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Drone Volt

From product to service

Opinion	Buy
Upside (%)	372
Price (€)	0.01
Target Price (€)	0.04
Bloomberg Code	ALDRV FP
Market Cap (€M)	3.34
Enterprise Value (€th)	2,231

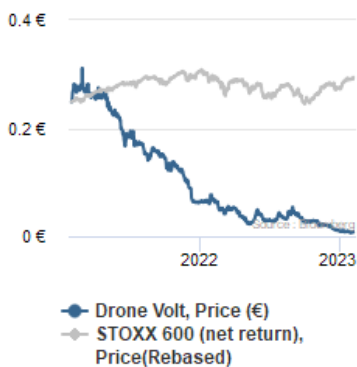
Momentum	NEGATIVE
Sustainability	6/10
Credit Risk	C7

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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
- Implementing a Drone-as-a-service strategy which could become highly lucrative, especially if applied to its LineDrone which is expected to enter into service by 2023

CONS

- Nascent market, displaying high potential growth, but little visibility on contract timings and overall adoption of this technology
- Highly dependent on Aquiline Drone, which has too little cash on board to fulfil its current contracts
- 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	-4.38	-1.28	-1.75
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-13.8	-86.6	-10.2	-6.81	2.14
Adjusted EPS (€)	-0.05	0.00	-0.01	-0.01	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	10,111	12,478	14,213
Other margin (%)	33.2	48.9	36.9	47.9	52.7
Attributable net profit (€th)	-6,393	5,551	-3,413	-2,596	-1,897
ROE (after tax) (%)	-47.6	19.5	-8.66	-6.38	-4.57
Gearing (%)	8.95	-6.87	-6.58	-7.13	-10.3

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	-4.38	-1.28	-1.75
EV/EBITDA	x	-86.6	-10.2	-6.81	2.14
P/Book	x	1.79	0.41	0.08	0.08
Dividend yield	%	0.00	0.00	0.00	0.00
Free Cash Flow Yield	%	-12.4	-21.7	-39.1	2.59
ROE (after tax)	%	19.5	-8.66	-6.38	-4.57
ROCE	%	-19.2	-27.1	-21.3	-16.4
Net debt/EBITDA	x	4.29	1.01	12.8	-4.20

Consolidated P&L

		12/21A	12/22E	12/23E	12/24E
Sales	€th	8,617	10,111	12,478	14,213
EBITDA	€th	-808	-1,729	-328	1,021
Underlying operating profit	€th	-3,115	-4,560	-3,447	-2,532
Operating profit (EBIT)	€th	-2,705	-4,644	-3,533	-2,619
Net financial expenses	€th	172	-180	-209	-199
Pre-tax profit before exceptional items	€th	-2,533	-4,824	-3,742	-2,818
Corporate tax	€th	1,276	1,224	949	715
Attributable net profit	€th	5,551	-3,413	-2,596	-1,897
Adjusted attributable net profit	€th	-1,079	-3,413	-2,596	-1,897

Cashflow Statement

		12/21A	12/22E	12/23E	12/24E
Total operating cash flows	€th	-5,786	-180	1,445	2,786
Capital expenditure	€th	-3,067	-3,159	-2,527	-2,502
Total investment flows	€th	-7,359	-1,359	1,223	-2,502
Dividends (parent company)	€th				
New shareholders' equity	€th	13,206	0.00	0.00	0.00
Total financial flows	€th	13,311	784	191	601
Change in net debt position	€th	-71.0	-1,719	2,459	85.7
Free cash flow (pre div.)	€th	-8,681	-3,519	-1,291	85.7

Balance Sheet

		12/21A	12/22E	12/23E	12/24E
Goodwill	€th	152	166	164	169
Total intangible	€th	6,371	6,913	7,143	7,542
Tangible fixed assets	€th	923	1,006	1,036	1,067
Right-of-use	€th	191	201	211	221
WCR	€th	4,085	3,860	3,136	2,186
Total assets (net of short term liabilities)	€th	35,751	39,867	39,864	39,814
Ordinary shareholders' equity (group share)	€th	39,151	39,654	41,783	41,189
Provisions for pensions	€th		0.00	0.00	0.00
Net debt / (cash)	€th	-3,468	-1,749	-4,208	-4,294
Total liabilities and shareholders' equity	€th	35,751	39,867	39,864	39,814

Per Share Data

		12/21A	12/22E	12/23E	12/24E
Adjusted EPS (bfr goodwill amort. & dil.)	€	0.00	-0.01	-0.01	0.00
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.03	-0.01	0.00	0.00
Book value per share	€	0.11	0.09	0.10	0.09
Number of diluted shares (average)	Th	283,258	401,546	436,217	436,217

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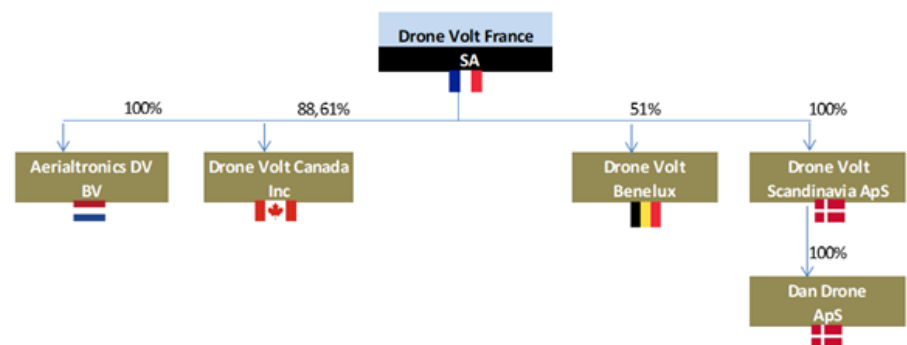
Businesses & Trends

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	10,111	12,478	14,213	1,494 ↑	100%	2,367 ↑	100%	
Drone Volt Factory	Electrical Products-Misc	3,434	3,469	5,504	6,890	35	2%	2,035	86%
Distribution	Electrical Products-Misc	5,183	6,642	6,974	7,323	1,459	98%	332	14%
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	3,729	5,979	7,494	-486 +	100%	2,250 +	100%
Drone Volt Factory	1,648	1,908	3,247	4,478	260 +	-53%	1,339 +	60%
Distribution	1,338	1,129	1,255	1,391	-209 +	43%	126 +	6%
Consumer								
Professional								
Training								
Royalties	1,229	692	1,476	1,624	-537 +	110%	784 +	35%
Other/cancellations								

Divisional Other profit breakdown Analysis margin

	12/21A	12/22E	12/23E	12/24E
Total	48.9%	36.9%	47.9%	52.7%
Drone Volt Factory	48.0%	55.0%	59.0%	65.0%
Distribution	25.8%	17.0%	18.0%	19.0%
Consumer				
Professional				
Training				
Royalties				

Valuation

DCF

We had previously assumed an expected market CAGR of c.14% 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. The commercialization of the LineDrone could push this estimate upwards, as we believe it could become the main growth driver for Drone Volt if marketed correctly. Thanks to cost containment measures, positive volume effects and a transition to services rather than products, we believe that long-term EBITDA growth of 11% is achievable. The US business based on royalties is adding significantly to our DCF. There could be some major upside once the IPO of Aquiline Drone is official and it starts ordering Drone Volt products more aggressively. 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		0.03	316%	35%
NAV/SOTP per share		0.12	1,443%	20%
EV/Ebitda	Peers	0.00	-84%	20%
P/E	Peers	0.00	-50%	10%
Dividend Yield	Peers	0.00	-100%	10%
P/Book	Peers	0.02	100%	5%
Target Price		0.04	372%	

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	Ev/Ebitda (x)	P/Book (x)	Yield(%)
Peers ratios	29.0	13.7	2.76	0.93
Drone Volt's ratios	-1.35	-76.1	0.08	0.00
Premium	-50.0%	0.00%	0.00%	0.00%
Default comparison based valuation (€)	0.00	0.00	0.02	0.00
Elbit Systems	20.8	10.2	2.49	1.35
KUKA	72.5	17.5	2.64	0.18
Aerovironment	54.8	26.4	4.65	n/a
Irobot	ns	ns	2.67	0.00

DCF Valuation Per Share

WACC	%	9.47	Avg net debt (cash) at book value	€th	-2,979
PV of cashflow FY1-FY11	€th	3,285	Provisions	€th	105
FY11CF	€th	1,982	Unrecognised actuarial losses (gains)	€th	0.00
Normalised long-term growth "g"	%	2.00	Financial assets at market price	€th	242
Sustainability "g"	%	2.05	Minorities interests (fair value)	€th	3,430
Terminal value	€th	26,724	Equity value	€th	13,788
PV terminal value	€th	10,818	Number of shares	Th	436,217
PV terminal value in % of total value	%	76.7	Implied equity value per share	€	0.03
Total PV	€th	14,103	Sustainability impact on DCF	%	0.53

Assessing The Cost Of Capital

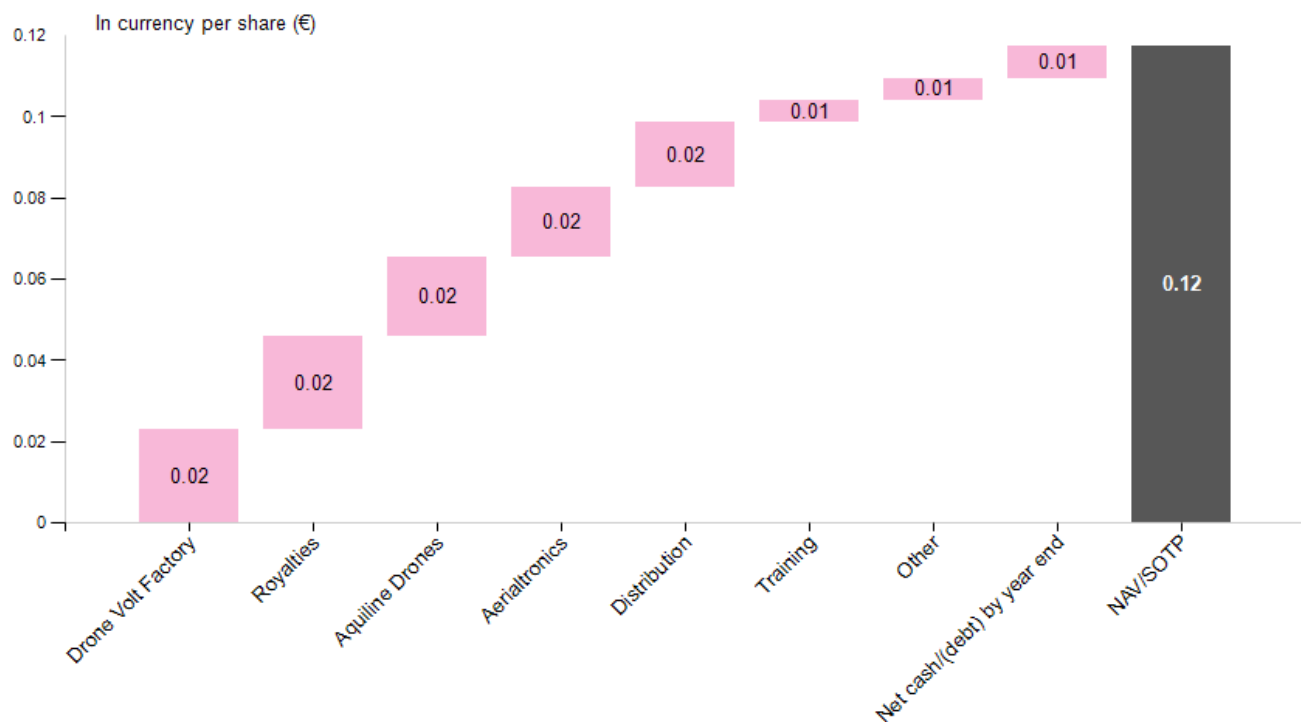
Synthetic default risk free rate	%	3.50	Company debt spread	bp	300
Target equity risk premium	%	5.00	Marginal Company cost of debt	%	6.50
Tax advantage of debt finance (normalised)	%	30.0	Company beta (leveraged)	x	0.75
Average debt maturity	Year	5	Company gearing at market value	%	-52.9
Sector asset beta	x	1.19	Company market gearing	%	-112
Debt beta	x	0.60	Required return on geared equity	%	7.26
Market capitalisation	€th	3,307	Cost of debt	%	4.55
Net debt (cash) at book value	€th	-1,749	Cost of ungeared equity	%	9.47
Net debt (cash) at market value	€th	-1,749	WACC	%	9.47

DCF Calculation

		12/21A	12/22E	12/23E	12/24E	Growth	12/25E	12/32E
Sales	€th	8,617	10,111	12,478	14,213	7.00%	15,208	24,420
EBITDA	€th	-808	-1,729	-328	1,021	11.0%	1,134	2,353
EBITDA Margin	%	-9.38	-17.1	-2.63	7.19		7.45	9.64
Change in WCR	€th	-5,747	225	723	950	7.00%	1,017	1,633
Total operating cash flows (pre tax)	€th	-7,062	-1,404	495	2,071		2,150	3,986
Corporate tax	€th	1,276	1,224	949	715	7.00%	765	1,228
Net tax shield	€th	51.6	-53.9	-62.6	-59.6	7.00%	-63.8	-102
Capital expenditure	€th	-3,067	-3,159	-2,527	-2,502	3.00%	-2,577	-3,169
Capex/Sales	%	-35.6	-31.2	-20.3	-17.6		-16.9	-13.0
Pre financing costs FCF (for DCF purposes)	€th	-8,810	-3,384	-1,135	235		275	1,943
Various add backs (incl. R&D, etc.) for DCF purposes	€th							
Free cash flow adjusted	€th	-8,810	-3,384	-1,135	235		275	1,943
Discounted free cash flows	€th	-8,810	-3,384	-1,037	196		209	786
Invested capital	€	11.4	11.8	11.3	10.8		11.1	13.7

NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (€th)	Stake valuation (€th)	In currency per share (€)	% of gross assets
Drone Volt Factory	100%	EV/Sales	2	10,000	10,000	0.02	21.0%
Royalties	100%	EV/Sales	5	10,000	10,000	0.02	21.0%
Aquiline Drones	9.90%	EV/Sales	2	85,000	8,415	0.02	17.6%
Aerialtronics	50.0%	NAV		15,100	7,550	0.02	15.8%
Distribution	100%	EV/Sales	1	7,000	7,000	0.02	14.7%
Training	100%	EV/Sales	3	2,400	2,400	0.01	5.03%
Other					2,335	0.01	4.90%
Total gross assets					47,700	0.11	100%
Net cash/(debt) by year end					3,468	0.01	7.27%
Commitments to pay							
Commitments received							
NAV/SOTP					51,168	0.12	107%
Number of shares net of treasury shares - year end (Th)					436,217		
NAV/SOTP per share (€)						0.12	
Current discount to NAV/SOTP (%)						93.5	



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	-1,729	-328	1,021
Funds from operations (FFO)	€th	-172	-585	513	1,637
Ordinary shareholders' equity	€th	39,151	39,654	41,783	41,189
Gross debt	€th	3,418	4,382	4,782	5,582
+ Gross Cash	€th	6,886	6,131	8,990	9,876
= Net debt / (cash)	€th	-3,468	-1,749	-4,208	-4,294
Gearing (at book value)	%	-6.87	-6.58	-7.13	-10.3
Equity/Total asset (%)	%	110	99.5	105	103
Adj. Net debt/EBITDA(R)	x	4.29	1.01	12.8	-4.20
Adjusted Gross Debt/EBITDA(R)	x	-4.36	-2.59	-15.0	5.60
Adj. gross debt/(Adj. gross debt+Equity)	%	8.25	10.2	10.5	12.2
Ebit cover	x	18.1	-25.4	-16.5	-12.7
FFO/Gross Debt	%	-4.89	-13.0	10.5	28.6
FFO/Net debt	%	4.96	33.5	-12.2	-38.1
FCF/Adj. gross debt (%)	%	-247	-78.4	-26.3	1.50
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-1.10	4.35	15.4	12.5
"Cash" FCF/ST debt	x	-5.49	-5.86	-2.58	0.11

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 Telepilot Operator Airspace				

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

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

Sustainability score

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

	Score	Weight
Governance		
Independent directors rate	10/10	25%
Board geographic diversity	4/10	20%
Chairman vs. Executive split	✓	5%
Environment		
CO ² Emission	2/10	25%
Water withdrawal	4/10	10%
Social		
Wage dispersion trend	9/10	5%
Job satisfaction	3/10	5%
Internal communication	10/10	5%
<hr/>		
Sustainability score	5.8/10	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)



5.6 (6.9)

Independent board












Yes

Parameters	Company	Sector	Score	Weight
Number of board members	6	13	9/10	5.0%
Board feminization (%)	0	36	1/10	5.0%
Board domestic density (%)	83	71	4/10	10.0%
Average age of board's members	61	61	5/10	5.0%
Type of company : Small cap, controlled			4/10	10.0%
Independent directors rate	100	39	10/10	20.0%
One share, one vote			✗	10.0%
Chairman vs. Executive split			✓	0.0%
Chairman not ex executive			✗	5.0%
Full disclosure on mgt pay			✗	5.0%
Disclosure of performance anchor for bonus trigger			✗	5.0%
Compensation committee reporting to board of directors			✓	5.0%
Straightforward, clean by-laws			✓	15.0%
Governance score			5.6/10	100.0%

Management

Name		Function	Birth date	Date in	Date out	Compensation, in k€ (year)	
						Cash	Equity linked
Marc COURCELLE	M	 CEO		2020		(2021)	
Sylvain NAVARRO	M	 CFO	1977	2018		(2021)	

Board of Directors

Name		Indep.	Function	Completion of current mandate	Birth date	Date in	Date out	Fees / indemnity, in k€ (year)		Value of holding, in k€ (year)	
Stefano VALENTINI	M		President/Chairman of th...			2021		(2021)			
Jean-Claude BONNEAU	M	 	Member			2021		(2021)			
Jean-Claude BOURDON	M	 	Member	2025	1952	2019		(2021)		(2021)	
Fabrice LEGRAND	M	 	Member	2022	1964	2016		(2021)		(2021)	
Laurent LELEUP	M	 	Member	2022	1966	2017		(2021)		(2021)	
Stanislas VEILLET	M	 	Member	2021	1965	2017		(2021)		(2021)	

Environment

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

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

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

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

Environmental score

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

Parameters	Score	Sector	Weight
CO ² Emission	2/10	4/10	30%
Water withdrawal	4/10	5/10	30%
Energy	3/10	5/10	25%
Waste	3/10	5/10	15%
Environmental score	3.0		100%









Company (Sector)

3.0 (4.9)


Environmental metrics

	Company		
	2021	2022	2023
	3.1	2.5	3.0

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	2,723,866	410,976	16,456,781	50,437
Rolls-Royce		4/10	5,510,948	393,330	12,992,100	43,750
Leonardo		5/10	5,614,000	478,891	5,888,000	29,884
Airbus Group		6/10	13,586,400	827,000	3,078,590	69,660
Thales		5/10	7,326,900	186,000	1,615,000	22,259
Safran		7/10	7,021,469	397,568	2,599,461	58,256
Rheinmetall		4/10	3,792,778	450,881	3,591,460	63,140
MTU Aero Engines		7/10	1,120,320	51,300	8,079,600	6,800

Drone Volt (Buy)

Drone Volt		3/10				
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Social

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

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

Social score

Company (Sector)

5.9 (6.7)

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	8/10	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	5.8/10	100%

Qualitative metrics (33%)

Set of listed qualitative criterias and for the analyst to tick

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

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

Qualitative score

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

Staff & Pension matters

As of the end of December 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

24/10/2022

Q3-22: massive momentum in distribution

Earnings/sales releases

Drone Volt has published strong revenue figures despite the loss of its licensing contract from Aquiline Drones. Its Distribution activity strongly outperformed our expectations, more than offsetting this headwind. Drone Volt looks well set to reach the €10m milestone, as the costs of participation in various shows are starting to pay off.

Fact

- 9M-22 sales stood at €7,972k, a 26% increase yoy.
- Distribution grew by 86% yoy while Drone Volt Factory sales dropped by 48%.
- The 9M gross margin dropped by 11 points yoy to 24%.
- LineDrone is expected to start generating revenues in FY23.
- Strong distribution volumes will enable Drone Volt to obtain more supplier discounts.
- Q3-22 SKYTOOLS sales amounted to €243k.

Analysis

While Aquiline Drone is on standby...

Drone Volt performed surprisingly well during this quarter. As a reminder, the group saw its licensing revenue from Aquiline Drone suspended last quarter, with no dates of resumption. Aquiline Drone is currently trying to fund its growth (through an IPO or other financing) and will not continue the partnership with Drone Volt until it has sufficient funds. The licensing contract alone represented 16% of H1-22 revenues and is 100% profit. Alone, this caused a 5-point decrease in the sales growth and cost 3 points of gross margin in the 9M results.

This left a significant dent in Drone Volt Factory activity which decreased by 48% yoy. The lower mix of Drone Volt Factory in total sales has logically resulted in a reduced gross margin, as the Distribution activity is less profitable. However, the positive surprise comes from the fact that Drone Volt has managed to grow its Drone Volt Factory gross margin without the licensing contract. It has managed to offset this headwind thanks to increased lucrative activities such as training and educating customers.

...Drone Volt has managed to find alternative customers

Drone Volt's participation in various shows is starting to pay-off. This has given the company the opportunity to meet new prospects and establish new business partnerships. Thanks to its strong execution history and positive commercial dynamic, Drone Volt has managed to sign a significant win in its

Distribution business which resulted in this spectacular growth in Q3. Not only did this save the financial performance of the quarter, but it also opens up a new role for Drone Volt as a drone distributor. This suggests that it will have additional discounts from drone suppliers in the future (the largest one being DJI), which will enable the French company to compete in bids to which it has never before had access. Even though the Distribution activity is less lucrative than the Drone Volt Factory business, it is accretive for the gross profit and should not be disregarded.

In addition, distributing third party drones also enables Drone Volt to develop customer relationships. It will give Drone Volt the opportunity to propose its proprietary drone solutions, which are far more lucrative. It is thus a gateway to further commercial successes.

Impact

Drone Volt looks well set to achieve the €10m milestone, which would be its historical record. This is in-line with our expectations which stand at €10.1m. Though the Q4 is not expected to be as strong as Q3, there is a possibility for Drone Volt to beat our expectations. Overall, these sound results should restore confidence in the stock. We reiterate our Buy recommendation.

12/10/2022

H1-22 Model Update

Change in EPS

2022 : € -0.01 vs 0.00	ns
2023 : € -0.01 vs 0.00	ns

Drone Volt saw a significant increase in expenses during the first semester, which was a drag on margins. The rise in marketing expenses (especially related to exhibition participations) amounted to €250k. In addition, through the acquisition of Viking Drones, Drone Volt recruited 3 top-notch engineers which have to be paid, leading to a 25% increase in the wage bill. This was combined with Aquiline Drone's announcement stating that it would no longer pay the license contract. This will remove c.€650k of potential revenues in H2-22, which is pure profit for Drone Volt. Hence, we expect the gross margin for the coming semester to be below that of H1-22. We still expect growth in the H2-22 yoy and believe that the major one-off costs have already been accounted for in the H1-22 P&L statement.

Change in NAV

€ 0.12 vs 0.15	-23.2%
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We have reduced the NAV to account for the slower growth than previously expected. Although we have increased the sales expected from Distribution thanks to the acquisition of SKYTOOLS (and its strong performance), we have adjusted downwards the Royalties revenues following the Aquiline Drone announcement and the Drone Volt Factory revenues given the slow execution of the promised contract from the Hungarian customer and Aquiline Drone.

Change in DCF

€ 0.03 vs 0.10	-69.1%
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Due the decreased profitability, we have reviewed downwards Drone Volt's cash generation. In addition, its inventory has slightly increased while we had been expecting a material decrease over the year. While the Hungarian and Aquiline Drone contracts have been postponed, Drone Volt has managed to diversify its customer base and we believe its short-term growth is intact. The switch from products to services will also drive profitability. Hence, we have increased our DCF EBITDA long-term growth rate from 9.5% to 11% to account for this. The LineDrone as a service could be a major catalyst if the commercial traction is strong.

27/09/2022

From product manufacturer to service provider

Earnings/sales releases

Drone Volt has provided its final H1-22 results with an update on their technological progress. The LineDrone is now fully operational and has gained visibility thanks to the numerous shows in which Drone Volt has participated in the past months. After exchanges with potential customers, the French company has realized that demand would be larger if it provided its drone solutions as a service. The current traction is positive, and Q3-22 is expected to be above last year's level without any contribution from Aquiline Drones.

Fact

The final results for H1-22 are below:

	€k	S1-21	S1-22	Variation
Sales		3 610	4 153	+543
Gross result		1 434	1 407	-27
EBIT		-1 060	-3 377	-2 317
Net income		-6 88	-2 504	-1 816

- There has been an upward adjustment on sales (€130k, 3% increase) and on gross margin (€34k, 2%) compared to the previous "first take" results published in July.
- The charges associated with participation in shows in the US and France represented 50% of the rise in external costs.
- The LineDrone has completed the final tests and is ready for distribution.
- The partnership with Roth2 has succeeded in bringing a hydrogen drone-charging station to the market.
- The Aquiline Drone licensing contract is on hold (16% of sales in H1-22). The American partner is still looking for ways to fund its growth. The exchange of know-how with Drone Volt is still not completed for the most advanced drones.
- Q3 is expected to be stronger than last year thanks to strong commercial momentum despite the dent left by Aquiline Drone.

Analysis

Rising costs, a direct hit on the net result

As part of Drone Volt's more aggressive commercial strategy, Drone Volt has participated in 3 exhibitions to date in order to promote its drone solutions. Although we believe it will pay off, as many players in energy and surveillance are unaware of the advantages that drones could provide, there has been a direct impact on costs. Travelling to the US does not come cheap (especially given the strong dollar). These shows have been responsible for 50% of the increase in charges. An additional factor is the on-boarding of 7 engineers, of which 3 come from the Viking Drone integration. Extra-intellectual power comes at a price. The comparison with last year's profitability level is also tough. Last year's first semester has benefited from a €900k one-off linked to the loss of the ex-CEO Olivier Gualdoni.

On the positive side, Drone Volt will not materially feel the impact of inflation on raw materials. Due to the ramp-up of production associated with Aquiline Drone's massive contract, Drone Volt has built over €3m worth of inventory. It possesses the standard drones to secure the supply for the short-term demand. Concerning its Distribution activity, the inflation is passed on directly to customers. For its most advanced drones, Hercules 20, LineDrone or Heliplane, its pricing power is sufficient to secure its current level of profitability.

The LineDrone is finally out!

After years of work, Drone Volt has released its most advanced drone to date: the LineDrone. This drone answers the needs of major energy providers. It has two main objectives 1) to analyse the state of the junction between the high-voltage lines 2) to analyse the tension of the high-voltage lines. The junction between the lines wears out frequently and needs to be changed. Measuring the tension of the high-voltage line is used to determine whether there is an energy leakage or not. Currently, energy providers use helicopters with thermal vision to detect energy leakage. This process is highly expensive, dangerous, fuel intensive and less precise than the LineDrone. Given the current soars in energy prices, the LineDrone has never been so vital.

The drone is capable of landing and moving along power lines with over 300,000 Volts while performing its analysis thanks to in-house built hardware and software. This enables the energy providers to leave the high-voltage lines open, whereas previously they had to be temporarily shut down for safety reasons. Shutting down a line for 1h can generate a loss of over €50k.

Nevertheless, the needs of the drone would be temporary for customers. To understand in depth the software and to be able to fly such an expensive electronic gadget requires human expertise. Hence, Drone Volt had to adapt its business proposal.

We buy the new strategy

After discussions with its existing and potential customers during current missions and exhibitions, Drone Volt has realized that it had to adapt its strategy to the market. Currently, customers require drones for specific

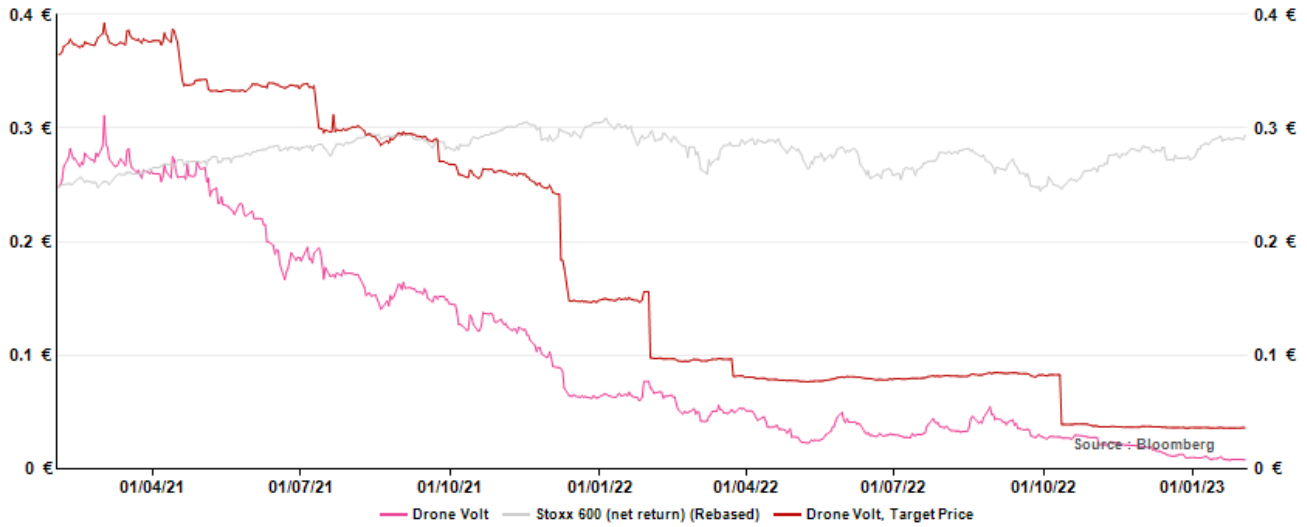
temporary needs. The prospects are not prepared to train their employees to fly a drone once every 3-6 months. Instead, they would rather rent the drone with a specialized Drone Volt pilot for a day or two. These contracts would be highly lucrative. We believe that within a year of providing the LineDrone services Drone Volt would generate as much cash as selling the drone without having the cost of manufacturing a new one. Hydro-Quebec is still engaged in buying 3 LineDrones.

This strategy seems promising, as it matches perfectly with customer needs and would be profitable. We believe that Drone Volt's drone portfolio will convince customers over time which could lead to recurring contracts. For example, for high-voltage power lines, frequent maintenance checks are necessary. Stable revenues over time would be the game-changer that Drone Volt has been waiting for, as it would enable it to have a secure source of cash coming in. For its shareholders, it would also mean the end of potential dilution. With the additional visibility provided by the potential recurring contracts, Drone Volt would be able to recruit pilots and grow its drone stocks in better accordance with demand. So far, its largest customers have failed their engagements (Aquiline Drone and the Hungarian customer). More visibility would be greatly appreciated by both Drone Volt's management and shareholders. It seems it would solve all their recent torments.

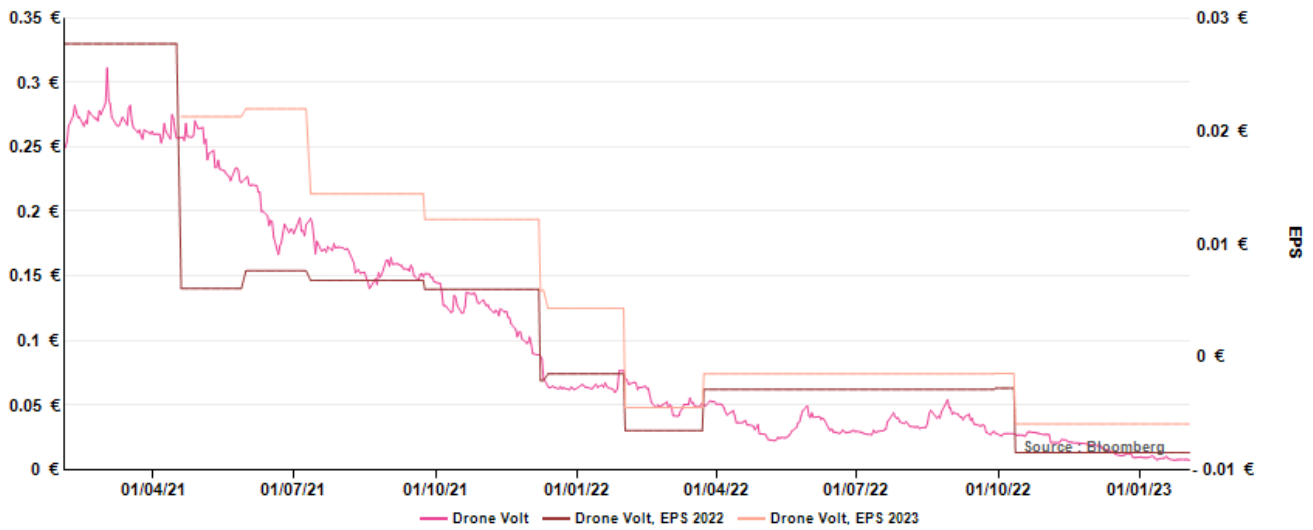
Impact

Despite the current results that stood below our expectations, we are now confident that Drone Volt has found the appropriate business model. Its dependence on Aquiline Drone has previously been a liability. The fact that Q3 is expected to come in above last year's levels (despite the loss of revenues from Aquiline Drone) shows that Drone Volt has managed to diversify its customer base and to convince major players with its product portfolio. We will lower our profitability figures but remain convinced that Drone Volt is on the right track. We reiterated our positive opinion on the stock.

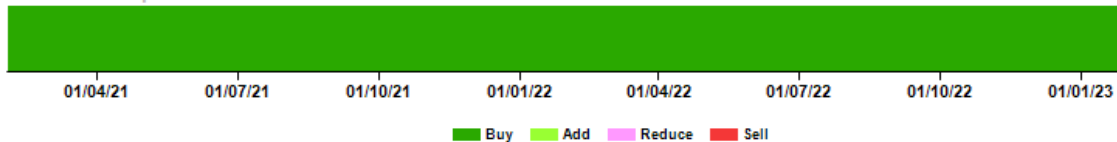
Stock Price and Target Price



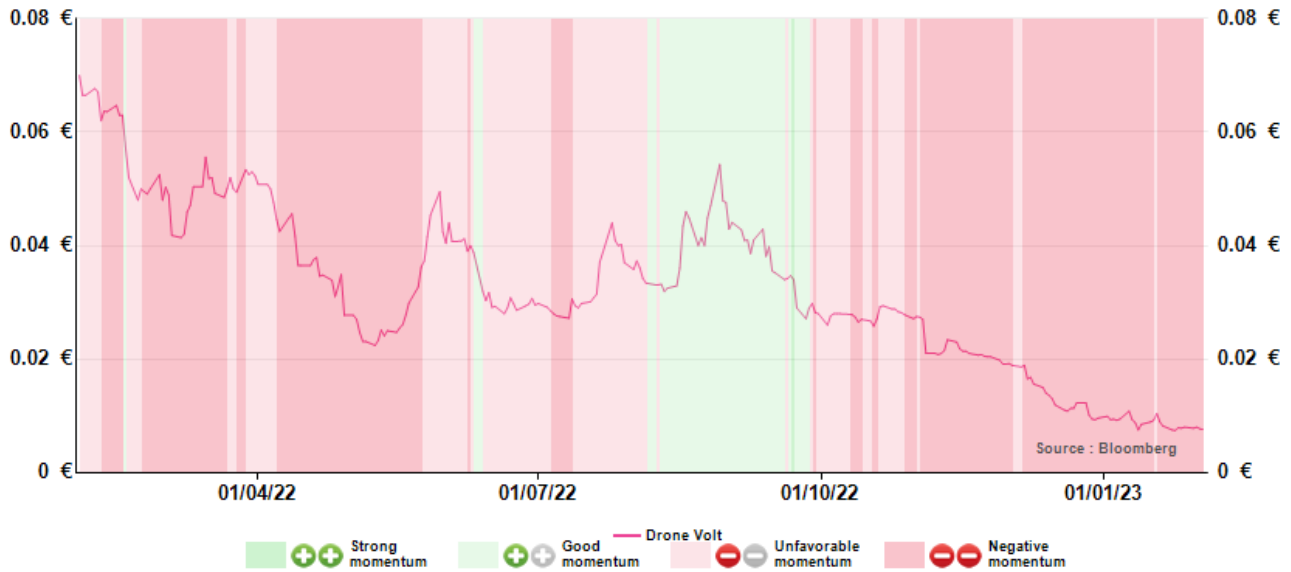
Earnings Per Share & Opinion



Drone Volt : Opinion



Momentum






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



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


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

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

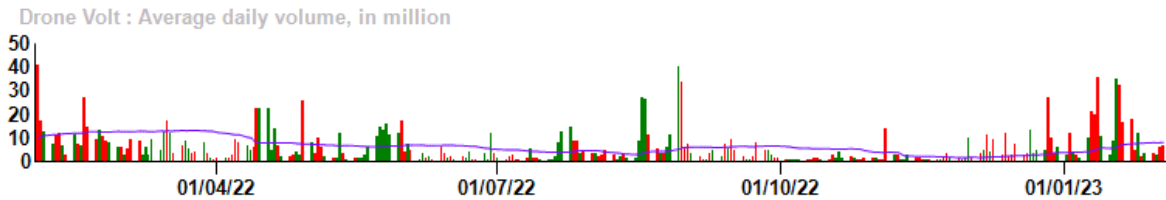
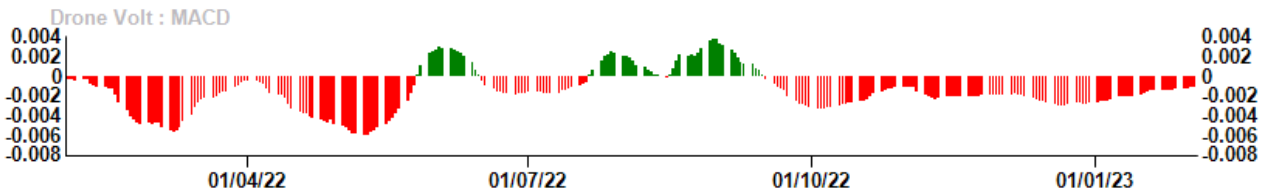
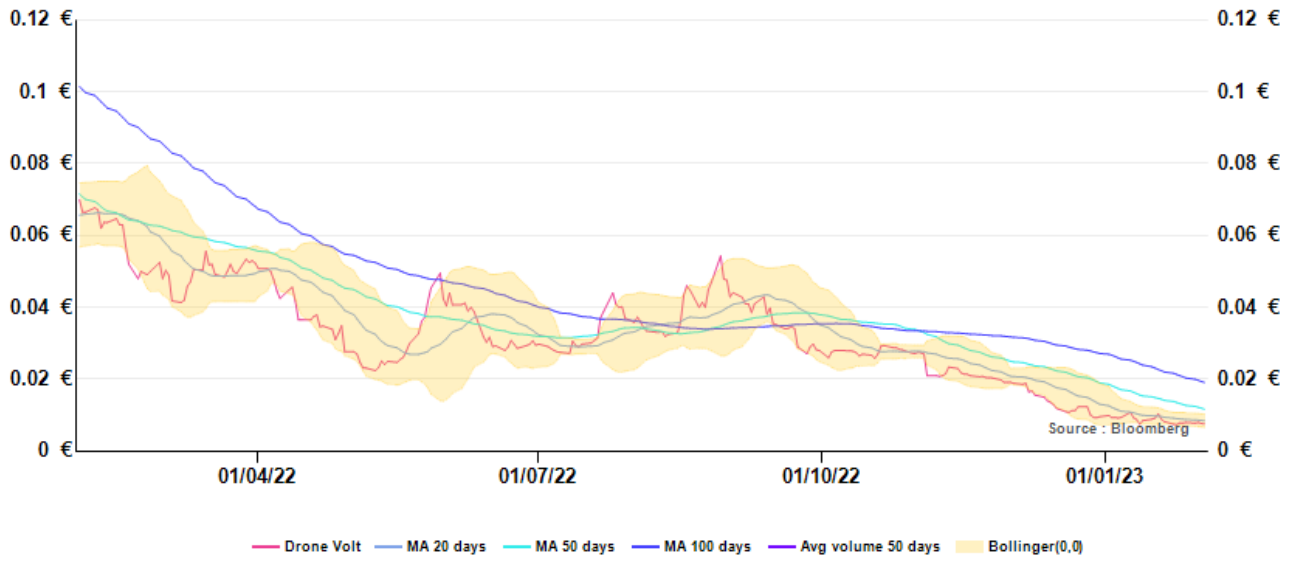
 : Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

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

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

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

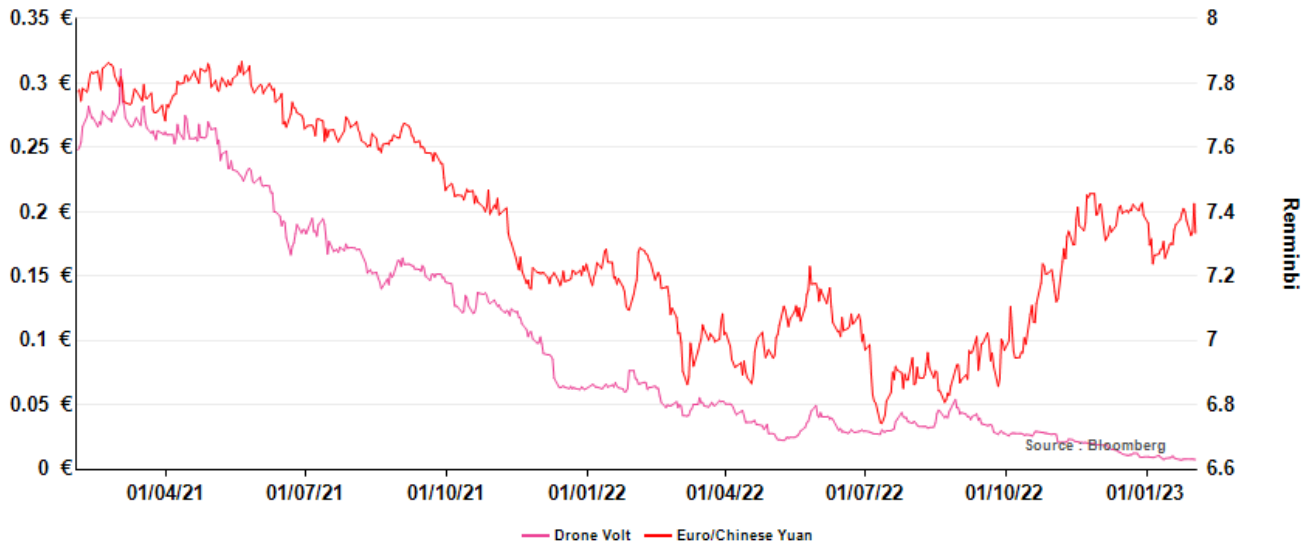
Moving Average MACD & Volume



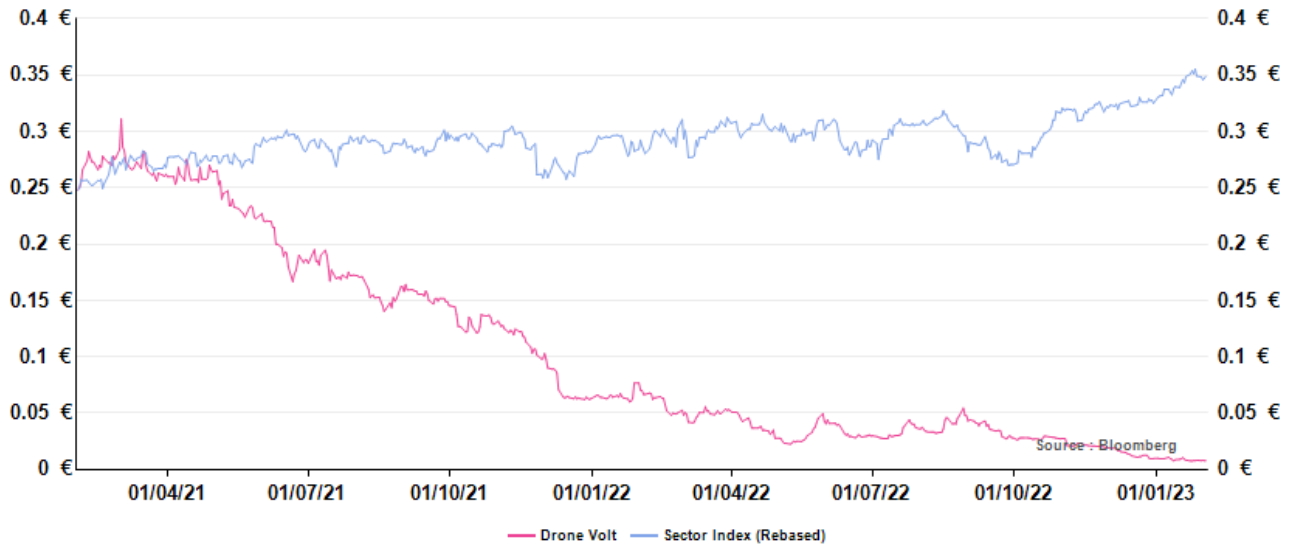
€/\$ sensitivity



Euro/Chinese Yuan sensitivity



Sector Aerospace-Defence



Detailed Financials

Valuation Key Data		12/21A	12/22E	12/23E	12/24E
Adjusted P/E	x	ns	-4.38	-1.28	-1.75
Reported P/E	x	12.6	-4.75	-1.27	-1.74
EV/EBITDA(R)	x	-86.6	-10.2	-6.81	2.14
EV/EBIT	x	-22.5	-3.85	-0.65	-0.86
EV/Sales	x	8.12	1.74	0.18	0.15
P/Book	x	1.79	0.41	0.08	0.08
Dividend yield	%	0.00	0.00	0.00	0.00
<i>Free cash flow yield</i>	%	-12.4	-21.7	-39.1	2.59
Average stock price	€	0.19	0.04	0.01	0.01

Consolidated P&L		12/21A	12/22E	12/23E	12/24E
Sales	€th	8,617	10,111	12,478	14,213
<i>Sales growth</i>	%	47.7	17.3	23.4	13.9
<i>Sales per employee</i>	€th	227	266	328	364
Purchases and external costs (incl. IT)	€th	-8,286	-10,127	-11,059	-11,365
R&D costs as % of sales	%	0.00	0.00	0.00	0.00
Staff costs	€th	-1,195	-1,673	-1,706	-1,786
Operating lease payments	€th				
Cost of sales/COGS (indicative)	€th	-5,631	-7,074	-7,975	-8,343
EBITDA	€th	-808	-1,729	-328	1,021
EBITDA(R)	€th	-808	-1,729	-328	1,021
<i>EBITDA(R) margin</i>	%	-9.38	-17.1	-2.63	7.19
<i>EBITDA(R) per employee</i>	€th	-21.3	-45.5	-8.63	26.2
Depreciation	€th				
<i>Depreciations/Sales</i>	%	0.00	0.00	0.00	0.00
Amortisation	€th	-2,307	-2,831	-3,119	-3,553
Underlying operating profit	€th	-3,115	-4,560	-3,447	-2,532
<i>Underlying operating margin</i>	%	-36.1	-45.1	-27.6	-17.8
Other income/expense (cash)	€th	410	-83.6	-85.5	-87.4
Impairment charges/goodwill amortisation	€th				
Operating profit (EBIT)	€th	-2,705	-4,644	-3,533	-2,619
Interest expenses	€th	-161	-148	-174	-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	-180	-209	-199
<i>of which related to pensions</i>	€th		0.00	0.00	0.00
Pre-tax profit before exceptional items	€th	-2,533	-4,824	-3,742	-2,818
Exceptional items and other (before taxes)	€th	6,630 ⁽¹⁾			
Current tax	€th	1,276	1,224	949	715
Deferred tax	€th				
Corporate tax	€th	1,276	1,224	949	715
<i>Tax rate</i>	%	50.4	25.4	25.4	25.4
<i>Net margin</i>	%	-14.6	-35.6	-22.4	-14.8
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	-3,413	-2,596	-1,897
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	-3,413	-2,596	-1,897
Fully diluted adjusted attr. net profit	€th	-1,079	-3,413	-2,596	-1,897
NOPAT	€th	-2,181	-3,192	-2,413	-1,772

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

Cashflow Statement

		12/21A	12/22E	12/23E	12/24E
EBITDA	€th	-808	-1,729	-328	1,021
Change in WCR	€th	-5,747	225	723	950
<i>of which (increases)/decr. in receivables</i>	€th	-29.0	-138	-15.2	-46.0
<i>of which (increases)/decr. in inventories</i>	€th	-1,317	-161	-102	524
<i>of which increases/(decr.) in payables</i>	€th	-1,379	525	840	473
<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	1,224	949	715
Exceptional items	€th				
Other operating cash flows	€th	-763	100	100	100
Total operating cash flows	€th	-5,786	-180	1,445	2,786
Capital expenditure	€th	-3,067	-3,159	-2,527	-2,502
<i>Capex as a % of depreciation & amort.</i>	%	133	112	81.0	70.4
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	-2,502
Net interest expense	€th	172	-180	-209	-199
<i>of which cash interest expense</i>	€th	-133	-180	-209	-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	0.00	0.00
<i>of which (acquisition) release of treasury shares</i>	€th				
(Increase)/decrease in net debt position	€th	238	964	400	800
Other financial flows	€th				
Total financial flows	€th	13,311	784	191	601
Change in scope of consolidation, exchange rates & other	€th	1.00			
Change in cash position	€th	167	-755	2,859	886
Change in net debt position	€th	-71.0	-1,719	2,459	85.7
Free cash flow (pre div.)	€th	-8,681	-3,519	-1,291	85.7
Operating cash flow (clean)	€th	-5,786	-180	1,445	2,786
<i>Reinvestment rate (capex/tangible fixed assets)</i>	%	332	314	244	234

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	2,475	2,450	2,573
Goodwill	€th	152	166	164	169
Other intangible assets	€th	3,884	4,272	4,529	4,800
Total intangible	€th	6,371	6,913	7,143	7,542
Tangible fixed assets	€th	923	1,006	1,036	1,067
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	19,331	19,524	19,720
WCR	€th	4,085	3,860	3,136	2,186
<i>of which trade & receivables (+)</i>	€th	1,381	1,519	1,534	1,580
<i>of which inventories (+)</i>	€th	3,229	3,390	3,492	2,968
<i>of which payables (+)</i>	€th	525	1,050	1,890	2,363
<i>of which other current liabilities (+)</i>	€th				
Other current assets	€th	7,850	8,557	8,813	9,078
<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	39,867	39,864	39,814
Ordinary shareholders' equity (group share)	€th	39,151	39,654	41,783	41,189
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	3,000	3,300	2,900
Net debt / (cash)	€th	-3,468	-1,749	-4,208	-4,294
Total liabilities and shareholders' equity	€th	35,751	39,867	39,864	39,814
Average net debt / (cash)	€th	-2,690	-2,609	-2,979	-4,251

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	-86.6	-10.2	-6.81	2.14
EV/EBIT	x	-22.5	-3.85	-0.65	-0.86
EV/Sales	x	8.12	1.74	0.18	0.15
EV/Invested capital	x	6.15	1.49	0.20	0.20
Market cap	€th	70,109	16,212	3,307	3,307
+ 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	-1,950	-4,418	-4,515
+ Right-of-use (from 2019)/Leases debt equivalent	€th	0.00	0.00	0.00	0.00
- Financial fixed assets (fair value) & Others	€th	44.0	242	208	177
+ Minority interests (fair value)	€th	3,465	3,430	3,430	3,430
= Enterprise Value	€th	69,972	17,555	2,231	2,185

Per Share Data

		12/21A	12/22E	12/23E	12/24E
Adjusted EPS (bfr goodwill amort. & dil.)	€	0.00	-0.01	-0.01	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	-0.01	-0.01	0.00
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.03	-0.01	0.00	0.00
Operating cash flow per share	€	-0.02	0.00	0.00	0.01
Book value per share	€	0.11	0.09	0.10	0.09
Number of ordinary shares	Th	370,658	440,000	440,000	440,000
Number of equivalent ordinary shares (year end)	Th	370,658	440,000	440,000	440,000
Number of shares market cap.	Th	370,658	440,000	440,000	440,000
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	435,100	435,100	435,100
Number of common shares (average)	Th	282,141	400,429	435,100	435,100
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	401,546	436,217	436,217
Goodwill per share (diluted)	€	0.00	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	€	0.00	-0.01	-0.01	0.00
EPS before goodwill amortisation (non-diluted)	€	0.02	-0.01	-0.01	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	

		12/21A	12/22E	12/23E	12/24E
Funding - Liquidity					
EBITDA	€th	-808	-1,729	-328	1,021
Funds from operations (FFO)	€th	-172	-585	513	1,637
Ordinary shareholders' equity	€th	39,151	39,654	41,783	41,189
Gross debt	€th	3,418	4,382	4,782	5,582
o/w Less than 1 year - Gross debt	€th	1,636	600	500	800
o/w 1 to 5 year - Gross debt	€th	1,782	3,782	4,282	4,782
+ Gross Cash	€th	6,886	6,131	8,990	9,876
= Net debt / (cash)	€th	-3,468	-1,749	-4,208	-4,294
Bank borrowings	€th	1,502	2,500	2,625	2,756
Issued bonds	€th	1,500	1,500	2,000	2,300
Financial leases liabilities	€th	250	100	100	350
Other financing	€th	166	282	57.0	176
Gearing (at book value)	%	-6.87	-6.58	-7.13	-10.3
Equity/Total asset (%)	%	110	99.5	105	103
Adj. Net debt/EBITDA(R)	x	4.29	1.01	12.8	-4.20
Adjusted Gross Debt/EBITDA(R)	x	-4.36	-2.59	-15.0	5.60
Adj. gross debt/(Adj. gross debt+Equity)	%	8.25	10.2	10.5	12.2
Ebit cover	x	18.1	-25.4	-16.5	-12.7
FFO/Gross Debt	%	-4.89	-13.0	10.5	28.6
FFO/Net debt	%	4.96	33.5	-12.2	-38.1
FCF/Adj. gross debt (%)	%	-247	-78.4	-26.3	1.50
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-1.10	4.35	15.4	12.5
"Cash" FCF/ST debt	x	-5.49	-5.86	-2.58	0.11

		12/21A	12/22E	12/23E	12/24E
ROE Analysis (Dupont's Breakdown)					
Tax burden (Net income/pretax pre excp income)	x	-2.19	0.71	0.69	0.67
EBIT margin (EBIT/sales)	%	-31.4	-45.9	-28.3	-18.4
Assets rotation (Sales/Avg assets)	%	30.9	26.7	31.3	35.7
Financial leverage (Avg assets /Avg equity)	x	0.98	0.96	0.98	0.96
ROE	%	19.5	-8.66	-6.38	-4.57
ROA	%	-23.8	-39.4	-31.2	-24.3

		12/21A	12/22E	12/23E	12/24E
Shareholder's Equity Review (Group Share)					
Y-1 shareholders' equity	€th	11,812	37,199	39,654	41,783
+ Net profit of year	€th	5,551	-3,413	-2,596	-1,897
- Dividends (parent cy)	€th	0.00	0.00	0.00	0.00
+ Additions to equity	€th	13,206	0.00	0.00	0.00
o/w reduction (addition) to treasury shares	€th	0.00	0.00	0.00	0.00
- Unrecognised actuarial gains/(losses)	€th	0.00	0.00	0.00	0.00
+ Comprehensive income recognition	€th	6,630	5,869	4,724	1,304
= Year end shareholders' equity	€th	37,199	39,654	41,783	41,189

Staffing Analytics

		12/21A	12/22E	12/23E	12/24E
Sales per staff	€th	227	266	328	364
Staff costs per employee	€th	-31.4	-44.0	-44.9	-45.8
Change in staff costs	%	-9.54	40.0	2.00	4.68
Change in unit cost of staff	%	2.36	40.0	2.00	2.00
Staff costs/(EBITDA+Staff costs)	%	309	-2,970	124	63.6

Average workforce	unit	38.0	38.0	38.0	39.0
Europe	unit	38.0	38.0	38.0	39.0
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	-1,673	-1,706	-1,786
Wages and salaries	€th	-1,195	-1,673	-1,706	-1,786
of which social security contributions	€th	-160	-162	-165	-172
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	10,111	12,478	14,213
Drone Volt Factory	€th	3,434	3,469	5,504	6,890
Distribution	€th	5,183	6,642	6,974	7,323
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	1,648	1,908	3,247	4,478
Distribution	€th	1,338	1,129	1,255	1,391
Consumer	€th				
Professional	€th				
Training	€th				
Royalties	€th	1,229	692	1,476	1,624
Other/cancellations	€th				
Total	€th	4,215	3,729	5,979	7,494
Other profit breakdown Analysis margin	%	48.9	36.9	47.9	52.7

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	-27.1	-21.3	-16.4
CFROIC	%	-76.3	-29.9	-11.4	0.79
Goodwill	€th	152	166	164	169
Accumulated goodwill amortisation	€th	0.00	0.00	0.00	0.00
All intangible assets	€th	3,884	4,272	4,529	4,800
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	2,475	2,450	2,573
Rights of use/ Capitalised leases	€th	0.00	0.00	0.00	0.00
Other fixed assets	€th	923	1,006	1,036	1,067
Accumulated depreciation	€th	0.00	0.00	0.00	0.00
WCR	€th	4,085	3,860	3,136	2,186
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	11,779	11,316	10,796
Capital employed before depreciation	€th	11,379	11,779	11,316	10,796

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	11,779	11,316	10,796
Total capital employed	€th	11,379	11,779	11,316	10,796

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%