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| | |
|------------------------|----------------|
| Opinion | Buy |
| Upside (%) | 47.1 |
| Price (€) | 0.27 |
| Target Price (€) | 0.39 |
| Bloomberg Code | ALDRV FP |
| Market Cap (€M) | 42.3 |
| Enterprise Value (€th) | 39,684 |
| Momentum | GOOD |
| Governance | 4.9/10 |
| Credit Risk | C ₊ |

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Conflicts of interest

| | |
|----------------------------------|-----|
| Corporate broking | No |
| Trading in corporate shares | No |
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| Advice to corporate | No |
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| Corporate access | No |
| Brokerage activity at AlphaValue | No |
| Client of AlphaValue Research | No |

Drone Volt

Moving upwards in the value-added chain

PROS

- R&D effort to develop and commercialise in-house drone solutions and AI applications which will allow the company to improve its pricing power and profitability
- Training is a key part of the strategy, where the development of a comprehensive regulatory framework should unleash demand for both drone and training
- New sources of profitable growth through royalty-based partnerships, providing both USA-made drone stamps of approval and credibility in power line inspection

CONS

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

| KEY DATA | 12/18A | 12/19A | 12/20E | 12/21E | 12/22E |
|-------------------------------|--------|--------|--------|--------|--------|
| Adjusted P/E (x) | -7.31 | -3.44 | -24.9 | 17.5 | 7.79 |
| Dividend yield (%) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EV/EBITDA(R) (x) | -10.4 | -10.2 | ns | 6.69 | 2.34 |
| Adjusted EPS (€) | -0.08 | -0.05 | -0.01 | 0.02 | 0.03 |
| Growth in EPS (%) | n/a | n/a | n/a | n/a | 125 |
| Dividend (€) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sales (€th) | 7,421 | 7,108 | 6,767 | 17,518 | 24,991 |
| Other margin (%) | 32.8 | 34.3 | 38.6 | 53.1 | 58.7 |
| Attributable net profit (€th) | -2,465 | -2,570 | -1,255 | 2,610 | 5,863 |
| ROE (after tax) (%) | -32.7 | -29.6 | -8.40 | 11.9 | 22.2 |
| Gearing (%) | 13.7 | 41.2 | 6.05 | -13.7 | -20.9 |

Detailed financials at the end of this report

Key Ratios

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|----------------------|---|--------|--------|--------|--------|
| Adjusted P/E | x | -3.44 | -24.9 | 17.5 | 7.79 |
| EV/EBITDA | x | -10.2 | ns | 6.69 | 2.34 |
| P/Book | x | 1.15 | 2.20 | 1.94 | 1.54 |
| Dividend yield | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Free Cash Flow Yield | % | -45.4 | -4.20 | 2.81 | 10.2 |
| ROE (after tax) | % | -29.6 | -8.40 | 11.9 | 22.2 |
| ROCE | % | -25.6 | -6.41 | 17.8 | 33.8 |
| Net debt/EBITDA | x | -3.01 | 12.8 | -0.72 | -0.85 |

Consolidated P&L

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|---|-----|--------|--------|--------|--------|
| Sales | €th | 7,108 | 6,767 | 17,518 | 24,991 |
| EBITDA | €th | -1,687 | -200 | 5,373 | 9,936 |
| Underlying operating profit | €th | -3,143 | -1,275 | 4,041 | 8,591 |
| Operating profit (EBIT) | €th | -3,468 | -1,526 | 3,802 | 8,363 |
| Net financial expenses | €th | -423 | -378 | -343 | -349 |
| Pre-tax profit before exceptional items | €th | -3,891 | -1,904 | 3,459 | 8,014 |
| Corporate tax | €th | 1,069 | 523 | -950 | -2,201 |
| Attributable net profit | €th | -2,570 | -1,255 | 2,610 | 5,863 |
| Adjusted attributable net profit | €th | -2,570 | -1,255 | 2,610 | 5,863 |

Cashflow Statement

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|-----------------------------|-----|--------|--------|--------|--------|
| Total operating cash flows | €th | -1,635 | 508 | 4,142 | 7,501 |
| Capital expenditure | €th | -2,762 | -2,036 | -2,522 | -2,542 |
| Total investment flows | €th | -2,782 | -2,036 | -2,522 | -2,542 |
| Dividends (parent company) | €th | | | | |
| New shareholders' equity | €th | 3,660 | 9,545 | 0.00 | |
| Total financial flows | €th | 4,605 | 9,509 | -343 | -349 |
| Change in net debt position | €th | -1,213 | 7,640 | 1,276 | 4,610 |
| Free cash flow (pre div.) | €th | -4,819 | -1,905 | 1,276 | 4,610 |

Balance Sheet

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|-----|--------|--------|--------|--------|
| Goodwill | €th | 151 | 149 | 148 | 147 |
| Total intangible | €th | 6,112 | 7,321 | 8,764 | 10,257 |
| Tangible fixed assets | €th | 860 | 1,004 | 1,183 | 1,362 |
| Right-of-use | €th | 366 | 384 | 404 | 424 |
| WCR | €th | 1,614 | 1,537 | 1,844 | 2,121 |
| Total assets (net of short term liabilities) | €th | 15,119 | 19,787 | 21,371 | 23,004 |
| Ordinary shareholders' equity (group share) | €th | 9,212 | 20,657 | 23,374 | 29,394 |
| Provisions for pensions | €th | | 0.00 | 0.00 | 0.00 |
| Net debt / (cash) | €th | 5,069 | -2,571 | -3,847 | -8,457 |
| Total liabilities and shareholders' equity | €th | 15,119 | 19,787 | 21,371 | 23,004 |

Per Share Data

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|---|----|--------|---------|---------|---------|
| Adjusted EPS (bfr goodwill amort. & dil.) | € | -0.05 | -0.01 | 0.02 | 0.03 |
| Net dividend per share | € | 0.00 | 0.00 | 0.00 | 0.00 |
| Free cash flow per share | € | -0.10 | -0.02 | 0.01 | 0.03 |
| Book value per share | € | 0.15 | 0.12 | 0.14 | 0.17 |
| Number of diluted shares (average) | Th | 50,616 | 117,223 | 171,445 | 171,445 |

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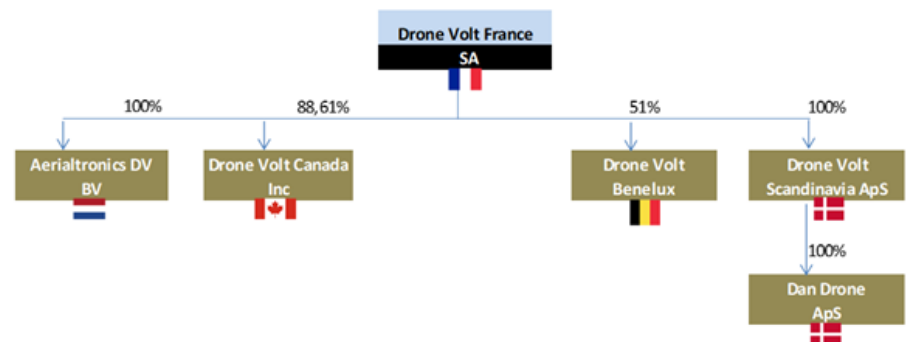
Businesses & Trends

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 flatish 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 would like to produce Hercules 2, 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 hopes to increase its production line by 3,000 units, monthly, to reach a steady 10,000 units per month 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 on 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 \$400k annually (of which \$250k for Altura Zenith and \$150k for Hercules 2), to be revised by +10% annually. Furthermore, an upfront payment of \$450k will be added in the first year, to compensate for the transfer of know-how. To strengthen the 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 regarding the signature of a Memorandum of Understanding between Drone Volt and Hydro-Québec. It aims at reaching an agreement on the exclusive industrial development and marketing of a drone designed to inspect high-voltage power transmission lines. We estimate that this achievement 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 activity. 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 2021.

Divisional Breakdown Of Revenues

| Sector | 12/19A | 12/20E | 12/21E | 12/22E | Change 20E/19 | | Change 21E/20E | |
|---------------------------|--------------|--------------|---------------|---------------|---------------|-------------|----------------|-------------|
| | | | | | €th | of % total | €th | of % total |
| Total sales | 7,103 | 6,767 | 17,518 | 24,991 | -336 | 100% | 10,751 | 100% |
| Drone Volt Factory | | | | | | | | |
| Electrical Products-Misc | 2,796 | 2,661 | 12,308 | 18,719 | -135 | 40% | 9,647 | 90% |
| Distribution | | | | | | | | |
| Electrical Products-Misc | 4,307 | 3,446 | 3,101 | 2,791 | -861 | 256% | -345 | -3% |
| Training | | | | | | | | |
| Electrical Products-Misc | | | | | | | | |
| Consumer | | | | | | | | |
| Electrical Products-Misc | | | | | | | | |
| Professional | | | | | | | | |
| Electrical Products-Misc | | | | | | | | |
| Royalties | | | | | | | | |
| Electrical Products-Misc | | 661 | 2,109 | 3,481 | 661 | -197% | 1,448 | 13% |
| 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

| | |
|--------|-------|
| Europe | 42.0% |
| France | 36.0% |
| Other | 22.0% |

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 cyclical. 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

| | 12/19A | 12/20E | 12/21E | 12/22E | Change 20E/19 | | Change 21E/20E | |
|---------------------------|--------------|--------------|--------------|---------------|---------------|-------------|----------------|-------------|
| | | | | | €th | of % total | €th | of % total |
| Total | 2,441 | 2,611 | 9,298 | 14,663 | 170 | 100% | 6,687 | 100% |
| Drone Volt Factory | 1,449 | 1,398 | 6,476 | 10,540 | -51 | -30% | 5,078 | 76% |
| Distribution | 992 | 552 | 713 | 642 | -440 | -259% | 161 | 2% |
| Consumer | | | | | | | | |
| Professional | | | | | | | | |
| Training | | | | | | | | |
| Royalties | | 661 | 2,109 | 3,481 | 661 | 389% | 1,448 | 22% |
| Other/cancellations | | | | | | | | |

Divisional Other profit breakdown Analysis margin

| | 12/19A | 12/20E | 12/21E | 12/22E |
|---------------------------|--------------|--------------|--------------|--------------|
| Total | 34.4% | 38.6% | 53.1% | 58.7% |
| Drone Volt Factory | 51.8% | 52.5% | 52.6% | 56.3% |
| Distribution | 23.0% | 16.0% | 23.0% | 23.0% |
| Consumer | | | | |
| Professional | | | | |
| Training | | | | |
| Royalties | | 100% | 100% | 100% |

Valuation

In order to build our valuation, which is a combination of DCF, NAV and peers, we started with the order pipeline provided by the company, but we hold a more cautious approach and have made adjustments to our estimated impact of the COVID-19 outbreak (see Money Making).

DCF

Following the sharp 2020-22 growth, we expect some form of stabilisation near the market's long-term average. We had previously assumed an expected market growth of c. 14% CAGR over 2019-27. However, as of today, very few drone companies have actually managed to sustain this growth rate. We therefore apply a more conservative growth rate in our DCF, namely 7% growth over 2023-30. In spite of cost containment measures along with positive volume effects, we believe that an EBITDA margin in the high 30% might be hard to sustain over the long run. We therefore estimate a long-term growth of 5.5% for our EBITDA.

The US business based on royalties could add significantly to our DCF. Our base case scenario with Aquiline Drones is currently limited to half the size of what was announced in the LOI. In a best case, our DCF has the potential to be lifted to €0.80 (all things being equal).

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 in 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 3.5x (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 tied with Robotic Skies as well as the potential business with Aquiline Drones. We applied here a 5x multiple on three-year estimated average royalties. Finally, the Aquiline Drones partnership could involve 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 | | 0.48 | 82% | 40% |
| NAV/SOTP per share | | 0.34 | 28% | 40% |
| P/E | Peers | 0.40 | 49% | 5% |
| EV/Ebitda | Peers | 0.52 | 95% | 5% |
| P/Book | Peers | 0.32 | 20% | 5% |
| Dividend Yield | Peers | 0.00 | -100% | 5% |
| Target Price | | 0.39 | 47% | |

Comparison based valuation

| Computed on 18 month forecasts | P/E (x) | Ev/Ebitda (x) | P/Book (x) | Yield(%) |
|---|-------------|---------------|-------------|-------------|
| Peers ratios | 59.2 | 16.9 | 2.32 | 0.20 |
| Drone Volt's ratios | 20.1 | 7.62 | 1.94 | 0.00 |
| Premium | 0.00% | 0.00% | 0.00% | 0.00% |
| Default comparison based valuation (€) | 0.40 | 0.52 | 0.32 | 0.00 |
| Elbit Systems | 15.8 | 9.89 | n/a | n/a |
| Irobot | 29.1 | 12.8 | 2.67 | 0.00 |
| Aerovironment | 41.8 | 23.6 | 3.46 | n/a |
| KUKA | ns | 19.5 | 1.53 | 0.52 |
| ECA Group | 24.3 | 8.92 | 2.22 | 1.34 |

DCF Valuation Per Share

| | | | | | |
|--|-----|--------|---------------------------------------|-----|---------|
| WACC | % | 8.45 | Avg net debt (cash) at book value | €th | -3,209 |
| PV of cashflow FY1-FY11 | €th | 32,517 | Provisions | €th | 60.0 |
| FY11CF | €th | 6,574 | Unrecognised actuarial losses (gains) | €th | 0.00 |
| Normalised long-term growth"g" | % | 2.00 | Financial assets at market price | €th | 4,068 |
| ESG weighted "g" | % | 1.86 | Minorities interests (fair value) | €th | 887 |
| Terminal value | €th | 99,709 | Equity value | €th | 83,138 |
| PV terminal value | €th | 44,291 | Number of shares | Th | 171,445 |
| <i>PV terminal value in % of total value</i> | % | 57.7 | Implied equity value per share | € | 0.48 |
| Total PV | €th | 76,808 | | | |

Assessing The Cost Of Capital

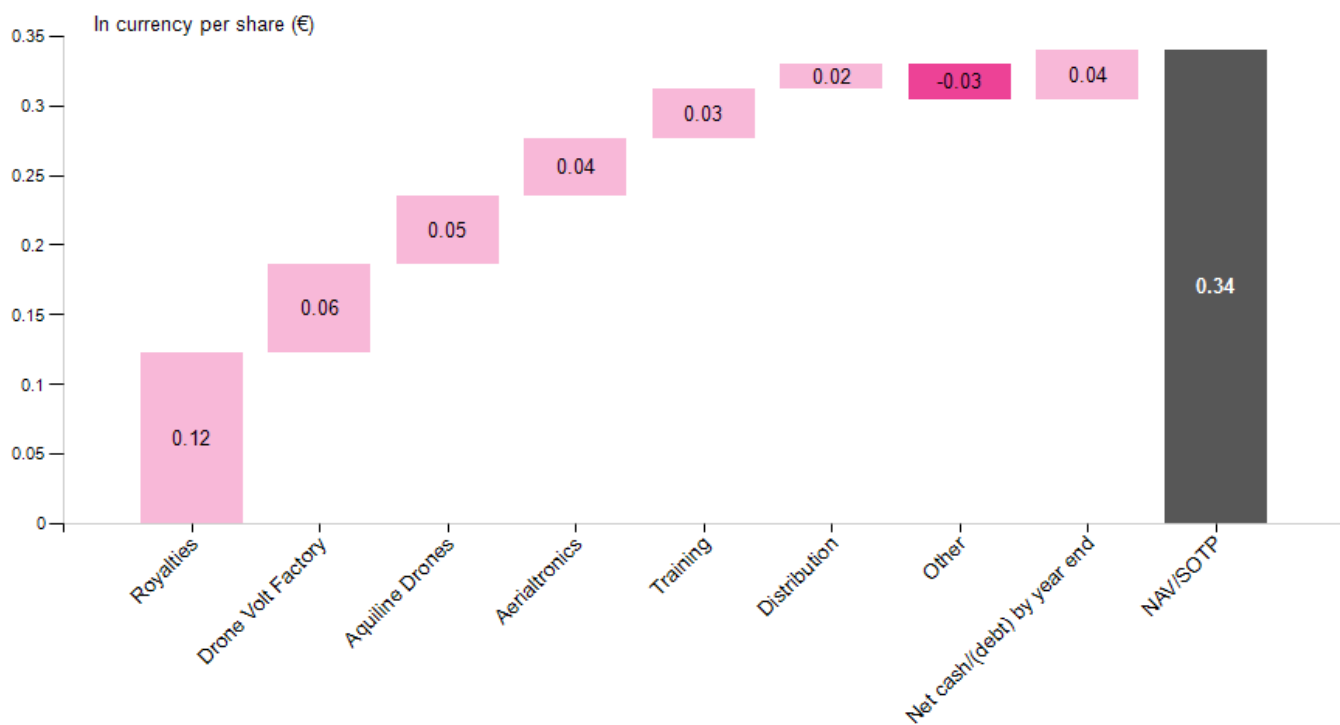
| | | | | | |
|--|------|--------|---|----------|-------------|
| Synthetic default risk free rate | % | 3.50 | Company debt spread | bp | 1,300 |
| Target equity risk premium | % | 5.00 | Marginal Company cost of debt | % | 16.5 |
| Tax advantage of debt finance (normalised) | % | 30.0 | Company beta (leveraged) | x | 0.95 |
| Average debt maturity | Year | 5 | Company gearing at market value | % | -5.67 |
| Sector asset beta | x | 0.99 | Company market gearing | % | -6.01 |
| Debt beta | x | 2.60 | Required return on geared equity | % | 8.26 |
| Market capitalisation | €th | 45,375 | Cost of debt | % | 11.6 |
| Net debt (cash) at book value | €th | -2,571 | Cost of ungeared equity | % | 8.45 |
| Net debt (cash) at market value | €th | -2,571 | WACC | % | 8.45 |

DCF Calculation

| | | 12/19A | 12/20E | 12/21E | 12/22E | Growth | 12/23E | 12/30E |
|--|------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Sales | €th | 7,108 | 6,767 | 17,518 | 24,991 | 7.00% | 26,740 | 42,939 |
| EBITDA | €th | -1,687 | -200 | 5,373 | 9,936 | 5.50% | 10,483 | 15,249 |
| <i>EBITDA Margin</i> | % | -23.7 | -2.96 | 30.7 | 39.8 | | 39.2 | 35.5 |
| Change in WCR | €th | 576 | 77.3 | -307 | -277 | 7.00% | -296 | -475 |
| Total operating cash flows (pre tax) | €th | -2,703 | -14.4 | 5,091 | 9,702 | | 10,187 | 14,774 |
| Corporate tax | €th | 1,069 | 523 | -950 | -2,201 | 7.00% | -2,355 | -3,781 |
| Net tax shield | €th | -127 | -113 | -103 | -105 | 7.00% | -112 | -180 |
| Capital expenditure | €th | -2,762 | -2,036 | -2,522 | -2,542 | 7.00% | -2,720 | -4,368 |
| <i>Capex/Sales</i> | % | -38.9 | -30.1 | -14.4 | -10.2 | | -10.2 | -10.2 |
| Pre financing costs FCF (for DCF purposes) | €th | -4,523 | -1,641 | 1,517 | 4,855 | | 5,000 | 6,445 |
| Various add backs (incl. R&D, etc.) for DCF purposes | €th | | | | | | | |
| Free cash flow adjusted | €th | -4,523 | -1,641 | 1,517 | 4,855 | | 5,000 | 6,445 |
| Discounted free cash flows | €th | -4,523 | -1,641 | 1,398 | 4,127 | | 3,920 | 2,863 |
| Invested capital | € | 8.59 | 13.9 | 15.9 | 17.8 | | 19.1 | 30.6 |

NAV/SOTP Calculation

| | % owned | Valuation technique | Multiple used | Valuation at 100% (€th) | Stake valuation (€th) | In currency per share (€) | % of gross assets |
|--|---------|---------------------|---------------|-------------------------|-----------------------|---------------------------|-------------------|
| Royalties | 100% | EV/Sales | 5 | 21,000 | 21,000 | 0.12 | 40.3% |
| Drone Volt Factory | 100% | EV/Sales | 2 | 10,880 | 10,880 | 0.06 | 20.9% |
| Aquiline Drones | 10.0% | EV/Sales | 2 | 85,000 | 8,500 | 0.05 | 16.3% |
| Aerialtronics | 100% | NAV | | 7,030 | 7,030 | 0.04 | 13.5% |
| Training | 100% | EV/Sales | 3 | 6,000 | 6,000 | 0.03 | 11.5% |
| Distribution | 100% | EV/Sales | 1 | 3,100 | 3,100 | 0.02 | 5.94% |
| Other | | | | | -4,358 | -0.03 | -8.36% |
| Total gross assets | | | | | 52,152 | 0.30 | 100% |
| Net cash/(debt) by year end | | | | | 6,152 | 0.04 | 11.8% |
| Commitments to pay | | | | | | | |
| Commitments received | | | | | | | |
| NAV/SOTP | | | | | 58,304 | 0.34 | 112% |
| Number of shares net of treasury shares - year end (Th) | | | | | 171,445 | | |
| NAV/SOTP per share (€) | | | | | 0.34 | | |
| Current discount to NAV/SOTP (%) | | | | | 21.7 | | |



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

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|------------|--------------|---------------|---------------|---------------|
| EBITDA | €th | -1,687 | -200 | 5,373 | 9,936 |
| Funds from operations (FFO) | €th | -2,667 | 53.2 | 4,105 | 7,429 |
| Ordinary shareholders' equity | €th | 9,212 | 20,657 | 23,374 | 29,394 |
| Gross debt | €th | 6,004 | 6,346 | 6,346 | 6,346 |
| + Gross Cash | €th | 935 | 8,916 | 10,193 | 14,803 |
| = Net debt / (cash) | €th | 5,069 | -2,571 | -3,847 | -8,457 |
| Gearing (at book value) | % | 41.2 | 6.05 | -13.7 | -20.9 |
| Adj. Net debt/EBITDA(R) | x | -3.01 | 12.8 | -0.72 | -0.85 |
| Adjusted Gross Debt/EBITDA(R) | x | -3.58 | -32.0 | 1.19 | 0.65 |
| Adj. gross debt/(Adj. gross debt+Equity) | % | 39.6 | 23.7 | 21.5 | 17.9 |
| Ebit cover | x | -7.43 | -3.37 | 11.8 | 24.6 |
| FFO/Gross Debt | % | -44.1 | 0.83 | 64.0 | 116 |
| FFO/Net debt | % | -52.6 | -2.07 | -107 | -87.8 |
| FCF/Adj. gross debt (%) | % | -79.7 | -29.7 | 19.9 | 71.8 |
| (Gross cash+ "cash" FCF+undrawn)/ST debt | x | -2.42 | 35.1 | 57.3 | 97.1 |
| "Cash" FCF/ST debt | x | -3.02 | -9.53 | 6.38 | 23.1 |

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 |
|-------------------------------|----------------|-------------------------------------|-------------------------------------|
| Dimitri Batsis Investissement | 1.91% | 1.91% | 0.00% |
| Apparent free float | | | 98.1% |

Governance & Management

Mr Dimitri Batsis is the founder of the company and the main shareholder. He has experience in pioneer markets as the former CEO and founder in 1987 of Zeni Coporation. This company focused on interactive technologies and moved in as early as 1998 towards an internet-based business, providing technical support and management for internet businesses and proposing a structured offer, mixing strategy, marketing and technological support to a broad range of customers (Microsoft, M6, PSA, the French Ministry of Defence, etc.). The company had a successful IPO in April 2000 and was acquired in 2007 by Keyrus.

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

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

Governance score

Company (Sector)



4.9_(6.6)

Independent board
















Yes

| Parameters | Company | Sector | Score | Weight |
|--|---------|--------|---------------|---------------|
| Number of board members | 5 | N/A | 10/10 | 5.0% |
| Board feminization (%) | 0 | N/A | 1/10 | 5.0% |
| Board domestic density (%) | 100 | N/A | 0/10 | 10.0% |
| Average age of board's members | 58 | N/A | 6/10 | 5.0% |
| Type of company : Small cap, controlled | | | 4/10 | 10.0% |
| Independent directors rate (%) | 80 | N/A | 8/10 | 20.0% |
| One share, one vote | | | ✗ | 10.0% |
| Chairman vs. Executive split | | | ✗ | 0.0% |
| Chairman not ex executive | | | ✗ | 5.0% |
| Full disclosure on mgt pay | | | ✗ | 5.0% |
| Disclosure of performance anchor for bonus trigger | | | ✗ | 5.0% |
| Compensation committee reporting to board of directors | | | ✓ | 5.0% |
| Straightforward, clean by-laws | | | ✓ | 15.0% |
| Governance score | | | 4.9/10 | 100.0% |

Management

| Name | Function | Birth date | Date in | Date out | Compensation, in k€ (year) | |
|-----------------|---|------------|---------|----------|----------------------------|---------------|
| | | | | | Cash | Equity linked |
| Marc COURCELLE | M  CEO | | 2020 | | | |
| Sylvain NAVARRO | M  CFO | 1977 | 2018 | | | (2019) |

Board of Directors

| Name | | Indep. | Function | Completion of current mandate | Birth date | Date in | Date out | Fees / indemnity, in k€(year) | Value of holding, in k€(year) |
|---------------------|---|---|-----------------------------|-------------------------------------|---------------|---------|----------|----------------------------------|----------------------------------|
| Dimitri BATSIS | M |    | President/Chairman of th... | | | 2020 | | | |
| Jean-Claude BOURDON | M |    | Member | 2025 | 1952 | 2019 | | | |
| Fabrice LEGRAND | M |    | Member | 2022 | 1964 | 2016 | | | |
| Laurent LELEUP | M |    | Member | 2022 | 1966 | 2017 | | | |
| Stanislas VEILLET | M |    | Member | 2021 | 1965 | 2017 | | | |

Social

Company (Sector)

4.6 (6.2)

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 | 9/10 | 15% |
| Average wage trend | 1/10 | 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 | 3.8/10 | 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

12/11/2020

Clearing all waivers ahead of structural partnership with Aquiline Drones

M&A /Corp. Action

Drone Volt has announced the launch of a capital increase with preferential subscription rights for an amount of c.€3.5m, which may be increased to €4.1m in the event that the extension clause is fully exercised. This operation clears all the necessary steps to implement the partnership with Aquiline Drones.

Fact

Drone Volt has launched a capital increase with preferential subscription rights for an amount of c.€3.5m on a 10-for-1 basis at €0.22. The operation aims at clearing all the necessary steps to implement the partnership with Aquiline Drones and is backed 90% by the founders and managers of the company. The subscription period will run from 16 November 2020 to 27 November 2020 (inclusive).

Analysis

All lights are green for the Aquiline Drones partnership

This capital increase enables the last pending condition to be waived before implementing the partnership with Aquiline Drones. Under its terms, Aquiline Drones will produce and commercialise the Hercules 2, the Altura Zenith, and its Pensar camera, at a rate of 1,000 units per month in the early life of the contract. Aquiline Drones targets ambitious volumes and would have to increase its production line by 3,000 units monthly, to reach a steady 10,000 units per month in total. Aquiline Drones' strategy is to become the Uber of the drone, addressing the entire US market and benefiting from the banning of Chinese drones.

For its part, Drone Volt would be granted a 10% cut in revenue from the commercialisation of its drones and cameras over a 5-year licensing period. 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. In addition, Drone Volt should receive an upfront payment of \$450k by the end of this year to compensate for the transfer of know-how. This also represents a unique way to address the US market, without the need to invest in either opex or capex.

In order to strengthen the partnership and benefit further from the value-added of the deal, both companies will swap their shares for 10% of their respective share base.

On our side and based on a conservative monthly run rate of 1k units in 2021, 1.5k units in 2022 and 3k unit in 2023, we model a positive impact on Drone Volt's revenue of respectively €2m/€3.4/€7.4m over this period.

What it means for shareholders

This operation should allow current shareholders to increase their stakes in the capital of their companies on the same financial terms as those used for the exchange of shareholdings (10% of the respective capital of the two companies) between Drone Volt and Aquiline Drones, an operation which must be finalised before the end of January 2021. More concretely, based on the price pre-announcement (€0.254) and the parity of the deal (1 new share at €0.22 for 10 subscription rights), the current shareholder will receive on 12 November a subscription right theoretically valued at €0.003 for each share. This leads to a neutral economic situation for current shareholders since, in spite of a discount of c. 13% on the pre-announced price, the price to participate in the capital hike for new shareholders will be the subscription price topped by the need to purchase 10 subscription rights.

Lastly, in order to guarantee the success of the deal, the founder and managers of the company are backing the operation, up to 90% of its value should there be less interest.

15/10/2020

Q3 20: strong rebound in Q3, further improvement expected in Q4

Earnings/sales releases

Drone Volt has released its Q3 20 figures which showed a strong rebound in activity during this quarter, fuelled by drone deliveries. The third quarter was rich in terms of commercial announcements, with a strategic partnership tied with the US company Aquiline Drones. We anticipate this good momentum to continue in Q4.

Fact

- Q3 20 deliveries reached 27 units, down 10% yoy and a sharp rebound from Q2 20
- Q3 20 revenue was €1,327k, down 26% yoy
- Q3 20 gross profit was €357k, against €630k last year
- Backlog still at €15m, no cancellations ytd related to the pandemic
- Concretisation of the contract with Aquiline Drones

Analysis

Sharp sequential rebound in Q3

During the quarter, Drone Volt delivered a total of 27 drones and cameras, a sharp improvement over the 13 deliveries of Q1 20 and just one delivery during the second quarter. This included 22 drones (same level compared to Q3 19) and five Pensar cameras (vs eight last year).

The activity rebounded strongly in both segments to €1.3m, up 79% qoq (down 26% yoy). This was mainly been driven by a steep improvement at Drone Volt Factory where sales grew to €579k (down 17% yoy but revenue multiplied by more than 4x on a sequential basis). The third-party's distribution also rebounded to €749k, up 30% qoq (and down 25 yoy). In terms of profitability, the gross margin reached €358k, against €630k in Q3 19 and up from €202k in Q2 20. Margins have

sustained with the regain in activity despite lower training business. Drone Volt Factory's gross profit was €212k and third-party distribution was €146k (19% gross margin).

Still healthy backlog and a good commercial momentum

Commercially, the order backlog remained strong at €15m, with no cancellations related to the pandemic since the beginning of the year. In addition, Drone Volt signed the contract with Aquiline Drones for the sale under licence of its dronex in this US. We see this as very positive for Drone Volt as it should bring in at least \$300k of cash inflow for Q4, topped by a down-payment of \$450k to compensate for the transfer of know-how, which is favourable for FCF generation. We also estimate that revenue directly linked to this activity could reach €2m by 2021 and €3.5m by 2022.

Further improvements expected in Q4

All in all, the rebound is well engaged, and we expect this trend to continue in Q4, still supported by the above-mentioned backlog. We also anticipate a rebound in training activity in Q4 (which lagged somewhat in Q3) to support further the gross margin of the company. All in all, Q4 could reach €4.8m in revenue, implying FY20 revenue at €6.7m along with a €1.7m gross profit (€2.6m on a full-year basis).

Impact

We maintain our current estimates for the remainder of the year and we keep our Add rating on the stock.

14/10/2020

Concretisation of the contract with Aquiline Drones

Significant news

Drone Volt has announced the signing of the contract with Aquiline Drone for the licensing of Hercules 2 and Altura Zenith along with its camera Pensar in the USA. We view the concretisation of the contract with Aquiline Drones as very positive and encouraging for the next steps and the implementation of the production phase.

Fact

Drone Volt announced the signing of the contract with Aquiline Drone for the licensing of Hercules 2 and Altura Zenith along with its camera Pensar in the USA.

As a reminder, this follows the signing of a Letter of Intent with Aquiline Drones in order to produce the Hercules 2, the Altura Zenith, and its Pensar camera before the end of 2020, at a rate of 1,000 units per month in the early life of the contract. Thereafter, the company targets ambitious volumes and should increase its production line by 3,000 units monthly, to reach a steady 10,000 units per month in total.

Under the revised terms announced with the signing of the contract, Drone Volt would be granted a 10% cut in the revenue from the commercialisation of its

drones and cameras over a five-year licensing period. Drone Volt would be entitled to receive a minimum of \$100k per month, to start in October 2020. On an annual basis, this would grant Drone Volt \$1.2m per year, to be revised by +10% annually, which is well above the terms of the LOI that stated \$400k annually (of which \$250k for Altura Zenith and \$150k for the Hercules 2). In addition, Drone Volt should receive an upfront payment of \$450k by the end of this year to compensate for the transfer of know-how.

Furthermore, Drone Volt will have access to Aquiline Drones' facilities in order to produce its own drones for international markets. We see this as a positive addition to the already full production capacity of the company, especially considering the fact that no capex will be spent on it.

Impact

While at this stage, this signature has little impact on our model, except for +\$300k for 2020, we view the concretisation of the contract with Aquiline Drones as very positive and encouraging for the next steps and the implementation of the production phase.

12/10/2020

The verge of a new era for Drones

Initiation cov.

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.

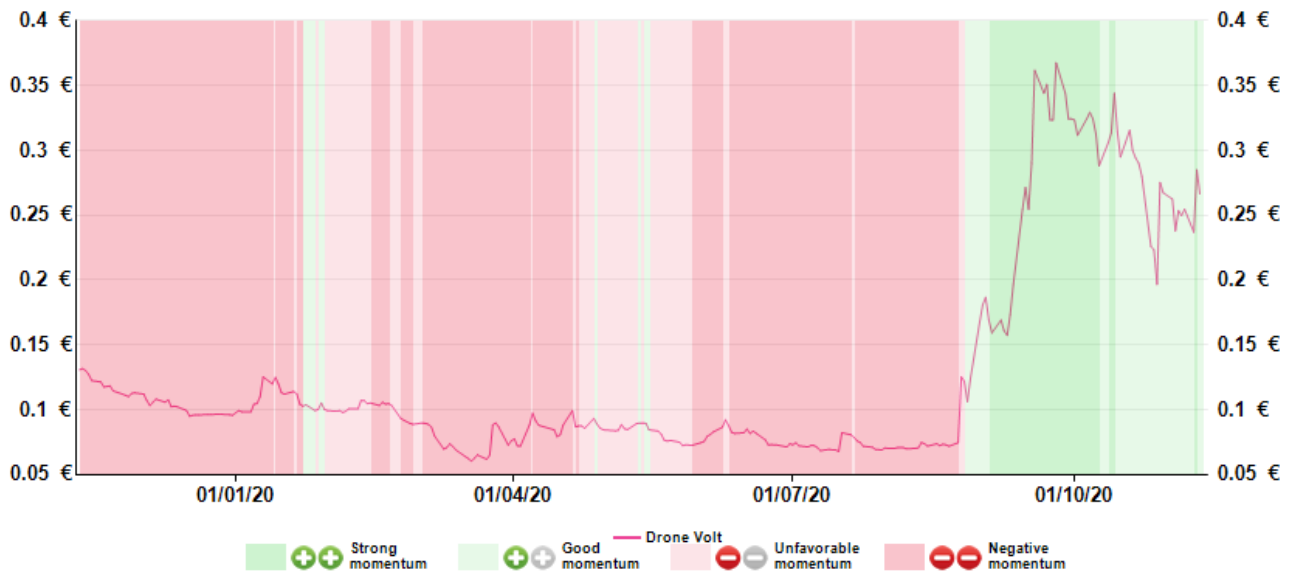
As such, the main point of interest for the company is its DVF segment, which gathers proprietary high-end products coupled with a high degree of customisation. Thanks to this capabilities Drone Volt addresses the niche markets of civil security, inspection and surveillance. In terms of end-market, its 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 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).

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.

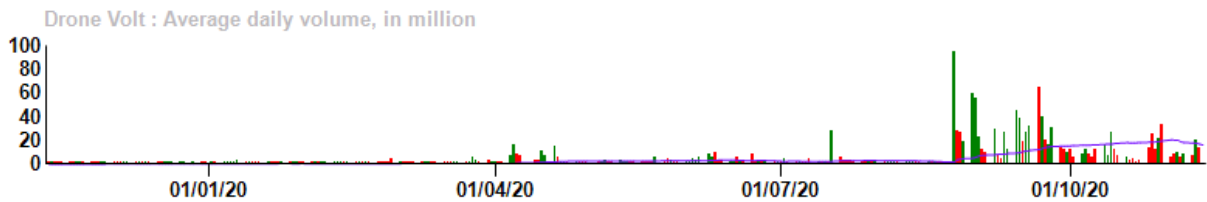
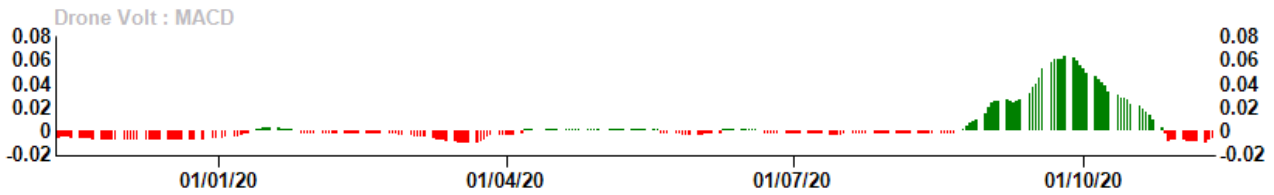
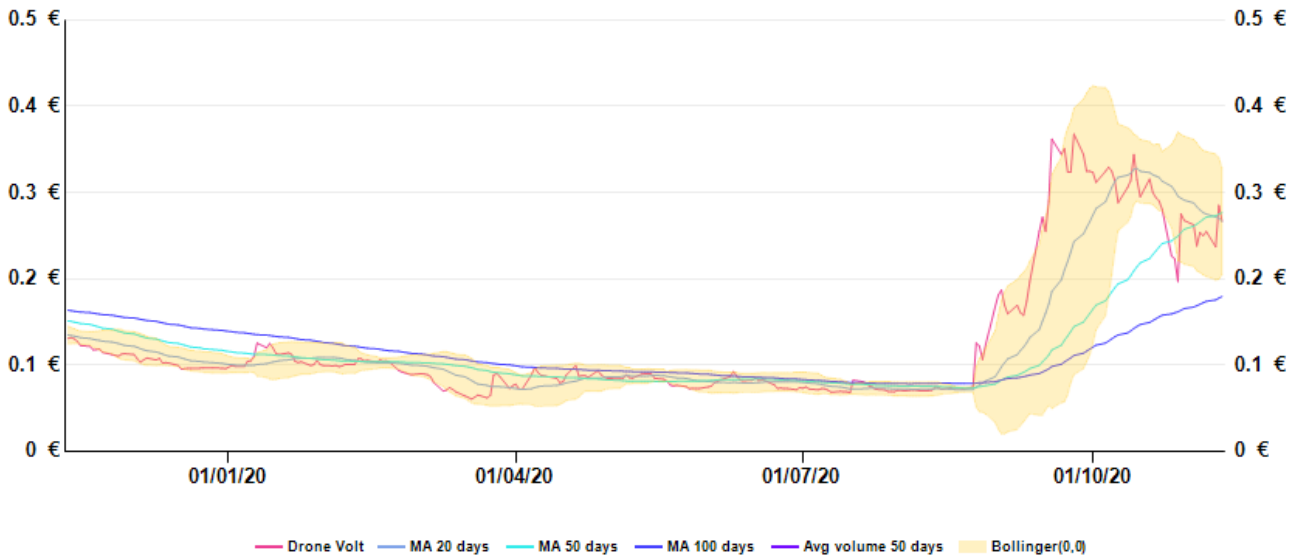
 : Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

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

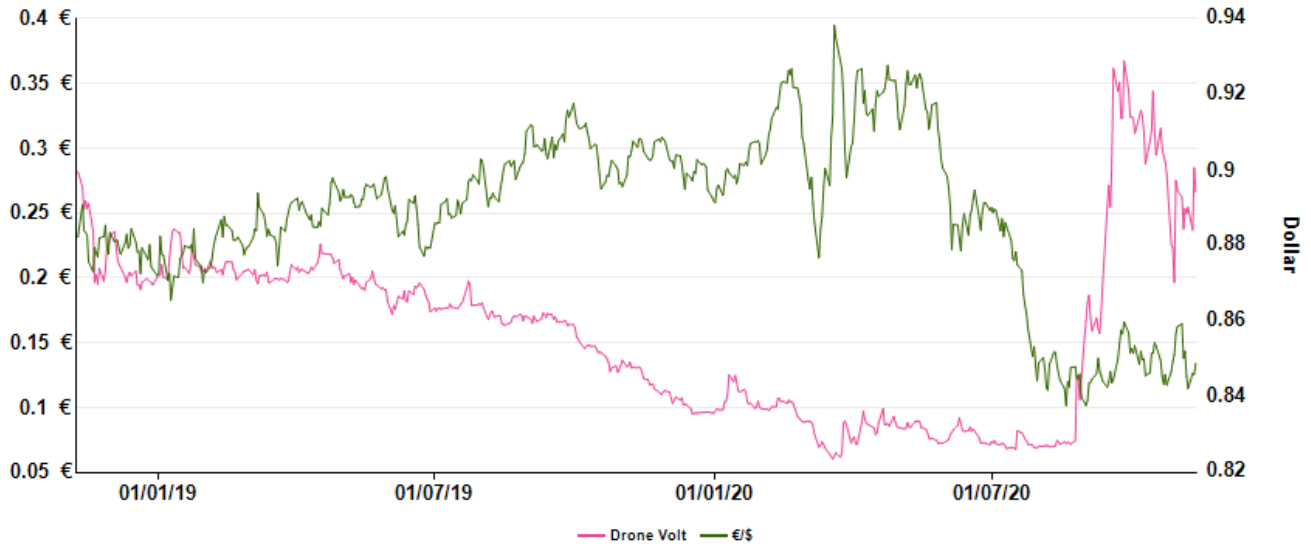
 : Relatively unfavorable momentum with a neutral or negative moving average trend, but offset by an oversold pattern or lack of confirmation from volumes

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

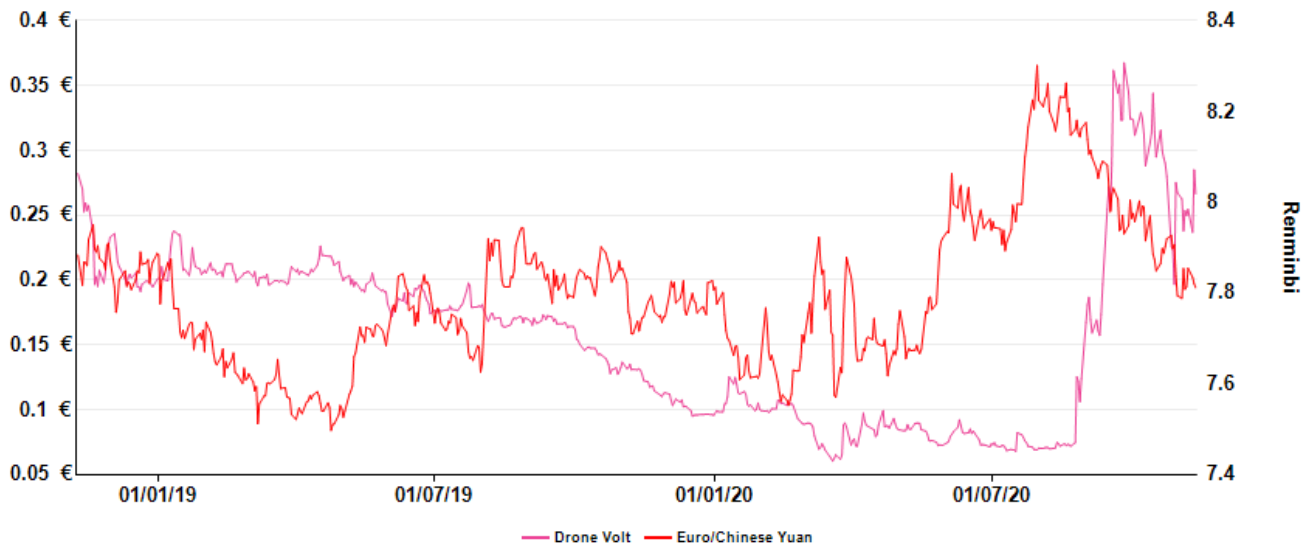
Moving Average MACD & Volume



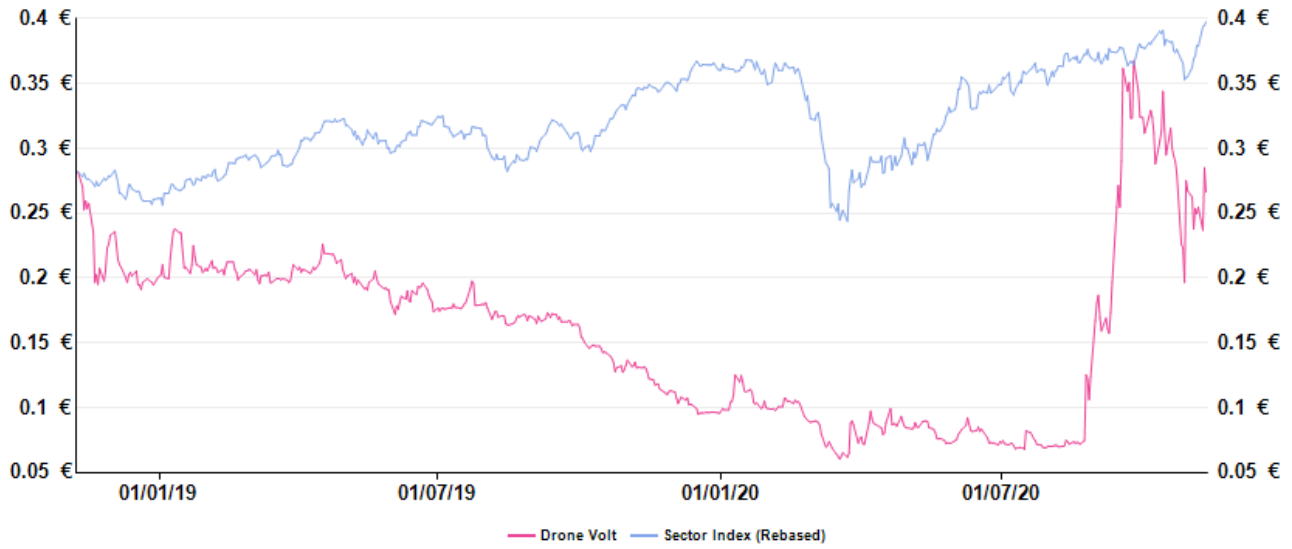
€/\$ sensitivity



Euro/Chinese Yuan sensitivity



Sector Capital Goods



Detailed Financials

Valuation Key Data

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|-----------------------|----------|--------------|--------------|-------------|-------------|
| Adjusted P/E | x | -3.44 | -24.9 | 17.5 | 7.79 |
| Reported P/E | x | -4.13 | -36.2 | 17.4 | 7.74 |
| EV/EBITDA(R) | x | -10.2 | ns | 6.69 | 2.34 |
| P/Book | x | 1.15 | 2.20 | 1.94 | 1.54 |
| Dividend yield | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Free cash flow yield | % | -45.4 | -4.20 | 2.81 | 10.2 |
| Average stock price | € | 0.17 | 0.27 | 0.27 | 0.27 |

Consolidated P&L

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|---|------------|---------------|---------------|---------------|---------------|
| Sales | €th | 7,108 | 6,767 | 17,518 | 24,991 |
| Sales growth | % | -4.22 | -4.79 | 159 | 42.7 |
| Sales per employee | €th | 155 | 157 | 373 | 500 |
| Organic change in sales | % | | | | |
| Purchases and external costs (incl. IT) | €th | -7,402 | -6,046 | -10,865 | -13,502 |
| R&D costs as % of sales | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Staff costs | €th | -1,366 | -1,296 | -1,438 | -1,553 |
| Operating lease payments | €th | | | | |
| Cost of sales/COGS (indicative) | €th | -4,703 | -4,156 | -8,220 | -10,328 |
| EBITDA | €th | -1,687 | -200 | 5,373 | 9,936 |
| EBITDA(R) | €th | -1,687 | -200 | 5,373 | 9,936 |
| EBITDA(R) margin | % | -23.7 | -2.96 | 30.7 | 39.8 |
| EBITDA(R) per employee | €th | -36.7 | -4.66 | 114 | 199 |
| Depreciation | €th | | | | |
| Depreciations/Sales | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Amortisation | €th | -1,456 | -1,075 | -1,333 | -1,345 |
| Underlying operating profit | €th | -3,143 | -1,275 | 4,041 | 8,591 |
| Underlying operating margin | % | -44.2 | -18.8 | 23.1 | 34.4 |
| Other income/expense (cash) | €th | -325 | -251 | -238 | -229 |
| Other inc./ exp. (non cash; incl. assets revaluation) | €th | | | | |
| Earnings from joint venture(s) | €th | | | | |
| Impairment charges/goodwill amortisation | €th | | | | |
| Operating profit (EBIT) | €th | -3,468 | -1,526 | 3,802 | 8,363 |
| Interest expenses | €th | -158 | -309 | -254 | -241 |
| of which effectively paid cash interest expenses | €th | -456 | | | |
| Financial income | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Other financial income (expense) | €th | -265 | -69.1 | -89.7 | -108 |
| Net financial expenses | €th | -423 | -378 | -343 | -349 |
| of which related to pensions | €th | | 0.00 | 0.00 | 0.00 |
| Pre-tax profit before exceptional items | €th | -3,891 | -1,904 | 3,459 | 8,014 |
| Exceptional items and other (before taxes) | €th | | | | |
| of which cash (cost) from exceptionals | €th | | | | |
| Current tax | €th | 1,069 | 523 | -950 | -2,201 |
| Impact of tax loss carry forward | €th | | | | |
| Deferred tax | €th | | | | |
| Corporate tax | €th | 1,069 | 523 | -950 | -2,201 |
| Tax rate | % | 27.5 | 27.5 | 27.5 | 27.5 |
| Net margin | % | -39.7 | -20.4 | 14.3 | 23.3 |
| Equity associates | €th | | | | |
| Actual dividends received from equity holdings | €th | | | | |
| Minority interests | €th | 252 | 126 | 101 | 50.4 |
| Actual dividends paid out to minorities | €th | | | | |
| Income from discontinued operations | €th | | | | |

| | | | | | |
|--|------------|---------------|---------------|--------------|--------------|
| Attributable net profit | €th | -2,570 | -1,255 | 2,610 | 5,863 |
| Impairment charges/goodwill amortisation | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Other adjustments | €th | | | | |
| Adjusted attributable net profit | €th | -2,570 | -1,255 | 2,610 | 5,863 |
| Interest expense savings | €th | | | | |
| Fully diluted adjusted attr. net profit | €th | -2,570 | -1,255 | 2,610 | 5,863 |
| NOPAT | €th | -2,200 | -892 | 2,828 | 6,014 |

Cashflow Statement

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|------------|---------------|---------------|---------------|---------------|
| EBITDA | €th | -1,687 | -200 | 5,373 | 9,936 |
| Change in WCR | €th | 576 | 77.3 | -307 | -277 |
| <i>of which (increases)/decr. in receivables</i> | <i>€th</i> | <i>-254</i> | <i>68.1</i> | <i>-271</i> | <i>-244</i> |
| <i>of which (increases)/decr. in inventories</i> | <i>€th</i> | <i>-445</i> | <i>93.0</i> | <i>-370</i> | <i>-333</i> |
| <i>of which increases/(decr.) in payables</i> | <i>€th</i> | <i>1,137</i> | <i>-83.8</i> | <i>333</i> | <i>300</i> |
| <i>of which increases/(decr.) in other curr. liab.</i> | <i>€th</i> | <i>138</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> |
| Actual dividends received from equity holdings | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Paid taxes | €th | -1,069 | 523 | -950 | -2,201 |
| Exceptional items | €th | | | | |
| Other operating cash flows | €th | 545 | 109 | 25.4 | 42.4 |
| Total operating cash flows | €th | -1,635 | 508 | 4,142 | 7,501 |
| Capital expenditure | €th | -2,762 | -2,036 | -2,522 | -2,542 |
| <i>Capex as a % of depreciation & amort.</i> | <i>%</i> | <i>190</i> | <i>189</i> | <i>189</i> | <i>189</i> |
| Net investments in shares | €th | | | | |
| Other investment flows | €th | -20.0 | | | |
| Total investment flows | €th | -2,782 | -2,036 | -2,522 | -2,542 |
| Net interest expense | €th | -423 | -378 | -343 | -349 |
| <i>of which cash interest expense</i> | <i>€th</i> | <i>-456</i> | <i>-378</i> | <i>-343</i> | <i>-349</i> |
| Dividends (parent company) | €th | | | | |
| Dividends to minorities interests | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| New shareholders' equity | €th | 3,660 | 9,545 | 0.00 | |
| <i>of which (acquisition) release of treasury shares</i> | <i>€th</i> | <i>0.00</i> | | | |
| (Increase)/decrease in net debt position | €th | 1,401 | 342 | 0.00 | 0.00 |
| Other financial flows | €th | | | | |
| Total financial flows | €th | 4,605 | 9,509 | -343 | -349 |
| Change in cash position | €th | 189 | 7,981 | 1,276 | 4,610 |
| Change in net debt position | €th | -1,213 | 7,640 | 1,276 | 4,610 |
| Free cash flow (pre div.) | €th | -4,819 | -1,905 | 1,276 | 4,610 |
| Operating cash flow (clean) | €th | -1,635 | 508 | 4,142 | 7,501 |
| <i>Reinvestment rate (capex/tangible fixed assets)</i> | <i>%</i> | <i>321</i> | <i>203</i> | <i>213</i> | <i>187</i> |

Balance Sheet

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|---|------------|---------------|---------------|---------------|---------------|
| Capitalised R&D | €th | 2,022 | 2,839 | 3,850 | 4,867 |
| Goodwill | €th | 151 | 149 | 148 | 147 |
| Other intangible assets | €th | 3,939 | 4,333 | 4,766 | 5,243 |
| Total intangible | €th | 6,112 | 7,321 | 8,764 | 10,257 |
| Tangible fixed assets | €th | 860 | 1,004 | 1,183 | 1,362 |
| Right-of-use | €th | 366 | 384 | 404 | 424 |
| Financial fixed assets (part of group strategy) | €th | | 4,068 | 4,068 | 4,068 |
| Other financial assets (investment purpose mainly) | €th | 161 | 169 | 178 | 186 |
| WCR | €th | 1,614 | 1,537 | 1,844 | 2,121 |
| <i>of which trade & receivables (+)</i> | <i>€th</i> | <i>1,422</i> | <i>1,354</i> | <i>1,625</i> | <i>1,868</i> |
| <i>of which inventories (+)</i> | <i>€th</i> | <i>1,942</i> | <i>1,849</i> | <i>2,219</i> | <i>2,552</i> |
| <i>of which payables (+)</i> | <i>€th</i> | <i>1,750</i> | <i>1,666</i> | <i>1,999</i> | <i>2,299</i> |
| <i>of which other current liabilities (+)</i> | <i>€th</i> | | | | |
| Other current assets | €th | 6,006 | 5,303 | 4,932 | 4,587 |
| <i>of which tax assets (+)</i> | <i>€th</i> | <i>0.00</i> | | | |
| Total assets (net of short term liabilities) | €th | 15,119 | 19,787 | 21,371 | 23,004 |
| Ordinary shareholders' equity (group share) | €th | 9,212 | 20,657 | 23,374 | 29,394 |
| Minority interests | €th | -493 | -296 | -355 | -355 |
| Provisions for pensions | €th | | 0.00 | 0.00 | 0.00 |
| Other provisions for risks and liabilities | €th | 40.0 | 60.0 | 69.0 | 79.4 |
| Deferred tax liabilities | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Other liabilities | €th | 1,291 | 1,937 | 2,130 | 2,343 |
| Net debt / (cash) | €th | 5,069 | -2,571 | -3,847 | -8,457 |
| Total liabilities and shareholders' equity | €th | 15,119 | 19,787 | 21,371 | 23,004 |
| Average net debt / (cash) | €th | 3,792 | 1,249 | -3,209 | -6,152 |

EV Calculations

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|------------|---------------|---------------|---------------|---------------|
| EV/EBITDA(R) | x | -10.2 | ns | 6.69 | 2.34 |
| EV/EBIT (underlying profit) | x | -5.48 | -31.1 | 8.90 | 2.71 |
| EV/Sales | x | 2.42 | 5.86 | 2.05 | 0.93 |
| EV/Invested capital | x | 2.00 | 2.85 | 2.27 | 1.31 |
| Market cap | €th | 10,619 | 45,375 | 45,375 | 45,375 |
| + Provisions (including pensions) | €th | 40.0 | 60.0 | 69.0 | 79.4 |
| + Unrecognised actuarial losses/(gains) | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| + Net debt at year end | €th | 5,069 | -2,571 | -3,847 | -8,457 |
| + Leases debt equivalent | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| - Financial fixed assets (fair value) & Others | €th | | 4,068 | 6,712 | 14,766 |
| + Minority interests (fair value) | €th | 1,479 | 887 | 1,065 | 1,065 |
| = Enterprise Value | €th | 17,207 | 39,684 | 35,950 | 23,296 |

Per Share Data

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|---|--------------|--------------|-------------|-------------|
| Adjusted EPS (bfr gwll amort. & dil.) | € | -0.05 | -0.01 | 0.02 | 0.03 |
| Growth in EPS | % | n/a | n/a | n/a | 125 |
| Reported EPS | € | -0.04 | -0.01 | 0.02 | 0.03 |
| Net dividend per share | € | 0.00 | 0.00 | 0.00 | 0.00 |
| Free cash flow per share | € | -0.10 | -0.02 | 0.01 | 0.03 |
| Operating cash flow per share | € | -0.03 | 0.00 | 0.02 | 0.04 |
| Book value per share | € | 0.15 | 0.12 | 0.14 | 0.17 |

| | | | | | |
|--|----|---------------|----------------|----------------|----------------|
| Number of ordinary shares | Th | 60,741 | 170,328 | 170,328 | 170,328 |
| Number of equivalent ordinary shares (year end) | Th | 60,741 | 170,328 | 170,328 | 170,328 |
| Number of shares market cap. | Th | 60,741 | 158,706 | 170,328 | 170,328 |
| Treasury stock (year end) | Th | | | | |
| Number of shares net of treasury stock (year end) | Th | 60,741 | 170,328 | 170,328 | 170,328 |
| Number of common shares (average) | Th | 48,138 | 115,534 | 170,328 | 170,328 |
| 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 | 2,261 | 1,117 | 1,117 | 1,117 |
| Increase in shares outstanding (average) | Th | 2,478 | 1,689 | 1,117 | 1,117 |
| Number of diluted shares (average) | Th | 50,616 | 117,223 | 171,445 | 171,445 |
| Goodwill per share (diluted) | € | 0.00 | 0.00 | 0.00 | 0.00 |
| EPS after goodwill amortisation (diluted) | € | -0.05 | -0.01 | 0.02 | 0.03 |
| EPS before goodwill amortisation (non-diluted) | € | -0.05 | -0.01 | 0.02 | 0.03 |
| Actual payment | € | | | | |
| | % | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital payout ratio (div +share buy back/net income) | % | 0.00 | 0.00 | 0.00 | 0.00 |

Funding - Liquidity

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|-----|--------------|---------------|---------------|---------------|
| EBITDA | €th | -1,687 | -200 | 5,373 | 9,936 |
| Funds from operations (FFO) | €th | -2,667 | 53.2 | 4,105 | 7,429 |
| Ordinary shareholders' equity | €th | 9,212 | 20,657 | 23,374 | 29,394 |
| Gross debt | €th | 6,004 | 6,346 | 6,346 | 6,346 |
| o/w Less than 1 year - Gross debt | €th | 1,608 | 200 | 200 | 200 |
| o/w 1 to 5 year - Gross debt | €th | 4,396 | 6,146 | 6,146 | 6,146 |
| + Gross Cash | €th | 935 | 8,916 | 10,193 | 14,803 |
| = Net debt / (cash) | €th | 5,069 | -2,571 | -3,847 | -8,457 |
| Bank borrowings | €th | 852 | 1,352 | 1,352 | 1,352 |
| Issued bonds | €th | 3,126 | 2,941 | 2,941 | 2,941 |
| Financial leases liabilities | €th | 436 | 436 | 436 | 436 |
| Other financing | €th | 1,590 | 1,617 | 1,617 | 1,617 |
| Gearing (at book value) | % | 41.2 | 6.05 | -13.7 | -20.9 |
| Adj. Net debt/EBITDA(R) | x | -3.01 | 12.8 | -0.72 | -0.85 |
| Adjusted Gross Debt/EBITDA(R) | x | -3.58 | -32.0 | 1.19 | 0.65 |
| Adj. gross debt/(Adj. gross debt+Equity) | % | 39.6 | 23.7 | 21.5 | 17.9 |
| Ebit cover | x | -7.43 | -3.37 | 11.8 | 24.6 |
| FFO/Gross Debt | % | -44.1 | 0.83 | 64.0 | 116 |
| FFO/Net debt | % | -52.6 | -2.07 | -107 | -87.8 |
| FCF/Adj. gross debt (%) | % | -79.7 | -29.7 | 19.9 | 71.8 |
| (Gross cash+ "cash" FCF+undrawn)/ST debt | x | -2.42 | 35.1 | 57.3 | 97.1 |
| "Cash" FCF/ST debt | x | -3.02 | -9.53 | 6.38 | 23.1 |

ROE Analysis (Dupont's Breakdown)

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|----------|--------------|--------------|-------------|-------------|
| Tax burden (Net income/pretax pre excp income) | x | 0.66 | 0.66 | 0.75 | 0.73 |
| EBIT margin (EBIT/sales) | % | -48.8 | -22.5 | 21.7 | 33.5 |
| Assets rotation (Sales/Avg assets) | % | 53.4 | 38.8 | 85.1 | 113 |
| Financial leverage (Avg assets /Avg equity) | x | 1.53 | 1.17 | 0.93 | 0.84 |
| ROE | % | -29.6 | -8.40 | 11.9 | 22.2 |
| ROA | % | -40.4 | -15.5 | 32.2 | 60.9 |

Shareholder's Equity Review (Group Share)

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--|------------|--------------|---------------|---------------|---------------|
| Y-1 shareholders' equity | €th | 8,303 | 9,389 | 20,657 | 23,374 |
| + Net profit of year | €th | -2,570 | -1,255 | 2,610 | 5,863 |
| - Dividends (parent cy) | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| + Additions to equity | €th | 3,660 | 9,545 | 0.00 | 0.00 |
| <i>o/w reduction (addition) to treasury shares</i> | €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 | -3.20 | 2,978 | 108 | 156 |
| = Year end shareholders' equity | €th | 9,389 | 20,657 | 23,374 | 29,394 |

Staffing Analytics

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|---|-----|--------|--------|--------|--------|
| Sales per staff | €th | 155 | 157 | 373 | 500 |
| Staff costs per employee | €th | -29.7 | -30.1 | -30.6 | -31.1 |
| <i>Change in staff costs</i> | % | -27.5 | -5.12 | 10.9 | 7.98 |
| <i>Change in unit cost of staff</i> | % | -10.2 | 1.50 | 1.50 | 1.50 |
| <i>Staff costs/(EBITDA+Staff costs)</i> | % | -426 | 118 | 21.1 | 13.5 |

| Average workforce | unit | 46.0 | 43.0 | 47.0 | 50.0 |
|---|-------------|---------------|---------------|---------------|---------------|
| Europe | unit | 46.0 | 43.0 | 47.0 | 50.0 |
| 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 | -1,366 | -1,296 | -1,438 | -1,553 |
| Wages and salaries | €th | -1,366 | -1,296 | -1,438 | -1,553 |
| <i>of which social security contributions</i> | €th | -301 | -286 | -317 | -342 |
| Equity linked payments | €th | | | | |
| Pension related costs | €th | | 0.00 | 0.00 | 0.00 |

Divisional Breakdown Of Revenues

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--------------------|------------|--------------|--------------|---------------|---------------|
| Total sales | €th | 7,103 | 6,767 | 17,518 | 24,991 |
| Drone Volt Factory | €th | 2,796 | 2,661 | 12,308 | 18,719 |
| Distribution | €th | 4,307 | 3,446 | 3,101 | 2,791 |
| Training | €th | | | | |
| Consumer | €th | | | | |
| Professional | €th | | | | |
| Royalties | €th | | 661 | 2,109 | 3,481 |
| Other | €th | | | | |

Divisional Breakdown Of Earnings

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|---|------------|--------------|--------------|--------------|---------------|
| Other profit breakdown Analysis Analysis | | | | | |
| Drone Volt Factory | €th | 1,449 | 1,398 | 6,476 | 10,540 |
| Distribution | €th | 992 | 552 | 713 | 642 |
| Consumer | €th | | | | |
| Professional | €th | | | | |
| Training | €th | | | | |
| Royalties | €th | | 661 | 2,109 | 3,481 |
| Other/cancellations | €th | | | | |
| Total | €th | 2,441 | 2,611 | 9,298 | 14,663 |
| Other profit breakdown Analysis margin | % | 34.3 | 38.6 | 53.1 | 58.7 |

Revenue Breakdown By Country

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|--------|---|--------|--------|--------|--------|
| France | % | 37.5 | 36.0 | | |
| Europe | % | 42.3 | 42.0 | | |
| Other | % | 20.1 | 22.0 | | |

ROCE/CFROIC/Capital Invested

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|---|------------|--------------|---------------|---------------|---------------|
| ROCE (NOPAT+lease exp.*(1-tax))/(net) cap employed adjusted | % | -25.6 | -6.41 | 17.8 | 33.8 |
| CFROIC | % | -56.1 | -13.7 | 8.05 | 25.9 |
| Goodwill | | | | | |
| | €th | 151 | 149 | 148 | 147 |
| Accumulated goodwill amortisation | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| All intangible assets | €th | 3,939 | 4,333 | 4,766 | 5,243 |
| 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 | 2,022 | 2,839 | 3,850 | 4,867 |
| PV of non-capitalised lease obligations | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Other fixed assets | €th | 860 | 1,004 | 1,183 | 1,362 |
| Accumulated depreciation | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| WCR | €th | 1,614 | 1,537 | 1,844 | 2,121 |
| Other assets | €th | 0.00 | 4,068 | 4,068 | 4,068 |
| Unrecognised actuarial losses/(gains) | €th | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital employed after deprec. (Invested capital) | €th | 8,586 | 13,930 | 15,858 | 17,807 |
| Capital employed before depreciation | €th | 8,586 | 13,930 | 15,858 | 17,807 |

Divisional Breakdown Of Capital Employed

| | | 12/19A | 12/20E | 12/21E | 12/22E |
|-------------------------------|------------|--------------|---------------|---------------|---------------|
| Drone Volt Factory | €th | | | | |
| Distribution | €th | | | | |
| Consumer | €th | | | | |
| Professional | €th | | | | |
| Training | €th | | | | |
| Royalties | €th | | | | |
| Other | €th | 8,586 | 13,930 | 15,858 | 17,807 |
| Total capital employed | €th | 8,586 | 13,930 | 15,858 | 17,807 |

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% |