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Drone Volt

Waiting for Aquiline Drones' IPO

Opinion	Buy
Upside (%)	196
Price (€)	0.03
Target Price (€)	0.08
Bloomberg Code	ALDRV FP
Market Cap (€M)	10.6
Enterprise Value (€th)	5,340

Momentum	NEGATIVE
Sustainability	4/10
Credit Risk	C7

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PROS

- R&D effort to develop and commercialise in-house drone solutions and AI applications which will 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
- New sources of profitable growth through royalty-based partnerships, providing both USA-made drone stamps of approval and credibility in power line inspection

CONS

- Nascent market, displaying high potential growth, but little visibility on contract timings and overall adoption of this technology
- Very fragmented market, with a myriad of competitors, inevitable need for market concentration (via acquisitions or bankruptcies)
- Supplier risk for distribution segment, heavily exposed to Chinese DJI with a risk of dependency and limited pricing power

KEY DATA	12/20A	12/21A	12/22E	12/23E	12/24E
Adjusted P/E (x)	-3.14	ns	-8.98	-17.1	ns
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-13.8	-82.2	-80.7	2.20	-0.30
Adjusted EPS (€)	-0.05	0.00	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)	5,836	8,617	11,515	14,197	17,052
Other margin (%)	33.2	48.9	51.0	57.0	63.8
Attributable net profit (€th)	-6,393	5,551	-1,118	-613	-11.7
ROE (after tax) (%)	-47.6	19.5	-2.88	-1.52	-0.03
Gearing (%)	8.95	-6.87	-9.11	-13.9	-22.8

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

		12/21A	12/22E	12/23E	12/24E
Adjusted P/E	x	ns	-8.98	-17.1	ns
EV/EBITDA	x	-82.2	-80.7	2.20	-0.30
P/Book	x	1.79	0.27	0.25	0.23
Dividend yield	%	0.00	0.00	0.00	0.00
Free Cash Flow Yield	%	-12.4	-16.5	-0.90	8.49
ROE (after tax)	%	19.5	-2.88	-1.52	-0.03
ROCE	%	-19.2	-15.0	-8.84	-1.05
Net debt/EBITDA	x	4.29	53.5	-6.76	-4.69

Consolidated P&L

		12/21A	12/22E	12/23E	12/24E
Sales	€th	8,617	11,515	14,197	17,052
EBITDA	€th	-808	-66.1	1,213	2,576
Underlying operating profit	€th	-3,115	-2,369	-1,342	-153
Operating profit (EBIT)	€th	-2,705	-2,453	-1,428	-240
Net financial expenses	€th	172	-176	-203	-199
Pre-tax profit before exceptional items	€th	-2,533	-2,629	-1,631	-439
Corporate tax	€th	1,276	1,324	822	221
Attributable net profit	€th	5,551	-1,118	-613	-11.7
Adjusted attributable net profit	€th	-1,079	-1,118	-613	-11.7

Cashflow Statement

		12/21A	12/22E	12/23E	12/24E
Total operating cash flows	€th	-5,786	1,605	2,637	3,539
Capital expenditure	€th	-3,067	-3,159	-2,527	-2,451
Total investment flows	€th	-7,359	-1,359	1,223	-2,451
Dividends (parent company)	€th				
New shareholders' equity	€th	13,206	0.00	1,000	3,000
Total financial flows	€th	13,311	588	1,297	3,801
Change in net debt position	€th	-71.0	70.4	4,656	3,889
Free cash flow (pre div.)	€th	-8,681	-1,730	-93.7	889

Balance Sheet

		12/21A	12/22E	12/23E	12/24E
Goodwill	€th	152	150	149	153
Total intangible	€th	6,371	6,494	6,714	7,090
Tangible fixed assets	€th	923	951	979	1,009
Right-of-use	€th	191	201	211	221
WCR	€th	4,085	3,638	2,936	2,094
Total assets (net of short term liabilities)	€th	35,751	35,104	34,452	33,978
Ordinary shareholders' equity (group share)	€th	39,151	38,446	42,300	44,550
Provisions for pensions	€th		0.00	0.00	0.00
Net debt / (cash)	€th	-3,468	-3,538	-8,195	-12,083
Total liabilities and shareholders' equity	€th	35,751	35,104	34,452	33,978

Per Share Data

		12/21A	12/22E	12/23E	12/24E
Adjusted EPS (bfr goodwill amort. & dil.)	€	0.00	0.00	0.00	0.00
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.03	0.00	0.00	0.00
Book value per share	€	0.11	0.10	0.11	0.11
Number of diluted shares (average)	Th	283,258	384,486	402,097	402,097

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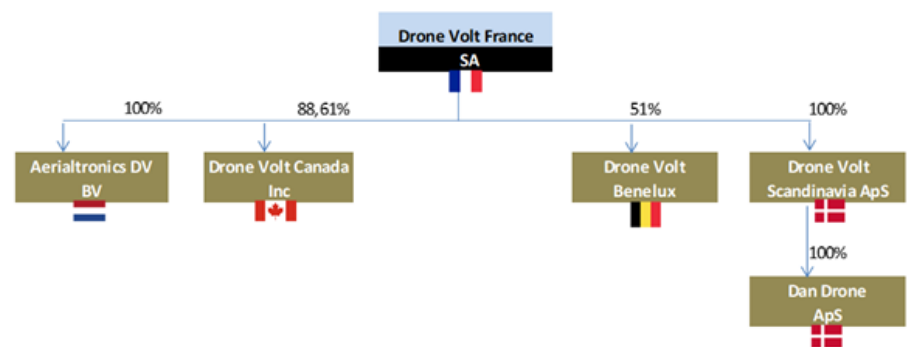
Businesses & Trends

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.

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

Drone Volt's organisational chart is as follows:



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, it turns out not to be easy to find reliable and recent market studies. However, according to The Insight Partner in a report published in August 2019, the global civil drone market was valued at \$6.56bn in 2018 and is expected to reach \$21.61bn by 2027 with a CAGR growth rate of 14.3% in the forecast period from 2019 to 2027. 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 production will total \$88.3bn over the next decade, soaring from \$4.9bn in 2019 to \$14.3bn in 2028, equivalent to a 12.6% CAGR. The study includes forecasts of commercial, consumer and civil government systems. A year before, GlobeNewswire highlighted the research from Market Research Future that the size of the drone market would mushroom to \$129.3bn by 2028, equivalent to a 20.18% CAGR from 2018 to 2028.

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. As an example, according to Les Echos, there were 7,000 companies identified in France in 2018 with a total turnover between €100m and €150m. 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 might accelerate what would seem to be inevitable at some point. The FAA has 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 must now be approached in the light of a new European regulation (published in June 2019), which will gradually replace national requirements in order to contribute to the emergence of a European market for the drone industry. The first regulation, to be in place in January 2021, will define 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. In our view, 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 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 designer

Drone Volt organises its activity into two distinct segments;

- Distribution activity – sale of third-party drones
- Drone Volt Factory: sale of own drones, 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 but is no longer the priority for future top-line growth, and is expected to remain at best flattish compared to the strong increase expected in the other business lines.

Since 2016, and under the leadership of the management team that arrived in 2012, 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 allows Drone Volt to increase in 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 strong 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) the need to train telepilots as well as 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, among which include an enclosed hall allowing flight sessions to be carried out when the weather is bad. Today, Drone Volt has nine training centres in Europe and North America and can leverage its French expertise in other countries.

International expansion, strengthen with partnerships and licence agreements

Thanks to its experience in a heavily-regulated environment, the company can scale its business model to another country. 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 tied up very constructive relationships with players across the Atlantic. Expanding its business in North America at cheaper cost. Indeed, in order to accelerate its development in the USA at a lower cost, Drone Volt announced in November 2019 an agreement with Robotic Skies, for the production and marketing of "made in USA" Hercules drones. This agreement, which will remunerate Drone Volt via royalties, makes it possible to

open a bridgehead at a lower cost in this country, where Chinese drones are in the process of being banned.

In late August 2020, the company also announced the signing of a Letter of Intent with Aquiline Drones. Aquiline Drones is an American drone- and cloud-based company offering a wide range of services for drone operators. It wishes to produce the Hercules 2, the Altura Zenith and its Pensar camera before the end of 2020, at an exciting rate of 1,000 units per month. The company targets ambitious volumes and would increase its production line by 3,000 units, monthly, to reach a steady 10,000 units per month in total. This sounds huge. Aquiline Drone plans to sell these drones to its existing clients as well as to fill the gap created by the US restriction imposed by the federal administration from using Chinese drones. We see this potential partnership as very promising and value-creative for Drone Volt. Under the current terms, Drone Volt would be granted a 10% cut of revenue from the commercialisation of its drones and cameras over a 5-year licensing period, with annual reviews. Drone Volt would be entitled to receive a minimum of \$100k per month (which started in October 2020). On an annual basis, this would grant Drone Volt \$1.2m per year, to be revised by +10% annually, for a minimum total value of \$7.7m until 2025. Furthermore, an upfront payment of \$450k will be added in the first year, to compensate for the transfer of know-how. To strengthen their partnership, both companies may consider swapping their shares for up to 10% of their respective share base.

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. We estimate that 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. The company targets one hundred deliveries over five years and expects to start by the end of 2020/beginning of 2021.

Divisional Breakdown Of Revenues

Sector	12/21A	12/22E	12/23E	12/24E	Change 22E/21		Change 23E/22E		
					€th	of % total	€th	of % total	
Total sales	8,617	11,515	14,197	17,052	2,898 ↑	100%	2,682 ↑	100%	
Drone Volt Factory	Electrical Products-Misc	3,600	5,047	7,406	9,921	1,447	50%	2,359	88%
Distribution	Electrical Products-Misc	5,017	6,468	6,791	7,131	1,451	50%	323	12%
Training	Electrical Products-Misc								
Consumer	Electrical Products-Misc								
Professional	Electrical Products-Misc								
Royalties	Electrical Products-Misc								
Other									

Key Exposures

	Revenues	Costs	Equity
Dollar	0.0%	15.0%	0.0%
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

France	40.8%
Europe	38.8%
Other	20.4%

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

Voluntarily reducing the development of Distribution

In its aim to shift its cash generation sources, the Distribution segment is voluntarily left slightly behind. Indeed, Distribution's core activity of sole assembly and distribution of third-party products didn't allow high margins to be generated (gross margin of c. 20%), as the added value was minimal, the drone parts being available from other supply sources. Indeed, third-party drones rely on an already integrated platform from Chinese maker DJI, which provides almost ready-to-fly machines. These machines can be heavily customised in detail, but even in this case most of the components are currently sourced from existing manufacturers (mostly from China), limiting the margin potential and creating a dependency on the suppliers' commercial policies: should they increase their prices or develop similar solutions to Drone Volt's and propose them at a lower price, then the margin level would plummet, jeopardising the very existence of the segment.

Still, 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 has 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. A better control will be permitted by a "fables" model: 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 will allow 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 at slightly below c. 50%, while intelligent cameras might be well above 70%.

The power of turnkey solution

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 the 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 2020-22

Looking at 2020, and after the shock of the pandemic, we expect a significant rebound in the activity for the second half of the year, with c. €4m revenue in H2 20. Part of the sales missed in 2020 should be shifted into the next two to three years. This outlook is reinforced by the company's backlog, which remained at c. €15m, while no cancellations were recorded due to the COVID-19 pandemic.

For the next three years, we anticipate two different scenarios for the two Drone Volt segments. Not being part of the core development strategy, we anticipate the Distribution activity to decrease by 13% on average by 2022. At the same time, the strong pipeline acquired by Drone Volt Factory for in-house designed solutions should fuel growth by c. +70% on average over 2019-22. This includes the ramp-up of the Hydro-Québec partnership, which is expected to start at the beginning of 2021 with a higher ASP (c. €350k per unit for the line drone).

On top of this, the two promising announcements (i.e. the Aquiline Drones' LOI followed by the Hungarian LOI) play a significant part in our earnings estimates.

First, we have integrated the Aquiline Drones contract in our estimates with a degree of cautiousness. Still, the potential impact could be a game-changer for the company. We anticipate the contract to kick off in 2021 with an average of 1,000 units per month (compared to 3,000 in the LOI), growing to 1,500 by 2022 and 3,000 in 2023, on its way towards 7,000 units by 2026. This licensing agreement could represent c. €2m in 2021 and c. €3.3m/€7.4m in 2022/2023, with a direct impact on profitability.

Secondly, we have integrated (yet to be confirmed and accounted for in Drone Volt Factory) the Hungarian contract for the supply of at least 275 Hercules 20 drones over three years. Here again we take a more prudent approach than the company, leaving the number of units unchanged but we anticipate a price

discount due to the size of the order, relying on a price per unit of €15k vs €20k. Under these assumptions, this could bring additional revenue of c. €1,375k per year from 2021 to 2022.

In terms of profitability, we anticipate the gross margin will expand, driven by: i) volume and production gains for drones, while both Services and Training should take-off, lifting the margin upwards, and ii) the strong relative impact of the licencing revenues. Distribution's gross margin should remain flattish at above 20% on average, while we anticipate Drone Volt Factory's gross margin to improve to 52% by 2022, driven by the product mix and the higher level of value (fuelled by higher technology embedded in the drone as well as the Pensar camera). Altogether, we anticipate Drone Volt to be EBIT positive by 2021.

Divisional Other profit breakdown Analysis

	12/21A	12/22E	12/23E	12/24E	Change 22E/21		Change 23E/22E	
					€th	of % total	€th	of % total
Total	4,215	5,867	8,090	10,881	1,652 ↑	100%	2,223 ↑	100%
Drone Volt Factory	2,129	2,978	4,406	5,953	849 ↑	51%	1,428 ↑	64%
Distribution	857	1,100	1,222	1,319	243 ↑	15%	122 ↑	5%
Consumer								
Professional								
Training								
Royalties	1,229	1,790	2,461	3,609	561 ↑	34%	671 ↑	30%
Other/cancellations								

Divisional Other profit breakdown Analysis margin

	12/21A	12/22E	12/23E	12/24E
Total	48.9%	51.0%	57.0%	63.8%
Drone Volt Factory	59.1%	59.0%	59.5%	60.0%
Distribution	17.1%	17.0%	18.0%	18.5%
Consumer				
Professional				
Training				
Royalties				

Valuation

DCF

We had previously assumed an expected market growth of c. 14% CAGR over 2019-27. However, to date, very few drone companies have managed to sustain this growth rate. With the recent mega contract wins with Aquiline Drones and the Hungarian customer, the years from FY21-23 are expected to be major growth years. We therefore apply a more conservative growth rate in our DCF going forward, namely 7% growth over 2023-30, as we do not anticipate other major catalysts of this amplitude after FY23. Thanks to cost containment measures along with positive volume effects, we believe that an EBITDA long-term growth of 9.5% is applicable. The US business based on royalties is adding significantly to our DCF. Our base case scenario with Aquiline Drones is currently limited to half the size of what was announced in the LOI.

NAV

For the NAV, in order to reflect the strong growth potential and to compensate for the still early stage of the company, with sharp 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. 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 revenue derived from the recent partnership with Aquiline Drones. We applied here a 5x multiple on three-year estimated average royalties. Finally, the Aquiline Drones partnership involves an equity swap for 10% of each company. Given the fact that Aquiline Drones is a non-listed company, with no access to its accounts, we decided to value this stake based on the revenue derived from our base-case scenario (described above), to which we apply a 2x multiple on sales.

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, Aerovironment and ECA Group, as well as the robotic company like Kuka.

Valuation Summary

Benchmarks		Values (€)	Upside	Weight
DCF		0.10	284%	35%
NAV/SOTP per share		0.15	485%	20%
EV/Ebitda	Peers	0.04	47%	20%
P/E	Peers	0.01	-50%	10%
Dividend Yield	Peers	0.00	-100%	10%
P/Book	Peers	0.05	100%	5%
Target Price		0.08	196%	

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	Ev/Ebitda (x)	P/Book (x)	Yield(%)
Peers ratios	38.5	18.1	2.75	0.17
Drone Volt's ratios	-11.5	8.26	0.26	0.00
Premium	-50.0%	0.00%	0.00%	0.00%
Default comparison based valuation (€)	0.01	0.04	0.05	0.00
Elbit Systems	22.2	16.2	n/a	0.00
KUKA	50.0	16.8	3.17	0.33
Aerovironment	50.3	27.2	3.28	n/a
Irobot	19.1	14.5	1.70	0.00

DCF Valuation Per Share

WACC	%	9.46	Avg net debt (cash) at book value	€th	-5,867
PV of cashflow FY1-FY11	€th	11,619	Provisions	€th	105
FY11CF	€th	4,021	Unrecognised actuarial losses (gains)	€th	0.00
Normalised long-term growth "g"	%	2.00	Financial assets at market price	€th	4,922
Sustainability "g"	%	1.85	Minorities interests (fair value)	€th	3,430
Terminal value	€th	52,869	Equity value	€th	40,290
PV terminal value	€th	21,418	Number of shares	Th	402,097
<i>PV terminal value in % of total value</i>	%	64.8	Implied equity value per share	€	0.10
Total PV	€th	33,037	Sustainability impact on DCF	%	-1.06

Assessing The Cost Of Capital

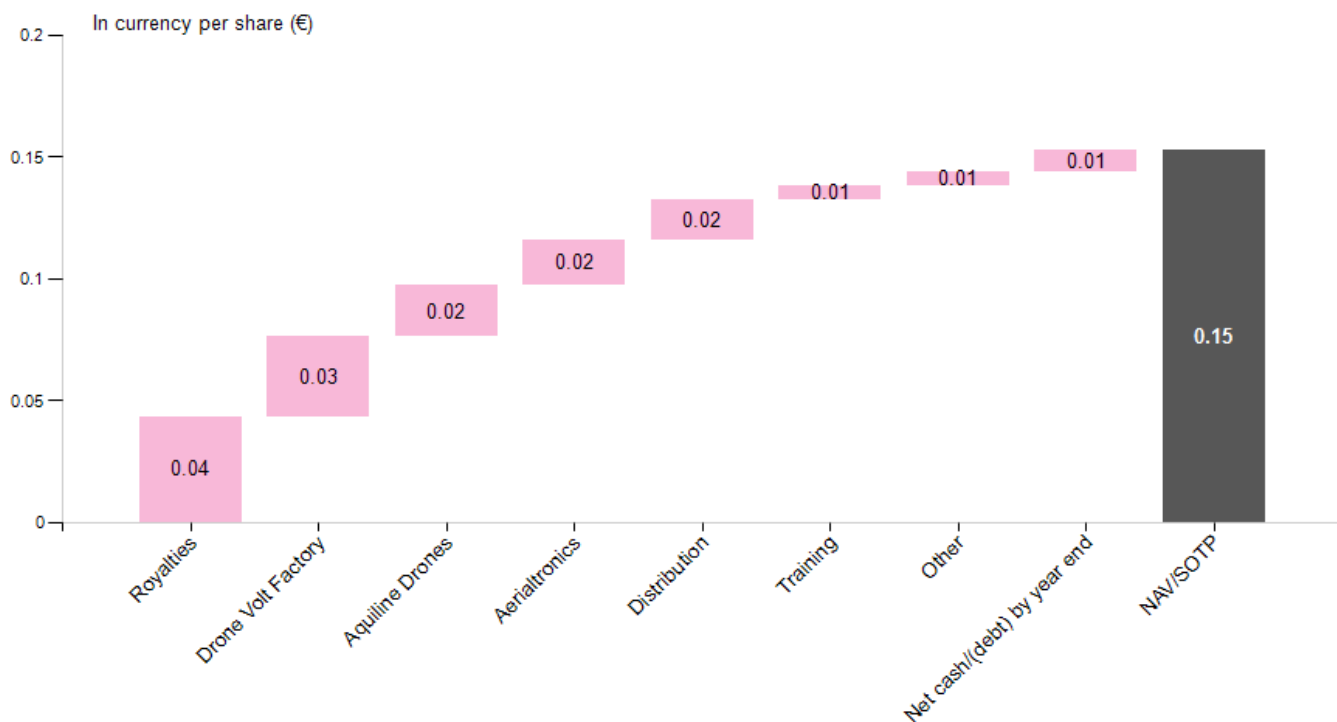
Synthetic default risk free rate	%	3.50	Company debt spread	bp	300
Target equity risk premium	%	5.00	Marginal Company cost of debt	%	6.50
Tax advantage of debt finance (normalised)	%	30.0	Company beta (leveraged)	x	0.91
Average debt maturity	Year	5	Company gearing at market value	%	-33.8
Sector asset beta	x	1.19	Company market gearing	%	-51.1
Debt beta	x	0.60	Required return on geared equity	%	8.05
Market capitalisation	€th	10,466	Cost of debt	%	4.55
Net debt (cash) at book value	€th	-3,538	Cost of ungeared equity	%	9.46
Net debt (cash) at market value	€th	-3,538	WACC	%	9.46

DCF Calculation

		12/21A	12/22E	12/23E	12/24E	Growth	12/25E	12/32E
Sales	€th	8,617	11,515	14,197	17,052	7.00%	18,246	29,298
EBITDA	€th	-808	-66.1	1,213	2,576	9.50%	2,820	5,323
<i>EBITDA Margin</i>	%	<i>-9.38</i>	<i>-0.57</i>	<i>8.54</i>	<i>15.1</i>		<i>15.5</i>	<i>18.2</i>
Change in WCR	€th	-5,747	447	702	842	7.00%	901	1,447
Total operating cash flows (pre tax)	€th	-7,062	281	1,815	3,318		3,721	6,771
Corporate tax	€th	1,276	1,324	822	221	7.00%	237	380
Net tax shield	€th	51.6	-52.8	-60.9	-59.6	7.00%	-63.8	-102
Capital expenditure	€th	-3,067	-3,159	-2,527	-2,451	3.00%	-2,525	-3,105
<i>Capex/Sales</i>	%	<i>-35.6</i>	<i>-27.4</i>	<i>-17.8</i>	<i>-14.4</i>		<i>-13.8</i>	<i>-10.6</i>
Pre financing costs FCF (for DCF purposes)	€th	-8,801	-1,606	48.5	1,028		1,369	3,943
Various add backs (incl. R&D, etc.) for DCF purposes	€th							
Free cash flow adjusted	€th	-8,801	-1,606	48.5	1,028		1,369	3,943
Discounted free cash flows	€th	-8,801	-1,606	44.3	858		1,044	1,597
Invested capital	€	11.4	11.1	10.6	10.2		10.5	12.9

NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (€th)	Stake valuation (€th)	In currency per share (€)	% of gross assets
Royalties	100%	EV/Sales	5	17,500	17,500	0.04	30.2%
Drone Volt Factory	100%	EV/Sales	2	13,120	13,120	0.03	22.7%
Aquiline Drones	9.90%	EV/Sales	2	85,000	8,415	0.02	14.5%
Aerialtronics	50.0%	NAV		15,100	7,550	0.02	13.0%
Distribution	100%	EV/Sales	1	6,600	6,600	0.02	11.4%
Training	100%	EV/Sales	3	2,400	2,400	0.01	4.14%
Other					2,335	0.01	4.03%
Total gross assets					57,920	0.14	100%
Net cash/(debt) by year end					3,468	0.01	5.99%
Commitments to pay							
Commitments received							
NAV/SOTP					61,388	0.15	106%
Number of shares net of treasury shares - year end (Th)					402,097		
NAV/SOTP per share (€)						0.15	
Current discount to NAV/SOTP (%)							82.9



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.

Detailed financials at the end of this report

Funding - Liquidity

		12/21A	12/22E	12/23E	12/24E
EBITDA	€th	-808	-66.1	1,213	2,576
Funds from operations (FFO)	€th	-172	982	1,731	2,498
Ordinary shareholders' equity	€th	39,151	38,446	42,300	44,550
Gross debt	€th	3,418	4,182	4,682	5,682
+ Gross Cash	€th	6,886	7,720	12,877	17,765
= Net debt / (cash)	€th	-3,468	-3,538	-8,195	-12,083
Gearing (at book value)	%	-6.87	-9.11	-13.9	-22.8
Equity/Total asset (%)	%	110	110	123	131
Adj. Net debt/EBITDA(R)	x	4.29	53.5	-6.76	-4.69
Adjusted Gross Debt/EBITDA(R)	x	-4.36	-64.8	3.96	2.26
Adj. gross debt/(Adj. gross debt+Equity)	%	8.25	10.0	10.2	11.6
Ebit cover	x	18.1	-13.5	-6.61	-0.77
FFO/Gross Debt	%	-4.89	22.9	36.1	42.9
FFO/Net debt	%	4.96	-27.8	-21.1	-20.7
FCF/Adj. gross debt (%)	%	-247	-40.3	-1.95	15.3
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-1.10	15.0	32.0	13.3
"Cash" FCF/ST debt	x	-5.49	-4.32	-0.23	0.63

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:

(W: total aircraft weight))	W ≤ 2 kg	2 kg < W ≤ 8 kg	8 kg < W ≤ 25 kg	25 kg < W ≤ 150 kg
Requirements common to all scenarios	Affix a sign on each aircraft identifying the name and address of the operator.			
	Declaration of Level of Competence for each telepilot			
	Declaration of activity, to be renewed every 24 months (or in case of modification) and annual activity report in January.			
S-1 Outside populated area In sight, R ≤ 200 m A ≤ 150 m	Theoretical ability		Theoretical ability and certificate of competence	
			Certificate of conception	
	Textbook of Particular Activities (MAP)			
S-2 Outside populated area ³ By day, R ≤ 1000 m	Theoretical ability		Theoretical ability and certificate of competence	
	Certificate of conception			
	Textbook of Particular Activities (MAP)			
	Altitude ≤ 150 m		Altitude ≤ 50 m	
S-3 In populated areas In sight, R ≤ 100 m A ≤ 150 m Reporting flight to the authorities	Certificate of conception		Prohibited unless specifically authorized	
	Theoretical ability			
	Textbook of Particular Activities (MAP)			
S-4 Outside populated area By day, A ≤ 150 m	Certificate of conception		Prohibited unless specifically authorized	
	Pilot licence and experience			
	MAP + Operation Record			

Color coding: Airworthiness (orange), Telepilot (purple), Operator (green), Airspace (blue)

R = Range
A = Altitude

These rules are about to be reinforced at the European level, under the 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.

Open Category: Leisure or professional drone flights of less than 25kg whose 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.

Specific Category: This category covers characteristics that have not been 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.

Certified Category: Includes large unmanned aircraft and their operations, 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

Drone Volt bought up the assets of the Aerialtronics company. On 18 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.

On 9 September 2020, Drone Volt acquired the remaining shares to the 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

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	0/10	20%
Chairman vs. Executive split	✓	5%
Environment		
CO ² Emission	2/10	25%
Water withdrawal	3/10	10%
Social		
Wage dispersion trend	9/10	5%
Job satisfaction	3/10	5%
Internal communication	10/10	5%
<hr/>		
Sustainability score	4.4/10	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. This company focused on interactive technologies and moved in as early as 1998 towards an internet-based business, providing technical support and management for internet businesses and proposing a structured offer, mixing strategy, marketing and technological support to a broad range of customers (Microsoft, M6, PSA, the French Ministry of Defence, etc.). 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)



4.8_(6.9)

Independent board











Yes

Parameters	Company	Sector	Score	Weight
Number of board members	5	11	10/10	5.0%
Board feminization (%)	0	36	1/10	5.0%
Board domestic density (%)	100	69	0/10	10.0%
Average age of board's members	60	62	5/10	5.0%
Type of company : Small cap, controlled			4/10	10.0%
Independent directors rate	80	41	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			4.8/10	100.0%

Management

Name		Function	Birth date	Date in	Date out	Compensation, in k€ (year)	
						Cash	Equity linked
Marc COURCELLE	M	 CEO		2020		70.2	(2020)
Sylvain NAVARRO	M	 CFO	1977	2018			(2020)

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)
Dimitri BATSIS	M	 	President/Chairman of th...	2023		2020		5.80	(2020)
Jean-Claude BOURDON	M	 	Member	2025	1952	2019		18.2	(2020)
Fabrice LEGRAND	M	 	Member	2022	1964	2016		21.1	(2020)
Laurent LELEUP	M	 	Member	2022	1966	2017		13.9	(2020)
Stanislas VEILLET	M	 	Member	2021	1965	2017		19.7	(2020)

Environmental Score

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











Parameters	Score	Sector	Weight
Energy	3/10	5/10	25%
CO ² Emission	2/10	4/10	30%
Waste	3/10	5/10	15%
Water withdrawal	3/10	5/10	30%

Company (Sector)

2.70 (4.63)

Environmental metrics

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	2,734,117	487,397	5,623,792	55,133
Rolls-Royce		5/10	4,573,454	427,205	3,937,000	48,700
Leonardo		5/10	5,493,000	608,669	5,287,000	34,474
Airbus Group		7/10	18,280,800	783	3,332,617	74,879
Thales		5/10	7,264,320	196,000	1,661,000	18,996
Safran		6/10	6,359,884	414,988	2,521,900	57,794
Meggitt		6/10	1,180,800	87,062	637,546	8,604
Rheinmetall		3/10	3,428,478	410,404	3,246,497	57,648
MTU Aero Engines		6/10	1,054,440	71,300	8,327,300	7,040
Drone Volt		3/10				

Social score

Company (Sector)

5.1 (7.0)**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	8/10	15%
Average wage trend	4/10	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	9/10	20%
Pension bonus (0 or 1)	0	
Quantitative score	4.6/10	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 2019, the group had 46 employees, compared with 57 in 2018. This reduction is part of the plan to optimise the cost structure of the company in order to bring profitability. New departures are expected in 2020, particularly in the Aerialtronics subsidiary. In addition, Drone Volt has the use of subcontractors for the production of its drones, limiting the cost base in production sites, and some of the workforce is also subcontracted, to ensure an extended flexibility.

However, we expect a net increase in new hires from 2021 onwards in order to sustain activity, particularly in training.

Recent updates

18/05/2022

Could the French government be a new major customer?

Significant news

Drone Volt has announced the delivery of 2 Hercules 20 drones to the French Navy. The contract is small but could be the start of an important business relationship. Given the expected steady increase in the French military budget, there is no doubt the French Navy has the cash to make significant orders if it is convinced by Drone Volt's solutions. This contract followed the creation of a JV to improve its hydrogen technology.

Fact

- The French Navy has ordered 2 Hercules 20 drones.
- The objective of this drone will be to drop or deposit material from one location to another. It will be mainly used at sea, where conditions can be harsh, and a drone seems like the most efficient transportation solution.
- It is an experiment which could lead to a mega-contract.
- Drone Volt has created a JV with Pragma Industries to build hydrogen-fuelled drones.
- Hydrogen would enable the Hercules 20 to fly for an hour with a 10kg charge and the Heliplane to fly for 3 hours with a 2kg charge.
- There will be an exchange in capital of 10% with Pragma Industries. To achieve this, Drone Volt will perform a capital increase which could dilute existing shares by 16%.

Analysis

A potential customer with cash

Drone Volt has significantly progressed on its technology, with a broad product portfolio which could answer many needs. Its recent acquisitions are strengthening its technology, with new drones through Aerialtronics, new software/connectivity functions through Viking Drone, new aftermarket services from SkyTools and, most recently, new hydrogen solutions through its JV with Pragma Industries. Though we believe its drones perfectly suit certain niche markets, its main issue is to gain customers. Its largest revenue provider is Aquiline Drones, but the latter is lacking cash as it is investing massively on its drone eco-system. Its planned IPO could soon change the situation but, for the time being, it is a headwind for Drone Volt's cash generation.

If Drone Volt manages to convince the French Navy of the utility of its Hercules 20 drones, it would unlock a massive cash potential. Governments are the most reliable customers, and the increased military spending announced in France could lead to investments in new technologies. A small contract from the Navy could represent a change in dimension for Drone Volt. In addition, it is

improving the time of flight of its drones thanks to the hydrogen partnerships, which we believe could be a determining factor for the French government. If Drone Volt reaches the 60 minutes of time to fly with a 10kg charge, it would be significantly better than the performance of existing peers, as the table below indicates.

<i>Drones</i>	<i>Charge (in Kg)</i>	<i>Time of flight (in min)</i>
<i>Drone Volt Hercules 20</i>	10	60
<i>Onyxstar Hydra-12</i>	7	15
<i>Freefly Systems Alta 8</i>	10	22

In addition, for sovereignty reasons, it is crucial to select a French company for military missions. The Hercules 20 drone seems like a perfect fit.

Hydrogen technology could cost shareholders

Hydrogen has significant added value in terms of time of flight and carbon emissions. However, the JV with Pragma Industries involves another dilution of profits for current shareholders. Drone Volt will increase the number of shares by 18%, which would lead to a maximum dilution of 16%. According to these estimates, Pragma Industries would own a stake in Drone Volt of 15% over time, as the capital increases are expected to be made progressively from 5 May to 18 November. However, according to French regulations, Pragma Industries does not have the right to hold more than 10% of Drone Volt's capital at a given time. Pragma Industries will be forced to sell shares, which will put pressure on Drone Volt's stock price.

On the positive side, Drone Volt is also expected to get 10% of Pragma Industries which is preparing its IPO on Euronext. Depending on the course of the stock price and on the timing of when Drone Volt acquires the 10% of capital, there could be some gains. This could partially offset the impact of the dilution for shareholders.

26/04/2022

Q1 22: integration of the acquisitions is progressing

Earnings/sales releases

The Q1 sales and profitability figures are soft, as Drone Volt is working on creating value through its recent acquisitions. It is progressing technologically and will soon propose drones that are hydrogen-fuelled and connected to the cloud. The long-awaited LineDrone deliveries are expected to start in H2. Aquiline Drones is still working on its IPO, which would be an important catalyst to resume the massive Hercules 2 contract.

Fact

- Sales stood at €1,745m, -3% yoy.
- Of which €956m in its distribution activity (-6% yoy) and €789m in its Drone Volt Factory (flat yoy).

- Gross margin stood at 36%, 3 points below Q1 21.
- Gross profit stood at €627m, -10% yoy.
- The Aquiline Drones transfer of know-how has generated €300m.
- The first delivery of the LineDrone is expected by H2 22.
- A “Connected Hercules 4” prototype will be announced in the coming weeks, thanks to the integration of Viking Drone’s technology.

Analysis

Slow Q1 to start the year

The Q1 sales and gross margin figures were disappointing. The Distribution of third-party brands’ activity was low, with a 6% decline in sales. It is especially low given that this quarter’s sales include a contribution from the consolidation of SKYTOOLS, which accounted for c. 6% of the Distribution sales and nearly 10% of the total sales. Concerning the Drone Volt Factory revenues, they have been flat yoy mainly thanks to the previously-mentioned consolidation which accounted for 14% of the sales of this division. Removing SKYTOOLS, Drone Volt would have had an organic decrease in sales of 12.5% yoy (c. -11% in Distribution and c. -14% in Drone Volt Factory).

The gross margin was also a let down. It stood 3 points below last year’s Q1 and gross profit decreased by 10% yoy. Removing the positive impact from the SKYTOOLS consolidation, gross profit would have been down by 21%. This is mainly due to the Distribution business, which has lost 6 points in the gross margin compared to last year and stood at 13% (far below its >20% average). We believe this low level of profitability is only temporary, as the particularly low demand in this quarter has impacted Drone Volt’s pricing power. We remain confident that Distribution’s gross margin will return to its normalised 20% level throughout the coming quarters.

H1 to focus on its product portfolio

We expect the first half year to be a period of restructuring for Drone Volt. The soft start to the year is linked to Drone Volt’s effort to consolidate its new acquisitions. It has merged the offices of SKYTOOLS and Aerialtronics, which has also contributed to slower sales for SKYTOOLS in its Distribution activities. We expect the move-in of SKYTOOLS to be finished by the next quarter, which should then enable it to refocus on growing its sales. The €58k of sales coming from SKYTOOLS’ distribution activities is far below its standard level, and we believe it could generate up to €200k of sales per quarter starting in Q3. In addition, we should see sales synergies from its broader drone portfolio as it now has access to Drone Volt’s proprietary drones.

Drone Volt is also focusing on the technological progress it could bring to its product portfolio through the integration of Viking Drone’s intellectual property. It is currently working on a connected Hercules 4 drone, which should be presented in a press release this quarter.

Additionally, supply constraints are expected to remain tight throughout Q2, as China's lockdowns are impacting the manufacturing of key components for its Drone Volt Factory business and the manufacturing of drones for its Distribution business. For all those reasons, we believe H1 will be below Drone Volt's average, but with a strong H2 expected.

H2 to drive sales

The most important driver would be a successful IPO of Aquiline Drones. As we have mentioned in our previous report, it would unlock significant cash for the American drone company, of which a significant part will be redistributed to Drone Volt. To supervise the progress of the IPO, Drone Volt has placed a new member on the Aquiline Drones board. We believe this IPO could occur at the end of Q2 or start of Q3, which would be a major catalyst for Drone Volt's stock price.

Secondly, the LineDrone commercialisation is progressing according to plan. It is currently waiting for the final certifications before its first deliveries, which are expected by H2. Hydro-Quebec has already placed an order for three drones, which would significantly drive sales. As a reminder, each LineDrone could cost up to €300k. Since Hydro-Quebec has partnered with Drone Volt to create this drone, there will be an important discount, but we expect this potential sale could generate c. €500k for Drone Volt in FY22. Drone Volt is also participating in the IEEE forum in the US this year, which could provide additional visibility to its new LineDrone and potential additional orders.

Lastly, the Hungarian contract is on track. This quarter Drone Volt managed to deliver successfully 8 Hercules 20 drones out of the 275 expected over the next three years. As the customer becomes familiar with the product and manages to find traction in its local market, we expect those sales to accelerate gradually, generating more than 40 Hercules 20 sales over FY22 (an additional €480k in the next three quarters).

Impact

We had expected that H1 would be soft, as the main growth drivers are expected in H2. The integration of Drone Volt's most recent acquisitions is on track to provide cost/sales synergies and additional value to customers, which should translate into additional sales in the mid-term. The main catalyst remains Aquiline Drones' IPO, which would generate significant cash for Drone Volt. We reiterate our positive recommendation and remain confident in Drone Volt's H2 strong perspectives.

24/03/2022

All eyes on Aquiline Drones

Change in Target Price

€ 0.08 vs 0.10

-15.9%

Despite the better than expected profitability linked to strong cost containment and several one-offs, our DCF has not changed. Our profitability outlook is

brighter, as we now expect break-even in the net results by the end of FY24. However, the poor working capital in FY21 due to the rising inventory of finished products has offset the increase in the DCF valuation from our upgraded margins.

There could be some potential upside coming from the success of Aquiline Drones' IPO (expected this year), as it would provide the US firm with enough cash to execute the existing contracts with Drone Volt, which consist of 400 H2, 200 H10 and 500 H20 for a total potential value of over €10m. In addition, the Linedrone is expected to hit the market this year and, depending on its commercial success, there could be some upside. Our current estimates include the sales of 3 Linedrones.

Change in EPS	2022 : € 0.00 vs -0.01	ns
	2023 : € 0.00 vs 0.00	ns

As mentioned previously, the profitability was better than expected. Opex was roughly flat yoy, despite the tremendous growth in sales. Wages, which account for a third of total opex, even decreased yoy. There have also been a few positive one-offs: a €900k exceptional income linked to the loss of Drone Volt's previous CEO, a low interest expense due to its successful deleveraging and tax income that made up nearly 50% of the negative EBIT. D&A also stood below our expectations, as the H2 figure amounted to 50% of the figure recognised in H1. All these factors have led to a strong net result of €-1,257m for FY21, far above our estimates. The impact is hardly visible in EPS terms.

Change in NAV	€ 0.15 vs 0.18	-17.1%
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The NAV has been negatively impacted due to Drone Volt's revised cash situation. In our previous estimates, the 50% stake sale in Aerialtronics was received in cash which led to a strong rise in the net cash position. However, the sale was realised through a convertible obligation from Aquiline Drones which is planned to be converted when its IPO is done. Hence, the NAV has been impacted by the difference in cash from this operation. In addition, we had not expected a negative working capital of nearly €-6m, which also contributed to a lower net cash situation at the end of FY21. If Aquiline Drone completes its IPO, the convertible obligation would be converted and Drone Volt's cash situation could improve rapidly.

22/03/2022

Q4 21: getting closer to break-even

Earnings/sales releases

Through a record year in sales and strong cost containment, Drone Volt has published its best annual net results since 2015. The coming fiscal year is expected to be the milestone of major technological innovations for the group, which should strengthen its existing partnerships and could lead to new contracts. Strategic acquisitions have also broadened its product and service portfolio, which should lead to robust growth in FY22.

Fact

- FY21 sales stood at €8,617k, a 48% increase yoy and a 21% increase vs pre-COVID-19 levels.
- FY21 gross result stood at €2,986k, 2% above the initial release in January 2022 and a 75% increase yoy.
- FY21 EBIT stood at €-2,705k, €5.5m above FY20 levels and €800k above pre-COVID-19 levels.
- FY21 net result stood at €-1,257m (excluding the added value generated by the 50% sales of Aerialtronics), €5.4m above FY20 levels and €1.5m above pre-COVID-19 levels.
- Strong balance sheet position, with net cash position of c. €3.5m allowing for external growth.
- Drone Volt acquired Skytools and Viking Drone, and launched the Heliplane. New acquisitions are expected in FY22.
- Stock warrants and stock options have been distributed to employees and partners, which could dilute the value of existing stocks by an additional 7%.

Analysis

Strong profitability

In January, Drone Volt had already released preliminary figures including the sales figure and the gross profit. The recent results published on 16 March included the remaining lines to the net result, which appeared far stronger than what we had expected. Opex was roughly flat yoy, despite the tremendous growth in sales. Wages, which account for a third of the total opex, even decreased yoy. This suggests that Drone Volt has the right structure to expand its sales without increasing its costs significantly. In the following years, the wage structure is expected to increase in absolute terms, linked to Drone Volt's recent/potential future acquisitions and the related additional employees. In addition, now that restrictions are less of a burden, Drone Volt is planning on travelling to exhibitions (like the IEEE in the US), which is expected to increase expenses. Whether opex increases relative to sales in FY22 will depend on Drone Volt's capacity to execute its contracts and take on board new customers.

There were also several one-offs which significantly increased profitability in FY21. A €900k exceptional income linked to the loss of Drone Volt's previous CEO, a low interest expense due to its successful deleveraging and tax income that made up nearly 50% of the negative EBIT. D&A also stood below our expectations, as the H2 figure amounted to 50% of the figure recognised in H1. All these factors have led to a strong net result of €-1,257m.

This result does not incorporate the added value linked to the sale of 50% of Aerialtronics at a valuation of €15m. It has added €6.6m of profit in FY21, which can't be recognised in the P&L according to IFRS norms. However,

considering this highly profitable operation, Drone Volt has reached a theoretical net result of €5.4m.

FY22 full of innovation

Drone Volt has ambitious targets for this year. First, it is planning to sell the first series of its Linedrone. This has been a long time coming, but Drone Volt and Hydro-Quebec have obtained strong performances of their current prototype. They are performing final tests to ensure that the drone can fly through harsh environments and will be ready soon for commercialisation. We see significant advantages of using this drone, which will replace helicopter interventions on high voltage lines as it is cheaper to manoeuvre and more precise in its inspection. Hydro-Quebec has already stated it would be interested in acquiring three drones.

Secondly, Drone Volt is working on developing its hydrogen fuel cell which will be implemented on all its larger-sized drones (namely the Hercules 10 and 20 and the Heliplane). On top of the positive environmental impact of flying zero-emission drones, it would also increase the time of flight of these drones. This is a crucial aspect for agriculture spraying and for surveillance missions, which are the two end-markets to which the Hercules 20 and the Heliplane are exposed to.

Finally, through the acquisition of Viking Drone, Drone Volt has acquired intellectual property on technology that it is willing to extend to all its drones. It has acquired an anti-collision software and the technology which could enable its drones to be connected to the cloud. The latter has sparked the interest of Aquiline Drones which seems keen on having connected drones in its catalogue. Hence, the development of this technology could be a catalyst that encourages Aquiline Drones to restart the execution of the Hercules 2 contract, currently on hold.

Aquiline Drones, still looking for cash

As we had discussed in our previous publication, the Aquiline Drone sales in Q4 had been disappointing with only seven Hercules 2 drones sold. So far, the execution of the contract has not advanced, as the US partner is lacking cash for expansion. However, the licensing contract with Drone Volt is still expected to reach USD1,350k in FY22, and the rest will depend on Aquiline Drone's capacity to sell its products. There could be potential upside, as Aquiline Drone is working towards an IPO which could provide the firm with the cash it needs to complete the Hercules 2 contract execution.

Strong balance sheet enables acquisitions

Through its deleveraging and the heavy capital increase in December, Drone Volt now has a strong net cash position of c. €3.5m which will enable it to grow externally. It has already acquired SkyTools and Viking Drone to expand its services and technological assets. Future acquisitions are expected in the coming quarters, which we believe is a positive given Drone Volt's prior profit realised through M&A.

Impact

Due to the stronger than expected profitability, we will have to revise our estimates upwards for the coming years, as the cost structure has been over-estimated. The diversification of its customer base linked to its recent acquisitions is also a positive given that Aquiline Drone sales are uncertain in the short term. We believe Drone Volt has successfully managed to improve its proprietary drone portfolio and is well set for growth in FY22. We will revise our estimates upwards.

01/02/2022

Q4: record sales, though a slight disappointment

Change in EPS

2021 : € -0.01 vs -0.01	ns
2022 : € -0.01 vs 0.00	ns

The FY22 lowered EPS forecast is mainly linked to the postponed contract of the 500 Hercule 20 and 200 Hercule 10 drones from its main customer Aquiline Drones. As the current 600 Hercule 2 contract has been delayed in deliveries, we expect this contract to be the focus for FY22 (with 389 drones to be sold left), hence pushing back the other contract to FY23 at least. There could be potential upside coming from the Hungarian customer or from the success of the commercialisation of the LineDrone, which would be highly lucrative.

Change in NAV

€ 0.18 vs 0.20	-5.60%
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The NAV has been slightly lowered due to the adjusted cash position of Drone Volt at the end of the year. In our previous estimates, the cash received from the sale of 50% of Aerialtronics (€7.5m) had been integrated into the FY21 results. We have now smoothed the cash reception into FY22 and removed some fees from the cash received.

Change in DCF

€ 0.10 vs 0.21	-52.0%
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Due to the delay in the execution of the Aquiline Drones contract, we have pushed back our sales estimates. This has impacted our cash recognition which has impacted our FCF. In addition, the FCF has been lowered in FY21 due to rising inventories as the components for the 600 Hercules 2 contract have already been acquired. Nevertheless, we are still expecting a positive FCF by FY23.

28/01/2022

Q4 21: best sales in its history

Earnings/sales releases

Drone Volt published its best yearly results in its history, with the delivery of 271 drones and three intelligent cameras. It could have been far better if the Aquiline Drone contract had been carried out as expected. Yet again, the contracts are still intact though postponed, and we expect a strong execution in FY22. Its recent capital increase has enabled Drone

Volt to acquire SKYTOOLS, a promising opportunity to strengthen its business.

Fact

- Sales stood at €8,723k, a 49% increase yoy.
- Drone Volt Factory sales represented 42% of total sales and grew 67% yoy.
- Gross margin stood at 33%, 4 points above the FY20 levels.
- Acquisition of SKYTOOLS, a Dutch drone distribution and service company.
- The licence contract with Aquiline Drones generated €1.5m in FY21.
- FY22 is expected to be a milestone for the first hydrogen prototype drone and the first delivery of the LineDrone.

Analysis

Lucrative Drone Volt Factory as main driver

Drone Volt Factory's activities, namely the sales and services associated with its in-house designed and built drones, has generated a record 56% gross margin, higher than its pre-COVID-19 levels. This is an especially strong performance since the pandemic has slowed down its international expansion. It has been more difficult to communicate with its partners HydroQuebec in Canada and Aquiline Drones in the US, headwinds which we expect will decrease throughout the year.

The strong performance of this segment has offset the low gross margins generated by its distribution of drone activities. The margins of distribution have been impacted due to several discounts Drone Volt made to win large bids (i.e. the large drone contract for police forces in Northern Europe). It has resulted in large sales with lower margins. It is part of Drone Volt's strategy to broaden its customer base, to later be able to propose its in-house drone portfolio with higher margins in the long term.

Acquisition of SkyTools

Drone Volt has just acquired SkyTools, a Dutch drone distribution and service company. The business is expected to generate over €1m of sales in FY22 and was bought with cash, thanks to the capital increase that Drone Volt performed in December. Financially, this acquisition will enable cost synergies and additional sales for the group. As Aerialtronics is close to SkyTools' current location, the former will welcome the latter into its offices, which will reduce the cost structure of both entities.

Operationally, SkyTools and Drone Volt are complementary. Not only will this acquisition strengthen Drone Volt's presence in the Netherlands, but it will also enable the company to broaden its customer base and develop its service portfolio. Skytools was only a reseller previously but had interesting services like maintenance and repairs to which Drone Volt was not exposed. In addition, SkyTools has an experienced salesforce and a broad range of customers (notably in the oil industry) which could facilitate the sale of Drone Volt's legacy

drones. We believe this will help diversify the customer base of Drone Volt, which is still very exposed to its main American customer/partner.

Lower demand than expected from Aquiline Drones

Though Drone Volt had record sales this year, it had the potential to perform even better. The 600 Hercules 2 contract with Aquiline Drones has only slightly improved in Q4, as Q3 associated drone deliveries amounted to 204 and the year ended with 211 deliveries. We were expecting over 400 deliveries by the end of FY21. This weaker than expected performance is due to Aquiline Drones investing heavily in structuring its drone eco-system, and having limited cash left to complete the contract in due time. Drone Volt has the components and some of the drones corresponding to this contract in its inventory. Though it is negative for its working capital, it suggests that it is ready to accelerate the deliveries rapidly once Aquiline Drones gives them the green light, with no potential supply-chain risks.

Nevertheless, Drone Volt has managed to generate strong sales without the Aquiline Drones contract (Q4 21 sales stood at €2.4m vs Q3 21 sales at €2.7m). It shows that the company has managed to decrease its exposure to its American partner by broadening its source of customers. A positive trend which we believe SkyTools will emphasise.

FY22: a new era for Drone Volt

We believe FY22 will be a year of both growth and innovation. We are expecting the first prototype of a hydrogen fuelled drone thanks to a partnership with Roth2, which would be used on larger drones and would give them more flight time without recharging. In addition, we are also expecting the delivery of the first LineDrone, which could be a trigger for both sales and profitability, as we believe the drone could cost over €300k.

The ongoing contracts are also expected to advance. We are not expecting deliveries of the 400H2 left for Aquiline Drones in the first half of the year but, when the latter has cash on board, the deliveries could be made rapidly. With this contract alone, Drone Volt would beat its yearly record of drone deliveries. The new Hungarian contract is on its way, with two deliveries in December and a high single-digit number of drones expected to be delivered in Q1 22. We doubt it will reach the 75 H20 milestone this year, but it will be a driver for sales. Lastly, we believe the mega-contract with Aquiline Drones which was composed of 500 H20 and 200 H10 is not likely to happen in the short term.

An interesting opportunity to bet on Drone Volt

Drone Volt has released a warrant that is currently trading on the markets for investors willing to have an exposure to Drone Volt cheaply. The warrant can convert into a share at a price of €0.11 any time in the next five years (the Drone Volt stock is currently trading at €0.06). As the dilutive instruments are on hold, we see limited risks of seeing the stock price decrease further. However, there are catalysts that could catapult the stock price above this strike, which could lead to consequent gains for investors willing to take the risk. In the event of Aquiline Drones having enough cash to complete its orders, Drone Volt's sales could increase drastically, as the 400 H2 left alone

could represent an additional €1.5m rapidly. (The warrant ISIN: FR0014007951 is currently trading at €0.02.)

Impact

Our estimates were too bullish for the number of units of H2 that Drone Volt would deliver in Q4. This difference is the reason why our sales estimates are above the recent quarter's results. Due to the delay in the Aquiline Drones' major contract, we will have to delay some of the revenue recognition in the future years, hence lowering our FCF and target price. Though we are confident that FY22 will be another record year, we will have to lower our estimates. The promise by the company to not use any dilutive instruments for the next 11 months should also stabilise the price and leave room for upside. The proposed subscription bond could be an interesting instrument for exposure to the company. We maintain our positive view on the stock.

13/12/2021

€8.8m capital increase gives 12 convertible-free months to investors

Change in NAV

€ 0.20 vs 0.24 -18.0%

As the total number of shares will rise from 251.9m to 369.1m (with an acquisition price 15% below the previous market price), the NAV valuation has also been negatively impacted. There are two positive takeaways from this capital increase. First, Drone Volt has shown that it has the right targets when it comes to external growth, as it has shown through the acquisition of Aerialtronics (€6m added value). Secondly, even though this capital increase significantly dilutes current shareholders (a -32% impact), Drone Volt has stated that it would no longer use dilutive instruments over the next 12 months. The increasing number of shares outstanding through equity lines has been the main reason for the price decrease. Should the number of shares remain stable going forward, we can expect some positive impact.

Change in DCF

€ 0.21 vs 0.26 -18.5%

Drone Volt has increased its capital by offering 117.2 million new shares without preemptive rights for a total value of €8.8m to several selected investors. The issue at €0.075 is at a 20.2% discount compared to the 10 previous trading days' average price.

The capital raised will be used for three main reasons:

- 50% for acquisitions (of which a portion has been engaged with the intention to acquire a Dutch drone player);
- 25% for R&D;
- 25% to finance the increase in working capital needs resulting from the increase in production linked to the Aquiline Drone contracts and to finance the first Linedrone.

As it is a dilutive process, the DCF has been negatively impacted.

08/12/2021

Postponed contracts lead to a target price decrease

Change in EPS	2021 : € -0.01 vs 0.00	ns
	2022 : € 0.00 vs 0.01	ns

Drone Volt had signed two mega contracts with Aquiline Drones, one in April concerning 600 Hercules 2 drones (€3m at catalogue price) and, later, another one concerning 500 Hercules 20 and 200 Hercules 10 (€15m at catalogue price). Though the latter was not a fixed contract, we had previously expected some sales to occur in H2. The Q3 results have proved us wrong as Drone Volt has put all its resources into the first Hercules 2 contract. This, we now believe, will lead to no sales in FY21 of the second mega contract. The Hungarian contract on 275 Hercules 20 drones has also been postponed to next year, directly impacting our EPS.

Change in NAV	€ 0.24 vs 0.29	-16.9%
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As we use EV/Sales multiples to value the different businesses, the decline in anticipated sales due to the mega contracts being delayed has negatively impacted the NAV's final value. The multiples have remained unchanged, with the Training multiple being the highest (3x) of Drone Volt's historical businesses as it is the most profitable (excluding the royalties from Aquiline Drones).

Change in DCF	€ 0.26 vs 0.37	-30.8%
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As major contracts have been postponed, the expected sales have been pushed further down the road. As a consequence, FCF has been impacted due to the hit on profitability. Nevertheless, the reason for the delay on these contracts is mainly linked to the limited production capacity of Drone Volt which is currently fully utilised to fulfill the 600 Hercules 2 fixed contract with Aquiline Drones. The demand for Drone Volt's products remains intact, and the sales not generated this year will be the drivers for the coming years. Hence, we remain positive in the mid-term outlook of Drone Volt.

24/06/2021

Drone Volt sells 50% of Aerialtronics to partner at a high valuation

M&A /Corp. Action

Drone Volt has finalised this highly anticipated sale to its American partner Aquiline Drones at a valuation of €15m, which represents an added value of €6m for the French drone company. The discussions for the sale of 50% of Aerialtronics started in January 2021, and the deal was expected by the end of this year.

Fact

Aerialtronics has been a subsidiary of Drone Volt since 2017, when the latter bought 50% of it at €100k due to its liquidation state. Since then, Drone Volt has managed to restructure the business successfully and, by September 2020, Drone Volt bought the remaining 50% for €2.5m as Aerialtronics was valued €5m. Today the company is valued three times this price, which means that through its 50% sale of Aerialtronics to Aquiline Drones, Drone Volt has made €6m in added value.

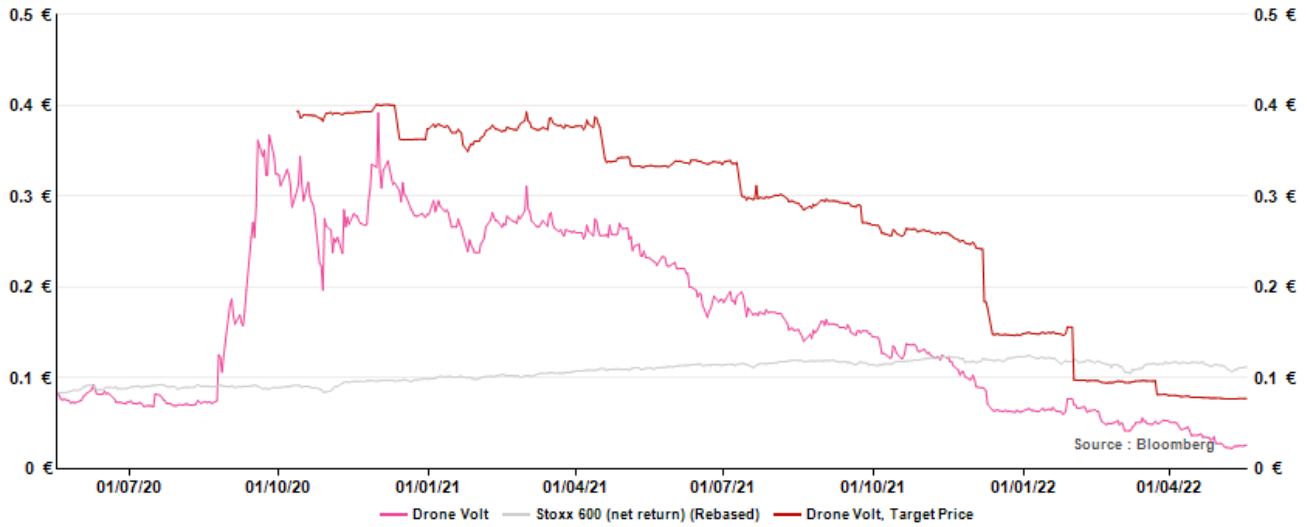
Drone Volt has, however, managed to keep control of Aerialtronics' operations, and the subsidiary will remain 100% consolidated in Drone Volt's financial statements. Aerialtronics is the company that created the Altura Zenith drone and the Pensar camera, which is embedded with AI and offers great potential.

Through this acquisition, Aquiline Drones confirms once again its trust in Drone Volt's technology and consolidates an already solid partnership.

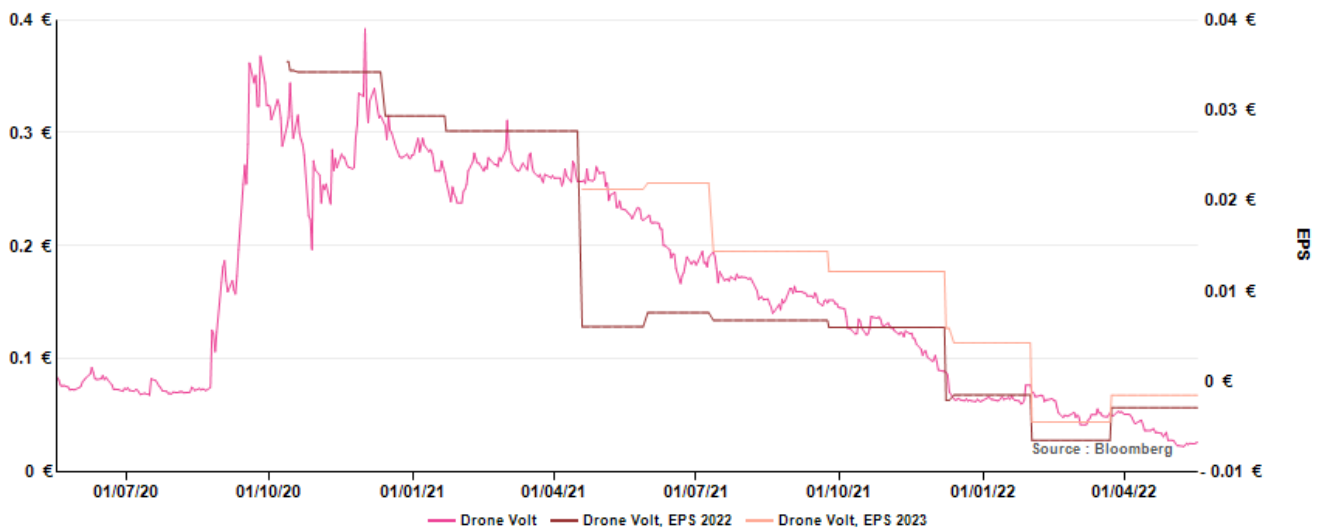
Impact

We have already anticipated this news in our estimates, therefore we reiterate our Buy recommendation.

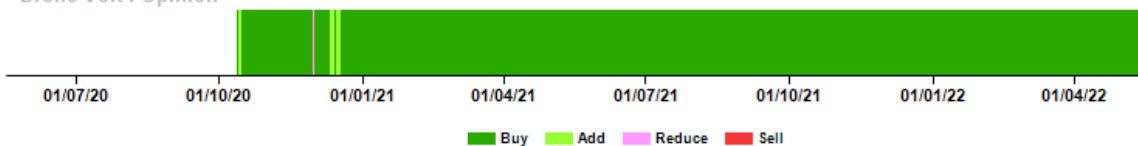
Stock Price and Target Price



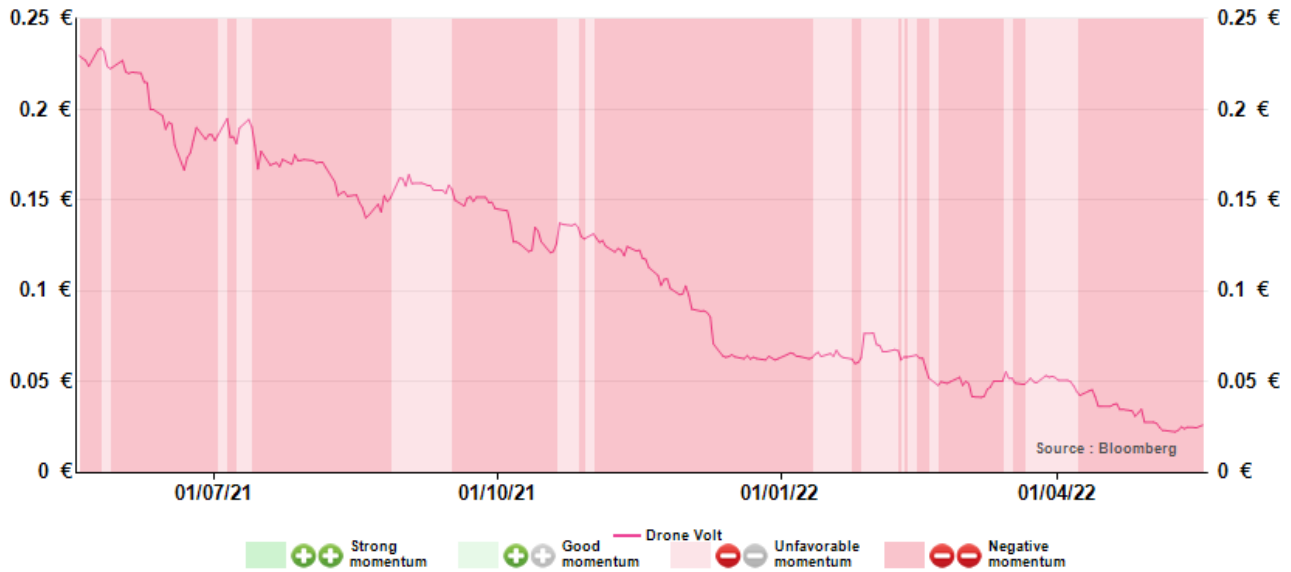
Earnings Per Share & Opinion



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.

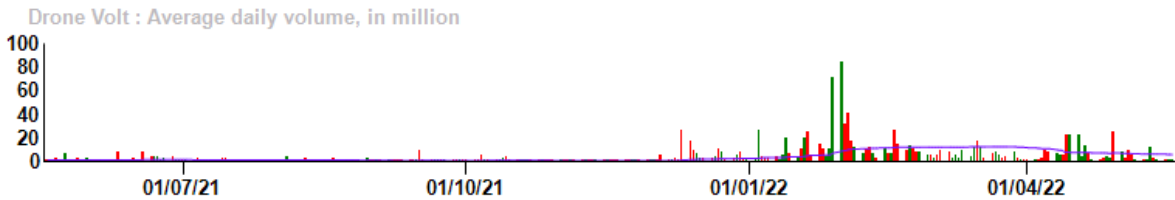
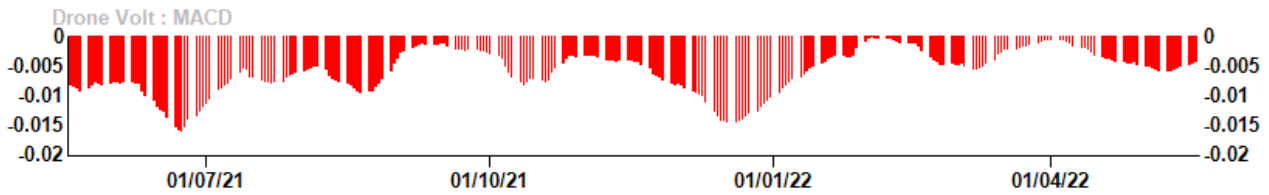
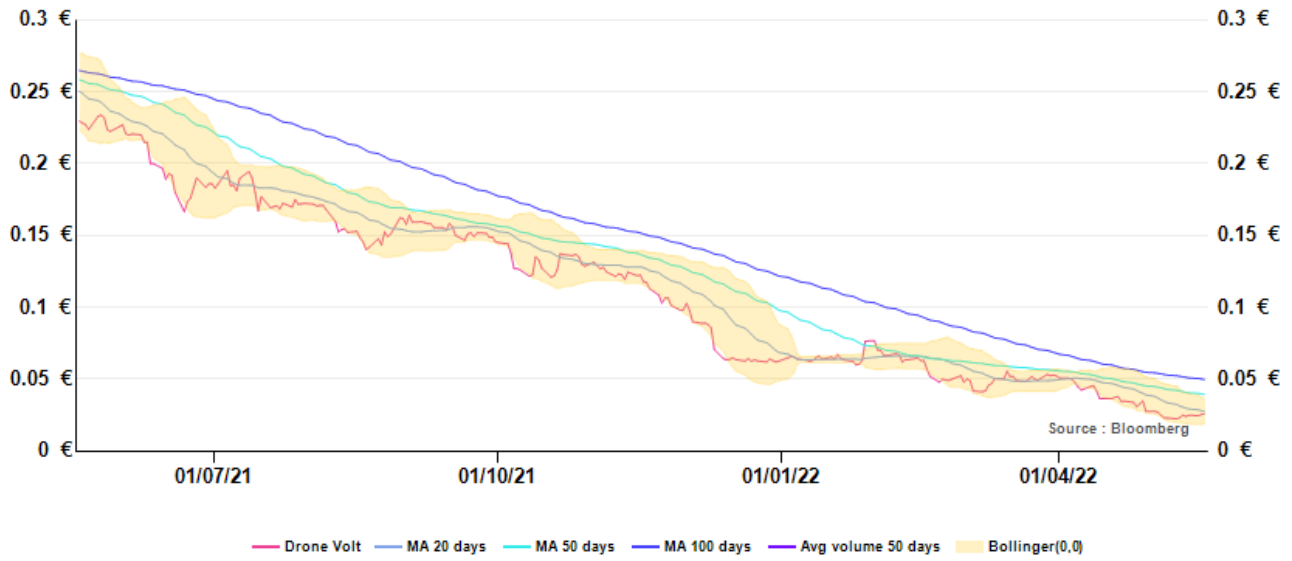
 : Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

 : 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

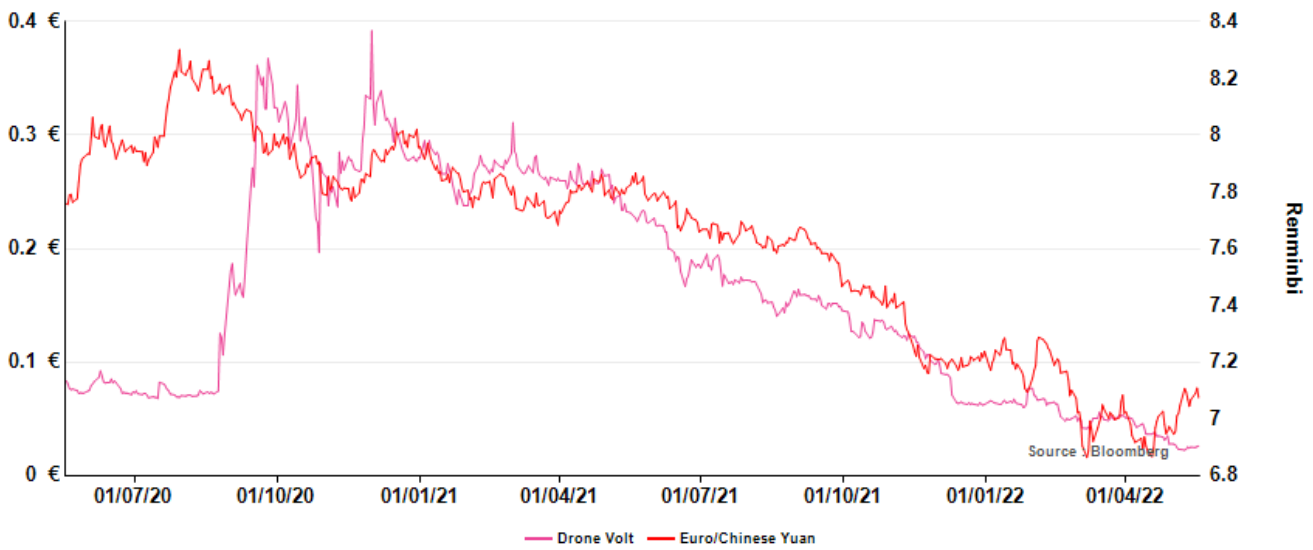


Drone Volt (Buy)

€/\$ sensitivity



Euro/Chinese Yuan sensitivity



Sector Aerospace-Defence



Detailed Financials

Valuation Key Data		12/21A	12/22E	12/23E	12/24E
Adjusted P/E	x	ns	-8.98	-17.1	ns
Reported P/E	x	12.6	-9.36	-17.1	-892
EV/EBITDA(R)	x	-82.2	-80.7	2.20	-0.30
EV/EBIT	x	-21.3	-2.25	-1.99	5.02
EV/Sales	x	7.71	0.46	0.19	-0.04
P/Book	x	1.79	0.27	0.25	0.23
Dividend yield	%	0.00	0.00	0.00	0.00
<i>Free cash flow yield</i>	%	-12.4	-16.5	-0.90	8.49
Average stock price	€	0.19	0.03	0.03	0.03

Consolidated P&L

		12/21A	12/22E	12/23E	12/24E
Sales	€th	8,617	11,515	14,197	17,052
<i>Sales growth</i>	%	47.7	33.6	23.3	20.1
<i>Sales per employee</i>	€th	227	288	330	379
Purchases and external costs (incl. IT)	€th	-8,286	-10,252	-11,523	-12,912
R&D costs as % of sales	%	0.00	0.00	0.00	0.00
Staff costs	€th	-1,195	-1,289	-1,421	-1,524
Operating lease payments	€th				
Cost of sales/COGS (indicative)	€th	-5,631	-7,438	-8,568	-9,780
EBITDA	€th	-808	-66.1	1,213	2,576
EBITDA(R)	€th	-808	-66.1	1,213	2,576
<i>EBITDA(R) margin</i>	%	-9.38	-0.57	8.54	15.1
<i>EBITDA(R) per employee</i>	€th	-21.3	-1.65	28.2	57.2
Depreciation	€th				
<i>Depreciations/Sales</i>	%	0.00	0.00	0.00	0.00
Amortisation	€th	-2,307	-2,303	-2,555	-2,728
Underlying operating profit	€th	-3,115	-2,369	-1,342	-153
<i>Underlying operating margin</i>	%	-36.1	-20.6	-9.46	-0.90
Other income/expense (cash)	€th	410	-83.6	-85.5	-87.4
Impairment charges/goodwill amortisation	€th				
Operating profit (EBIT)	€th	-2,705	-2,453	-1,428	-240
Interest expenses	€th	-161	-144	-168	-197
<i>of which effectively paid cash interest expenses</i>	€th	-133			
Financial income	€th	0.00	0.00	0.00	0.00
Other financial income (expense)	€th	333	-31.5	-34.7	-1.89
Net financial expenses	€th	172	-176	-203	-199
<i>of which related to pensions</i>	€th		0.00	0.00	0.00
Pre-tax profit before exceptional items	€th	-2,533	-2,629	-1,631	-439
Exceptional items and other (before taxes)	€th	6,630 ⁽¹⁾			
Current tax	€th	1,276	1,324	822	221
Deferred tax	€th				
Corporate tax	€th	1,276	1,324	822	221
<i>Tax rate</i>	%	50.4	50.4	50.4	50.4
<i>Net margin</i>	%	-14.6	-11.3	-5.70	-1.28
Equity associates	€th				
<i>Actual dividends received from equity holdings</i>	€th				
Minority interests	€th	178	187	196	206
Income from discontinued operations	€th				
Attributable net profit	€th	5,551	-1,118	-613	-11.7
Impairment charges/goodwill amortisation	€th	0.00	0.00	0.00	0.00
Other adjustments	€th	-6,630 ⁽¹⁾			
Adjusted attributable net profit	€th	-1,079	-1,118	-613	-11.7
Fully diluted adjusted attr. net profit	€th	-1,079	-1,118	-613	-11.7
NOPAT	€th	-2,181	-1,658	-940	-107

1. Added Value of the sale of Aerialtronics to Aquiline Drones

Cashflow Statement

		12/21A	12/22E	12/23E	12/24E
EBITDA	€th	-808	-66.1	1,213	2,576
Change in WCR	€th	-5,747	447	702	842
<i>of which (increases)/decr. in receivables</i>	€th	-29.0	-138	-15.2	-92.1
<i>of which (increases)/decr. in inventories</i>	€th	-1,317	323	87.2	226
<i>of which increases/(decr.) in payables</i>	€th	-1,379	263	630	709
<i>of which increases/(decr.) in other curr. liab.</i>	€th	-3,022	0.00	0.00	0.00
Actual dividends received from equity holdings	€th	0.00	0.00	0.00	0.00
Paid taxes	€th	1,532	1,324	822	221
Exceptional items	€th				
Other operating cash flows	€th	-763	-100	-100	-100
Total operating cash flows	€th	-5,786	1,605	2,637	3,539
Capital expenditure	€th	-3,067	-3,159	-2,527	-2,451
<i>Capex as a % of depreciation & amort.</i>	%	133	137	98.9	89.9
Net investments in shares	€th	(2)	-1,250 ⁽³⁾		
Other investment flows	€th	-4,292	3,050 ⁽⁴⁾	3,750 ⁽⁴⁾	0.00
Total investment flows	€th	-7,359	-1,359	1,223	-2,451
Net interest expense	€th	172	-176	-203	-199
<i>of which cash interest expense</i>	€th	-133	-176	-203	-199
Dividends (parent company)	€th				
Dividends to minorities interests	€th	0.00	0.00	0.00	0.00
New shareholders' equity	€th	13,206	0.00	1,000	3,000
<i>of which (acquisition) release of treasury shares</i>	€th				
(Increase)/decrease in net debt position	€th	238	764	500	1,000
Other financial flows	€th				
Total financial flows	€th	13,311	588	1,297	3,801
Change in scope of consolidation, exchange rates & other	€th	1.00			
Change in cash position	€th	167	834	5,156	4,889
Change in net debt position	€th	-71.0	70.4	4,656	3,889
Free cash flow (pre div.)	€th	-8,681	-1,730	-93.7	889
Operating cash flow (clean)	€th	-5,786	1,605	2,637	3,539
<i>Reinvestment rate (capex/tangible fixed assets)</i>	%	332	332	258	243

2. Corresponds to the sale of a 50% stake in Aerialtronics to Aquiline Drones. Aerialtronics is valued at €15m.

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

4. Potential cash from the sale of 50% of Aerialtronics based on a valuation of €15m split in FY21 and FY22. This cash will be available to Drone Volt if Aquiline Drone succeeds in its IPO, expected in 2022.

Balance Sheet

		12/21A	12/22E	12/23E	12/24E
Capitalised R&D	€th	2,335	2,265	2,242	2,354
Goodwill	€th	152	150	149	153
Other intangible assets	€th	3,884	4,078	4,323	4,582
Total intangible	€th	6,371	6,494	6,714	7,090
Tangible fixed assets	€th	923	951	979	1,009
Right-of-use	€th	191	201	211	221
Financial fixed assets (part of group strategy)	€th				
Other financial assets (investment purpose mainly)	€th	16,331	16,364	16,527	16,693
WCR	€th	4,085	3,638	2,936	2,094
<i>of which trade & receivables (+)</i>	€th	1,381	1,519	1,534	1,626
<i>of which inventories (+)</i>	€th	3,229	2,906	2,819	2,593
<i>of which payables (+)</i>	€th	525	788	1,418	2,126
<i>of which other current liabilities (+)</i>	€th				
Other current assets	€th	7,850	7,458	7,085	6,872
<i>of which tax assets (+)</i>	€th	6,809	0.00	0.00	1,000
Total assets (net of short term liabilities)	€th	35,751	35,104	34,452	33,978
Ordinary shareholders' equity (group share)	€th	39,151	38,446	42,300	44,550
Minority interests	€th	-1,155 ⁽⁵⁾	-1,143	-1,132	-1,121
Provisions for pensions	€th		0.00	0.00	0.00
Other provisions for risks and liabilities	€th	101	105	121	139
Deferred tax liabilities	€th	0.00	0.00	0.00	1,000
Other liabilities	€th	1,122	1,234	1,358	1,493
Net debt / (cash)	€th	-3,468	-3,538	-8,195	-12,083
Total liabilities and shareholders' equity	€th	35,751	35,104	34,452	33,978
Average net debt / (cash)	€th	-2,690	-3,503	-5,867	-10,139

5. The difference is linked to the sale of Aerialtronics with a valuation of €15m. Therefore, €7.5m is added in.

EV Calculations

		12/21A	12/22E	12/23E	12/24E
EV/EBITDA(R)	x	-82.2	-80.7	2.20	-0.30
EV/EBIT	x	-21.3	-2.25	-1.99	5.02
EV/Sales	x	7.71	0.46	0.19	-0.04
EV/Invested capital	x	5.84	0.48	0.25	-0.08
Market cap	€th	70,109	10,466	10,466	10,466
+ Provisions (including pensions)	€th	101	105	121	139
+ 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	-3,659	-3,739	-8,405	-12,304
+ Right-of-use (from 2019)/Leases debt equivalent	€th	0.00	0.00	0.00	0.00
- Financial fixed assets (fair value) & Others	€th	3,580	4,922	2,947	2,497
+ Minority interests (fair value)	€th	3,465	3,430	3,430	3,430
= Enterprise Value	€th	66,436	5,340	2,665	-767

Per Share Data

		12/21A	12/22E	12/23E	12/24E
Adjusted EPS (bfr goodwill amort. & dil.)	€	0.00	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	€	0.02	0.00	0.00	0.00
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.03	0.00	0.00	0.00
Operating cash flow per share	€	-0.02	0.00	0.01	0.01
Book value per share	€	0.11	0.10	0.11	0.11
Number of ordinary shares	Th	370,658	405,880	405,880	405,880
Number of equivalent ordinary shares (year end)	Th	370,658	405,880	405,880	405,880
Number of shares market cap.	Th	370,658	405,880	405,880	405,880
Treasury stock (year end)	Th	4,900	4,900	4,900	4,900
Number of shares net of treasury stock (year end)	Th	365,758	400,980	400,980	400,980
Number of common shares (average)	Th	282,141	383,369	400,980	400,980
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	283,258	384,486	402,097	402,097
Goodwill per share (diluted)	€	0.00	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	€	0.00	0.00	0.00	0.00
EPS before goodwill amortisation (non-diluted)	€	0.02	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	

Funding - Liquidity

		12/21A	12/22E	12/23E	12/24E
EBITDA	€th	-808	-66.1	1,213	2,576
Funds from operations (FFO)	€th	-172	982	1,731	2,498
Ordinary shareholders' equity	€th	39,151	38,446	42,300	44,550
Gross debt	€th	3,418	4,182	4,682	5,682
o/w Less than 1 year - Gross debt	€th	1,636	400	400	1,400
o/w 1 to 5 year - Gross debt	€th	1,782	3,782	4,282	4,282
+ Gross Cash	€th	6,886	7,720	12,877	17,765
= Net debt / (cash)	€th	-3,468	-3,538	-8,195	-12,083
Bank borrowings	€th	1,502	1,953	2,050	2,153
Issued bonds	€th	1,500	2,000	2,500	3,000
Financial leases liabilities	€th	250	100	100	350
Other financing	€th	166	129	31.8	179
Gearing (at book value)	%	-6.87	-9.11	-13.9	-22.8
Equity/Total asset (%)	%	110	110	123	131
Adj. Net debt/EBITDA(R)	x	4.29	53.5	-6.76	-4.69
Adjusted Gross Debt/EBITDA(R)	x	-4.36	-64.8	3.96	2.26
Adj. gross debt/(Adj. gross debt+Equity)	%	8.25	10.0	10.2	11.6
Ebit cover	x	18.1	-13.5	-6.61	-0.77
FFO/Gross Debt	%	-4.89	22.9	36.1	42.9
FFO/Net debt	%	4.96	-27.8	-21.1	-20.7
FCF/Adj. gross debt (%)	%	-247	-40.3	-1.95	15.3
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-1.10	15.0	32.0	13.3
"Cash" FCF/ST debt	x	-5.49	-4.32	-0.23	0.63

ROE Analysis (Dupont's Breakdown)

		12/21A	12/22E	12/23E	12/24E
Tax burden (Net income/pretax pre excp income)	x	-2.19	0.43	0.38	0.03
EBIT margin (EBIT/sales)	%	-31.4	-21.3	-10.1	-1.41
Assets rotation (Sales/Avg assets)	%	30.9	32.5	40.8	49.8
Financial leverage (Avg assets /Avg equity)	x	0.98	0.91	0.86	0.79
ROE	%	19.5	-2.88	-1.52	-0.03
ROA	%	-23.8	-22.1	-13.4	-2.36

Shareholder's Equity Review (Group Share)

		12/21A	12/22E	12/23E	12/24E
Y-1 shareholders' equity	€th	11,812	37,199	38,446	42,300
+ Net profit of year	€th	5,551	-1,118	-613	-11.7
- Dividends (parent cy)	€th	0.00	0.00	0.00	0.00
+ Additions to equity	€th	13,206	0.00	1,000	3,000
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	6,630	2,365	3,467	-738
= Year end shareholders' equity	€th	37,199	38,446	42,300	44,550

Staffing Analytics

		12/21A	12/22E	12/23E	12/24E
Sales per staff	€th	227	288	330	379
Staff costs per employee	€th	-31.4	-32.2	-33.0	-33.9
Change in staff costs	%	-9.54	7.89	10.2	7.27
Change in unit cost of staff	%	2.36	2.50	2.50	2.50
Staff costs/(EBITDA+Staff costs)	%	309	105	53.9	37.2

Average workforce	unit	38.0	40.0	43.0	45.0
Europe	unit	38.0	40.0	43.0	45.0
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	-1,195	-1,289	-1,421	-1,524
Wages and salaries	€th	-1,195	-1,289	-1,421	-1,524
of which social security contributions	€th	-160	-171	-187	-198
Pension related costs	€th		0.00	0.00	0.00

Divisional Breakdown Of Revenues

		12/21A	12/22E	12/23E	12/24E
Total sales	€th	8,617	11,515	14,197	17,052
Drone Volt Factory	€th	3,600	5,047	7,406	9,921
Distribution	€th	5,017	6,468	6,791	7,131
Training	€th				
Consumer	€th				
Professional	€th				
Royalties	€th				
Other	€th				

Divisional Breakdown Of Earnings

		12/21A	12/22E	12/23E	12/24E
Other profit breakdown Analysis Analysis					
Drone Volt Factory	€th	2,129	2,978	4,406	5,953
Distribution	€th	857	1,100	1,222	1,319
Consumer	€th				
Professional	€th				
Training	€th				
Royalties	€th	1,229	1,790	2,461	3,609
Other/cancellations	€th				
Total	€th	4,215	5,867	8,090	10,881
Other profit breakdown Analysis margin	%	48.9	51.0	57.0	63.8

Revenue Breakdown By Country

		12/21A	12/22E	12/23E	12/24E
France	%	40.8	40.8		
Europe	%	38.8	38.8		
Other	%	20.4	20.4		

Drone Volt (Buy)

ROCE		12/21A	12/22E	12/23E	12/24E
ROCE (NOPAT+lease exp. *(1-tax))/(net) cap employed adjusted	%	-19.2	-15.0	-8.84	-1.05
CFROIC	%	-76.3	-15.6	-0.88	8.72
Goodwill	€th	152	150	149	153
Accumulated goodwill amortisation	€th	0.00	0.00	0.00	0.00
All intangible assets	€th	3,884	4,078	4,323	4,582
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	2,335	2,265	2,242	2,354
Rights of use/ Capitalised leases	€th	0.00	0.00	0.00	0.00
Other fixed assets	€th	923	951	979	1,009
Accumulated depreciation	€th	0.00	0.00	0.00	0.00
WCR	€th	4,085	3,638	2,936	2,094
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	11,379	11,082	10,629	10,192
Capital employed before depreciation	€th	11,379	11,082	10,629	10,192

Divisional Breakdown Of Capital Employed		12/21A	12/22E	12/23E	12/24E
Drone Volt Factory	€th				
Distribution	€th				
Consumer	€th				
Professional	€th				
Training	€th				
Royalties	€th				
Other	€th	11,379	11,082	10,629	10,192
Total capital employed	€th	11,379	11,082	10,629	10,192

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%