

DroneShield Ltd

Detecting and protecting

DroneShield (ASX:DRO) is a specialist in counterdrone, electronic warfare, radio frequency (RF) sensing, artificial intelligence (AI) and machine learning (ML), sensor fusion, rapid prototyping and military grade (MIL-SPEC) manufacturing. Headquartered in Sydney with teams in the UK and US, DroneShield's capabilities are used to protect military, government, law enforcement, critical infrastructure, commercial and VIP clients across several jurisdictions. The company has developed almost a dozen proprietary products for wide application across defence and civil requirements. DroneShield listed in June 2016 after raising \$7m at \$0.20/share in an oversubscribed IPO, giving it a market capitalisation at listing of \$27m. The company has subsequently raised an additional \$23.57m through share placements and security purchase plans including \$17m in August and September 2020 via a placement and SPP. DroneShield reported H1 FY21 revenues, record Q2 cash receipts and expanded its gross profit margin by 1600 basis points over H1 FY20. It ended H1 FY21 with \$14.3m cash in hand.

Business model

DroneShield develops counter-drone technology and products with wide application across defence and civil roles. The product suite includes body-worn and dismounted technology including the DroneGun and DroneGun Tactical; fixed site or vehicle/ship mounted technology including the DroneCannon RW and DroneSentry-X; and software DroneSentry-C2™ and DroneOptID AI. The company employs a large engineering team and has spent more than \$35m in R&D, marketing and global sales channels establishment over the last 5 years. DroneShield uses both third party distributors as well as its own sales force to sell its products and services, offering customers both bespoke solutions and off-the-shelf products. The company is seeking to move into the SaaS space with subscription pricing for updates to the drone libraries of its products. Recurring revenues are also increasing as a percentage of sales as defence and government agencies renew their contracts. A recent example of this was the renewal of a two-year, \$3.8m contract with the Australian Department of Defence.

Strong growth reported in H1 FY21

DroneShield has reported H1 FY21 sales revenue of \$6.6m, an increase of 113% on H1 FY20 and an expanded Gross Profit Margin of 74.4% versus 58.4% in H1 FY20 and 67.1% in FY20. The net loss for the half was \$0.452m, an improvement on the \$1.2m net loss reported in H1 FY20. The company also reported record cash receipts of \$7.4m in 2Q21 bringing total cash receipts for the half to \$9.1m, compared with \$1.3m in the previous corresponding period. DroneShield ended the half with net cash of \$13.36m.

Look to ASX defence-related stocks for peers

Australia has a small but growing number of companies with links to the defence and government sector ranging from satellite data and drone systems companies to military equipment suppliers and shipbuilders. Elsieht (ASX:ELS), Orbital Corporation (ASX:OEC) and Xtek (ASX:XTE) are the most comparable peers from a market capitalisation and product focus perspective.

Historical earnings and ratios and RaaS's estimates

Year end	Revenue (A\$m)	Gross Profit	EBITDA Adj (A\$m)	NPAT Adj (A\$m)	NPAT Rep (A\$m)	EPS Adj (c)	EPS Rep (c)	EV/Sales (x)
12/17a	0.4	0.2	(5.1)	(4.8)	(5.5)	(3.4)	(3.8)	72.1
12/18a	1.2	0.7	(5.6)	(5.2)	(6.3)	(3.1)	(3.8)	31.4
12/19a	3.5	1.9	(6.4)	(5.9)	(7.7)	(2.8)	(3.6)	17.6
12/20a	5.6	3.7	(4.2)	(3.3)	(5.9)	(1.1)	(2.0)	11.7

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

Defence hardware & software

10th September 2021

Share details

ASX Code	DRO
Share price	\$0.195
Market Capitalisation	\$81.5M
Shares on issue	418.2M
Net cash at 30/06/2021	\$14.3M
Free float	77.96%

Share performance (12 months)



Upside Case

- Strong sales pipeline with \$200m in active contract discussions
- Moving towards SaaS model across both software and hardware sales
- Securing repeat business from customers

Downside Case

- Long sales cycle with military and government customer targets
- Sales pipeline fails to convert
- Competing with multinationals

Catalysts/upcoming events

- Demonstrated conversion of sales pipeline
- Demonstrated growth in SaaS revenues

Comparable companies (Aust/NZ)

Elsieht (ASX:ELS), Orbital Corp (ASX:OEC), Xtek (ASX:XTE)

Top 5 shareholders

Beta Gamma Pty Ltd	5.14%
Oleg Vornik (CEO)	4.01%
Regal Funds Management	2.67%
Peter James (Chairman)	2.40%
Richard Darling	0.55%

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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