

Drone Volt

Capital Goods / France

Document generated on the 28/04/2016



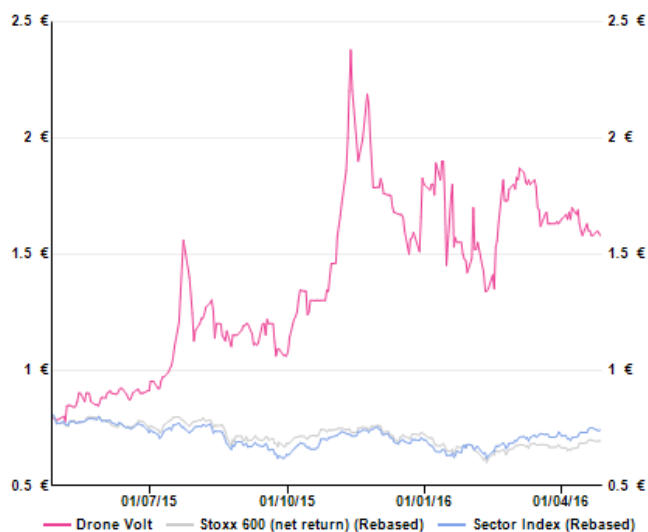
ALPHAVALUE
CORPORATE SERVICES

Strong growth in sales, margins still have much potential

Buy

Upside potential : 29.4%

| | |
|--------------------------|-------------|
| Target Price (6 months) | 2.04 |
| Share Price | € 1.58 |
| Market Capitalisation €M | 19.4 |
| Price Momentum | GOOD |
| Extremes 12Months | 0.78 ▶ 2.38 |
| Bloomberg ticker | ALDRV FP |



| KEY DATA | 12/13A | 12/14A | 12/15E | 12/16E | 12/17E |
|-------------------------------|--------|--------|--------|--------|--------|
| Adjusted P/E (x) | ns | ns | ns | ns | 13.1 |
| Dividend yield (%) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EV/EBITDA(R) (x) | ns | ns | ns | 40.5 | 7.38 |
| Adjusted EPS (€) | 0.00 | 0.00 | -0.02 | 0.02 | 0.12 |
| Growth in EPS (%) | 912 | 121 | n/a | n/a | 473 |
| Dividend (€) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sales (€th) | 1,229 | 1,735 | 3,539 | 7,182 | 12,209 |
| Other margin (%) | 27.0 | 26.0 | 26.0 | 29.5 | 32.5 |
| Attributable net profit (€th) | 19.9 | 44.0 | -281 | 283 | 1,621 |
| ROE (after tax) (%) | 11.4 | 21.1 | -23.8 | 12.5 | 50.2 |
| Gearing (%) | -17.3 | -9.36 | -41.2 | -77.8 | -66.0 |

Last forecasts updated on the 13/01/2016

| Benchmarks | Values (€) | Upside | Weight | |
|--------------------|------------|--------|--------|----|
| DCF | 2.28 | 45% | 40% | |
| NAV/SOTP per share | 2.12 | 34% | 40% | |
| P/E | Peers | 1.80 | 14% | 5% |
| EV/Ebitda | Peers | 1.91 | 21% | 5% |
| P/Book | Peers | 1.96 | 24% | 5% |
| Dividend Yield | Peers | 0.00 | -100% | 5% |
| TARGET PRICE | 2.04 | 29% | 100% | |

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Conflicts of interest

| | |
|--|-----|
| Corporate broking | NO |
| Trading in corporate shares | NO |
| Analyst ownership | NO |
| Advising of corporate (strategy, marketing, debt, etc) | NO |
| Research paid for by corporate | YES |
| Provision of corporate access paid for by corporate | NO |
| Link between AlphaValue and a banking entity | NO |
| Brokerage activity at AlphaValue | NO |
| Client of AlphaValue Research | NO |

Drone Volt (Buy)

Electrical Products-Misc / France

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Recent Updates

► Updates

28/04/2016 **A contract with potential major consequences**

Significant news

Fact

Drone Volt announced today that a contract has been signed with SARP, a subsidiary of Veolia, for providing a solution based on its latest Drone Spray, as well as training for the pilots. The deal addresses for now a single customer's site.

As already disclosed in the Q1 earnings release, the company reminded that, during the first quarter of 2016, professional sales have represented c. 80% of its revenues.

Analysis

Although no figures have been disclosed, neither for the revenues related to the contract nor the volumes concerned, this deal should be considered as a milestone in our view.

First due to the nature of the customer: as far as we know, this is the first non-media related deal with an important group in which the company is implicated, which implies that 1/ Drone Volt is now able to provide products able to meet restrictive technical demands outside its historical core products (i.e. media Drones on a DJI basis), 2/ its addressable market is progressively expanding and materialising. The exact terms of the deal are yet to be known, but as it is only limited to one location for the moment, it suggests that a testing phase will take place first; the success of this testing phase may then trigger a bigger scale order, as SARP has a network of 120 agencies in France, which would add substantial momentum to an already more-than-dynamic top-line.

The second noticeable point is the product provided, that is to say a machine developed in-house: this original design is to our knowledge the only one of its kind on the market, as well as not built on a DJI Phantom basis. In the past, one of our concerns about Drone Volt was its position as "DJI tuner", which left it dependent on the Chinese supplier (in terms of pure products availability as well as exposure to currency effects, potentially damageable to margins) and limited its capacity of innovation to the margin. Now, provided that the tests prove successful, the company is able to create a unique design from scratch, suggesting: 1/ a technological and technical control having reached a new level, 2/ a capacity to innovate and to chase new markets, and 3/ the ability to integrate new sources of components.

Finally, we note that the strategy aimed at the professional market is bearing fruit, as the drones come in a training package, which is likely to generate additional revenues with a higher margin. Even if we have yet to see the final 2015 accounts to witness the actual impact, this is in our view a rather positive sign; as a reminder, the consumer segment accounted for 78% of 2014 revenues: the proportion has now inverted.

Impact

As no financial details have been disclosed, we won't make any change to our current assumptions, as the final 2015 accounts should be available in a few weeks. However, the deal represents in our view an important milestone which validates the management's strategy, that is to say aiming at new markets and delivering innovative original products designed internally rather than a simple drone customisation.

19/03/2016 **Opinion change, due to market moves, from Add to Buy**

04/12/2015 **2017 upgraded**

Change in Opinion

Add vs Sell

Change in Target Price

€1.94 vs 1.45

+34.2%

Change in EPS

2015 : €-0.02 vs 0.00

ns

► Updates

2016 : €0.02 vs 0.05 -54.8%

We have modified our model to take into consideration the R&D costs which are much ahead of our expectations: indeed, we had initially expected that the company would sell customised products based on existing platforms and consolidate its margins, before investing in all-new product developments. The direct consequence of these investments will be a clear decline in margins in the short term, which however should soon be compensated by increasing sales margins when the products are commercially available.

Change in NAV

€2.12 vs 1.72 +23.3%

The previous NAV valuation was taking into account an integrator-like business model. Now, with products like its new Drone Spray, the company has proved that it can develop machines increasingly on its own, which will progressively raise the value of the company due to the exclusivity of the products and better margins.

Change in DCF

€2.28 vs 1.45 +57.1%

We have downgraded our forecast for both 2015 (sales and margins) and 2016 (margins), due to the R&D costs which are ahead of our expectations. However, we have upgraded 2017, given that: 1/ the new internally-developed drones will lead to an increasing market share, 2/ to better margins, and 3/ the two recent rounds of private funding will allow the current company's structure to be expanded and fuel growth.

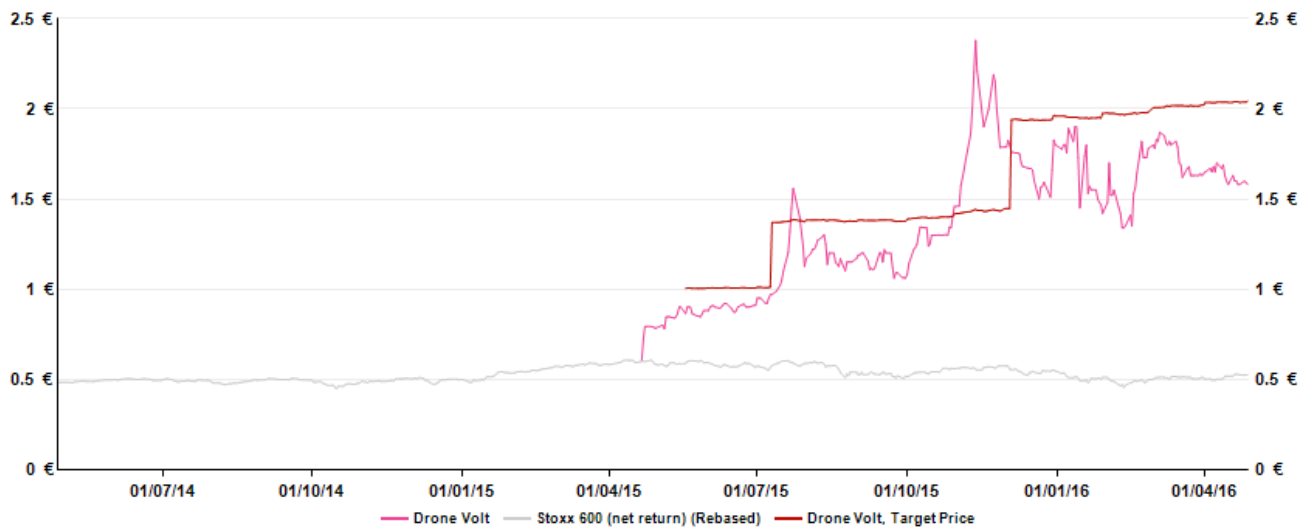
Body of research

Drone Volt (Buy)

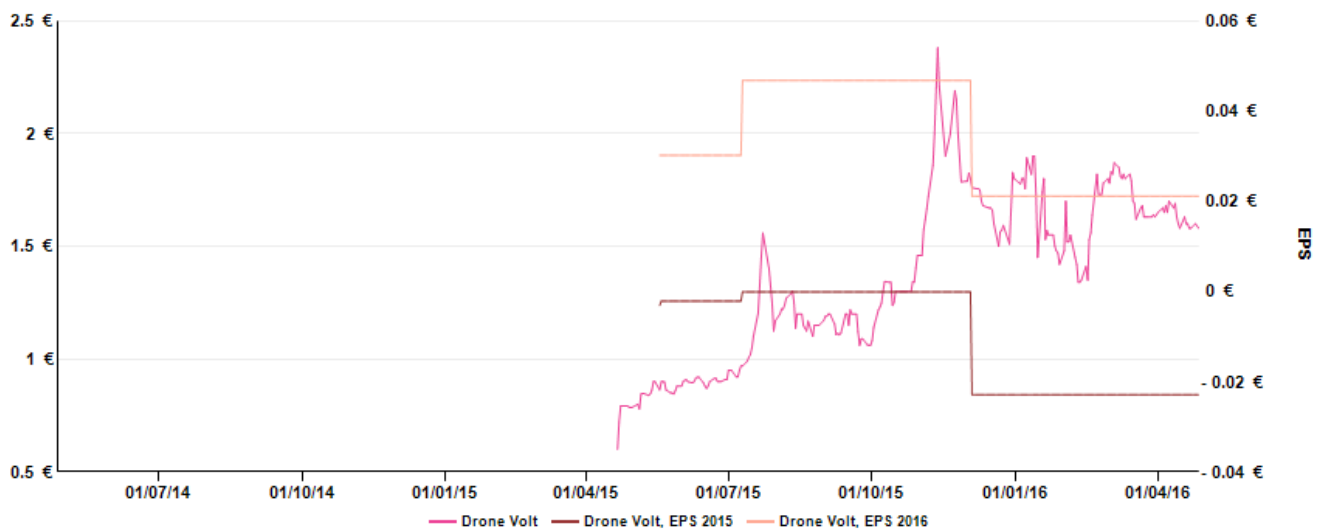
Electrical Products-Misc / France

► Target Price & Opinion

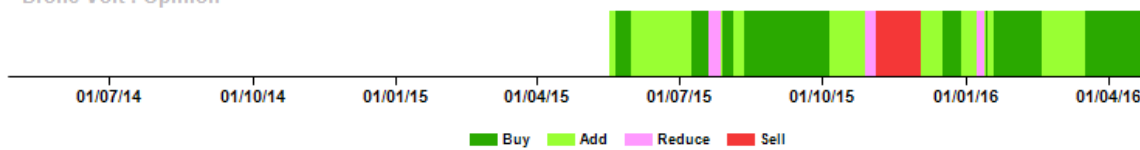
Stock Price and Target Price



Earnings Per Share & Opinion



Drone Volt : Opinion



► Businesses & Trends

Businesses & Trends

Dronevolt is a French start-up company based at VILLEPINTE, near the Roissy-Charles de Gaulle international airport. The company, owned by Mr Dimitri Batsis, is specialised in the conception, assembly and distribution of land and aerial remote-controlled drones. Its products address various ranges of markets and clients, from consumer to professional use, with a trend towards the increasing importance of the latter.

General Market

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 the decrease in costs.

The other catalyst has been regulation, or its absence: 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.

France, by contrast, has been a pioneer market, as the Direction Générale de l'Aviation Civile (DGAC, the French Civil Aviation Authority) 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.

Estimating the size of the addressable market is not easy, as it varies greatly depending on the sources. The French institute Xerfi estimated it at €100m in France in 2013, with an estimated projection of €288m for 2015; in March 2015, 50 drone-making companies and around 1,300 drone services companies were registered at the DGAC. More recently, Lux Research has made a projection of \$1.7bn for 2025, while RadiantInsights estimated it at \$4.8bn for 2021 (vs. \$609m in 2014). Whatever the source, the general consensus forecasts great dynamism and strong growth in the years to come.

This 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 DGAC scenarios.

Business Lines

Dronevolt 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 is still contributing to the activity, with an estimated €2m in 2015, but is no longer the priority for future top-line growth, and is expected to remain relatively flat compared to the other business lines.

Indeed, with the arrival of the current management team in 2012, the company has gradually repositioned towards a second business line, the professional market, more lucrative and offering ever-growing opportunities. This division is expected to contribute €2.8m to 2015 revenues and displays the strongest growth rates.

The main outlet to date has been the media market, mainly TV channels, which use drones to obtain images that would have been impossible to take previously (a helicopter would have been too expensive or its flight domain limited or too restrictive). Dronevolt currently covers between 70% and 80% of the French TV market (and provides systems to the main TV channels), while this market is still maturing, which lets the door open for further growth when this customer base takes on the use of unmanned vehicles on a bigger scale.

Several products currently in development will soon open new markets, of which we can list:

- Surveillance: drones can be used to provide camera angles that would be difficult or impossible to obtain with another aerial vehicle, at a more reasonable cost and with much greater discretion. The French Home Office, the National Police Intervention Groups and the Air Transport Gendarmerie are already customers for a few units, and are testing the potential of the products before an eventual bigger scale deployment.
- Agriculture: drones can be used to provide aerial views of crops, to detect damage done by animals as well as possible diseases

Businesses & Trends

and thermal stress by using thermal cameras. The lower cost of drones compared to helicopters or planes and the cost of damage to crops make the use of unmanned vehicles economically viable, and open a vast field of opportunities: it is not improbable to imagine that insurance companies will push the use of drones for the early detection of damage.

- Geometers/Real Estate: a pre-programmed drone can scan a vast area in a short amount of time, rendering in a few minutes a 3-dimensional representation easy to export to many supports, such as smartphones and tablets. The costs are greatly reduced, and added value is created by proposing previously non-existing visualisation services. A renovation plan in the French real estate market is also in progress, requiring the measurement of buildings' thermal isolation, which could open new business perspectives.

The last business line follows 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 follow a compulsory training period and obtain certification. Dronevolt 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 a closed hall allowing flight sessions in bad weather conditions. Training is estimated to account for €290k of 2015 revenues.

Strategy

Dronevolt proposes an integrated chain of services, from the drone system itself 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. We consider this business model to be more attractive than a rental one, the latter offering lesser flexibility (the drone might not always be available or can't be customised quickly) which may put off customers and increases the amount of risk and costs supported by the rental company.

The top-line growth, despite displaying substantial growth rates, has suffered upto now from the absence of a dedicated commercial team. Indeed, promotion has been made only by word of mouth. It is therefore more than likely that the recruitment of four salesmen in 2015 will leverage the increase in activity in a very short time.

While it mainly assembles already-designed parts, the company has launched its own R&D effort to design customised parts for its products, at its own initiative or in order to respond to customers' demand. This is the first step to a full-proprietary drone design, which will gradually appear alongside the development of the activity and will act as a strong business differentiator.

Thanks to its experience in a heavily-regulated environment, the company could easily transpose its business model to another country. The USA is a country of choice, as the FAA has recently established a new set of national rules which replace all the ones previously existing at the sub-Federal level, and represent an interesting way to add growth to the already strong organic one.

Management Team

The CEO and current owner of the company, Mr Dimitri Batsis, already has experience in pioneer markets, as the former CEO and founder in 1987 of Zeni Coporation. This company focused on interactive technologies and moved as early as in 1998 toward 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...). The company had a successful IPO in April 2000 and was acquired in 2007 by Keyrus.

Divisional Breakdown Of Revenues

| | Sector | 12/14A | 12/15E | 12/16E | 12/17E | Change 15E/14 | | Change 16E/15E | |
|---------------------|--------------------------|--------------|--------------|--------------|---------------|---------------|-------------|----------------|-------------|
| | | | | | | €th | of % total | €th | of % total |
| Consumer | Electrical Products-Misc | 1,353 | 1,572 | 1,719 | 1,823 | 219 | 12% | 147 | 4% |
| Professional | Electrical Products-Misc | 347 | 1,817 | 5,163 | 9,786 | 1,470 | 81% | 3,346 | 92% |
| Training | Electrical Products-Misc | 35.0 | 150 | 300 | 600 | 115 | 6% | 150 | 4% |
| Other | | | | | | | | | |
| Total sales | | 1,735 | 3,539 | 7,182 | 12,209 | 1,804 | 100% | 3,643 | 100% |

Drone Volt (Buy)

Electrical Products-Misc / France

► Businesses & Trends

Key Exposures

| | Revenues | Costs | Equity |
|--------------------------|----------|-------|--------|
| Dollar | 0.0% | 0.0% | 0.0% |
| Emerging currencies | 0.0% | 0.0% | 0.0% |
| Long-term global warming | 0.0% | 0.0% | 0.0% |
| Renminbi | 0.0% | 40.0% | 0.0% |

Sales By Geography

| | |
|--------|--------|
| Europe | 100.0% |
|--------|--------|

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

Money Making

The company is currently transitioning its cash generation sources as its business model evolves. The former Consumer core activity of sole assembly didn't allow high margins to be generated, as the added value was minimal, the drone parts being available from other supply sources and the targeted customers possessing in the majority most of the necessary knowledge to do it themselves.

The orientation towards a professional base of clients is bound to increase the margin and cash generation, first by the development of specific customised parts, which is already occurring and distinguishes the drones from the rest of the market. These parts can be developed following a customer's request or at the company's initiative, and command a substantial premium compared to a basic model by the features they confer on the platform. In the future, and thanks to the scheduled setup of a dedicated R&D team, it is reasonable to imagine that the whole drone system will be designed from scratch, which will allow greater control on the value chain and to entail pricing power due to the product's exclusivity, as well as leading to positive WCR, as the customers will pay upfront for the design and making of the parts.

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 operators is required by the DGAC, and Dronevolt has thus set up an Academy which provides 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 substantial contribution to margins, 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. However, we chose to separate out this business in order to reflect its contribution to margins. There is also an existing "stand-alone" training business, as some operators have chosen to build from scratch their systems but still need the regulatory approvals in order to be able to operate them.

A margin growth relay for the future will also consist in software development. Indeed, the added value of a drone system not only lies in the mechanical abilities but also in all the features permitted by the software ecosystem, which leverages the embedded hardware. Although many of these features already exist in the basic software provided with the hardware, a custom drone design will require custom software for full potential exploitation. Moreover, some features may not have been considered by the original maker, opening up space for specific development processes according to the end-customer's needs.

Some of these specificities include data storage, transmission & processing, enhanced flight controls, camera stabilisation and filters... All these functionalities, to be implemented or modified, must be developed, tested and certified, with a positive effect on margins due to the skills required to generate a product with higher added-value.

The control over margins is currently limited by the drone parts providers. Indeed, most of the drones currently sold 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 Dronevolt and propose them at a lower price, then margin level would plummet, jeopardising the very existence of the company. Once the R&D effort is fully launched and the majority of the parts designed "in-house", the pressure on margins as well as the potential threat on the prices of parts will be lowered.

A better control will also be permitted by a "fabless" model: instead of building manufacturing chains, Dronevolt intends to focus 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 a greater flexibility and better overall margins due to the relatively small volumes expected compared to those necessary to fully amortise a factory.

Drone Volt (Buy)

Electrical Products-Misc / France

► Money Making

Divisional Other profit breakdown Analysis

| | 12/14A | 12/15E | 12/16E | 12/17E | Change 15E/14 | | Change 16E/15E | |
|---------------------|--------|--------|--------|--------|---------------|------------|----------------|------------|
| | | | | | €th | of % total | €th | of % total |
| Consumer | 373 | 396 | 401 | 421 | 23 | 5% | 5 | 0% |
| Professional | 76.0 | 434 | 1,538 | 3,187 | 358 | 76% | 1,104 | 92% |
| Training | 2.00 | 90.0 | 180 | 360 | 88 | 19% | 90 | 8% |
| Other/cancellations | | | | | | | | |
| Total | 451 | 920 | 2,119 | 3,968 | 469 | 100% | 1,199 | 100% |

Divisional Other profit breakdown Analysis margin

| | 12/14A | 12/15E | 12/16E | 12/17E |
|---------------------|--------|--------|--------|--------|
| Consumer | 27.6% | 25.2% | 23.3% | 23.1% |
| Professional | 21.9% | 23.9% | 29.8% | 32.6% |
| Training | 5.71% | 60.0% | 60.0% | 60.0% |
| Total | 26.0% | 26.0% | 29.5% | 32.5% |

Drone Volt (Buy)

Electrical Products-Misc / France

► Debt

Debt

Until 2013, the company had no debt and was self-financing. The first bank loan of €50k was contracted in 2014, followed by another of €100k in 2015, in order to support the fast development of the activity in the professional business.

Gearing remains however very limited, as these loans have been backed by two capital increases of €280k in early 2015. The projected generation of cash will therefore allow quick deleveraging, with a return to a net cash position as soon as the end of 2015.

Debt financing in the future will help fuel extra growth if necessary, paving the way to development via organic growth or potential acquisitions.

However, it should be kept in mind that the risk of a potential unexpected incident which could endanger the execution of the plan is not equal to zero: it could be the default of a client (even if the risk is limited for now, as customers pay in advance), lower demand due to a slower than expected adoption or regulatory changes... These risks could eliminate the already thin financial flexibility or even lead to bankruptcy.

Funding - Liquidity

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|-----------|--------------|---------------|---------------|---------------|
| EBITDA | €h | 45.6 | -99.0 | 430 | 2,180 |
| Funds from operations (FFO) | €h | 49.5 | -141 | 337 | 1,686 |
| Ordinary shareholders' equity | €h | 234 | 2,130 | 2,406 | 4,050 |
| Gross debt | €h | 42.6 | 300 | 229 | 157 |
| o/w Less than 1 year - Gross debt | €h | 12.7 | 71.2 | 72.7 | 65.2 |
| o/w 1 to 5 year - Gross debt | €h | 29.9 | 229 | 157 | 91.4 |
| of which Y+2 | €h | 12.0 | 72.7 | 65.2 | 60.8 |
| of which Y+3 | €h | 13.0 | 65.2 | 60.8 | 30.6 |
| of which Y+4 | €h | 4.90 | 60.8 | 30.6 | 0.00 |
| of which Y+5 | €h | | 30.6 | 0.00 | 0.00 |
| + Gross Cash | €h | 63.7 | 2,036 | 2,240 | 3,490 |
| = Net debt / (cash) | €h | -21.0 | -1,735 | -2,011 | -3,333 |
| Bank borrowings | €h | 42.6 | 300 | 229 | 157 |
| Other financing | €h | 0.00 | 0.01 | 0.01 | 0.01 |
| Gearing (at book value) | % | -9.36 | -41.2 | -77.8 | -66.0 |
| Adj. Net debt/EBITDA(R) | x | -0.46 | 17.5 | -4.68 | -1.53 |
| Adjusted Gross Debt/EBITDA(R) | x | 0.94 | -3.04 | 0.53 | 0.07 |
| Adj. gross debt/(Adj. gross debt+Equity) | % | 15.4 | 12.4 | 8.70 | 3.72 |
| Ebit cover | x | 32.1 | -94.5 | 125 | 705 |
| FFO/Gross Debt | % | 116 | -46.9 | 147 | 1,077 |
| FFO/Net debt | % | -235 | 8.13 | -16.8 | -50.6 |
| FCF/Adj. gross debt (%) | % | 54.3 | -47.3 | 151 | 1,093 |
| (Gross cash+ "cash" FCF+undrawn)/ST debt | x | 6.82 | 26.6 | 35.6 | 79.8 |
| "Cash" FCF/ST debt | x | 1.84 | -1.99 | 4.76 | 26.3 |

► Valuation

Valuation

In order to build our valuation, which is a combination of DCF, NAV and peers, we started with the data from the business plan provided by the group. We have then chosen to lower some of the projected figures to reflect a more cautious approach, while assuming the most pessimistic hypothesis provided by the company. As an example, we had first chosen to lower the 2015 sales growth figure from 150% to 103%, a level we judged reachable according to the strong beginning of the year, before slightly increasing it to 104% in the light of the 9-month figures; we also trimmed the level of the margins to reflect a progressive improvement to the targeted profitability.

We integrated the number of shares from the IPO, that is to say 1,116,925, adjusted by the private funding from November 2015, for a total of 1,229,500 shares. We also chose to integrate an investment of €300k in 2017, corresponding to the probable amount needed to support the growth of the business in the case of a successful activity; at this level, the private funding of €1.8m in November 2015, as well as the probable issuance of up to €5m worth of convertible bonds in January 2016, are likely to shuffle the deck. The DCF and NAV are the better valuation methods, as Dronevolt should clearly be valued on its future potential and not on the current valuation of some potential peers.

Our DCF is based on the strong growth expected for the drone market in the future, which is currently still nascent, on the already strong market share attained by the company in key sectors, as well as the current impressive growth rates. Moreover, as a start-up, it is not uncommon to project massive growth in the first years of existence.

Thus, we assumed a projected long-term growth rate of 11% for sales, corresponding to 2025e revenues of €28m. In our view, this is not unreachable, considering that: 1/ there is currently little structured offer on the French drone market, 2/ there is likely to be a premium for the first entrants, and 3/ the company has already strong positions in the media sector while not having a dedicated sales team. We also projected a long-term growth rate of 13% for EBITDA, which would lead to a 2025e EBITDA margin of 20.6%, a level we judge reasonable for a company subcontracting its manufacturing process and starting to launch an in-house R&D effort, which should give a clear boost to margins. The WACC is set at 12%.

Concerning the NAV, in order to reflect the strong growth potential and to compensate for the fact that the company is still a start-up, with the implied impact on profitability, we have chosen to base our valuation on sales multiples. The Consumer division represents in our view the lowest potential, not being the core strategy of the company and bound to witness a decrease in its margins with the commoditisation of leisure drones; however, this type of business is gaining much momentum in terms of valuation, with competitors reaching sales multiples of 2.5x, so we chose to set a 2x figure. The Professional business gets the higher multiple, as it witnesses growing margins and the biggest number of potential markets. Finally, the Training business can enjoy great margins due to its service nature, but it addresses a more limited market with fewer barriers to entry, implying a lesser potential and thus multiple.

The peer valuation has represented the major pitfall in our valuation scenario. Indeed, there is currently no similar company in our coverage, and we would be tempted to say no company similar to Dronevolt at all on the market – at least listed: the closest one is Delta Drone, but it doesn't rely on the same business model (in-house manufacturing, commercial policy based on rental), which implies a different financial structure. The other French listed company is Parrot, but this addresses a leisure market, has a different development strategy including greater diversification, and currently displays minor growth rates due to a more advanced maturity. Finally, the other listed drone companies (of which we could pick out Aerovironment, Forum Energy Tech, Oceaneering International) are mostly in the USA, and are more mature situations, implying lower multiples.

We thus chose to compare Dronevolt to three companies, Ingenico, Kuka, Nordex and Schindler, based on the similarity of the business model: a substantial technical and technological content, the assembly of external parts, and a large part of services associated with the products.

Valuation Summary

| Benchmarks | | Values (€) | Upside | Weight |
|---------------------|-------|-------------|------------|--------|
| DCF | | 2.28 | 45% | 40% |
| NAV/SOTP per share | | 2.12 | 34% | 40% |
| P/E | Peers | 1.80 | 14% | 5% |
| EV/Ebitda | Peers | 1.91 | 21% | 5% |
| P/Book | Peers | 1.96 | 24% | 5% |
| Dividend Yield | Peers | 0.00 | -100% | 5% |
| Target Price | | 2.04 | 29% | |

Drone Volt (Buy)

Electrical Products-Misc / France

► Valuation

Comparison based valuation

| Computed on 18 month forecasts | P/E (x) | Ev/Ebitda (x) | P/Book (x) | Yield(%) |
|---|-------------|---------------|-------------|-------------|
| Peers ratios | 24.7 | 12.6 | 5.29 | 1.36 |
| Drone Volt's ratios | 26.4 | 15.2 | 6.38 | 0.00 |
| Premium | 50.0% | 50.0% | 50.0% | 50.0% |
| Default comparison based valuation (€) | 1.80 | 1.91 | 1.96 | 0.00 |
| Schindler Holding | 24.9 | 14.2 | 6.65 | 1.67 |
| Ingenico | 25.0 | 13.0 | 3.76 | 1.37 |
| KUKA | 26.2 | 12.8 | 3.60 | 0.58 |
| Nordex SE | 21.1 | 6.34 | 6.95 | 0.00 |

Drone Volt (Buy)

Electrical Products-Misc / France

DCF

DCF Valuation Per Share

| | | | | | |
|--|----|-------------|---------------------------------------|----|--------|
| WACC | % | 12.0 | Avg net debt (cash) at book value | €h | -1,873 |
| PV of cashflow FY1-FY11 | €h | 13,286 | Provisions | €h | 0.00 |
| FY11CF | €h | 4,809 | Unrecognised actuarial losses (gains) | €h | 0.00 |
| Normalised long-term growth"g" | % | 2.00 | Financial assets at market price | €h | 0.00 |
| Terminal value | €h | 48,089 | Minorities interests (fair value) | €h | 0.00 |
| PV terminal value | €h | 15,483 | Equity value | €h | 30,643 |
| <i>PV terminal value in % of total value</i> | % | <i>53.8</i> | Number of shares | Th | 13,412 |
| Total PV | €h | 28,770 | Implied equity value per share | € | 2.28 |

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 | 1.59 |
| Average debt maturity | Year | 5 | Company gearing at market value | % | -8.93 |
| Sector asset beta | x | 1.70 | Company market gearing | % | -9.81 |
| Debt beta | x | 0.60 | Required return on geared equity | % | 11.5 |
| Market capitalisation | €h | 19,426 | Cost of debt | % | 4.55 |
| Net debt (cash) at book value | €h | -1,735 | Cost of ungeared equity | % | 12.0 |
| Net debt (cash) at market value | €h | -1,735 | WACC | % | 12.0 |

DCF Calculation

| | | 12/14A | 12/15E | 12/16E | 12/17E | Growth | 12/18E | 12/25E |
|--|-----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | €h | 1,735 | 3,539 | 7,182 | 12,209 | 11.0% | 13,552 | 28,136 |
| EBITDA | €h | 45.6 | -99.0 | 430 | 2,180 | 13.0% | 2,463 | 5,795 |
| <i>EBITDA Margin</i> | % | <i>2.63</i> | <i>-2.80</i> | <i>5.99</i> | <i>17.9</i> | | <i>18.2</i> | <i>20.6</i> |
| Change in WCR | €h | 1.95 | 19.0 | 29.0 | 46.0 | 11.0% | 51.1 | 106 |
| Total operating cash flows (pre tax) | €h | 46.9 | -80.0 | 459 | 2,226 | | 2,514 | 5,901 |
| Corporate tax | €h | 5.54 | -40.0 | -90.0 | -491 | 11.0% | -545 | -1,132 |
| Net tax shield | €h | -0.38 | -0.60 | -0.90 | -0.90 | 11.0% | -1.00 | -2.07 |
| Capital expenditure | €h | -28.0 | -20.0 | -20.0 | -20.0 | 13.0% | -22.6 | -53.2 |
| <i>Capex/Sales</i> | % | <i>-1.62</i> | <i>-0.57</i> | <i>-0.28</i> | <i>-0.16</i> | | <i>-0.17</i> | <i>-0.19</i> |
| Pre financing costs FCF (for DCF purposes) | €h | 24.0 | -141 | 348 | 1,714 | | 1,946 | 4,715 |
| Various add backs (incl. R&D, etc.) for DCF purposes | €h | | | | | | | |
| Free cash flow adjusted | €h | 24.0 | -141 | 348 | 1,714 | | 1,946 | 4,715 |
| Discounted free cash flows | €h | 24.0 | -141 | 311 | 1,366 | | 1,385 | 1,518 |
| Invested capital | € | 0.18 | 0.35 | 0.35 | 0.67 | | 0.75 | 1.77 |

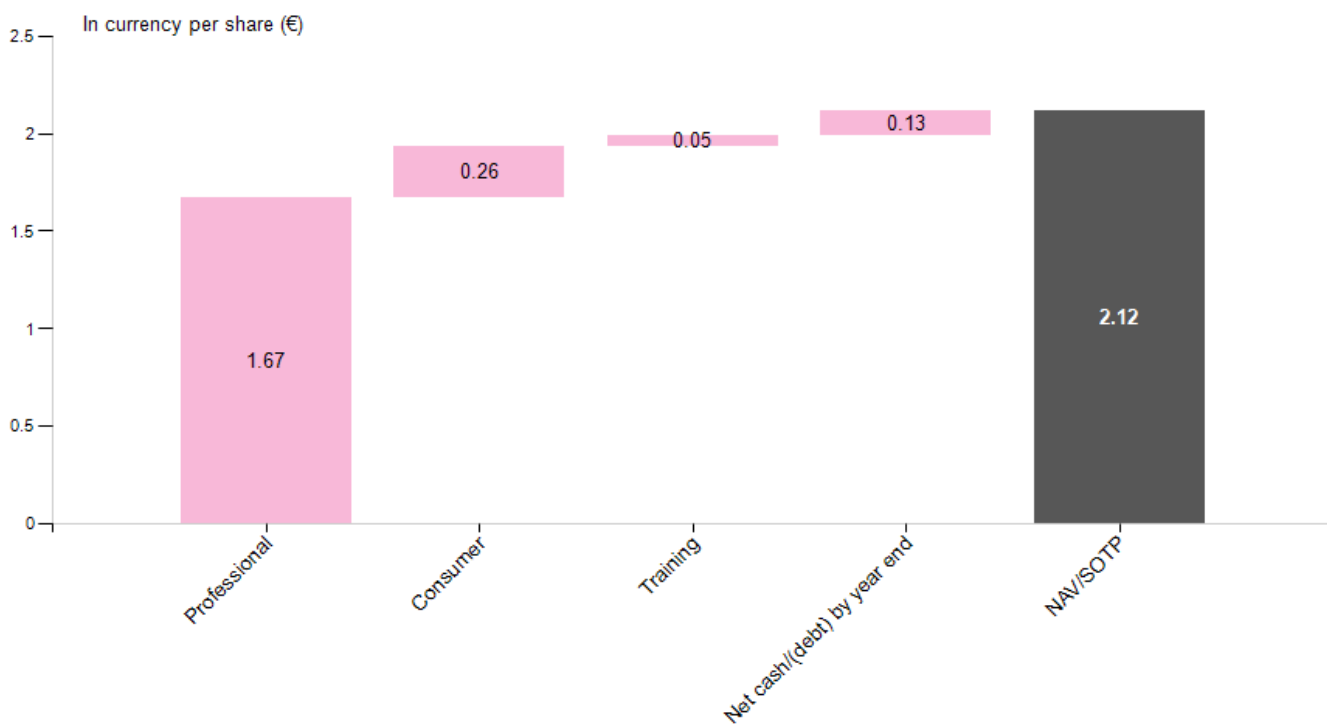
Drone Volt (Buy)

Electrical Products-Misc / France

► NAV/SOTP (edit)

NAV/SOTP Calculation

| | % owned | Valuation technique | Multiple used | Valuation at 100% (€th) | Stake valuation (€th) | In currency per share (€) | % of gross assets |
|--|---------|---------------------|---------------|-------------------------|-----------------------|---------------------------|-------------------|
| Professional | 100% | EV/Sales | 3 | 22,420 | 22,420 | 1.67 | 84.2% |
| Consumer | 100% | EV/Sales | 2 | 3,542 | 3,542 | 0.26 | 13.3% |
| Training | 100% | EV/Sales | 1.5 | 680 | 680 | 0.05 | 2.55% |
| Other | | | | | | | |
| Total gross assets | | | | | 26,642 | 1.99 | 100% |
| Net cash/(debt) by year end | | | | | 1,735 | 0.13 | 6.51% |
| Commitments to pay | | | | | | | |
| Commitments received | | | | | | | |
| NAV/SOTP | | | | | 28,377 | 2.12 | 107% |
| Number of shares net of treasury shares - year end (Th) | | | | | 13,412 | | |
| NAV/SOTP per share (€) | | | | | | 2.12 | |
| Current discount to NAV/SOTP (%) | | | | | | 25.3 | |



► Worth Knowing

Worth Knowing

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

Four drone flying operation scenarios are envisaged for now:

- S-1: operations with a direct sight on the drone, out of a populated zone, at a maximum distance of 100m from the pilot.
- S-2: operations out of sight, out of 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, out of a populated zone and not corresponding to S-2.

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

Among the other important points of the current regulations:

- Drone builders have to certify their models 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).

Shareholders

| Name | % owned | Of which % voting rights | Of which % free to float |
|----------------------------|---------|-----------------------------|-----------------------------|
| Dronevolt Management | 100% | 100% | 0.00% |
| Apparent free float | | | 0.00% |

Drone Volt (Buy)

Electrical Products-Misc / France

Financials

Valuation Key Data

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|-----------------------|----------|-------------|-------------|-------------|-------------|
| Adjusted P/E | x | ns | ns | ns | 13.1 |
| Reported P/E | x | 401 | -53.8 | 68.6 | 12.0 |
| EV/EBITDA(R) | x | ns | ns | 40.5 | 7.38 |
| P/Book | x | 75.5 | 7.09 | 8.07 | 4.80 |
| Dividend yield | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Free cash flow yield | % | 0.13 | -0.94 | 1.78 | 8.81 |
| Average stock price | € | 1.58 | 1.23 | 1.58 | 1.58 |

Consolidated P&L

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|------------|--------------|--------------|--------------|---------------|
| Sales | €th | 1,735 | 3,539 | 7,182 | 12,209 |
| Sales growth | % | 41.2 | 104 | 103 | 70.0 |
| Sales per employee | €th | 434 | 354 | 479 | 581 |
| Purchases and external costs (incl. IT) | €th | -1,539 | -3,079 | -6,248 | -10,622 |
| R&D costs as % of sales | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Staff costs | €th | -134 | -358 | -603 | -790 |
| Operating lease payments | €th | | | | |
| Cost of sales/COGS (indicative) | €th | -1,502 | -2,619 | -5,063 | -7,875 |
| EBITDA | €th | 45.6 | -99.0 | 430 | 2,180 |
| EBITDA(R) | €th | 45.6 | -99.0 | 430 | 2,180 |
| EBITDA(R) margin | % | 2.63 | -2.80 | 5.99 | 17.9 |
| EBITDA(R) per employee | €th | 11.4 | -9.90 | 28.7 | 104 |
| Depreciation | €th | | | | |
| Depreciations/Sales | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Amortisation | €th | -5.23 | -90.0 | -54.0 | -65.0 |
| Underlying operating profit | €th | 40.4 | -189 | 376 | 2,115 |
| Underlying operating margin | % | 2.33 | -5.34 | 5.24 | 17.3 |
| Other income/expense (cash) | €th | | | | |
| Other inc./ exp. (non cash; incl. assets revaluation) | €th | | | | |
| Earnings from joint venture(s) | €th | | | | |
| Impairment charges/goodwill amortisation | €th | | | | |
| Operating profit (EBIT) | €th | 40.4 | -189 | 376 | 2,115 |
| Interest expenses | €th | -1.00 | -2.00 | -3.00 | -3.00 |
| of which effectively paid cash interest expenses | €th | -1.00 | | | |
| Financial income | €th | | | | |
| Other financial income (expense) | €th | -0.26 | | | |
| Net financial expenses | €th | -1.26 | -2.00 | -3.00 | -3.00 |
| of which related to pensions | €th | | 0.00 | 0.00 | 0.00 |
| Pre-tax profit before exceptional items | €th | 39.1 | -191 | 373 | 2,112 |
| Exceptional items and other (before taxes) | €th | -0.63 | -50.0 | | |
| of which cash (cost) from exceptionals | €th | | | | |
| Current tax | €th | 5.54 | -40.0 | -90.0 | -491 |
| Impact of tax loss carry forward | €th | | | | |
| Deferred tax | €th | | | | |
| Corporate tax | €th | 5.54 | -40.0 | -90.0 | -491 |
| Tax rate | % | -14.2 | -20.9 | 24.1 | 23.2 |
| Net margin | % | 2.57 | -6.53 | 3.94 | 13.3 |
| Equity associates | €th | | | | |
| Actual dividends received from equity holdings | €th | | | | |
| Minority interests | €th | | | | |
| Actual dividends paid out to minorities | €th | | | | |
| Income from discontinued operations | €th | | | | |
| Attributable net profit | €th | 44.0 | -281 | 283 | 1,621 |
| Impairment charges/goodwill amortisation | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Other adjustments | €th | | | | |
| Adjusted attributable net profit | €th | 44.0 | -281 | 283 | 1,621 |
| Interest expense savings | €th | | | | |

Drone Volt (Buy)

Electrical Products-Misc / France

► Financials

| | | | | | |
|---|-----|------|------|-----|-------|
| Fully diluted adjusted attr. net profit | €th | 44.0 | -281 | 283 | 1,621 |
| NOPAT | €th | 28.2 | -132 | 263 | 1,481 |

Cashflow Statement

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|-----|--------------|----------------------------|--------------|--------------|
| EBITDA | €th | 45.6 | -99.0 | 430 | 2,180 |
| Change in WCR | €th | 1.95 | 19.0 | 29.0 | 46.0 |
| <i>of which (increases)/decr. in receivables</i> | €th | -13.3 | -62.1 | -121 | -182 |
| <i>of which (increases)/decr. in inventories</i> | €th | -36.7 | -21.5 | -73.0 | -108 |
| <i>of which increases/(decr.) in payables</i> | €th | 56.5 | 56.4 | 112 | 182 |
| <i>of which increases/(decr.) in other curr. liab.</i> | €th | -4.62 | 46.2 | 111 | 154 |
| Actual dividends received from equity holdings | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Paid taxes | €th | 5.54 | -40.0 | -90.0 | -491 |
| Exceptional items | €th | -0.63 | | | |
| Other operating cash flows | €th | | | | |
| Total operating cash flows | €th | 52.4 | -120 | 369 | 1,735 |
| Capital expenditure | €th | -28.0 | -20.0 | -20.0 | -20.0 |
| <i>Capex as a % of depreciation & amort.</i> | % | 536 | 22.2 | 37.0 | 30.8 |
| Net investments in shares | €th | | | | |
| Other investment flows | €th | -28.3 | -223 | -70.0 | -390 |
| Total investment flows | €th | -56.3 | -243 | -90.0 | -410 |
| Net interest expense | €th | -1.26 | -2.00 | -3.00 | -3.00 |
| <i>of which cash interest expense</i> | €th | -1.00 | -2.00 | -3.00 | -3.00 |
| Dividends (parent company) | €th | | | | |
| Dividends to minorities interests | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| New shareholders' equity | €th | 5.67 | 2,079⁽¹⁾ | | |
| <i>of which (acquisition) release of treasury shares</i> | €th | | | | |
| (Increase)/decrease in net debt position | €th | 42.1 | 258 | -71.2 | -72.7 |
| Other financial flows | €th | | | | |
| Total financial flows | €th | 46.7 | 2,335 | -74.2 | -75.7 |
| Change in cash position | €th | 42.9 | 1,972 | 205 | 1,249 |
| Change in net debt position | €th | 0.80 | 1,714 | 276 | 1,322 |
| Free cash flow (pre div.) | €th | 23.1 | -142 | 346 | 1,712 |
| Operating cash flow (clean) | €th | 53.1 | -120 | 369 | 1,735 |
| <i>Reinvestment rate (capex/tangible fixed assets)</i> | % | 100 | 12.4 | 10.2 | 3.69 |

1. Corresponds to two capital increases, €75k in February and €204k in March

Drone Volt (Buy)

Electrical Products-Misc / France

► Financials

Balance Sheet

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|------------|--------------|---------------|---------------|---------------|
| Capitalised R&D | €th | 21.2 | 79.0 | 70.0 | 90.0 |
| Goodwill | €th | | | | |
| Total intangible | €th | 21.2 | 79.0 | 70.0 | 90.0 |
| Tangible fixed assets | €th | 27.9 | 161 | 197 | 542 |
| Financial fixed assets (part of group strategy) | €th | | | | |
| Other financial assets (investment purpose mainly) | €th | 4.94 | | | |
| WCR | €th | 128 | 109 | 80.0 | 34.0 |
| <i>of which trade & receivables (+)</i> | €th | 75.9 | 138 | 259 | 441 |
| <i>of which inventories (+)</i> | €th | 204 | 226 | 299 | 407 |
| <i>of which payables (+)</i> | €th | 90.6 | 147 | 259 | 441 |
| <i>of which other current liabilities (+)</i> | €th | 61.8 | 108 | 219 | 373 |
| Other current assets | €th | 30.7 | 46.0 | 48.0 | 51.0 |
| <i>of which tax assets (+)</i> | €th | 30.7 | 46.0 | 48.0 | 51.0 |
| Total assets (net of short term liabilities) | €th | 213 | 395 | 395 | 717 |
| Ordinary shareholders' equity (group share) | €th | 234 | 2,130 | 2,406 | 4,050 |
| Minority interests | €th | | | | |
| Provisions for pensions | €th | | 0.00 | 0.00 | 0.00 |
| Other provisions for risks and liabilities | €th | | | | |
| Deferred tax liabilities | €th | | | | |
| Other liabilities | €th | | | | |
| Net debt / (cash) | €th | -21.0 | -1,735 | -2,011 | -3,333 |
| Total liabilities and shareholders' equity | €th | 213 | 395 | 395 | 717 |
| Average net debt / (cash) | €th | -21.9 | -878 | -1,873 | -2,672 |

EV Calculations

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|------------|---------------|---------------|---------------|---------------|
| EV/EBITDA(R) | x | ns | ns | 40.5 | 7.38 |
| EV/EBIT (underlying profit) | x | ns | -70.7 | 46.3 | 7.61 |
| EV/Sales | x | 10.2 | 3.78 | 2.42 | 1.32 |
| EV/Invested capital | x | 99.5 | 38.3 | 50.2 | 24.2 |
| Market cap | €th | 17,647 | 15,106 | 19,426 | 19,426 |
| + Provisions (including pensions) | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| + Unrecognised actuarial losses/(gains) | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| + Net debt at year end | €th | -21.0 | -1,735 | -2,011 | -3,333 |
| + Leases debt equivalent | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| - Financial fixed assets (fair value) & Others | €th | | | | |
| + Minority interests (fair value) | €th | | | | |
| = Enterprise Value | €th | 17,626 | 13,371 | 17,415 | 16,093 |

Drone Volt (Buy)

Electrical Products-Misc / France

Financials

Per Share Data

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|----|---------------|---------------|---------------|---------------|
| Adjusted EPS (bfr goodwill amort. & dil.) | € | 0.00 | -0.02 | 0.02 | 0.12 |
| <i>Growth in EPS</i> | % | 121 | n/a | n/a | 473 |
| Reported EPS | € | 0.00 | -0.02 | 0.02 | 0.13 |
| Net dividend per share | € | 0.00 | 0.00 | 0.00 | 0.00 |
| Free cash flow per share | € | 0.00 | -0.01 | 0.03 | 0.13 |
| Operating cash flow per share | € | 0.00 | -0.01 | 0.03 | 0.14 |
| Book value per share | € | 0.02 | 0.17 | 0.20 | 0.33 |
| Number of ordinary shares | Th | 11,169 | 12,295 | 12,295 | 12,295 |
| Number of equivalent ordinary shares (year end) | Th | 11,169 | 12,295 | 12,295 | 12,295 |
| Number of shares market cap. | Th | 11,169 | 12,295 | 12,295 | 12,295 |
| Treasury stock (year end) | Th | | | | |
| Number of shares net of treasury stock (year end) | Th | 11,169 | 12,295 | 12,295 | 12,295 |
| Number of common shares (average) | Th | 11,169 | 11,732 | 12,295 | 12,295 |
| 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 |
| Increase in shares outstanding (average) | Th | 0.00 | 559 | 1,117 | 1,117 |
| Number of diluted shares (average) | Th | 11,169 | 12,291 | 13,412 | 13,412 |
| Goodwill per share (diluted) | € | 0.00 | 0.00 | 0.00 | 0.00 |
| EPS after goodwill amortisation (diluted) | € | 0.00 | -0.02 | 0.02 | 0.12 |
| EPS before goodwill amortisation (non-diluted) | € | 0.00 | -0.02 | 0.02 | 0.13 |
| Actual payment | € | | | | |
| Payout ratio | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital payout ratio (div +share buy back/net income) | % | 0.00 | 0.00 | 0.00 | |

Funding - Liquidity

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|-----|--------------|---------------|---------------|---------------|
| EBITDA | €th | 45.6 | -99.0 | 430 | 2,180 |
| Funds from operations (FFO) | €th | 49.5 | -141 | 337 | 1,686 |
| Ordinary shareholders' equity | €th | 234 | 2,130 | 2,406 | 4,050 |
| Gross debt | €th | 42.6 | 300 | 229 | 157 |
| o/w Less than 1 year - Gross debt | €th | 12.7 | 71.2 | 72.7 | 65.2 |
| o/w 1 to 5 year - Gross debt | €th | 29.9 | 229 | 157 | 91.4 |
| of which Y+2 | €th | 12.0 | 72.7 | 65.2 | 60.8 |
| of which Y+3 | €th | 13.0 | 65.2 | 60.8 | 30.6 |
| of which Y+4 | €th | 4.90 | 60.8 | 30.6 | 0.00 |
| of which Y+5 | €th | | 30.6 | 0.00 | 0.00 |
| + Gross Cash | €th | 63.7 | 2,036 | 2,240 | 3,490 |
| = Net debt / (cash) | €th | -21.0 | -1,735 | -2,011 | -3,333 |
| Bank borrowings | €th | 42.6 | 300 | 229 | 157 |
| Other financing | €th | 0.00 | 0.01 | 0.01 | 0.01 |
| Gearing (at book value) | % | -9.36 | -41.2 | -77.8 | -66.0 |
| Adj. Net debt/EBITDA(R) | x | -0.46 | 17.5 | -4.68 | -1.53 |
| Adjusted Gross Debt/EBITDA(R) | x | 0.94 | -3.04 | 0.53 | 0.07 |
| Adj. gross debt/(Adj. gross debt+Equity) | % | 15.4 | 12.4 | 8.70 | 3.72 |
| Ebit cover | x | 32.1 | -94.5 | 125 | 705 |
| FFO/Gross Debt | % | 116 | -46.9 | 147 | 1,077 |
| FFO/Net debt | % | -235 | 8.13 | -16.8 | -50.6 |
| FCF/Adj. gross debt (%) | % | 54.3 | -47.3 | 151 | 1,093 |
| (Gross cash+ "cash" FCF+undrawn)/ST debt | x | 6.82 | 26.6 | 35.6 | 79.8 |
| "Cash" FCF/ST debt | x | 1.84 | -1.99 | 4.76 | 26.3 |

Drone Volt (Buy)

Electrical Products-Misc / France

Financials

ROE Analysis (Dupont's Breakdown)

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|---|-------------|--------------|-------------|-------------|
| Tax burden (Net income/pretax pre expc income) | x | 1.13 | 1.47 | 0.76 | 0.77 |
| EBIT margin (EBIT/sales) | % | 2.33 | -5.34 | 5.24 | 17.3 |
| Assets rotation (Sales/Avg assets) | % | 928 | 1,165 | 1,818 | 2,196 |
| Financial leverage (Avg assets /Avg equity) | x | 0.90 | 0.26 | 0.17 | 0.17 |
| ROE | % | 21.1 | -23.8 | 12.5 | 50.2 |
| ROA | % | 22.8 | -54.2 | 108 | 318 |

Shareholder's Equity Review (Group Share)

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|------------|-------------|--------------|--------------|--------------|
| Y-1 shareholders' equity | €th | 29.5 | 79.2 | 2,130 | 2,406 |
| + Net profit of year | €th | 44.0 | -281 | 283 | 1,621 |
| - Dividends (parent cy) | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| + Additions to equity | €th | 5.67 | 2,079 | 0.00 | 0.00 |
| <i>o/w reduction (addition) to treasury shares</i> | €th | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| - Unrecognised actuarial gains/(losses) | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| + Comprehensive income recognition | €th | | 253 | -7.00 | 23.0 |
| = Year end shareholders' equity | €th | 79.2 | 2,130 | 2,406 | 4,050 |

Staffing Analytics

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|-----|--------------|-------------|-------------|--------------|
| Sales per staff | €th | 434 | 354 | 479 | 581 |
| Staff costs per employee | €th | -33.6 | -35.8 | -40.2 | -37.6 |
| <i>Change in staff costs</i> | % | <i>7.52</i> | <i>167</i> | <i>68.4</i> | <i>31.0</i> |
| <i>Change in unit cost of staff</i> | % | <i>-19.4</i> | <i>6.70</i> | <i>12.3</i> | <i>-6.42</i> |
| <i>Staff costs/(EBITDA+Staff costs)</i> | % | <i>74.6</i> | <i>138</i> | <i>58.4</i> | <i>26.6</i> |

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|-------------|-------------|-------------|-------------|-------------|
| Average workforce | unit | 4.00 | 10.0 | 15.0 | 21.0 |
| Europe | unit | 4.00 | 10.0 | 15.0 | 21.0 |
| 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 | -134 | -358 | -603 | -790 |
| Wages and salaries | €th | -134 | -358 | -603 | -790 |
| <i>of which social security contributions</i> | €th | | | | |
| Equity linked payments | €th | | | | |
| Pension related costs | €th | 0.00 | 0.00 | 0.00 | 0.00 |

Divisional Breakdown Of Revenues

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--------------------|------------|--------------|--------------|--------------|---------------|
| Consumer | €th | 1,353 | 1,572 | 1,719 | 1,823 |
| Professional | €th | 347 | 1,817 | 5,163 | 9,786 |
| Training | €th | 35.0 | 150 | 300 | 600 |
| Other | €th | | | | |
| Total sales | €th | 1,735 | 3,539 | 7,182 | 12,209 |

Divisional Breakdown Of Earnings

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|------------|------------|------------|--------------|--------------|
| Other profit breakdown Analysis Analysis | | | | | |
| Consumer | €th | 373 | 396 | 401 | 421 |
| Professional | €th | 76.0 | 434 | 1,538 | 3,187 |
| Training | €th | 2.00 | 90.0 | 180 | 360 |
| Other/cancellations | €th | | | | |
| Total | €th | 451 | 920 | 2,119 | 3,968 |
| Other profit breakdown Analysis margin | % | 26.0 | 26.0 | 29.5 | 32.5 |

Drone Volt (Buy)

Electrical Products-Misc / France

► Financials

Revenue Breakdown By Country

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--------|---|--------|--------|--------|--------|
| Europe | % | 100 | 100 | | |
| Other | % | 0.00 | 0.00 | | |

Capital Employed

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|---|--------|--------|--------|--------|
| ROCE (NOPAT+lease exp.*(1-tax))/(net cap employed adjusted) | % | 15.9 | -37.9 | 75.9 | 222 |

| | | | | | |
|--|-----------|------------|------------|------------|------------|
| Goodwill | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Accumulated goodwill amortisation | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| All intangible assets | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Accumulated intangible amortisation | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Financial hedges (LT derivatives) | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Capitalised R&D | €h | 21.2 | 79.0 | 70.0 | 90.0 |
| PV of non-capitalised lease obligations | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Other fixed assets | €h | 27.9 | 161 | 197 | 542 |
| Accumulated depreciation | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital employed before depreciation | €h | 177 | 349 | 347 | 666 |
| WCR | €h | 128 | 109 | 80.0 | 34.0 |
| Other assets | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Unrecognised actuarial losses/(gains) | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital employed after deprec. (Invested capital) | €h | 177 | 349 | 347 | 666 |

Divisional Breakdown Of Capital

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|-------------------------------|-----------|------------|------------|------------|------------|
| Consumer | €h | | | | |
| Professional | €h | | | | |
| Training | €h | | | | |
| Other | €h | 177 | 349 | 347 | 666 |
| Total capital employed | €h | 177 | 349 | 347 | 666 |

► Pension Risks

Pension matters

Until recently, the company was only a small start-up, working as a distributor in a small environment of well-informed customers. Technically, as well as commercially, the activity level didn't require a great number of employees.

With the business model moving towards sales to professionals and training services, a net increase in the workforce is necessary, as well as to keep up with the fast developments in the activity. From five people in 2014, the company will hire another six employees in 2015, mainly in sales to ensure greater visibility of its products among professionals in a context of ever-increasing competition.

If the company is successful, the workforce is expected to rise to 21 people by 2017, the priority being once again sales, followed by R&D to ensure a leading technical and technological content in the company's products.

Some of the workforce is subcontracted, to ensure an extended flexibility.

Summary Of Pension Risks

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|----|-------------|-------------|-------------|-------------|
| Pension ratio | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Ordinary shareholders' equity | €h | 234 | 2,130 | 2,406 | 4,050 |
| Total benefits provisions | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>of which funded pensions</i> | €h | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| <i>of which unfunded pensions</i> | €h | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| <i>of which benefits / health care</i> | €h | | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| Unrecognised actuarial (gains)/losses | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>Company discount rate</i> | % | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| Normalised recomputed discount rate | % | | 3.50 | | |
| <i>Company future salary increase</i> | % | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| Normalised recomputed future salary increase | % | | 3.00 | | |
| <i>Company expected rate of return on plan assets</i> | % | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| Normalised recomputed expd rate of return on plan assets | % | | 3.00 | | |
| Funded : Impact of actuarial assumptions | €h | | 0.00 | | |
| Unfunded : Impact of actuarial assumptions | €h | | 0.00 | | |

Geographic Breakdown Of Pension Liabilities

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|------------------|---|--------|--------|--------|--------|
| US exposure | % | | | | |
| UK exposure | % | | | | |
| Euro exposure | % | | | | |
| Nordic countries | % | | | | |
| Switzerland | % | | | | |
| Other | % | 100 | 100 | 100 | 100 |
| Total | % | 100 | 100 | 100 | 100 |

Balance Sheet Implications

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|----|-------------|-------------|-------------|-------------|
| Funded status surplus / (deficit) | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Unfunded status surplus / (deficit) | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Total surplus / (deficit) | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Total unrecognised actuarial (gains)/losses | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Provision (B/S) on funded pension | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Provision (B/S) on unfunded pension | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Other benefits (health care) provision | €h | | 0.00 | 0.00 | 0.00 |
| Total benefit provisions | €h | 0.00 | 0.00 | 0.00 | 0.00 |

P&L Implications

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|----|-------------|-------------|-------------|-------------|
| Funded obligations periodic costs | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Unfunded obligations periodic costs | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Total periodic costs | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>of which incl. in labour costs</i> | €h | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| <i>of which incl. in interest expenses</i> | €h | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |

Drone Volt (Buy)

Electrical Products-Misc / France

► Pension Risks

Funded Obligations

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|----|-------------|-------------|-------------|-------------|
| Balance beginning of period | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Current service cost | €h | | 0.00 | 0.00 | 0.00 |
| Interest expense | €h | | 0.00 | 0.00 | 0.00 |
| Employees' contributions | €h | | | | |
| Impact of change in actuarial assumptions | €h | | 0.00 | 0.00 | 0.00 |
| <i>of which impact of change in discount rate</i> | €h | | <i>0.00</i> | | |
| <i>of which impact of change in salary increase</i> | €h | | <i>0.00</i> | | |
| Changes to scope of consolidation | €h | | | | |
| Currency translation effects | €h | | | | |
| Pension payments | €h | | | | |
| Other | €h | | | | |
| Year end obligation | €h | 0.00 | 0.00 | 0.00 | 0.00 |

Plan Assets

| | | 12/14A | 12/15E | 12/16E | 12/17E |
|--|----|-------------|-------------|-------------|-------------|
| Value at beginning | €h | | 0.00 | 0.00 | 0.00 |
| Company expected return on plan assets | €h | | 0.00 | 0.00 | 0.00 |
| Actuarial gain /(loss) | €h | | 0.00 | 0.00 | 0.00 |
| Employer's contribution | €h | | 0.00 | 0.00 | 0.00 |
| Employees' contributions | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Changes to scope of consolidation | €h | | | | |
| Currency translation effects | €h | | | | |
| Pension payments | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | €h | | | | |
| Value end of period | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Actual and normalised future return on plan assets | €h | 0.00 | 0.00 | 0.00 | 0.00 |

Unfunded Obligations











| | | 12/14A | 12/15E | 12/16E | 12/17E |
|---|----|-------------|-------------|-------------|-------------|
| Balance beginning of period | €h | 0.00 | 0.00 | 0.00 | 0.00 |
| Current service cost | €h | | 0.00 | 0.00 | 0.00 |
| Interest expense | €h | | 0.00 | 0.00 | 0.00 |
| Employees' contributions | €h | | | | |
| Impact of change in actuarial assumptions | €h | | 0.00 | 0.00 | 0.00 |
| <i>of which Impact of change in discount rate</i> | €h | | <i>0.00</i> | | |
| <i>of which Impact of change in salary increase</i> | €h | | <i>0.00</i> | | |
| Changes to scope of consolidation | €h | | | | |
| Currency translation effects | €h | | | | |
| Pension payments | €h | | | | |
| Other | €h | | | | |
| Year end obligation | €h | 0.00 | 0.00 | 0.00 | 0.00 |

Drone Volt (Buy)

Electrical Products-Misc / France

► Governance & Management

Governance parameters

| | Yes  / No  | Weighting |
|---|--|-----------|
| One share, one vote |  | 25% |
| Chairman vs. Executive split |  | 15% |
| Chairman not ex executive |  | 5% |
| Independent directors equals or above 50% of total directors |  | 10% |
| Full disclosure on mgt pay (performance related bonuses, pensions and non financial benefits) |  | 10% |
| Disclosure of performance anchor for bonus trigger |  | 10% |
| Compensation committee reporting to board of directors |  | 10% |
| Straightforward, clean by-laws |  | 15% |
| Governance score | 45 | 100% |

Existing committees

| | |
|---|--------------------------------|
|  | Audit / Governance Committee |
|  | Compensation committee |
|  | Financial Statements Committee |
|  | Litigation Committee |
|  | Nomination Committee |
|  | Safety committee |
|  | SRI / Environment |

Management

| Name | Function | Birth date | Date in | Date out | Compensation, in k€(year) | |
|------|----------|------------|---------|----------|---------------------------|---------------|
| | | | | | Cash | Equity linked |

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) |
|------|-----------------|-------------------------------|------------|---------|----------|-------------------------------|-------------------------------|
|------|-----------------|-------------------------------|------------|---------|----------|-------------------------------|-------------------------------|

► Governance & Management

Human Resources

Accidents at work
25% Of H.R. Score
■■■■■■■

Human resources development
35% Of H.R. Score
■■■■■■■■■

Pay
20% Of H.R. Score
■■■■■■■

Job satisfaction
10% Of H.R. Score
■■■

Internal communication
10% Of H.R. Score
■■■

HR Breakdown

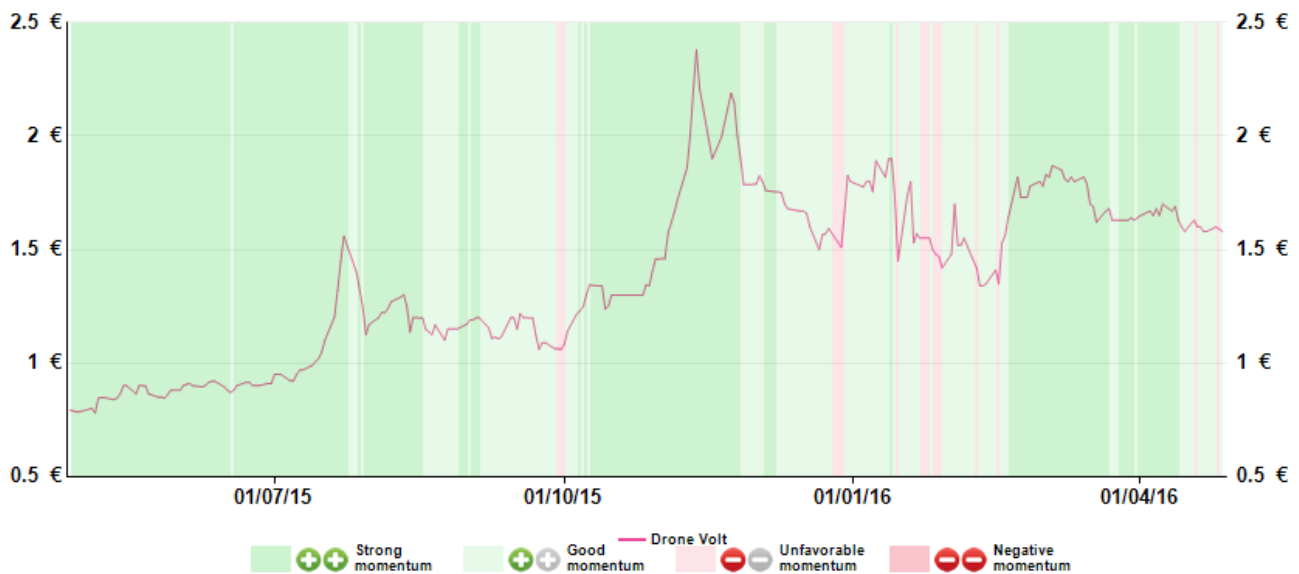
| | | Yes ✓ / No ✗ | Rating |
|---|------------|--------------|---------------|
| Accidents at work | 25% | | 0/100 |
| Set targets for work safety on all group sites? | 40% | ✗ | 0/100 |
| Are accidents at work declining? | 60% | ✗ | 0/100 |
| Human resources development | 35% | | 35/100 |
| Are competences required to meet medium term targets identified? | 10% | ✓ | 4/100 |
| Is there a medium term (2 to 5 years) recruitment plan? | 10% | ✓ | 4/100 |
| Is there a training strategy tuned to the company objectives? | 10% | ✓ | 4/100 |
| Are employees trained for tomorrow's objectives? | 10% | ✓ | 4/100 |
| Can all employees have access to training? | 10% | ✓ | 4/100 |
| Has the corporate avoided large restructuring lay-offs over the last year to date? | 10% | ✓ | 4/100 |
| Have key competences stayed? | 10% | ✓ | 4/100 |
| Are managers given managerial objectives? | 10% | ✓ | 4/100 |
| If yes, are managerial results a deciding factor when assessing compensation level? | 10% | ✓ | 4/100 |
| Is mobility encouraged between operating units of the group? | 10% | ✓ | 4/100 |
| Pay | 20% | | 20/100 |
| Is there a compensation committee? | 30% | ✓ | 6/100 |
| Is employees' performance combining group performance AND individual performance? | 70% | ✓ | 14/100 |
| Job satisfaction | 10% | | 10/100 |
| Is there a measure of job satisfaction? | 33% | ✓ | 3/100 |
| Can anyone participate ? | 34% | ✓ | 3/100 |
| Are there action plans to prop up employees' morale? | 33% | ✓ | 3/100 |
| Internal communication | 10% | | 10/100 |
| Are strategy and objectives made available to every employee? | 100% | ✓ | 10/100 |
| Human Ressources score: | | | 75/100 |


HR Score





► Graphics


Momentum



 : 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

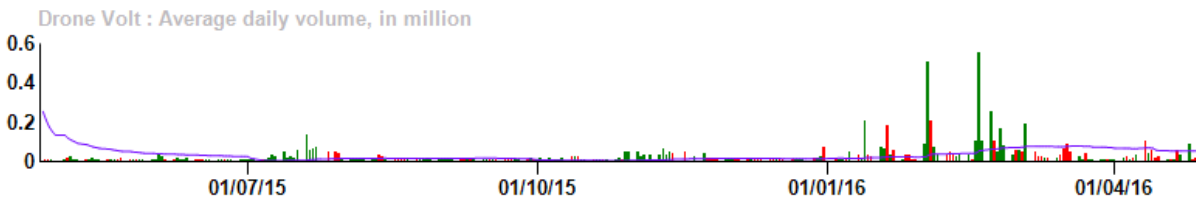
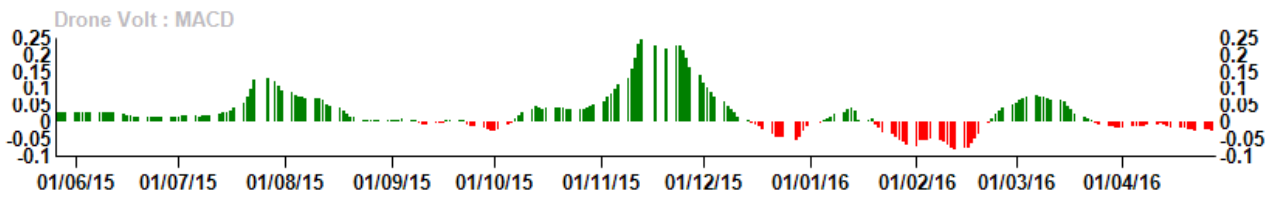
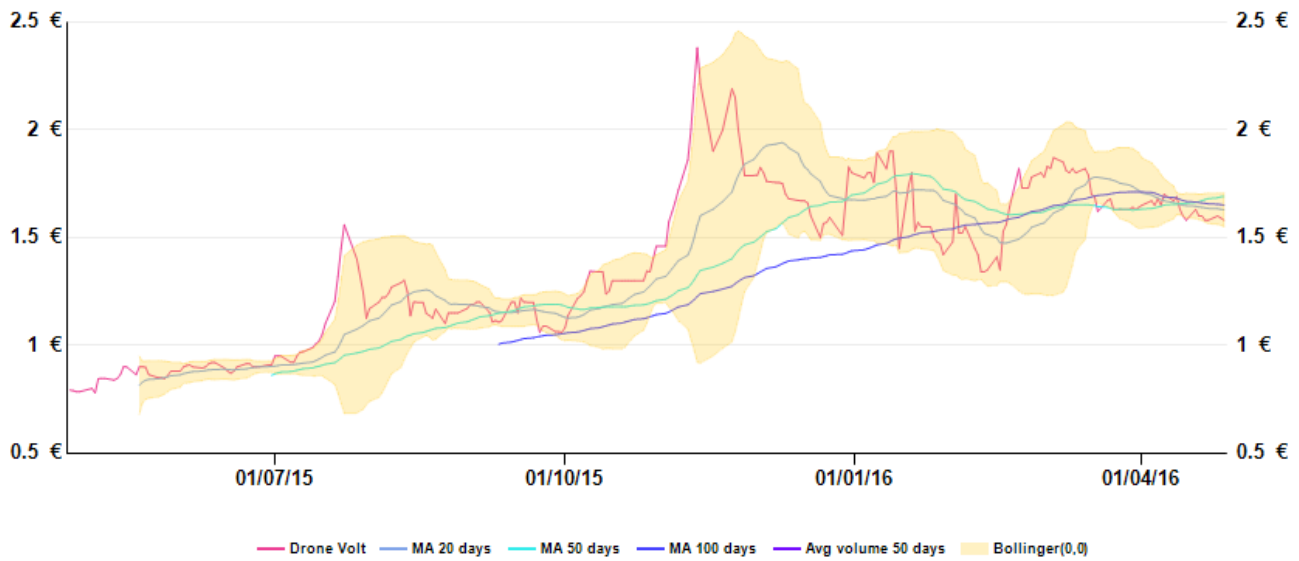
Momentum analysis consists in evaluating the stock market trend of a given financial instrument, based on the analysis of its trading flows. The main indicators used in our momentum tool are simple moving averages over three time frames: short term (20 trading days), medium term (50 days) and long term (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.

Drone Volt (Buy)

Electrical Products-Misc / France

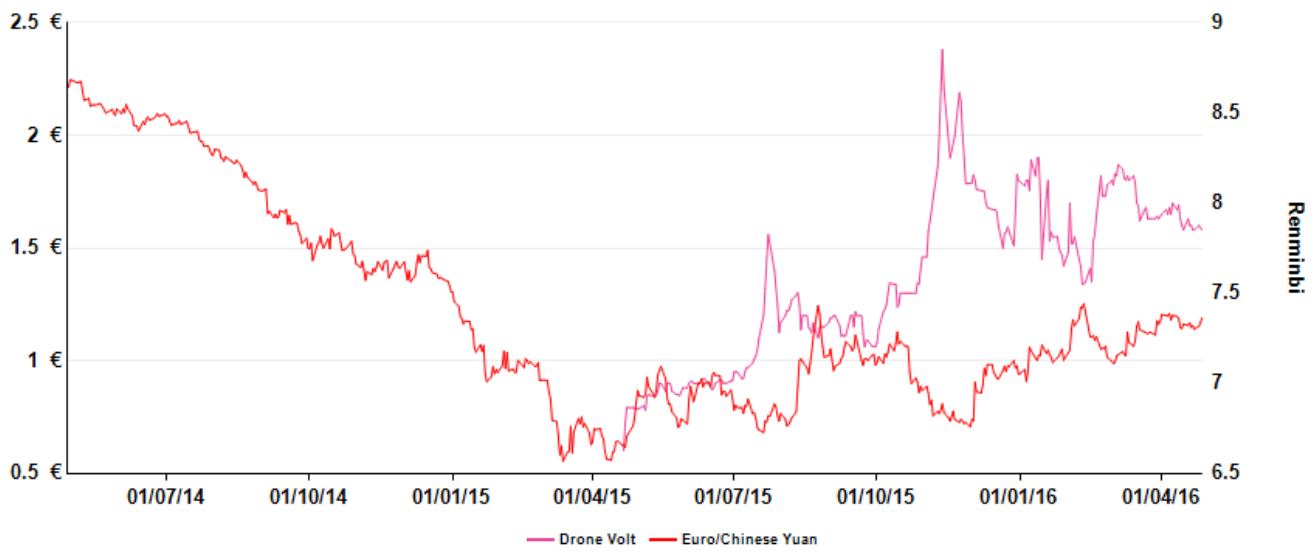
► Graphics

Moving Average MACD & Volume

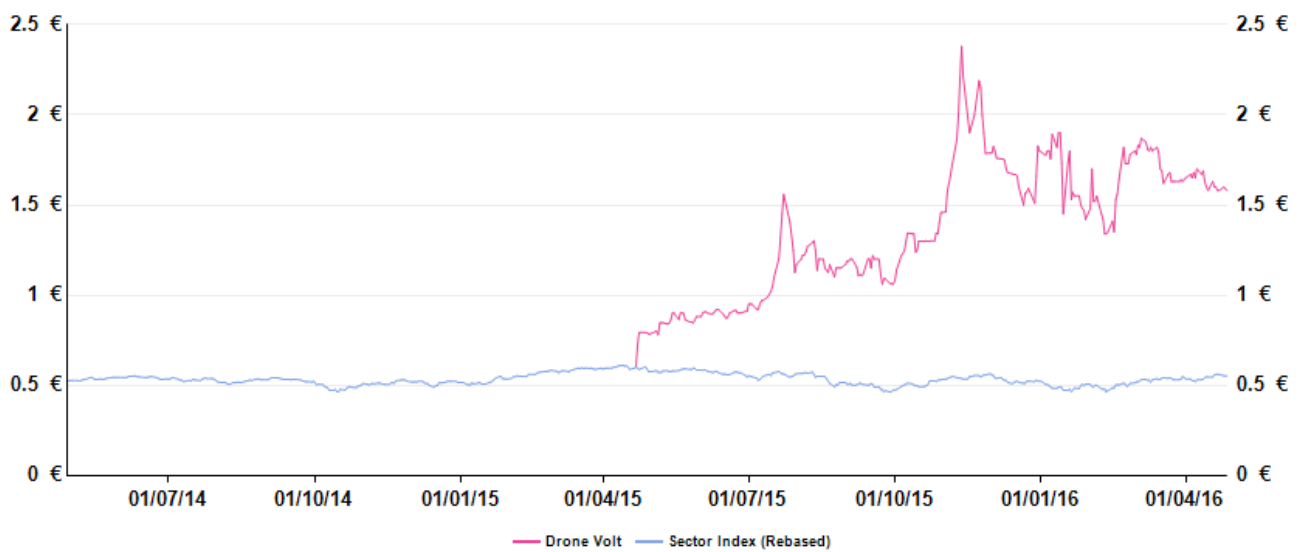


► Graphics

Euro/Chinese Yuan sensitivity



Sector Capital Goods



Methodology

► Methodology

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 (10-30) | Normal Volatility (15-35) | High Volatility (above 35) |
|----------------|---------------------------|------------------------------|-------------------------------|
| 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. 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% | 25% | 15% |
| PE | 10% | 10% | 10% | 5% | 10% | 20% |
| EV/EBITDA | 20% | 20% | 0% | 5% | 0% | 0% |
| Yield | 10% | 10% | 20% | 5% | 15% | 15% |
| P/Book | 5% | 5% | 5% | 5% | 15% | 10% |
| Banks' intrinsic method | 0% | 0% | 0% | 0% | 25% | 0% |
| Embedded Value | 0% | 0% | 0% | 0% | 0% | 40% |
| Mkt Cap/Gross Operating Profit | 0% | 0% | 0% | 0% | 10% | 0% |

Typical sectors

Bio Techs