its Pensar camera) and be customised for a wide range of uses. However, due to the great uncertainty in terms of commercial development of this business, we have based our estimates solely on the prospects of the first three businesses described above.

Projection for 2023

2022 was dominated by the Aquiline failure which wiped out a good chunk of the hoped-for factory business. By contrast, 2023 should see a rebound in the distribution business with a big €20m order being processed at the time of writing. Margins are obviously thin (less than 10%) but do not tie up any capital. Thus some two years later than forecast, Drone Volt can now hope to break even.

Divisional Other profit breakdown Analysis

	12/22A	12/23E	12/24E	12/25E	Change 23E/22		Change 24E/23E	
					€th	of % total	€th	of % total
Total	2,903	3,446	5,509	8,571	543 ↑	100%	2,063 ↑	100%
Drone Volt Factory	1,242	747	2,646	5,535	-495 ↓	-91%	1,899 ↑	92%
Distribution	1,661	2,274	2,227	2,271	613 ↑	113%	-47 ↓	-2%
Consumer								
Professional								
Training								
Royalties								
Drone as a Service		425	637	765	425 ↑	78%	212 ↑	10%
Other/cancellations								

Divisional Other profit breakdown Analysis margin

	12/22A	12/23E	12/24E	12/25E
Total	21.1%	14.4%	19.0%	24.0%
Drone Volt Factory	61.0%	55.0%	65.0%	68.0%
Distribution	14.2%	10.4%	10.0%	10.0%
Consumer				
Professional				
Training				
Royalties				
Drone as a Service		62.7%	23.5%	15.7%

Valuation

DCF

To date, very few drone companies have managed to sustain the supposed growth rate of the market (+15%). We therefore apply a more conservative growth rate in our DCF going forward, namely 8% growth over 2025-30. The wider commercialisation of the LineDrone could push this estimate upwards. Thanks to cost containment measures, positive volume effects and a transition to services rather than products, we believe that long-term EBITDA growth of 8% is achievable.

NAV

For the NAV, in order to reflect the nominally strong growth potential and to compensate for the still early stage of the company, with high volatility in profitability, we have chosen to base our valuation on sales multiples. We value the company through its different segments, based on three-year average forecast sales, to which we apply a multiple. We value Distribution at 1x its estimated three-year average sales. This multiple is in line with similar distribution activities of European companies, taking into account the limited value-added and growth prospects. For Drone Volt Factory, we have fine-tuned our valuation as we split this into three different parts. First, we value the holding of 50% of Aerialtronics separately, but at half the selling price of this 50% stake to Aquiline. Secondly, and in order to bring to the fore Training, which we believe will be a key asset for Drone Volt as regulation is taking more importance, we value this activity on a standalone basis, based on our rolling three-year revenue estimates to which we apply a multiple of 3x (equivalent to a 50% premium over drone companies), accounting for its strong profitability. Thirdly, we value the remaining business of DVF (corresponding to drone and camera sales, as well as services) based on the current trading multiples gathered on Bloomberg for competitors, or c. 2x of their revenue. In addition, we value separately the emerging activity of Drone as a Service.

Peers

With regard to peers, finding a similar company to Drone Volt is quite a pitfall since there is currently no perfect match in our coverage, nor on the listed market. We, however, address this issue by valuing Drone Volt in line with the relevant players of the drone industry, such as Elbit Systems, Irobot and Aerovironment.

The target price has suffered from the cancellation of the upside potential related to the Aquiline contract which has now been cancelled as Aquiline ran short of funding. This impacts all the metrics starting with the FCF. A biggish but low-margin distribution contract will help 2023 cash flows while the long-term projects are taking shape (grid surveillance drones for Hydro Quebec, new winged drone for long distance observation)

Valuation Summary

Benchmarks		Values (€)	Upside	Weight
DCF		0.03	223%	35%
NAV/SOTP per share		0.02	163%	20%
EV/Ebitda	Peers	0.02	100%	20%
P/E	Peers	0.02	100%	10%
Dividend Yield	Peers	0.00	-100%	10%
P/Book	Peers	0.02	100%	5%
Target Price		0.02	136%	

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	Ev/Ebitda (x)	P/Book (x)	Yield(%)
Peers ratios	32.4	17.0	4.76	0.78
Drone Volt's ratios	11.1	7.06	0.64	0.00
Premium	0.00%	0.00%	0.00%	0.00%
Default comparison based valuation (€)	0.02	0.02	0.02	0.00
Elbit Systems	25.2	15.2	4.77	0.81
Aerovironment	62.4	38.0	n/a	n/a
Irobot	-5.81	-22.5	4.53	0.00

DCF Valuation Per Share

WACC	%	8.32	Avg net debt (cash) at book value	€th	-2,014
PV of cashflow FY1-FY11	€th	15,028	Provisions	€th	106
FY11CF	€th	5,233	Unrecognised actuarial losses (gains)	€th	0.00
Normalised long-term growth "g"	%	2.00	Financial assets at market price	€th	208
Sustainability "g"	%	1.95	Minorities interests (fair value)	€th	5,976
Terminal value	€th	82,115	Equity value	€th	48,085
PV terminal value	€th	36,916	Number of shares	Th	1,751,...
PV terminal value in % of total value	%	71.1	Implied equity value per share	€	0.03
Total PV	€th	51,945	Sustainability impact on DCF	%	-0.60

Assessing The Cost Of Capital

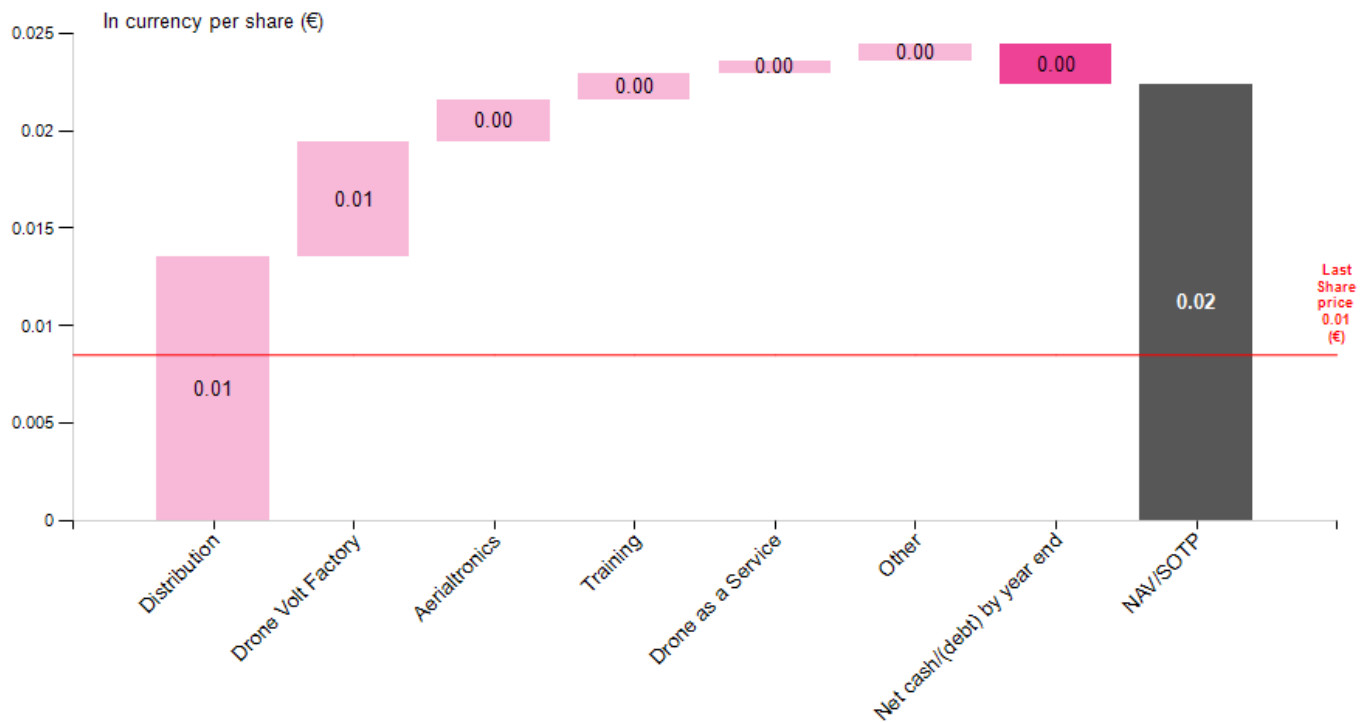
Synthetic default risk free rate	%	3.50	Company debt spread	bp	500
Target equity risk premium	%	5.00	Marginal Company cost of debt	%	8.50
Tax advantage of debt finance (normalised)	%	25.0	Company beta (leveraged)	x	0.88
Average debt maturity	Year	5	Company gearing at market value	%	-12.1
Sector asset beta	x	0.96	Company market gearing	%	-13.7
Debt beta	x	1.00	Required return on geared equity	%	7.89
Market capitalisation	€th	14,874	Cost of debt	%	6.38
Net debt (cash) at book value	€th	-1,793	Cost of ungeared equity	%	8.32
Net debt (cash) at market value	€th	-1,793	WACC	%	8.32

DCF Calculation

		12/22A	12/23E	12/24E	12/25E	Growth	12/26E	12/33E
Sales	€th	13,736	23,865	29,050	35,736	8.00%	38,595	66,145
EBITDA	€th	-2,799	-2,810	536	5,016	8.00%	5,418	9,285
EBITDA Margin	%	-20.4	-11.8	1.84	14.0		14.0	14.0
Change in WCR	€th	-508	-861	1,139	1,221	7.00%	1,307	2,098
Total operating cash flows (pre tax)	€th	-112	-3,571	1,775	6,337		6,724	11,383
Corporate tax	€th	-4,174	876	351	-694	7.00%	-743	-1,193
Net tax shield	€th	-27.0	-53.7	-50.4	-54.3	7.00%	-58.1	-93.4
Capital expenditure	€th	-3,350	-4,000	-3,960	-3,920	3.00%	-4,038	-4,966
Capex/Sales	%	-24.4	-16.8	-13.6	-11.0		-10.5	-7.51
Pre financing costs FCF (for DCF purposes)	€th	-7,663	-6,749	-1,884	1,668		1,885	5,130
Various add backs (incl. R&D, etc.) for DCF purposes	€th							
Free cash flow adjusted	€th	-7,663	-6,749	-1,884	1,668		1,885	5,130
Discounted free cash flows	€th	-7,663	-6,749	-1,740	1,422		1,483	2,307
Invested capital	€	10.8	12.0	11.3	10.6		11.0	13.5

NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (€th)	Stake valuation (€th)	In currency per share (€)	% of gross assets
Distribution	100%	EV/Sales	1	23,620	23,620	0.01	55.2%
Drone Volt Factory	100%	EV/Sales	2	10,400	10,400	0.01	24.3%
Aerialtronics	50.0%	NAV		7,500	3,750	0.00	8.77%
Training	100%	EV/Sales	3	2,400	2,400	0.00	5.61%
Drone as a Service	100%	EV/Sales	2	1,130	1,130	0.00	2.64%
Other					1,461	0.00	3.42%
Total gross assets					42,761	0.02	100%
Net cash/(debt) by year end					-3,597	0.00	-8.41%
Commitments to pay							
Commitments received							
NAV/SOTP					39,164	0.02	91.6%
Number of shares net of treasury shares - year end (Th)					1,751,001		
NAV/SOTP per share (€)						0.02	
Current discount to NAV/SOTP (%)						62.0	



Debt

At the end of 2019, the company's net debt amounted to just over €5m, compared to €2.5m a year earlier and a net cash position of €276,000 in 2017. Over the period 2017 to 2019, net gearing went from -4% to 58%. This increase in debt was mainly created by the acquisition of Aerialtronics in 2017, as well as the financing of the restructuring of this entity, which we estimate to be close to €4m at the end of 2019.

To finance itself, as well as its acquisition, Drone Volt has mainly used a funding line through the issue of bonds convertible into shares with share subscription warrants (OCABSA and ORNANE) between 2016 and 2019. At the end of 2019, and in order to limit shareholders' dilution from convertible bonds, the company has diversified its funding sources through the issuance of a €1.7m bond, carrying a 12% coupon.

In 2020, Drone Volt continued to diversify its funding sources (by obtaining a €500,000 state-guaranteed loan) and strengthened its capital through three capital increases for a total of c. €3.7m (of which €411,000 in March and €2.16m in May to refinance 90% of the ORNANE issued in 2019 and €1.1m in June). In addition, Drone Volt secured two new financings for a total of €20.4m, of which a €10m financing in August 2020 through an equity line contract (€1.6m drawn down) as well as a €10.2m OCABSA (fully undrawn) with ATLAS in September 2020.

By Q1-2023 the equity lines had been fully used at a high dilution cost but the prospects of fast-declining cash consumption helped envisage less costly future funding. The Aquiline mishap had only a limited cash cost but led to a balance sheet reset wherein shareholders funds plunged from €39m in 2021 to €15m in 2022 after the amortisation of receivables and of the equity interest in Aquiline.

Detailed financials at the end of this report

Funding - Liquidity

		12/22A	12/23E	12/24E	12/25E
EBITDA	€th	-2,799	-2,810	536	5,016
Funds from operations (FFO)	€th	-3,886	-2,049	785	4,205
Ordinary shareholders' equity	€th	17,818	23,067	22,971	23,886
Gross debt	€th	4,858	5,010	5,810	6,310
+ Gross Cash	€th	1,261	6,803	8,044	10,049
= Net debt / (cash)	€th	3,597	-1,793	-2,234	-3,739
Gearing (at book value)	%	0.36	3.91	-8.77	-12.5
Equity/Total asset (%)	%	90.2	118	120	128
Adj. Net debt/EBITDA(R)	x	-1.29	0.64	-4.17	-0.75
Adjusted Gross Debt/EBITDA(R)	x	-1.79	-1.82	11.1	1.29
Adj. gross debt/(Adj. gross debt+Equity)	%	22.0	18.2	20.5	21.3
Ebit cover	x	-45.9	-21.6	-7.14	12.6
FFO/Gross Debt	%	-77.5	-40.0	13.2	65.2
FFO/Net debt	%	-108	114	-35.1	-112
FCF/Adj. gross debt (%)	%	-154	-135	-34.3	23.3
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-7.64	-0.21	7.51	14.4
"Cash" FCF/ST debt	x	-9.13	-13.8	-2.54	1.88

Worth Knowing

Regulatory environment

To date, we list the main regulations required to operate a drone in a commercial context. Note that these rules evolve quickly, as new fields open every day and the pressure for more freedom from operators on the regulators is always there.

Four drone flying operation scenarios are envisaged for now:

- S-1: operations with direct sight of the drone, outside a populated zone, at a maximum distance of 200m from the pilot.
- S-2: operations out of sight, outside a populated zone, at a maximum distance of 1km from the pilot and below an altitude of 50m. No one is allowed within the operating zone.
- S-3: operations in a populated area or near persons/animals, in direct sight and at a maximum distance of 100m from the pilot.
- S-4: special operations (view shooting, observations, plotting, aerial surveillance...) out of sight, outside a populated zone and not corresponding to S-2.

The last scenario is of most importance, indeed it makes France one of the few countries having regulated flights with the pilot out of sight.

Among other important points in the current regulations:

- Drone builders have to have their models certified by the DGAC, stipulating the category of drone in which the model falls, the nature of its operations and the scenario in which it will operate.
- The operators have to register on a DGAC list, and have to mention the nature of their operations, the scenarios exploited, as well as the model of drones used and its maker.
- The pilots have to obtain an official certificate (theoretical training) and hold a Statement of Skill Level (DNC).
- Operations have to be allowed by the prefectures via a flight authorisation, solicited by the filing of a Textbook of Particular Activities (MAP).

Summary of requirements applicable to the operator, its aircraft and telepilots according to the DGCA:

Color coding: Airworthiness Telepilot Operator Airspace

A = Altitude

supervision of The European Aviation Safety Agency (EASA). The regulatory framework should cover security, safety, privacy, data protection and insurance matters. The EASA has published a first regulation, which should be implemented on 1 January 2021, which will define the categories of UAV operations according to three classes based on their risk.

flight is made in sight. No permission, authorisation or training will be required. The aircraft will have to meet CE marking standards. Technical standards are currently being developed in Europe.

covered under the 'open' category. Under this category, the drone operator has to undergo a safety risk assessment and identify a mitigation structure that needs to be reviewed and approved by the National Aviation Authority (NAA). A Manual of Operations is mandatory to obtain approval.

carrying a higher degree of risk (transport of goods, urban logistics and people). It will follow aeronautical principles, such as certification and the need to have a drone pilot's licence. Its full definition is still pending criteria from EASA.

Transaction on Aerialtronics

September 2017, Drone Volt took majority control of the main assets (including products, inventory and intellectual property, as well as the knowledgeable team members and sites) of the Dutch company, Aerialtronics DV BV.

minorities, or 49.8% of the market capitalisation. The operation was based on a \$5.95 valuation, or €5m, financed with a vendor loan over 36 months, carrying 3% interest.

Shareholders

Name	% owned	Of which % voting rights	Of which % free to float
Aquiline Drones	2.61%	2.61%	2.61%
Famille Gualdoni	2.03%	2.03%	2.03%
Dimitri Batsis Investissement	0.83%	0.83%	0.83%
Apparent free float			100%

Sustainability

Drone Volt has a sustainable model. As regulations on drones ease up and their technologies mature, we believe drones could replace current vehicles in some niche applications due to speed and energy efficiency. For inspection, it is safer and less energy intensive than a helicopter. For transporting vital medical material (or organs) from one neighbor hospital to another, drones are faster than cars which could be stuck in traffic jams. If their solutions are adopted by the market, the carbon impact would be positive.

Sustainability score

Sustainability is made of analytical items contributing to the E, the S and the G, that can be highlighted as sustainability precursors and can be combined in an intellectually acceptable way. This is the only scale made available

	Score	Weight
Governance		
Independent directors rate	8/10	25%
Board geographic diversity	4/10	20%
Chairman vs. Executive split	✓	5%
Environment		
CO ² Emission	2/10	25%
Water withdrawal	2/10	10%
Social		
Wage dispersion trend	7/10	5%
Job satisfaction	3/10	5%
Internal communication	10/10	5%
Sustainability score	5.1/10	100%

Governance & Management

Mr Dimitri Batsis is the founder of the company and the main shareholder. He has experience in pioneer markets as the former CEO and founder in 1987 of Zeni Coporation. The company had a successful IPO in April 2000 and was acquired in 2007 by Keyrus.

He ran the company until May 2017, when he resigned and left his successor, Mr Olivier Gualdoni, in charge. Mr Gualdoni joined the company in 2015 and helped Mr Batsis to structure the company. Prior to joining Drone Volt, he served as CEO of Cybergun SA.

On 18 October 2020, Drone Volt changed its governance due to the death of the CEO Mr Olivier Gualdoni on 17 October. The Board has thus co-opted Dimitri Batsis, founder of Drone Volt and historical shareholder since 2012, as a director and appointed him Chairman of the Board of Directors, a position it had entrusted to Olivier Gualdoni a few years earlier. The Board unanimously decided to separate the functions of Chairman and Chief Executive Officer and appointed Marc Courcelle, until then Drone Volt's Director of Production, as Chief Executive Officer.

Governance score

Company (Sector)



5.4 (7.2)

Independent board













Yes

Parameters	Company	Sector	Score	Weight
Number of board members	6	12	9/10	5.0%
Board feminization (%)	16	39	3/10	5.0%
Board domestic density (%)	83	71	4/10	10.0%
Average age of board's members	59	61	6/10	5.0%
Type of company : Small cap, controlled			4/10	10.0%
Independent directors rate	83	44	8/10	20.0%
One share, one vote			✗	10.0%
Chairman vs. Executive split			✓	0.0%
Chairman not ex executive			✗	5.0%
Full disclosure on mgt pay			✗	5.0%
Disclosure of performance anchor for bonus trigger			✗	5.0%
Compensation committee reporting to board of directors			✓	5.0%
Straightforward, clean by-laws			✓	15.0%
Governance score			5.4/10	100.0%

Management

Name		Function	Birth date	Date in	Date out	Compensation, in k€ (year)	
						Cash	Equity linked
Marc COURCELLE	M	 CEO		2020		170 (2022)	
Sylvain NAVARRO	M	 CFO	1977	2018		(2022)	

Board of Directors

Name			Indep.	Function	Completion of current mandate	Birth date	Date in	Date out	Fees / indemnity, in k€ (year)	Value of holding, in k€ (year)
Stefano VALENTINI	M			President/Chairman of th...			2021		30.0 (2022)	
Jean-Claude BONNEAU	M			Member			2021		(2022)	(2022)
Fabrice LEGRAND	M			Member	2022	1964	2016		30.0 (2022)	(2022)
Laurent LELEUP	M			Member	2022	1966	2017		30.0 (2022)	(2022)
Céline MARSAC	F			Member	2025		2021		30.0 (2022)	
Stanislas VEILLET	M			Member	2021	1965	2017		30.0 (2022)	(2022)

Environment

Due to its small size, Drone Volt is not required to publish its Environmental metrics. Therefore, its poor environmental grade is irrelevant, as is any comparison with other peers of its Environmental score.

We believe that Drone Volt's business model could remove many emissions. Its drone solutions are the alternative to often energy intensive methods. For example, its LineDrone would be used for high-voltage cable inspection where a helicopter would have been used previously. The drone is then capable of rolling on the lines (as it has the technological capacity to resist such high voltages), which is far less energy intensive than a helicopter flying still above the power line. In addition, as it can withstand high voltages, the power line does not need to be cut for it to operate (conversely to currently used methods). This improves the electrical grid efficiency.

Drone Volt is also investing heavily in hydrogen technology. It has already managed to produce a drone charging station through its partnership with Roth2 which would enable its largest drone, the Hercules 20, to fly longer with zero emissions. The charging station it has developed also enables the charging of other products, such as bikes.

Despite the lack of data on Drone Volt's environmental metrics, we believe that its business model will have a positive impact on the global emissions of the niche industry it is addressing.

Environmental score

Data sets evaluated as trends on rolling calendar, made sector relative

Parameters	Score	Sector	Weight
CO ² Emission	2/10	3/10	30%
Water withdrawal	2/10	4/10	30%
Energy	3/10	4/10	25%
Waste	3/10	4/10	15%
Environmental score	2.4		100%









Company (Sector)


2.4 (4.1)

Environmental metrics

	2021	Company 2022	2023	2024
	3.1	2.5	2.9	2.4

Sector figures

Company	Country	Environment score	Energy (total, in GJ)	CO2 Emissions (in tons)	Water Withdrawal (in m3)	Waste (total, (in tons)
BAE Systems		6/10	3,181,241	394,271	8,378,313	47,485
Rolls-Royce		5/10	5,718,208	409,925	8,277,832	43,403
Leonardo		5/10	5,435,015	426,147	5,329,000	30,001
Airbus Group		6/10	13,381,200	857,000	3,672,217	73,751
Thales		6/10	7,116,200	148,000	1,529,000	23,553
Safran		5/10	7,554,694	441,719	2,780,005	58,812
Rheinmetall		3/10	3,562,621	321,004	3,706,402	54,039
MTU Aero Engines		5/10	1,104,120	47,600	8,538,500	7,950

Drone Volt		2/10				
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Social

It is difficult to judge on the Social aspect of Drone Volt given the limited data available. Due to the lack of cash, average salaries are logically below those of the major European Aerospace & Defense stocks. From 2018 until 2022, the workforce has steadily decreased due to the restructuring of the group. We believe that when the momentum of the LineDrone and other innovative solutions takes off, it will restore a healthy cash balance which would enable Drone Volt to recruit more employees and retain them with higher salaries.

Concerning the impact of its products on society, using its drone solutions has a key advantage: safety. Its built-in drone solutions are often the alternative to helicopters, which are flown by people. Some surveillance missions in unsafe environments can be dangerous (flying to an offshore wind turbine) and have caused deaths in the past. Flying an unmanned drone would fully remove safety issues.

Social score

Company (Sector)

5.9 _(6.5)

Quantitative metrics (67%)

Set of staff related numerical metrics available in AlphaValue proprietary modelling aimed at ranking on social/HR matters

Parameters	Score	Weight
Staffing Trend	7/10	15%
Average wage trend	10/10	30%
Share of added value taken up by staff cost	1/10	20%
Share of added value taken up by taxes	1/10	15%
Wage dispersion trend	7/10	20%
Pension bonus (0 or 1)	0	
Quantitative score	5.8/10	100%

Qualitative metrics (33%)

Set of listed qualitative criterias and for the analyst to tick

Parameters	Score	Weight
Accidents at work	4/10	25%
Human resources development	7/10	35%
Pay	7/10	20%
Job satisfaction	3/10	10%
Internal communication	10/10	10%
Qualitative score	6.2/10	100%

AlphaValue analysts tick boxes on essential components of the social/HR corporate life.
Decision about ticking Yes or No is very much an assessment that combines the corporate's communication on relevant issue and the analyst's better judgment from experience.

Qualitative score

Parameters	Yes  / No 	Weight
Accidents at work		25%
Set targets for work safety on all group sites?		10.0%
Are accidents at work declining?		15.0%
Human resources development		35%
Are competences required to meet medium term targets identified?		3.5%
Is there a medium term (2 to 5 years) recruitment plan?		3.5%
Is there a training strategy tuned to the company objectives?		3.5%
Are employees trained for tomorrow's objectives?		3.5%
Can all employees have access to training?		3.5%
Has the corporate avoided large restructuring lay-offs over the last year to date?		3.5%
Have key competences stayed?		3.5%
Are managers given managerial objectives?		3.5%
If yes, are managerial results a deciding factor when assessing compensation level?		3.5%
Is mobility encouraged between operating units of the group?		3.5%
Pay		20%
Is there a compensation committee?		6.0%
Is employees' performance combining group AND individual performance?		14.0%
Job satisfaction		10%
Is there a measure of job satisfaction?		3.3%
Can anyone participate ?		3.4%
Are there action plans to prop up employees' morale?		3.3%
Internal communication		10%
Are strategy and objectives made available to every employee?		10.0%
Qualitative score	6.2/10	100.0%

Staff & Pension matters

As of the end of December 2022, the group had 44 employees.

Recent updates

19/04/2024

Drone Volt on the move

Earnings/sales releases

Drone Volt unveiled outstanding results, widely beating its Q1 23 guidance provided two months ago and maintaining its objective of increasing its gross margin and the recurrence.

Fact

- Sales increased by almost 5x to €8.9m (Q1 23: €1.6m) thanks to the completion of the big distribution contract notably (which was not initiated in the Q1 23) and new orders, smashing the company's goal to at least double the sales compared to last year.
- The gross result almost trebled to €1.023m from €327k, the lower gross margin stemming from very high proportion of sales coming from distribution (93%), also widely beating the doubling objective
- The company reiterated its guidance for the FY24

Analysis

Explosive growth on both segments

The revenue growth was driven primarily by distribution, which grew by 544% to €8.261m thanks to the completion of €4m from the big distribution contract but also more importantly due to new regular orders, representing €2.6m in Q1 23 and already €1.7m since the beginning of April. The Drone Volt Factory, Services & Academy segment revenue also grew strongly by 125% to €654k thanks to the Drone Volt Expert offer notably that was not available in Q1 23.

Delivering on margins

The gross result performance was driven by the distribution segment with growth of 229% to €642k, which means that the margin was a tad disappointing at 8% compared to 10% in FY23. However, the margin improved on the Drone Volt Factory, Services and Academy side from 45% (€132m) in Q1 23 to 58% (€381m) due to the higher value-added by the drone as a service offer representing more than a third of the division sales.

Convincing outlook

The company reiterated its objective of increasing its gross margin and its recurrency thanks to the capacity to increase revenue at constant staff and cost control. This is notably underpinned by the maturity of its products (Hercules 20, Linedrone, Heliplane) that seem to already be paying off as witnessed by the commercial momentum in the Q1 and since the beginning of April in distribution. The Kobra should also contribute towards the end of the year and benefit from the expansion on international markets (Middle East and Turkey recently announced).

Impact

We will not change our estimates as we believe that the sales momentum could fade in the coming quarters due to the near completion of the €20m distribution contract, and the gross margin improvement is still driven by distribution for the moment. The Q2 results should provide more clarity on the potential for Drone Volt without the big distribution contract.

26/03/2024

Drone Volt ready for new growth phase

Earnings/sales releases

Drone Volt announced yesterday its audited FY23 figures, confirming an improvement in profitability despite experiencing several external headwinds.

Fact

Sales had already been announced at €23.993m, a 75% increase compared to last year.

The gross margin was revised slightly upwards to €3.673m, increasing by 27% compared to last year and above the previous estimate of €3.394m

EBIT also improved substantially from €-22.039m to €-5.287m although it came in lower than our estimate of €-4.434m as we had forecast lower depreciation levels notably.

As a result the net result came in lower than our estimate at €-6.042m from €-26.321m (AlphaValue estimate €-2.893m) due to a higher tax charge than we had expected.

Shareholders' equity stood at €20m, following 2 rounds of capital raising in 2023.

For 2024, sales and margins are expected to improve further as the company focuses on the commercial development of its drone as a service offer.

Analysis

A notable improvement in profitability

The improvement in the EBIT margin from -160% to -22% was firstly due to the high increase in sales as well as efforts on external charges that decreased slightly from €-3.8m to €-3.6m, a noticeable performance in this high growth context, mitigating the additional €0.55m personnel charge related to the recent acquisitions of Lorenz and Air Marine. The difference also came from last year's high provisions related to Aquiline drones (€-15.1m) which provided a favourable comparison base.

As a result the net result came in lower than our estimate at €-6.042m from €-26.321m (AlphaValue estimate €-2.893m) stemming from a write off of a small part of the tax loss carry-forwards, generating a one-off tax charge of €0.5m.

Strengthened financial profile

Net debt was stable at €3.7m at end-2023 (FY22: €3.6m), although the balance sheet has been strengthened since then by the €2.5m in capital raised

in early 2024, preparing the company for a new phase of sales growth. The negative net income impact was already mitigated in 2023 by two capital raisings, improving shareholder's equity by c. €4.2m yoy.

Upbeat 2024 outlook

The group had already announced a month ago that it expected a doubling in sales (Q1 23: €1.6m) and gross margin (Q1 23: €0.32m) enabled by the delayed completion of the €20m distribution contract and also the good momentum in higher-margin services delivered in the US notably.

In 2024, sales growth should be driven by the geographical expansion of sales, in the Middle East via its new distribution partnership with an actor based there and, in Europe and Canada, for the drone as a service offer. Furthermore, the new European-produced Kobra drone should contribute in H2 24 as it caters to European police and armies' operational needs while meeting data security requirements.

The company stressed its commitment to maintaining cost discipline in 2024, by outsourcing part of the new business generated for its drone as a service offer to "ambassadors" (11 for now), while not sacrificing much the c.60% margin in these cases. At the same time, capex is expected to come down substantially (c. -50%) as the product offering (Linedrone, Hercules and particularly the new Kobra) is now completed. The company will thus exert its operating leverage and should enter into a virtuous circle as these effects continue in 2025, thereby bringing operational profitability ever closer.

Impact

Overall, this release shows that the worst is probably behind us for Drone Volt and operational profitability should now be in sight if the higher-margin sales ramp-up goes as planned. We shall nonetheless have to revise our 2023 profitability figures downwards as the actuals came in short of our expectations.

30/01/2024

New annual sales record and new capital increase

Earnings/sales releases

Drone Volt unveiled a promising FY23 trading update but announced a new capital increase to fund its high expected growth. Last year's performance could have been better without the Chinese restrictions on the sale of drones.

Fact

Sales for FY23 grew by 74% from €13.7m to €23.9m, beating our estimate and guidance of €23m (revised downwards a month ago).

The gross margin for FY23 grew by 17% from €2.9m to €3.4m, falling short of our expectations of €3.9m.

The company expects strong growth in revenue in Q1 24 and an improvement in the gross margin for the FY 24.

Drone Volt also announced the success of a new capital raising of €2.5m with a price of €0.01 per share, an 18% discount to the stock price of €0.0122 at yesterday's close. The dilution is 14% for shareholders that did not subscribe to the offer.

Analysis

Distribution still the main contributor

The group managed to deliver 80% of the big distribution contract (representing €16m) as expected due to supply chain tensions. The overperformance lies in the other distribution contracts that were less affected than we had expected with 53 drones sold. Drone Volt Factory, Services and Academy sales are ramping up thanks to the new Drone Volt Expert service, with growth of 20% from €1.7m to €2.0m.

The shortfall in the growth margins stems from a decline in margins for both divisions over the year, but the trend subsequently improved over the year as emphasized by the gross margin improvement to 14% in H2 23 compared to 11% in H1 23 to reach a gross result of €1.6m in H2.

*A promising outlook...

Strong revenue growth will come from delivery of the remaining 20% of the €20m contract before the end of H1 24. The company also expects double-digit growth in 2024 for its high-margin Drone Volt Expert offer. The potential game changer is the new Drone Volt Kobra, that could improve revenue started from H2 24 according to the management and could generate high margins if sold in high numbers due to the relatively fixed cost base.

... funded by another capital raising

The company also announced the success of a new capital increase of €2.5m with a price of €0.01 per share, an 18% discount to the stock price of €0.0122 at yesterday's close. The dilution amounts to 14% for shareholders that did not subscribe to the offer. The amount raised will be used to recruit new telepilots for its drone as a service offer and to ramp up production capacity for the new Linedrones and Kobra drones.

Impact

We will integrate these elements into our model and this will drive the target price downwards, but we do not expect a change in recommendation.

29/01/2024

From distributor to service provider.

Change in Target Price

€ 0.02 vs 0.02 -10.4%

We have incorporated the impact of the dilution following the new capital increase of c.€2.5m, which is the main reason for the decrease in our target price. This impact was mitigated by forecasting higher growth in the drone as a

service offer given its successful launch, as this service has higher margins than distribution.

07/06/2023

A capital increase to support a high-growth phase

M&A /Corp. Action

Drone Volt has announced a €4.9m capital increase, a substantial amount in relation to pre money market cap (€13m). This capital increase went down badly with the market which seems to be missing the point that Drone Volt is entering a convincing growth phase.

Fact

Drone Volt last Friday (02-06) announced a rights issue of 442.7m shares worth €4.9m up to 509.1m shares worth €5.6m from currently 1,106m shares. The subscription price is offered at a discount of 42.4%, at 0.011€ per share. Drone Volt disclosed on that occasion that 60% of a €20m drone distribution contract had already been paid, underpinning increased confidence in near-term cash generation.

Analysis

The market reacted negatively to this announcement by focusing on the significant dilution aspect. In our view, this fails to capture the positive signal regarding the health of the company. By securing the support of the existing shareholders at a level of 77%, Drone Volt shows that it is able to attract capital via conventional financing. The recourse to unconventional dilutive financing should be history by now. This capital increase is meant to offer an attractive entry point for long-term shareholders according to the management.

From a business perspective, this announcement is happening at a key moment of the life of the company. Indeed, the company is entering a phase of renewed growth with the execution of a €20m contract throughout this year (already paid at 60%) and all three segments are commercially dynamic.

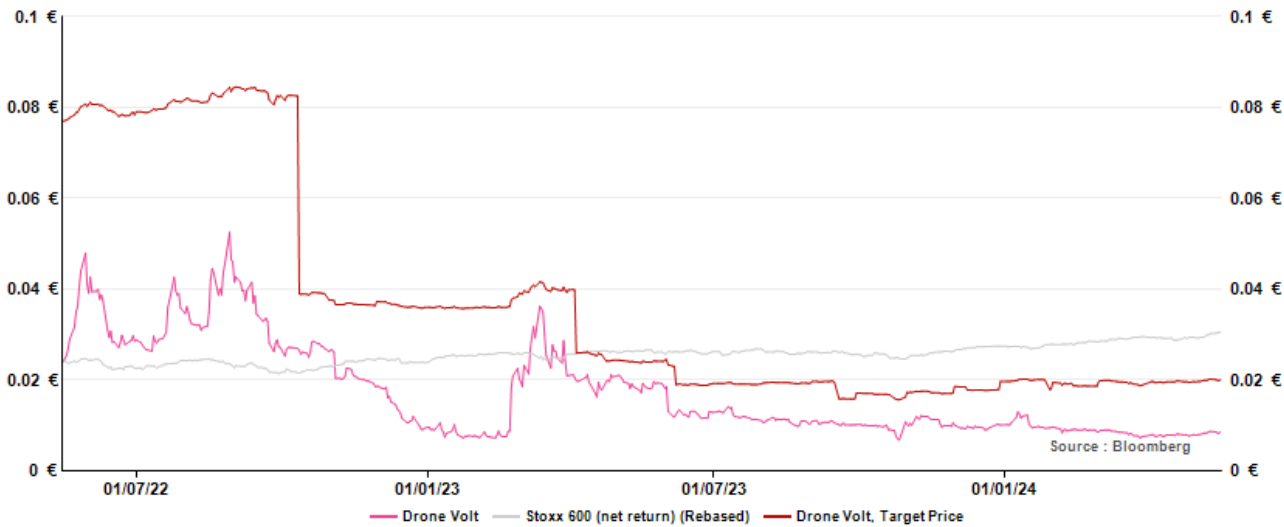
As a reminder Drone Volt 1) manufactures specialist heavy drones, 2) trains users and provides drone as a service and, finally, 3) distributes third party drones.

Drone Volt may use the fresh funding strategically while other important players are experiencing difficulties. Drone Volt is notably exhibiting confidence for its Drone as a Service offer by recruiting 12 people from the late Air Marine, which should significantly improve margins while making revenues more recurrent.

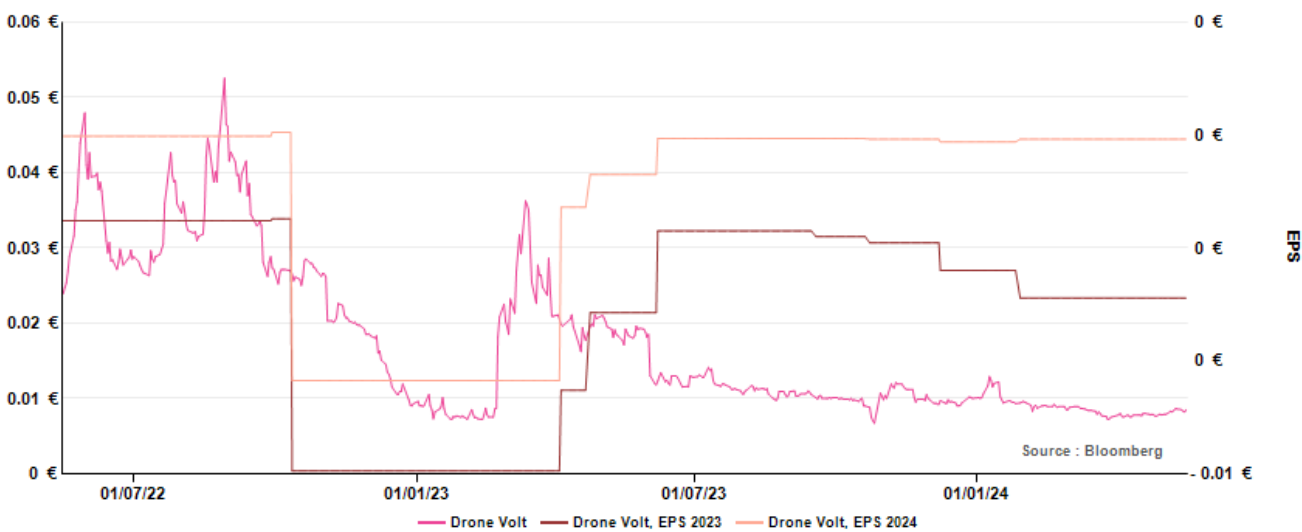
Impact

The dilution effect of this capital increase will lower our target price estimate by negatively impacting our DCF and NAV estimates, pending positive business developments as the firm is likely to be on the offensive. Indeed, we are more confident concerning the company's commercial outlook, hence we will revise up our estimates for 2023.

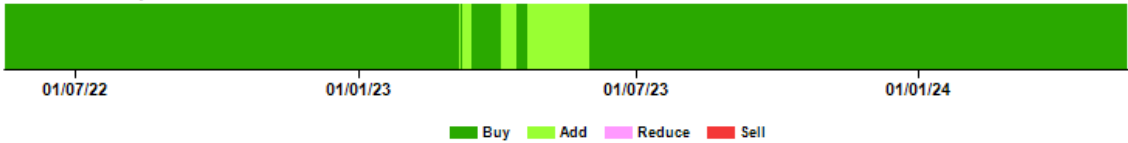
Stock Price and Target Price



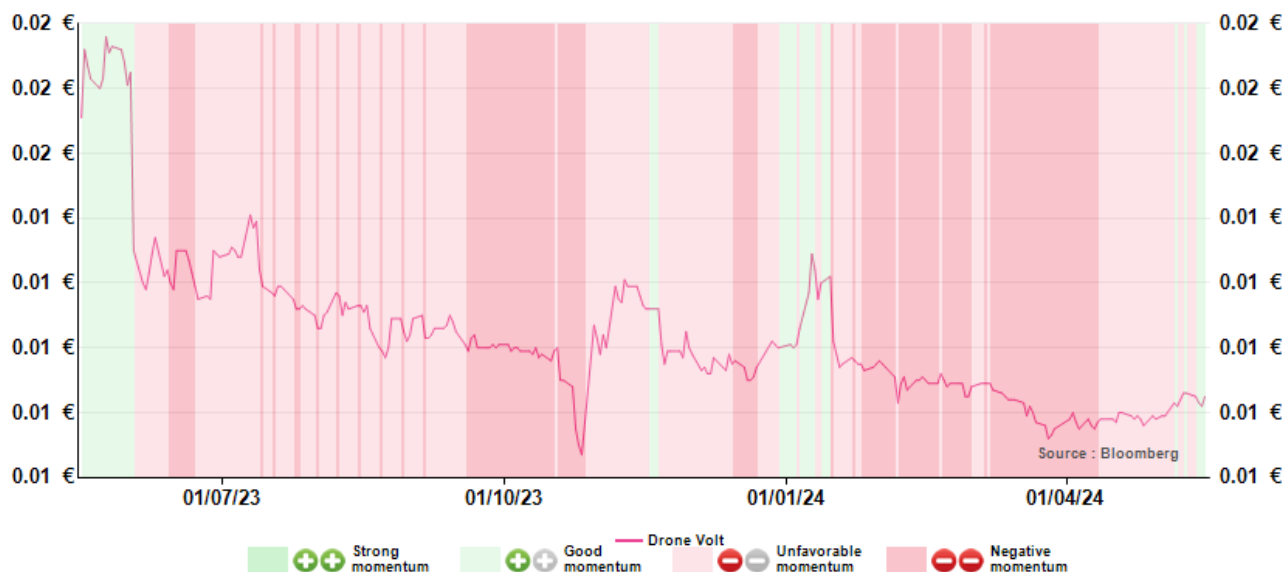
Earnings Per Share & Opinion



Drone Volt : Opinion



Momentum





Momentum analysis consists in evaluating the stock market trend of a given financial instrument, based on the analysis of its trading flows.


The main indicators used in our momentum tool are simple moving averages over three time frames: short term (20 trading days), medium term (50 days) and long term (150 days). The positioning of these moving averages relative to each other gives us the direction of the flows over these time frames.


For example, if the short and medium-term moving averages are above the long-term moving average, this suggests an uptrend which will need to be confirmed. Attention is also paid to the latest stock price relative to the three moving averages (advance indicator) as well as to the trend in these three moving averages - downtrend, neutral, uptrend - which is more of a lagging indicator.

The trend indications derived from the flows through moving averages and stock prices must be confirmed against trading volumes in order to confirm the signal. This is provided by a calculation based on the average increase in volumes over ten weeks together with a buy/sell volume ratio.

 : Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

 : Relatively good momentum corresponding to a positively-oriented moving average, but offset by an overbought pattern or lack of confirmation from volumes

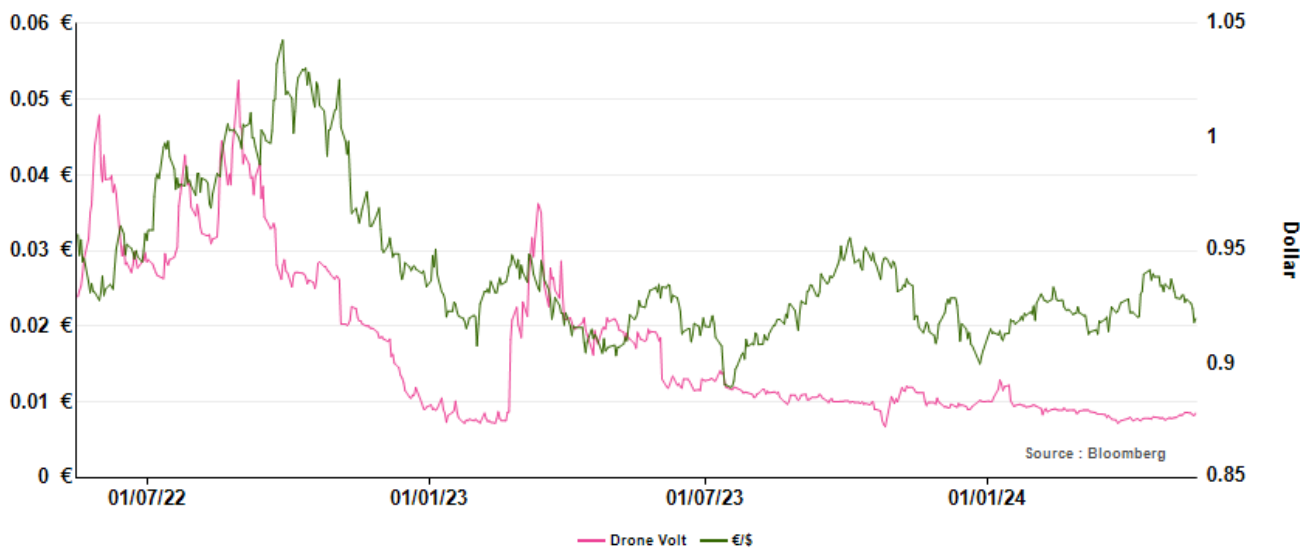
 : Relatively unfavorable momentum with a neutral or negative moving average trend, but offset by an oversold pattern or lack of confirmation from volumes

 : Strongly negative momentum corresponding to a continuous and overall negative moving average trend confirmed by volumes

Moving Average MACD & Volume



€/\$ sensitivity



Euro/Chinese Yuan sensitivity



Sector Aerospace-Defence



Detailed Financials

Valuation Key Data

		12/22A	12/23E	12/24E	12/25E
Adjusted P/E	x	-0.76	-4.69	ns	4.88
Reported P/E	x	-0.72	-7.05	-115	4.87
EV/EBITDA(R)	x	-9.95	-8.67	34.4	3.41
EV/EBIT	x	-5.61	-5.24	-12.8	6.27
EV/Sales	x	2.03	1.02	0.63	0.48
P/Book	x	1.04	0.88	0.65	0.62
Dividend yield	%	0.00	0.00	0.00	0.00
Free cash flow yield	%	-41.9	-33.9	-13.7	10.1
Average stock price	€	0.04	0.01	0.01	0.01

Drone Volt (Buy)

Consolidated P&L

		12/22A	12/23E	12/24E	12/25E
Sales	€th	13,736	23,865	29,050	35,736
<i>Sales growth</i>	%	59.4	73.7	21.7	23.0
<i>Sales per employee</i>	€th	361	628	745	916
Purchases and external costs (incl. IT)	€th	-14,625	-24,301	-26,032	-28,189
R&D costs as % of sales	%	0.00	0.00	0.00	0.00
Staff costs	€th	-1,925	-2,310	-2,418	-2,467
Operating lease payments	€th				
Cost of sales/COGS (indicative)	€th	-10,833	-20,471	-22,278	-24,511
EBITDA	€th	-2,799	-2,810	536	5,016
EBITDA(R)	€th	-2,799	-2,810	536	5,016
<i>EBITDA(R) margin</i>	%	-20.4	-11.8	1.84	14.0
<i>EBITDA(R) per employee</i>	€th	-73.6	-73.9	13.7	129
Depreciation	€th				
<i>Depreciations/Sales</i>	%	0.00	0.00	0.00	0.00
Amortisation	€th	-2,161	-1,838	-1,975	-2,287
Underlying operating profit	€th	-4,960	-4,648	-1,439	2,729
<i>Underlying operating margin</i>	%	-36.1	-19.5	-4.96	7.64
Other income/expense (cash)	€th	-17,079	214	239	265
Impairment charges/goodwill amortisation	€th				
Operating profit (EBIT)	€th	-22,039	-4,434	-1,200	2,995
Interest expenses	€th	-129	-187	-206	-230
<i>of which effectively paid cash interest expenses</i>	€th	-108			
Financial income	€th	0.00	0.00	0.00	0.00
Other financial income (expense)	€th	21.0	-27.2	3.85	13.0
Net financial expenses	€th	-108	-215	-202	-217
<i>of which related to pensions</i>	€th		0.00	0.00	0.00
Pre-tax profit before exceptional items	€th	-22,147	-4,648	-1,402	2,777
Exceptional items and other (before taxes)	€th				
Current tax	€th	-4,174	876	351	-694
Deferred tax	€th				
Corporate tax	€th	-4,174	876	351	-694
<i>Tax rate</i>	%	-18.8	18.8	25.0	25.0
Net margin	%	-192	-15.8	-3.62	5.83
Equity associates	€th				
<i>Actual dividends received from equity holdings</i>	€th				
Minority interests	€th	837	879	923	969
Income from discontinued operations	€th				
Attributable net profit	€th	-25,484	-2,893	-129	3,052
Impairment charges/goodwill amortisation	€th	0.00	0.00	0.00	0.00
Other adjustments	€th	4,200			
Adjusted attributable net profit	€th	-21,284	-2,893	-129	3,052
Fully diluted adjusted attr. net profit	€th	-21,284	-2,893	-129	3,052
NOPAT	€th	-3,720	-3,486	-1,080	2,047

Cashflow Statement

		12/22A	12/23E	12/24E	12/25E
EBITDA	€th	-2,799	-2,810	536	5,016
Change in WCR	€th	-508	-861	1,139	1,221
of which (increases)/decr. in receivables	€th	-8.00	-13.9	-42.1	-43.3
of which (increases)/decr. in inventories	€th	-210	-103	531	452
of which increases/(decr.) in payables	€th	920	1,156	650	813
of which increases/(decr.) in other curr. liab.	€th	-1,210	-1,900	0.00	0.00
Actual dividends received from equity holdings	€th	0.00	0.00	0.00	0.00
Paid taxes	€th	-4,167	876	351	-694
Exceptional items	€th				
Other operating cash flows	€th	3,188	100	100	100
Total operating cash flows	€th	-4,286	-2,695	2,126	5,643
Capital expenditure	€th	-3,350	-4,000	-3,960	-3,920
Capex as a % of depreciation & amort.	%	155	218	200	171
Net investments in shares	€th	-1,067 ⁽³⁾	200 ⁽⁴⁾	0.00	0.00
Other investment flows	€th	-670	0.00	0.00	0.00
Total investment flows	€th	-5,087	-3,800	-3,960	-3,920
Net interest expense	€th	-108	-215	-202	-217
of which cash interest expense	€th	-108	-215	-202	-217
Dividends (parent company)	€th				
Dividends to minorities interests	€th	0.00	0.00	0.00	0.00
New shareholders' equity	€th	0.00	12,100 ⁽⁵⁾	2,476	0.00
of which (acquisition) release of treasury shares	€th	0.00	0.00	0.00	0.00
Change in gross debt	€th	3,845	152	800	500
Other financial flows	€th				
Total financial flows	€th	3,737	12,037	3,075	283
Change in scope of consolidation, exchange rates & other	€th	0.00	0.00	0.00	0.00
Change in cash position	€th	-5,636	5,542	1,241	2,005
Change in net debt position	€th	-9,481	5,390	441	1,505
Free cash flow (pre div.)	€th	-7,744	-6,910	-2,036	1,505
Operating cash flow (clean)	€th	-4,286	-2,695	2,126	5,643
Reinvestment rate (capex/tangible fixed assets)	%	216	251	241	232

3. Acquisition of SKYTOOLS, based on EV/Sales price of 1x.

4. Acquisition of Lorenz Technology in April 23

5. Fundraising subscribed by institutional investors at the end of March, through a private placement and by individuals, for €4.7m and €3m from convertible bond financing signed with ATLAS Special Opportunities.

Drone Volt (Buy)

Balance Sheet

		12/22A	12/23E	12/24E	12/25E
Capitalised R&D	€th	1,461	1,446	1,519	1,595
Goodwill	€th	685	678	698	719
Other intangible assets	€th	5,580	5,915	6,270	6,646
Total intangible	€th	7,726	8,039	8,487	8,960
Tangible fixed assets	€th	1,549	1,595	1,643	1,693
Right-of-use	€th	122	128	135	141
Financial fixed assets (part of group strategy)	€th				
Other financial assets (investment purpose mainly)	€th	4,895	3,395	3,429	3,463
WCR	€th	1,483	2,344	1,205	-16.5
of which trade & receivables (+)	€th	1,389	1,403	1,445	1,488
of which inventories (+)	€th	3,439	3,542	3,011	2,559
of which payables (+)	€th	1,445	2,601	3,251	4,064
of which other current liabilities (+)	€th	1,900			
Other current assets	€th	3,986	4,106	4,229	4,356
of which tax assets (+)	€th	2,750	0.00	1,000	2,000
Total assets (net of short term liabilities)	€th	19,761	19,608	19,127	18,596
Ordinary shareholders' equity (group share)	€th	17,818	23,067	22,971	23,886
Minority interests	€th	-1,992	-1,972	-1,952	-1,933
Provisions for pensions	€th	65.0	0.00	0.00	0.00
Other provisions for risks and liabilities	€th	92.0	106	122	140
Deferred tax liabilities	€th	0.00	0.00	0.00	0.00
Other liabilities	€th	182	200	220	242
Net debt / (cash)	€th	3,597	-1,793	-2,234	-3,739
Total liabilities and shareholders' equity	€th	19,762	19,608	19,127	18,596
Gross Cash	€th	1,261	6,803	8,044	10,049
Average net debt / (cash)	€th	64.5	902	-2,014	-2,987

EV Calculations

		12/22A	12/23E	12/24E	12/25E
EV/EBITDA(R)	x	-9.95	-8.67	34.4	3.41
EV/EBIT	x	-5.61	-5.24	-12.8	6.27
EV/Sales	x	2.03	1.02	0.63	0.48
EV/Invested capital	x	2.59	2.03	1.63	1.61
Market cap	€th	18,473	20,402	14,874	14,874
+ Provisions (including pensions)	€th	157	106	122	140
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00	0.00
+ Net debt at year end (ex Right-of-use from 2019)	€th	3,475	-1,921	-2,368	-3,880
+ Right-of-use (from 2019)/Leases debt equivalent	€th	0.00	0.00	0.00	0.00
- Financial fixed assets (fair value) & Others	€th	242	208	177	0.00
+ Minority interests (fair value)	€th	5,976	5,976	5,976	5,976
= Enterprise Value	€th	27,839	24,354	18,427	17,109

Per Share Data

		12/22A	12/23E	12/24E	12/25E
Adjusted EPS (bfr goodwill amort. & dil.)	€	-0.05	0.00	0.00	0.00
<i>Growth in EPS</i>	%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Reported EPS	€	-0.05	0.00	0.00	0.00
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.02	-0.01	0.00	0.00
Operating cash flow per share	€	-0.01	0.00	0.00	0.00
Book value per share	€	0.04	0.02	0.01	0.01

Number of ordinary shares	Th	496,208	1,502,686	1,750,311	1,750,311
Number of equivalent ordinary shares (year end)	Th	496,208	1,502,686	1,750,311	1,750,311
Number of shares market cap.	Th	496,208	1,502,686	1,750,311	1,750,311
Treasury stock (year end)	Th	427	427	427	427
Number of shares net of treasury stock (year end)	Th	495,781	1,502,259	1,749,884	1,749,884
Number of common shares (average)	Th	430,770	999,020	1,626,072	1,749,884
Conversion of debt instruments into equity	Th				
Settlement of cashable stock options	Th				
Probable settlement of non mature stock options	Th				
Other commitments to issue new shares	Th	1,117	1,117	1,117	1,117
Increase in shares outstanding (average)	Th	1,117	1,117	1,117	1,117
Number of diluted shares (average)	Th	431,887	1,000,137	1,627,189	1,751,001
Goodwill per share (diluted)	€	0.00	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	€	-0.05	0.00	0.00	0.00
EPS before goodwill amortisation (non-diluted)	€	-0.06	0.00	0.00	0.00
Payout ratio	%	0.00	0.00	0.00	0.00
Capital payout ratio (div +share buy back/net income)	%	0.00	0.00	0.00	

Drone Volt (Buy)

Funding - Liquidity

		12/22A	12/23E	12/24E	12/25E
EBITDA	€th	-2,799	-2,810	536	5,016
Funds from operations (FFO)	€th	-3,886	-2,049	785	4,205
Ordinary shareholders' equity	€th	17,818	23,067	22,971	23,886
Gross debt	€th	4,858	5,010	5,810	6,310
o/w Less than 1 year - Gross debt	€th	848	500	800	800
o/w 1 to 5 year - Gross debt	€th	4,010	4,510	5,010	5,510
+ Gross Cash	€th	1,261	6,803	8,044	10,049
= Net debt / (cash)	€th	3,597	-1,793	-2,234	-3,739

Bank borrowings	€th	3,921	4,117	4,323	4,539
Issued bonds	€th	295	795	1,095	1,395
Financial leases liabilities	€th	167	97.0	350	350
Other financing	€th	475	0.95	42.1	26.0
Gearing (at book value)	%	0.36	3.91	-8.77	-12.5
Equity/Total asset (%)	%	90.2	118	120	128
Adj. Net debt/EBITDA(R)	x	-1.29	0.64	-4.17	-0.75
Adjusted Gross Debt/EBITDA(R)	x	-1.79	-1.82	11.1	1.29
Adj. gross debt/(Adj. gross debt+Equity)	%	22.0	18.2	20.5	21.3
Ebit cover	x	-45.9	-21.6	-7.14	12.6
FFO/Gross Debt	%	-77.5	-40.0	13.2	65.2
FFO/Net debt	%	-108	114	-35.1	-112
FCF/Adj. gross debt (%)	%	-154	-135	-34.3	23.3
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-7.64	-0.21	7.51	14.4
"Cash" FCF/ST debt	x	-9.13	-13.8	-2.54	1.88

ROE Analysis (Dupont's Breakdown)

		12/22A	12/23E	12/24E	12/25E
Tax burden (Net income/pretax pre excp income)	x	1.15	0.62	0.09	1.10
EBIT margin (EBIT/sales)	%	-160	-18.6	-4.13	8.38
Assets rotation (Sales/Avg assets)	%	49.5	121	150	189
Financial leverage (Avg assets /Avg equity)	x	0.97	0.96	0.84	0.81
ROE	%	-89.5	-14.2	-0.56	13.0
ROA	%	-205	-37.0	-10.6	28.2

Shareholder's Equity Review (Group Share)

		12/22A	12/23E	12/24E	12/25E
Y-1 shareholders' equity	€th	37,199	11,734	23,067	22,971
+ Net profit of year	€th	-25,484	-2,893	-129	3,052
- Dividends (parent cy)	€th	0.00	0.00	0.00	0.00
+ Additions to equity	€th	0.00	12,100	2,476	0.00
o/w reduction (addition) to treasury shares	€th	0.00	0.00	0.00	0.00
- Unrecognised actuarial gains/(losses)	€th	0.00	0.00	0.00	0.00
+ Comprehensive income recognition	€th	19.0	2,126	-2,443	-2,137
= Year end shareholders' equity	€th	11,734	23,067	22,971	23,886

Drone Volt (Buy)

Staffing Analytics

		12/22A	12/23E	12/24E	12/25E
Sales per staff	€th	361	628	745	916
Staff costs per employee	€th	-50.7	-60.8	-62.0	-63.2
Change in staff costs	%	61.1	20.0	4.68	2.00
Change in unit cost of staff	%	61.1	20.0	2.00	2.00
Staff costs/(EBITDA+Staff costs)	%	-220	-462	81.9	33.0

Average workforce	unit	38.0	38.0	39.0	39.0
Europe	unit	38.0	38.0	39.0	0.00
North America	unit	0.00	0.00	0.00	0.00
South Americas	unit	0.00	0.00	0.00	0.00
Asia	unit	0.00	0.00	0.00	0.00
Other key countries	unit	0.00	0.00	0.00	0.00
Total staff costs	€th	-1,925	-2,310	-2,418	-2,467
Wages and salaries	€th	-1,925	-2,310	-2,418	-2,467
of which social security contributions	€th	-438	-445	-463	-470
Pension related costs	€th		0.00	0.00	0.00

Divisional Breakdown Of Revenues

		12/22A	12/23E	12/24E	12/25E
Total sales	€th	13,736	23,865	29,050	35,736
Drone Volt Factory	€th	2,036 ⁽¹⁾	1,357	4,070	8,140
Distribution	€th	11,700	21,830 ⁽²⁾	22,267	22,712
Training	€th				
Consumer	€th				
Professional	€th				
Royalties	€th				
Drone as a service	€th		678	2,713	4,884
Other	€th				

1. The decrease is due to terminating the billing of production licences to Aquiline, which cost 8 points of turnover growth over the year 2022

2. Order of more than €20m in H1 2023

Divisional Breakdown Of Earnings

		12/22A	12/23E	12/24E	12/25E
Other profit breakdown Analysis Analysis					
Drone Volt Factory	€th	1,242	747	2,646	5,535
Distribution	€th	1,661	2,274	2,227	2,271
Consumer	€th				
Professional	€th				
Training	€th				
Royalties	€th				
Drone as a Service	€th		425	637	765
Other/cancellations	€th				
Total	€th	2,903	3,446	5,509	8,571
Other profit breakdown Analysis margin	%	21.1	14.4	19.0	24.0

Revenue Breakdown By Country

		12/22A	12/23E	12/24E	12/25E
France	%	22.4	22.4		
Europe	%	69.1	69.1		
Other	%	8.51	8.51		

Drone Volt (Buy)

ROCE

		12/22A	12/23E	12/24E	12/25E
ROCE (NOPAT+lease exp. *(1-tax))/(net) cap employed adjusted	%	-34.6	-29.1	-9.52	19.2
CFROI/C	%	-72.0	-57.7	-18.0	14.2
Goodwill	€th	685	678	698	719
Accumulated goodwill amortisation	€th	0.00	0.00	0.00	0.00
All intangible assets	€th	5,580	5,915	6,270	6,646
Accumulated intangible amortisation	€th	0.00	0.00	0.00	0.00
Financial hedges (LT derivatives)	€th	0.00	0.00	0.00	0.00
Capitalised R&D	€th	1,461	1,446	1,519	1,595
Rights of use/ Capitalised leases	€th	0.00	0.00	0.00	0.00
Other fixed assets	€th	1,549	1,595	1,643	1,693
Accumulated depreciation	€th	0.00	0.00	0.00	0.00
WCR	€th	1,483	2,344	1,205	-16.5
Other assets	€th	0.00	0.00	0.00	0.00
Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00	0.00
Capital employed after deprec. (Invested capital)	€th	10,758	11,979	11,335	10,636
Capital employed before depreciation	€th	10,758	11,979	11,335	10,636

Divisional Breakdown Of Capital Employed

		12/22A	12/23E	12/24E	12/25E
Drone Volt Factory	€th				
Distribution	€th				
Consumer	€th				
Professional	€th				
Training	€th				
Royalties	€th				
Drone as a Service	€th				
Other	€th	10,758	11,979	11,335	10,636
Total capital employed	€th	10,758	11,979	11,335	10,636

Fundamental Opinion

It is implicit that recommendations are made in good faith but should not be regarded as the sole source of advice.

Recommendations are geared to a “**value**” approach.

Valuations are computed from the point of view of a **secondary market minority holder** looking at a medium term (say 6 months) performance.

Valuation tools are built around the concepts of **transparency**, all underlying figures are accessible, and **consistency**, same methodology whichever the stock, allowing for differences in nature between financial and non financial stocks. A stock with a target price below its current price should not and will not be regarded as an Add or a Buy.

Recommendations are based on target prices with no allowance for dividend returns. The thresholds for the four recommendation levels may change from time to time depending on market conditions. Thresholds are defined as follows, ASSUMING long risk free rates remain in the 2-5% region.

Recommendation	Low Volatility 10 < VIX index < 30	Normal Volatility 15 < VIX index < 35	High Volatility 35 < VIX index
Buy ●	More than 15% upside	More than 20% upside	More than 30% upside
Add ●	From 5% to 15%	From 5% to 20%	From 10% to 30%
Reduce ●	From -10% to 5%	From -10% to 5%	From -10% to 10%
Sell ●	Below -10%	Below -10%	Below -10%

There is deliberately no “neutral” recommendation. The principle is that there is no point investing in equities if the return is not at least the risk free rate (and the dividend yield which again is not allowed for).

Although recommendations are automated (a function of the target price whenever a new equity research report is released), the management of AlphaValue intends to maintain global consistency within its universe coverage and may, from time to time, decide to change global parameters which may affect the level of recommendation definitions and /or the distribution of recommendations within the four levels above. For instance, lowering the risk premium in a gloomy context may increase the proportion of positive recommendations.

Valuation

Valuation processes have been organized around transparency and consistency as primary objectives.

Stocks belong to different categories that recognise their main operating features : Banks, Insurers and Non Financials.

Within those three universes, the valuation techniques are the same and in relation to the financial data available.

The weighting given to individual valuation techniques is managed centrally and may be changed from time to time. As a rule, all stocks of a similar profile are valued using equivalent weighting of the various valuation techniques. This is for obvious consistency reasons.

Within the very large universe of Non Financials, there are in effect 4 sub-categories of weightings to cater for subsets: 1) 'Mainstream' stocks; 2) 'Holding companies' where the stress is on NAV measures; 3) 'Growth' companies where the stress is on peer based valuations; 4) 'Loss making sectors' where peers review is essentially pointing nowhere (ex: Bio techs). The bulk of the valuation is then built on DCF and NAV, in effect pushing back the time horizon.

Valuation Issue	Normal industrials	Growth industrials	Holding company	Loss runners	Bank	Insurers
DCF	35%	35%	10%	40%	0%	0%
NAV	20%	20%	55%	40%	50%	15%
PE	10%	10%	10%	5%	10%	20%
EV/EBITDA	20%	20%	0%	5%	0%	0%
Yield	10%	10%	20%	5%	10%	15%
Book	5%	5%	5%	5%	10%	10%
Banks' intrinsic method	0%	0%	0%	0%	10%	0%
Embedded Value	0%	0%	0%	0%	0%	40%
Mkt Cap/Gross Operating Profit	0%	0%	0%	0%	10%	0%