



Drone Volt

Electrical Products-Misc / France

The verge of a new era for Drones

Initiation cov. - 12/10/2020

Drone Volt is a French company specialised in civilian drones for professional use, addressing a wide range of end-market thanks to the combination of its proprietary drone, software and Artificial Intelligence capabilities. The company is scaling-up its activity, thanks to a healthy €15m pipeline of orders as well as partnerships with North American players. In addition, Drone Volt is on the verge to significantly increase its royalty-based business, a potential game-changer for its earnings.

We initiate coverage of Drone Volt with a Buy recommendation and 34% upside.

Drone Volt is a French company listed on Euronext Growth in Paris. The company operates in the civilian drones market for consumers and professionals.

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 for its clients. 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, mainly in Europe and Canada as well as in the USA thanks to partnerships.

The company organises its activity into two distinct segments:

- **Drone Volt Factory (DVF)** – which is the Sale of proprietary drones as well as services such as after-sales service and training
- **Distribution activity** – which gather sales of third-party drones

While Distribution represented 60% of its revenue in 2019 (or €4.3m), this business line is expected to fade, from 2020 onwards as 1) Drone Volt will voluntarily shift its efforts towards DVF and 2) the expected growth of DVF will marginalise Distribution in the revenue mix. Therefore, the equity story of the company could be sum-up as a distributor of third-party drone which has become a designer (thanks to R&D investments), in order to grow its value-added, with a shift of clients from the consumer market towards professional uses.

As such, the main point of interest for the company is its DVF segment, which gathers proprietary high-end products coupled with a high degree of customisation. Thanks to this capabilities Drone Volt addresses the niche markets of civil security, inspection and surveillance. In terms of end-market, its main clients can be found mainly in Industry, Telecoms and Utilities for either site protection our assets inspections. (for instance, securing sensitive nuclear sites, or controlling power lines through drones). In addition, with its knowledge and expertise acquired 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.). More generally speaking, the Drone market for professional uses is set to reach a considerable growth in the near future according to several researches, fuelled by growing usage adoption. One of the key enablers for this growth will be the regulation, as the development of a comprehensive regulatory framework should unleash demand, enabling drone flight, pilot training and clarify insurance matters. The latter could be a catalyst for Drone Volt which has



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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy	Upside: 34.4%
Target Price (6 months)	€ 0.39
Share Price	€ 0.29
Market Cap. €M	45.0
Price Momentum	GOOD
Extremes 12Months	0.06 ▶ 0.37
Bloomberg	ALDRV FP Equity
Reuters	ALDRV.PA

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PERF	1w	1m	3m	12m
Drone Volt	-7.57%	83.1%	307%	94.7%
Capital Goods	2.49%	2.37%	12.7%	35.4%
STOXX 600	2.11%	0.19%	1.85%	-2.62%

Last updated: 12/10/2020	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	-3.50	-23.6	18.5	8.29
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-10.3	-96.0	7.39	2.72
Adjusted EPS (€)	-0.05	-0.01	0.02	0.04
Growth in EPS (%)	n/a	n/a	n/a	124
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	7,108	6,513	17,518	24,991
Other margin (%)	34.3	36.2	53.1	58.7
Attributable net profit (€th)	-2,570	-1,426	2,629	5,882
ROE (after tax) (%)	-29.6	-9.82	12.4	23.0
Gearing (%)	41.2	8.23	-10.9	-19.0

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developed its regulation and training expertise, creating a pilot academy like.

Going forward, and in spite of being impacted by a lower level of activity in 2020, we anticipate Drone Volt to generate c €6.5m this year and full revenue to jump at c. €17m next year. The sales of Drone Volt Factory are expected to take the lion share of this growth as we anticipate Distribution to remain stable. Indeed, we anticipate sales of drones to take-off in early 2021 to €7m, somewhat delayed by the COVID-19 pandemic. This should be fuelled by:

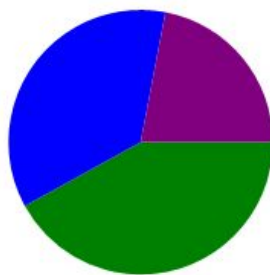
1) a positive commercial momentum and a healthy backlog of €15m which has remained stable with no cancellation since the beginning of the year. Also, given the early stage of the business (since 2017 for DVF) a few orders have the potential lift sales meaningfully.

2) a growing ASP thanks to the partnership with Hydro-Québec, which will license the technology of a drone to inspect high power lines. This drone carries an ASP of c. €350k vs €20k for current drones, with sales prospect of c. 100 drone over the next 5 years (in its €7m)

3) the ramp-up of services, i.e after sales and training which will accompany the sales of drones.

4) Last but not least, the company recently announced the signing of a Letter of Intent with Aquiline Drones. Aquiline Drones is an American for the production under licence fee of up to 10k unit per/m of its small drone hercule2 (with an ASP of c. €2k). We consider that if realised, the outcome could potentially become highly relative in terms of earnings for the company, which has rallied in the wake of this announcement. Under the current term of the LOI, DV would be entitled to 10% of the sales that we estimate in our conservative scenario at €24m in year one. In a best-case, our DCF has the potential to be lifted to €0.80 (all things being equals).

Sales by Geography



Europe	(42.0%)
France	(36.0%)
Other	(22.0%)

Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	€th	7,108	6,513	17,518
Change in sales	%	-4.22	-8.37	169
Change in staff costs	%	-27.5	-5.12	10.9
EBITDA	€th	-1,687	-453	5,373
EBITDA(R) margin	%	-23.7	-6.95	30.7
Depreciation	€th			
Underlying operating profit	€th	-3,143	-1,527	4,041
Operating profit (EBIT)	€th	-3,468	-1,778	3,802
Net financial expense	€th	-423	-361	-316
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	1,069	587	-957
Equity associates	€th			
Minority interests	€th	252	126	101
Adjusted attributable net profit	€th	-2,570	-1,426	2,629
NOPAT	€th	-2,200	-1,069	2,828

Cashflow Statement

		12/19A	12/20E	12/21E
EBITDA	€th	-1,687	-453	5,373
Change in WCR	€th	576	135	-296
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	-1,069	587	-957
Exceptional items	€th			
Other operating cash flows	€th	545	109	25.4
Total operating cash flows	€th	-1,635	378	4,146
Capital expenditure	€th	-2,762	-2,036	-2,522
Total investment flows	€th	-2,782	-2,036	-2,522
Net interest expense	€th	-423	-361	-316
Dividends (parent company)	€th			
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	3,660	8,893	0.00
Total financial flows	€th	4,605	8,194	-316
Change in cash position	€th	189	6,536	1,307
Free cash flow (pre div.)	€th	-4,819	-2,018	1,307

Per Share Data

		12/19A	12/20E	12/21E
No. of shares net of treas. stock (year...	Th	60,741	165,237	165,237
Number of diluted shares (average)	Th	50,616	114,678	166,354
Benchmark EPS	€	-0.05	-0.01	0.02
Restated NAV per share	€			
Net dividend per share	€	0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 0.50	40%	■ KUKA
NAV/SOTP per share	€ 0.35	40%	
P/E	€ 0.33	5%	
EV/Ebitda	€ 0.50	5%	
P/Book	€ 0.31	5%	
Dividend Yield	€ 0.00	5%	
TARGET PRICE	€ 0.39	100%	

NAV/SOTP Calculation

Balance Sheet

		12/19A	12/20E	12/21E
Goodwill	€th	151	149	148
Total intangible	€th	6,112	7,321	8,764
Tangible fixed assets	€th	860	1,004	1,183
Financial fixed assets	€th		4,068	4,068
WCR	€th	1,614	1,479	1,775
Other assets	€th	6,006	5,303	4,932
Total assets (net of short term liab.)	€th	15,119	19,729	21,302
Ordinary shareholders' equity	€th	9,212	19,834	22,571
Quasi Equity & Preferred	€th			
Minority interests	€th	-493	-296	-355
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th	40.0	60.0	69.0
Total provisions for risks and liabilities	€th	40.0	60.0	69.0
Tax liabilities	€th	0.00	0.00	0.00
Other liabilities	€th	1,291	1,937	2,130
Net debt (cash)	€th	5,069	-1,806	-3,114
Total liab. and shareholders' equity	€th	15,119	19,729	21,302

Capital Employed

		12/19A	12/20E	12/21E
Capital employed after depreciation	€th	8,586	13,872	15,789

Profits & Risks Ratios

		12/19A	12/20E	12/21E
ROE (after tax)	%	-29.6	-9.82	12.4
ROCE	%	-25.6	-7.71	17.9
Gearing (at book value)	%	41.2	8.23	-10.9
Adj. Net debt/EBITDA(R)	x	-3.01	3.99	-0.58
Interest cover (x)	x	-7.43	-4.23	12.8

Valuation Ratios

		12/19A	12/20E	12/21E
Reference P/E (benchmark)	x	-3.50	-23.6	18.5
Free cash flow yield	%	-44.6	-4.17	2.70
P/Book	x	1.17	2.44	2.14
Dividend yield	%	0.00	0.00	0.00

EV Calculation

		12/19A	12/20E	12/21E
Market cap	€th	10,804	48,415	48,415
+ Provisions	€th	40.0	60.0	69.0
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	5,069	-1,806	-3,114
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th		4,068	6,712
+ Minority interests (fair value)	€th	1,479	887	1,065
= EV	€th	17,392	43,488	39,723
EV/EBITDA(R)	x	-10.3	-96.0	7.39
EV/Sales	x	2.45	6.68	2.27

Analyst : Hugo Paternoster, Changes to Forecasts : 12/10/2020.