

**Canadian Equity Research**

2 April 2019

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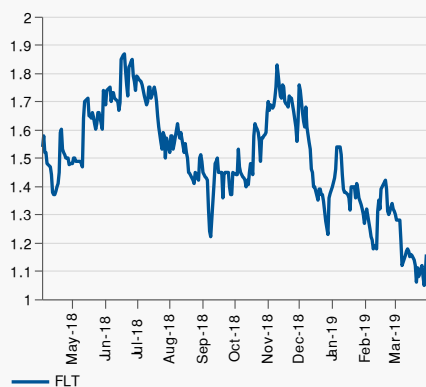
**SPECULATIVE BUY**

**PRICE TARGET** C\$2.00  
Price (1-Apr) C\$1.13  
Ticker FLT-TSXV

52-Week Range (C\$): 1.02 - 1.94  
Avg Daily Vol (000s): 265.2  
Market Cap (C\$M): 210  
Shares Out. (M) <sup>1</sup>: 186.2  
Total Return to Target (%): 77.0  
Net Debt (Cash) (C\$M): (34)  
Enterprise Value (C\$M): 176

<sup>1</sup>Note shares outstanding includes ITM warrants and the recent equity raise.

FYE Dec	2019E	2020E	2021E	2022E
Sales (C\$M)	1.4	11.8	29.1	63.0
EBITDA Adj (C\$M)	(9.6)	(1.5)	12.4	39.5
Free Cash Flow Adj (C\$M)	(10.5)	(3.5)	7.7	24.4
EV/Sales (x)	128.0	15.0	6.0	2.8
EV/EBITDA (x) Adj	-	-	14.2	4.5



Priced as of close of business 1 April 2019

Drone Delivery Canada ("DDC") is the first drone cargo operator to be licensed for beyond visual line of sight (BVLOS) flying in Canada.

**Initiation of Coverage**

**Game of Drones**

**Investment recommendation**

We are initiating coverage on Drone Delivery Canada (DDC) with a SPECULATIVE BUY rating and C\$2.00 target price. DDC has developed a system for autonomous cargo delivery via unmanned aerial vehicle. While pre-revenue, the company has established itself as a global leader in the regulated use of drones for cargo through shrewd navigation of the technical, practical and regulatory obstacles. We believe the first application, bringing critical supplies to remote communities in Canada, alone presents a compelling financial opportunity. Exporting this technology to other geographies and industries adds significant upside potential. The model is nascent – hence the SPECULATIVE rating – but we see the opportunity for substantial shareholder returns as investments in this disruptive technology are monetized.

**Investment highlights**

- **Drone Delivery Canada:** Toronto-based DDC is making the concept of using drones to deliver cargo a reality. Through years of R&D, the company has proved out, and received regulatory approval for, an autonomous drone cargo delivery solution that is slated to begin commercial service later this year. While DDC employs a significant degree of third-party hardware to enable its solution, its software platform, processes and regulatory approval represent its most valuable assets, in our view.
- **Serving remote Canadian communities: an attractive market unto itself.** DDC is pre-revenue but has secured agreements to supply initial customers. It targets remote communities in Canada where delivery of critical supplies is challenging. DDC's first customer, Moosonee/Moose Factory, agreed to pay \$2.5M/year beginning late-2019. The company has identified 1,000 similar communities in Canada alone. At scale, DDC anticipates generating 60% EBITDA margins, consistent with a software/service-centric model. Using these assumptions, even a 10% hit rate of its target in Canada represents a substantial business (~\$250M in revenue; ~\$150M in EBITDA).
- **More upside comes from porting this solution to other markets.** The considerable achievement of producing a solution which allows for the effective use of drones in tier-one airspace makes the technology interesting for a number of applications. DDC aims to license its solution outside of Canada where cabotage rules limit potential competition. We believe that other governments and industries (mining, oil & gas, etc.) operating in remote or logistically challenged regions are potential customers.
- **Initial forecast:** We model two community launches in 2019, four in 2020 and several license sales driving revenue of \$11.8M in 2020 and \$29.1M in 2021. Assuming modest opex growth from the already considerable spend, we forecast EBITDA moving from a small loss in 2020 (-\$1.5M) to profit in 2021 (+\$12.4M). After the recent raise, we believe DDC is capitalized to achieve our financial expectations.
- **Potential near-term catalysts:** 1) Strategic partnership announcements; 2) achieving first commercial flight; 3) technology license sales; 4) additional community commitments.

**Valuation**

Our target price of C\$2.00 is derived using a DCF analysis (13.5% WACC; 3% TGR). The stock currently trades at 6x F2021E sales, consistent with an early stage growth story.

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## Investment thesis

**The key breakthrough so far: regulatory approval.** We have all heard of the notional concept of drones dropping off Amazon boxes and fast food at your doorstep in the city. While we don't preclude that possibility in the future, we believe social and regulatory acceptance remain years away. One of DDC's most meaningful achievements so far is its ability to navigate the early-stage Canadian regulatory framework, as evidenced by its status as one of the first compliant operators of beyond visual line of sight (BVLOS) cargo drones in Canada.

**Building out its portfolio of drones and complementary hardware and software infrastructure.** DDC has developed and announced several drone models (based on third-party hardware) with payload and ranges of 10 lbs and 30 km (the Sparrow) to 400 lbs and 200 km (the Condor). Beyond the drones, DDC has developed the necessary infrastructure for offering depot-to-depot delivery services, including its proprietary Flyte software and integrated Drone Spot takeoff and landing platform. We believe that this integrated suite of hardware and software products alleviate many of the concerns regarding drone delivery (i.e. accident, theft, unauthorized operators).

**The first application: bringing critical supplies to remote northern communities.** The near-term opportunity for DDC is providing drone-powered delivery services to remote communities in northern Canada. These communities are isolated by Canada's vast land-mass, have limited connection to existing delivery and logistics networks and experience significantly higher costs of living (although subsidized); Moose Cree's Director of Economic Development has previously cited helicopter transport costs of ~\$7 – 10 per pound. DDC, and community officials, believe that these drone-powered delivery services will significantly improve the cost of living for these communities. Selecting this application, which helps address a political pain point, we see as a shrewd move to help the company cut through regulatory red tape.

**These communities alone represent a compelling financial opportunity.** The first agreement with one such community, the Moose Cree First Nation, is for \$2.5M in the first year with the option to expand services in the following years. The company has identified 1,000 similar targets in Canada alone and believes it can achieve a 20% penetration rate in the next five years.

Figure 1: DDC service revenue sensitivity

Number of communities	Revenue per community (C\$M)							
	1.0	1.5	2.0	2.5	3.0	3.5	4.0	
22	22	33	44	55 <sup>1</sup>	66	77	88	
100	100	150	200	250	300	350	400	
160	160	240	320	400	480	560	640	
200	200	300	400	500 <sup>2</sup>	600	700	800	
220	220	330	440	550	660	770	880	
230	230	345	460	575	690	805	920	
235	235	353	470	588	705	823	940	

1. CG initial 2022 model  
2. DDC five-year stretch target

Source: Company Reports, Canaccord Genuity estimates

Figure 2: DDC service EBITDA sensitivity

Number of communities	EBITDA margin (%)							
	30%	40%	45%	60%	70%	80%	90%	
22	17	22	25 <sup>1</sup>	33	39	44	50	
100	75	100	113	150	175	200	225	
160	120	160	181	240	280	320	360	
200	150	200	226	300 <sup>2</sup>	350	400	450	
220	165	220	249	330	385	440	495	
230	173	230	260	345	403	460	518	
235	176	235	266	353	411	470	529	

\*Assuming per community service revenue of \$2.5M

1. CG initial 2022 model  
2. DDC five-year stretch target

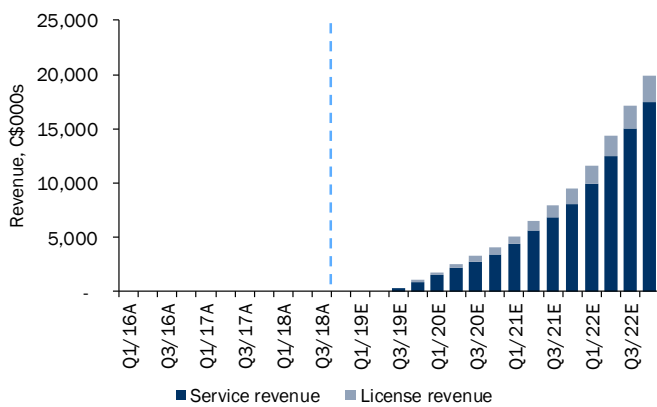
Source: Company Reports, Canaccord Genuity estimates

**Exporting the model to other markets provides further upside.** The medium- and longer-term opportunity is to license this autonomous drone technology to other industries and in other geographies. DDC has already secured several partnerships with major organizations in Canada (i.e., Staples Canada, NAPA Auto Parts and Wolseley Canada) that cumulatively have over 1,100 retail locations. The company is also already in discussions with potential licensees (50+). We understand that individual licensees of the software could each represent \$1M+ in annual high-margin revenue.

**Regulations will become a barrier to entry for competitors.** We see DDC as the most likely provider of drone-powered delivery solutions in Canada. While there are a significant number of players researching and developing drone delivery solutions globally (incl. Google and Amazon), only four operators in Canada have received approval (through compliant operator special flight operation certificates) to conduct BVLOS operations (only two for cargo specifically). Furthermore, we believe that the aviation industry's existing cabotage and foreign ownership laws will be upheld for the drone delivery space, protecting DDC's opportunity in Canada from large and well capitalized foreign operators and tech players.

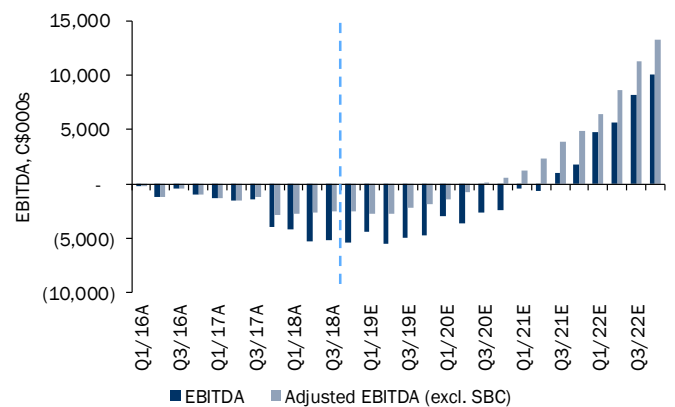
**Moving into commercialization with initial revenues targeted for Q3.** We model the company scaling revenue from \$1.4M in 2019 to \$63.0M in 2022 (258% CAGR). This is driven by: 1) the company securing its first two remote communities in 2019 (\$2.5M per contract); 2) beginning to license its Flyte software for \$1.0M per year with its first contract in 2019 (there is a potential revenue share component as well); and 3) growing the number of remote communities and Flyte licensing contracts added each year. Note that we do not factor in the company servicing other markets itself outside of software licensing.

Figure 3: Revenue – quarterly



Source: Company Reports, Canaccord Genuity estimates

Figure 4: EBITDA – quarterly



Source: Company Reports, Canaccord Genuity estimates

**Expect margins to expand significantly as the company secures a critical mass of contracts.** DDC is pricing its solution to be able to generate EBITDA margins of ~60% at scale – its ability to generate substantial margin expansion is supported by the capital light nature of operating drone services and software licensing. While DDC has yet to finalize a revenue model for the software licensing, we believe that software licensing will generate high gross margins associated with software (we model 90%). We expect DDC to grow into its existing cost-base of (~\$5M per quarter; ~\$2.5M excluding share-based compensation) and achieve adjusted EBITDA profitability of \$12.4M by 2021 (43% margin; \$1.7M and 6% on a non-adjusted basis).

**Our C\$2.00 target price is DCF-based.** Based on our 2021 model, DDC is trading 6x sales, reflecting the nascent stage of the technology but also the substantial opportunity. Our expectation of significant growth coupled with medium-term margins expanding to 50% (below management's 60% goal) lead us to favor a DCF analysis in our valuation of DDC. Our three-stage DCF analysis (13.5% discount rate, 3% terminal growth) yields a target price of C\$2.00 which implies 77% upside. Our target represents 11.6x 2021 sales based on our model.

Figure 5: DCF analysis

(In CAD\$ MM)	Explicit Forecast Period						Medium-Term Model					Terminal
FYE: July 31	F2017A	F2018E	F2019E	F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	Terminal
Drone revenue	-	-	1.3	10.0	25.0	55.0	94.6	135.5	170.6	197.1	215.5	222.0
Software revenue	-	-	0.1	1.8	4.1	8.0	11.8	14.5	16.2	17.2	17.7	18.2
<b>Revenue</b>	-	-	<b>1.4</b>	<b>11.8</b>	<b>29.1</b>	<b>63.0</b>	<b>106.4</b>	<b>150.0</b>	<b>186.8</b>	<b>214.3</b>	<b>233.2</b>	<b>240.2</b>
Y/Y Growth %	-	-	-	754.5%	147.9%	116.3%	68.8%	41.0%	24.5%	14.7%	8.8%	3.0%
<b>EBITDA</b>	<b>(8.3)</b>	<b>(20.0)</b>	<b>(19.5)</b>	<b>(11.7)</b>	<b>1.7</b>	<b>28.5</b>	<b>53.2</b>	<b>75.0</b>	<b>93.4</b>	<b>107.1</b>	<b>116.6</b>	<b>120.1</b>
EBITDA margin %	-	-	-	-	6.0%	45.3%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Less: Depreciation and amortization	(0.0)	(0.0)	(0.1)	(0.3)	(0.6)	(1.2)	(2.1)	(3.0)	(3.7)	(4.3)	(4.7)	(4.8)
<b>EBIT</b>	<b>(8.4)</b>	<b>(20.0)</b>	<b>(19.6)</b>	<b>(12.0)</b>	<b>1.2</b>	<b>27.3</b>	<b>51.1</b>	<b>72.0</b>	<b>89.7</b>	<b>102.9</b>	<b>111.9</b>	<b>115.3</b>
Less: Taxes	-	-	-	-	(0.7)	(7.2)	(13.5)	(19.1)	(23.8)	(27.3)	(29.7)	(30.6)
Effective tax rate %	-	-	-	-	56.1%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Add: Stock-based compensation	1.4	9.6	9.9	10.3	10.6	11.0	13.9	14.7	13.8	11.8	9.7	10.0
% of revenue	-	-	722.2%	87.5%	36.5%	17.5%	13.1%	9.8%	7.4%	5.5%	4.1%	4.1%
Add: Depreciation and amortization	0.0	0.0	0.1	0.3	0.6	1.2	2.1	3.0	3.7	4.3	4.7	4.8
% of revenue	-	-	4.3%	2.2%	2.0%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Less: Capital expenditures	(0.2)	(0.2)	(0.6)	(1.2)	(2.4)	(4.8)	(8.3)	(11.8)	(14.9)	(17.2)	(18.8)	(19.4)
% of revenue	-	-	43.6%	10.2%	8.2%	7.6%	7.8%	7.9%	8.0%	8.0%	8.1%	8.1%
Less: Net working capital investment	(0.2)	(0.9)	(0.3)	(0.9)	(1.6)	(3.1)	(4.7)	(5.9)	(6.4)	(6.2)	(5.6)	(5.8)
% of revenue	-	-	(22.6%)	(7.6%)	(5.6%)	(4.9%)	(4.4%)	(3.9%)	(3.4%)	(2.9%)	(2.4%)	(2.4%)
<b>FCFF</b>	<b>(7.4)</b>	<b>(11.5)</b>	<b>(10.5)</b>	<b>(3.5)</b>	<b>7.7</b>	<b>24.4</b>	<b>40.7</b>	<b>53.0</b>	<b>62.2</b>	<b>68.3</b>	<b>72.2</b>	<b>74.4</b>
<b>WACC</b>	<b>13.5%</b>											
Present value of forecast cash flows	116											
Present value of terminal cash flow	227											
<b>Present value of cash flows</b>	<b>343</b>											
Add: Current net cash	21											
Add: Cash from ITM warrants and options	14											
<b>Equity value</b>	<b>377</b>											
Shares outstanding (000)	186											
<b>DCF value per share (\$)</b>	<b>2.03</b>											

		Discount rate						
		10.5%	11.5%	12.5%	13.5%	14.5%	15.5%	16.5%
Terminal growth rate	1.5%	2.76	2.40	2.11	1.87	1.68	1.51	1.37
	2.0%	2.87	2.48	2.17	1.92	1.71	1.54	1.39
	2.5%	2.98	2.57	2.24	1.97	1.75	1.57	1.42
	3.0%	3.12	2.67	2.31	2.03	1.80	1.60	1.44
	3.5%	3.28	2.78	2.39	2.09	1.84	1.64	1.47
	4.0%	3.45	2.90	2.48	2.15	1.89	1.68	1.50
	4.5%	3.66	3.04	2.58	2.23	1.95	1.72	1.54

Source: Company Reports, Canaccord Genuity estimates

**Management is aligned with shareholder interests.** Management and the board of directors currently control 13% of basic shares outstanding and are well aligned with the interests of shareholders.

**Capitalized to deliver against our model.** The company has \$25.8M in pro-forma cash and a further \$8.7M in proceeds from ITM warrants. This provides adequate capital to deliver against our financial forecasts. Should DDC produce growth well in excess of our model or incur substantial delays, additional capital could be required. The management team has demonstrated the ability to limit dilution – the recent equity raise was ~7% dilutive excluding the warrant.

**Initiating with a SPECULATIVE BUY rating.** DDC's pre-revenue stage leads us to assign a SPECULATIVE rating until the company's growth and margin profile is more concrete. Our target equates to an 77% projected return from yesterday's close. We believe the potential upside to the current stock price compensates investors well for the risks inherent in such an early stage opportunity with limited historical financial data.

**Risks:** We highlight the following risks related to our SPECULATIVE BUY thesis; these risks are discussed in further detail in Appendix 2 (page 28).

- Unproven business model with limited financial visibility;
- Going concern risk;
- Risk of further dilution;
- Evolving regulatory environment;
- Legal liability;
- Reputation or brand risk;
- Potential competitive technologies;
- Reliance on third parties.

## Company overview

Figure 6: Drone Delivery Canada logo



Source: Company Website

Drone Delivery Canada (“DDC”) was founded in 2014. The company is one of the first compliant BVLOS drone cargo operators in Canada after receiving a Compliant Operator Status Certificate in Q1/18. While pre-revenue, the company anticipates converting its active pipeline of remote community targets and licensing opportunities into commercial sales in 2019. DDC is headquartered out of Toronto, Ontario. The company currently employs ~80 people.

DDC began trading as a public company in June 2016 following an RTO and concurrent private placement. The company has executed several financings in the time since, including a \$10.9M equity raise in February 2017 at \$0.35 (including a ½ warrant), a \$15.0M equity raise at \$0.65 in October 2017 and a \$10.0M equity raise in March 2019 at \$1.20 (including a ½ warrant). In December 2017, the company migrated to the TSX Venture exchange where it currently trades under the symbol FLT; DDC previously traded on the CSE under the same ticker.

The company’s management team is led by Co-founder and CEO Tony Di Benedetto, alongside Co-founder and CTO Paul Di Benedetto. Insiders control 13% of DDC’s basic shares outstanding. See Appendix 3 on page 29 for detailed management and director biographies.

Figure 7: Insider ownership

Management Team					
Name	Position	Common Shares	Options	% of Basic S/O	% of Diluted S/O
Paul Di Benedetto	CEO	7,062,500	1,825,000	4.4%	4.8%
Tony Di Benedetto	CTO	7,062,500	1,825,000	4.4%	4.8%
Robert D.B. Suttie	CFO	-	846,250	0.0%	0.5%
Richard Buzbuzian	President, Head of Capital Markets	1,722,000	1,891,250	1.1%	1.9%
Michael Zahra	SVP, Operations and Strategy	n/a	n/a	0.0%	0.0%
Gregory Colacitti	VP, Business Development	4,500,000	1,825,000	2.8%	3.4%
Michael Urlocker	VP, Strategic Partnerships	n/a	n/a	0.0%	0.0%
Mark Wuennenberg	VP, Regulatory Affairs	n/a	n/a	0.0%	0.0%
Jim Williams	Director, Regulatory Affairs	n/a	n/a	0.0%	0.0%

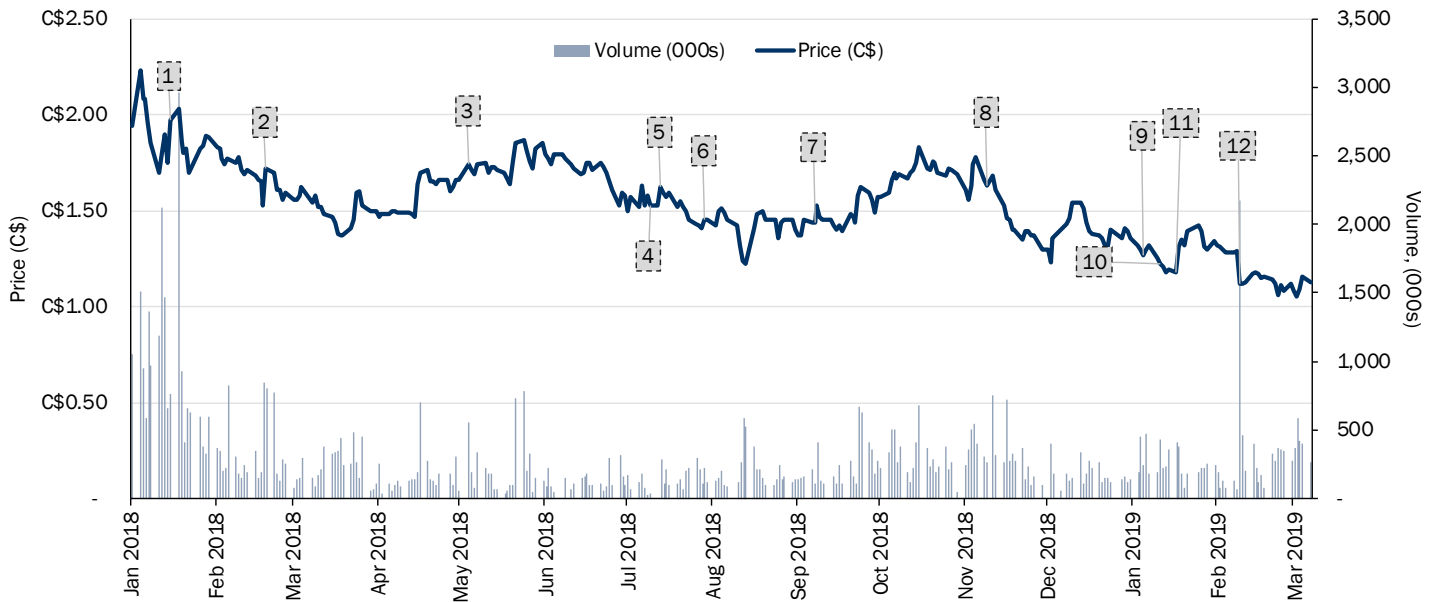
  

Board of Directors					
Name	Position	Common Shares	Options	% of Basic S/O	% of Diluted S/O
Michael Della Fortuna	Director	15,000	850,000	0.0%	0.5%
Christopher Irwin	Director	625,000	850,000	0.4%	0.8%
Kevin David Sherkin	Director	15,000	-	0.0%	0.0%
Rob Montemarano	Director	344,940	1,075,000	0.2%	0.8%
Duncan Card	Director	n/a	n/a	0.0%	0.0%

Source: SEDI, Company Reports (Annual Information Form)

Recent development milestones

Figure 8: Annotated stock chart



Date	Event
19-Oct-17	<b>Agreement with Wolseley Canada announced.</b> The company and Wolseley Canada announced its agreement to collaborate on the potential implementation of a drone delivery system to expand Wolseley's distribution network.
25-Oct-17	<b>FLT closes its \$15M bought deal financing.</b> Drone Delivery Canada announced it has closed its \$15M bought-deal offering at a price of \$0.65 per share.
15-Dec-17	<b>FLT achieves first Transport Canada milestone.</b> The company's X1000 Sparrow achieved compliance with Transport Canada's unmanned aircraft system (UAS) standard. This is the first of three regulatory components under Transport Canada's UAS Operator program.
27-Dec-17	<b>FLT begins trading on the TSX Venture.</b> Drone Delivery Canada began trading on the TSX-V under the symbol "FLT". Previously, it traded on the CSE.
9-Feb-18	1 <b>FLT achieves full compliant operator status.</b> Drone Delivery Canada was awarded a compliant UAV operator special flight operations certificate after it completed the remaining three steps under Transport Canada's UAS operator program.
16-Mar-18	2 <b>First US test flight completed.</b> FLT announced it has completed several successful test flights in the US. It achieved a 100% success rate with its flights.
28-May-18	3 <b>FLT and Toyota announce an agreement to collaborate.</b> Toyota and Drone Delivery Canada entered into an agreement to collaborate on the development of a drone delivery logistics platform. Under this agreement, Toyota will participate in FLT's commercial pilot program and the two groups will look to begin flight testing and identify other international markets to deploy FLT's platform as a transport solution.
3-Aug-18	4 <b>FLT receives approval for testing of its 25 lbs capacity drone.</b> Drone Delivery Canada announced it received approval to commence testing of a cargo drone ("The Robin X1400") with a 25 lbs payload and 60 km travel range.
7-Aug-18	5 <b>Agreement with the Public Health Agency of Canada.</b> The company announced that it will be testing the feasibility of a drone delivery solution for the Public Health Agency of Canada's National Microbiology Lab. If successful, this will improve access to blood-borne infection testing for remote isolated communities.
23-Aug-18	6 <b>BVLOS test flight in Quebec completed.</b> Drone Delivery Canada announced that it has completed its beyond visual line of sight (BVLOS) trial in Quebec using its Sparrow X1000 drone. During the testing, flights were operated both during day and night conditions. This represents the first phase of the Remote Communities Project and was the second test under Transport Canada's UAS Operator program.
2-Oct-18	7 <b>BVLOS test flight in controlled airspace in Moosonee and Moose Factory completed.</b> The company announced that it has completed several drone delivery BVLOS test flights in Moosonee and Moose Factory. These tests were completed in Class E controlled airspace near the Moosonee airport using a Sparrow X1000. This was the third and final test of Transport Canada's UAS Operator program.
5-Dec-18	8 <b>\$2.5M agreement with Moose Cree First Nations.</b> Drone Delivery Canada and the Moose Cree First nation have entered into a one-year commercial agreement for the deployment of Drone Delivery's platform within the Moose Cree First Nation communities. The agreement is for \$2.5M in revenue with expected revenues beginning in Q2/19.
30-Jan-19	9 <b>FLT receives approval for testing of its 50lbs cargo drone.</b> The company received approval for it to commence testing of a cargo drone ("The Falcon") with a 50 lbs payload and 60 km travel range. The Falcon has a top speed of 50 km per hour and features a multi-package payload compartment to carry 5 cubic feet of cargo.
5-Feb-19	10 <b>FLT announces new operations facility.</b> Drone Delivery Canada announced its future 16,000 square foot facility in Vaughan, Ontario. This new facility will house up to 25 drone operators who will oversee commercial flights in Canada and abroad. The facility is expected to be fully operational in Q3/19.
11-Feb-19	11 <b>FLT announces its condor drone.</b> The company announced the unveiling of its Condor drone which will have 400 lbs payload and 200 km range. The drone will be unveiled on February 19, 2019 and is expected to begin flight testing in Q3/19.
6-Mar-19	12 <b>FLT announces \$7M bought deal.</b> Drone Delivery Canada announced a bought-deal financing for \$7.2M at \$1.20 per unit. Each unit will consist of one common share and half of a common share purchase warrant (\$1.50 conversion, 24 month maturity). Upsized to \$10.0M.

Source: Company Reports, FactSet

## Product summary

### A practical approach to using drones to move goods

While we have all heard the idea of Amazon boxes being delivered to our doorsteps by flying robots – we do not deny the possibility in the future. However, there are several practical, regulatory and technological hurdles standing in the path of broad adoption of such technology. In our view, DDC’s major achievement is creating a model and system capable of using autonomous drones to carry cargo that meets the severe regulatory scrutiny involved in this market while remaining practical and cost-effective for its customers. This involves a combination of the right hardware, software, systems, procedures and a close relationship with regulatory and government bodies.

### Software: developing a robust solution to service a wide number of industries

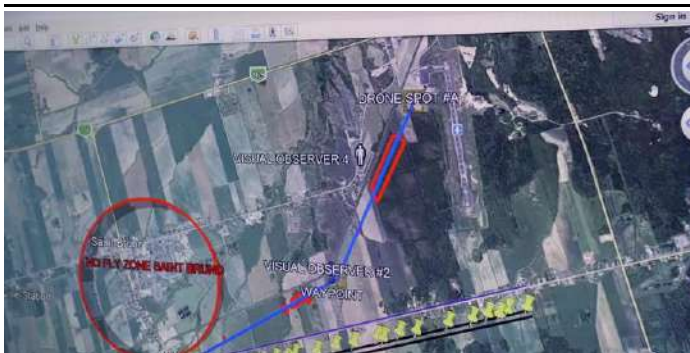
We see the company’s Flyte software as the most valuable aspect of its drone offering. This proprietary software is responsible for the integration of each drone into controlled airspaces and its autonomous operation.

*The proprietary software represents the most significant and valuable aspect of the story, in our view.*

While the company intends for these drones to operate autonomously, DDC manages a control center where supervisors oversee multiple ongoing flights simultaneously. Using this software, DDC flight supervisors monitor both drones and other commercial aircraft, weather, etc., and are able to intervene if necessary (i.e. grounding, changing destination, responding to NAV Canada directives). We believe the ability to take manual control to be a necessary feature for a software of this type in the eyes of regulators, who are typically cautious in the adoption of new technologies.

We believe that DDC and Flyte’s status as a compliant platform / software in a tier-one airspace will make it easier to obtain approval in international airspaces. It is our understanding that the company plans to license this software to third-party users in the future, which we see as a significant source of upside for DDC in the medium and long term. Based on our conversations with management, it appears that the company has yet to establish a revenue model for this opportunity but did speak to a fixed annual fee plus a usage-fee. Whether or not DDC will manage licensee flights also remains uncertain and likely to be a case-by-case decision.

Figure 9: Flyte software



Source: Company Website

Figure 10: One of the DDC Control Stations



Source: Drone Delivery Canada

### Hardware: the most visible representation of drone delivery’s technology

While DDC aims to provide a full-service logistics platform that is hardware agnostic and does not intend to manufacture its own drone equipment, the hardware platforms that it does employ represent the most tangible view of the product and the capabilities of its system. We’ve summarized the key drone platforms including the key specs of each platform below:



**The Sparrow (X1000)**

This is DDC’s smallest form factor drone and is the first drone to be certified for beyond visual line of sight (BVLOS) flights in Canada. The Sparrow is a vertical takeoff and landing (VTOL) quadcopter designed to deliver packages weighing up to 5 kg (10 lbs; i.e., letters, small parcels, medical tests, medicine and emergency kits) for short 20 – 30 km distances at speeds up to 60 km per hour. See the Sparrow’s beyond visual line of sight flight here: [link](#).

**Figure 11: The Sparrow**



Source: Canaccord Genuity Research (left), NorthernOntarioBusiness.com (middle), Maclean’s (right)

**Key specs and other details**

<b>Size:</b>	31” tall	<b>Speed:</b>	60 kmph
<b>Takeoff weight:</b>	50 lbs	<b>Altitude:</b>	900 meters
<b>Payload:</b>	10 lbs	<b>Propulsion:</b>	Electronic
<b>Range:</b>	30 km	<b>Takeoff:</b>	VTOL

**The Robin (X1400 formerly the Raven)**

The Robin, DDC’s second smallest drone, boasts a significant payload increase over the smaller Sparrow (25 lbs vs. 10 lbs). We believe this drone is built using a larger version of the quadcopter airframe / body used by the Sparrow and is designed to survive the harsh weather conditions in Northern Canada while carrying larger payload. The Robin features a dual payload design for both static and tethered deployment. We understand that the Robin has received approval to commence testing and is in the process of receiving approval from Transport Canada.

**Figure 12: The Robin**



Source: Company Website (left), Canaccord Genuity Research (middle), the Hamilton Spectator (right)

**Key specs and other details**

<b>Size:</b>	37” tall	<b>Speed:</b>	60 kmph
<b>Takeoff weight:</b>	75 lbs	<b>Altitude:</b>	900 meters
<b>Payload:</b>	25 lbs	<b>Propulsion:</b>	Electronic
<b>Range:</b>	35 km	<b>Takeoff:</b>	VTOL

**The Falcon**

DDC's unreleased Falcon drone is expected to be the largest quadcopter-styled drone in its offering. This drone is expected to fly at a similar speed and distance as the Robin while carrying twice the payload (50 lbs) and received approval in January from Transport Canada to begin testing.

**Key specs and other details**

<b>Size:</b>	12' wingspan	<b>Speed:</b>	50 kmph
<b>Takeoff weight:</b>	n/a	<b>Altitude:</b>	n/a
<b>Payload:</b>	50 lbs	<b>Propulsion:</b>	n/a
<b>Range:</b>	60 km	<b>Takeoff:</b>	VTOL

**The Condor**

In February 2019, Drone Delivery Canada unveiled the Condor drone, its largest form factor and first gas propelled drone. The Condor boasts a maximum payload of 180 kg (400 lbs) and can travel up to 200 km. The company is in the process of obtaining approval to begin flight testing the Condor, which it expects to receive by Q3/19.

**Figure 13: The Condor**



Source: Canaccord Genuity Research (left and middle), Company Website (right)

**Key specs and other details**

<b>Size:</b>	85" tall	<b>Speed:</b>	120 kmph
<b>Takeoff weight:</b>	1,050 lbs	<b>Altitude:</b>	1,000 meters
<b>Payload:</b>	400 lbs	<b>Propulsion:</b>	Gasoline
<b>Range:</b>	200 km	<b>Takeoff:</b>	VTOL

Figure 14: The DDC Drone Spot



Source: Company Website

### The Drone Spot and depot-to-depot flying

DDC has developed a gated takeoff and landing area for its drones that is integrated into its Flyte software system to simplify the logistics of drone delivery services. Dubbed the “Drone Spot”, this solution mitigates many potential risks commonly associated with drone delivery services (i.e. payload mix-ups, theft of goods, theft of drone, and unauthorized personnel). Through its several check-points, the Drone Spot confirms that the operator entering the restricted takeoff and landing area has authorization to fly and the correct payload for the corresponding drone.

Flying to and from designated takeoff and landing areas is classified as depot-to-depot (D2D) flying. We believe applications of the D2D model include rural community supply transport, bulk mail shipments and emergency. The company’s initial D2D operations will be for remote communities in Northern Canada. In addition to rolling out its delivery services for remote communities, DDC has signed partnerships with several companies to develop and implement its drone delivery solutions. These partners include Staples (306 retail locations), NAPA (600 retail locations), Wolesley Canada (220 retail locations) and Toyota. We do not model the company receiving any corporate contracts in our current estimates; however, we understand it is currently in discussion with 50+ potential customers comprising retail, cargo, hospital, couriers and logistic service companies.

We highlight several additional opportunities (incl. some D2C) that we see as possible:

- Delivering critical supplies to oil-rigs;
- Transporting parts between manufacturing facilities (re: Toyota partnership);
- Delivering emergency medical supplies (i.e. defibrillators);
- Supplementing postal delivery services (UPS previously stated that reducing one mile from each route would represent US\$50M in annual savings);
- Carrying sensor payloads for data collection companies.

### Simplifying drone operations through infrastructure tools

In addition to their drones, software and integrated takeoff and landing platform, DDC has curated a collection of complementary tools and documentation to further simplify the process of maintaining, setting up and operating their drones. We highlight their battery packages and charging station that monitors battery levels and matches up battery packs with the correct drone scheduled for operation. Overall, we believe the company’s suite of products represent an attractive and complete end-to-end solution.

Figure 15: DDC battery station



Source: Canaccord Genuity Research

Figure 16: DDC drone documentation



Source: Drone Delivery Canada

Figure 17: Drones from aerospace majors



Boeing's cargo drone prototype



Airbus' SN1 C1S variant



Embraer's DreamMaker mockup

Source: New Atlas (top), Wired (middle), FlightGlobal (bottom)

### Manufacturers

We understand that DDC works with contract manufacturers and OEMs to build its drones – the Robin and Sparrow are likely the same manufacturer. While suppliers remain confidential, management noted production lead times of three to six months for the Sparrow, Robin and Falcon, and six months for the Condor. The company spoke to the likelihood of aerospace giants (i.e., Boeing, Airbus and Embraer) as potential sources for large-format drones / airframes in the future. Note that Boeing, Airbus and Embraer have demonstrated prototypes and mock-ups with the expectation for near-term commercialization.

- **Boeing (BA-NYSE: \$391.54 | HOLD; US\$380 | Analyst: Ken Herbert).** Last year, Boeing unveiled a cargo drone prototype capable of lifting a payload of 500 lbs. The company believes that this cargo drone could serve as the predecessor for its future ventures into UAVs. Boeing stated that the drone took just three months to design and it successfully completed initial flight tests in Missouri at its research lab. This release was shortly after its acquisition of Aurora Flight Sciences, a research and manufacturing firm that specializes in UAVs. We highlight Boeing's NeXt unit which is focused on exploring urban, regional and global air mobility including cargo drones.
- **Airbus (AIR-PA | Not Rated).** Airbus, through its Helicopters division and in collaboration with Singapore Post, recently completed its first successful ship-to-shore package delivery using its SN1 C1S variant. The SN1 is a Li-Ion powered VTOL drone capable of carrying a 9 lbs package at a speed of 10 meters per second over a 3 km (6 km roundtrip) distance.
- **Embraer (ERJ-NYSE | Not Rated).** At Uber's 2018 Elevate Conference, Embraer unveiled an eVOTL drone to serve the passenger market and has already secured a preliminary agreement to explore opportunities for its new drone. Dubbed the "DreamMaker", the driverless drone has eight rotors for vertical lift and a short-wing and propeller combo for forward momentum. We understand the passenger market is more regulated than cargo and believe that Embraer could offer a cargo option before the DreamMaker's expected 2024 launch.

## Market overview

There are some eye-popping numbers out there estimating the size and scope of the drone market. It is large, rapidly growing and quickly evolving. In our view, it is just as important for DDC to pick the right area within this vast landscape to begin its operations and prove out its technology.

### Opening act: Serving the north

The initial opportunity highlighted by DDC is providing drone delivery services to the remote rural communities throughout Canada. Using DDC's drones, remote communities would be provided improved access to necessities such as medical supplies, food, clothing and more. We understand that delivery by drone represents a significant cost improvement to the current delivery methods employed by these communities.

**Figure 18: The Moose Cree First Nation community**

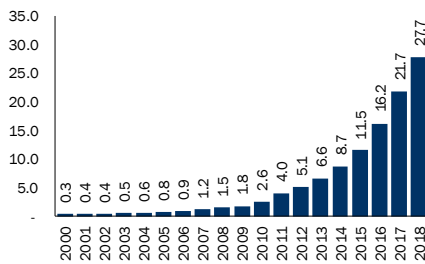


Source: Google Maps

The company's first community, the Moose Cree First Nation, is isolated by a river which residents must cross by barge in the summer, truck in the winter and helicopter in the spring and fall. Moose Cree's Director of Economic Development, Stan Kapashesit, cited high costs associated with helicopter delivery of roughly \$7 – 10 per pound. DDC believes that there exists the opportunity to service several more remote communities (~1,000). Mr. Kapashesit sees several other remote communities in the James Bay region alone that are more remote than Moose Cree and would benefit from drone delivery services, including Kashetchewan, Fort Albany, Attawapiskat.

Based on DDC's estimates and the initial value of the Moose Cree contract, the opportunity to service Northern remote communities represents a ~\$2.5B opportunity (estimated average contract value of \$2.5M and ~1,000 communities). We expect the company's contract with the Moose Cree First Nation to begin in Q3.

**Figure 19: Amazon gross shipping costs (US\$B)**



Source: Company Reports (Amazon)

UPS (UPS-NYSE | Not Rated) estimates that it could save up to US\$50M by reducing each driver's delivery route by one mile. It has begun testing drones that launch from the top of delivery vehicles.

### Rural and urban drone delivery

The idea of drone delivery has quickly achieved widespread popularity in recent years following well marketed campaigns by Amazon and Google beginning in 2014. It often proposes significant benefits relative to the existing logistics methods, most notably faster delivery and lower cost for both the consumer and the sender. According to the Founder of Kiva Systems, the company that provides robots for Amazon's warehouses, delivery by drone would cost a fraction (US\$0.10) of the standard ground shipping used by Amazon today (US\$2 – 8). We'll start our discussion of the market by itemizing some of the many industry analyst reports and statistics for the global drone market. All agree on the following: it's large and it's rapidly expanding.

USPS conducted a survey in 2016 on the public's perception of drone delivery which concluded that 75% of the public expects these services to be available by 2021. The most common desired benefits were faster delivery times and emergency supply delivery. The study also highlighted concerns regarding potential drone malfunctions. We believe drone delivery is likely to be proved out in rural regions, which represents the most expensive route for logistics and transport companies, before being offered in urban centers which are characterized by congested airspace and lower cost deliveries given the shorter travel distance between destinations. Several industry experts have attempted to estimate a market value for drone delivery services which we highlight below:

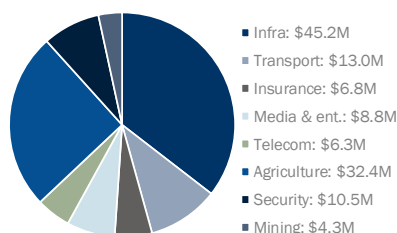
- PwC estimates that the potential value of drone-powered solutions in the transport sector in 2015 was ~US\$13B. This estimate is based on the value of labour and services that PwC believes could be replaced by drone-powered solutions. It points to drones for several types of deliveries that span e-commerce, spare parts, medical supplies and food.
- Gartner expects the drone delivery market will take several years to ramp up and will be plagued by logistical issues in the near term. It believes that delivery drones will amount to less than one percent of the commercial market by 2020.
- Research and Markets estimates that the global drone logistics and transportation market will be worth US\$11.2B in 2022 and US\$29.1B by 2027.

We believe there is potential upside to these substantial estimates. Drone delivery is unlikely to completely replace all traditional shipping; however, we believe it will become a preferred last-mile delivery method. We highlight Amazon's rising shipping costs which were reported at US\$27.7B in 2018 (see Figure 19).

### Export potential

We see DDC's proprietary software as a source of significant upside potential in the medium to long term. As drone's usage becomes further commercialized, we expect there to be demand for a software layer that can be easily and seamlessly integrated into a drone platform to enable automated operations in controlled airspaces. We see the future need for drone software as a long-term upside scenario for DDC.

**Figure 20: Drone solution TAM (2015, USD)**



Source: PwC Report (Clarity from above, May 2016)

The number of potential use-cases for autonomous drones is vast. In PwC's 2016 whitepaper on the potential for drone-powered solutions, PwC highlighted a potential total addressable market of US\$127B. This estimate is based on the cost of labour and services consumed by the infrastructure, transportation (incl. delivery), insurance, media/entertainment, telecommunications, agriculture, security and mining industries, that is replaceable by drones in the near term. We see a significant number of these use-cases as surveillance-type applications that rely on autonomous drone software such as DDC's Flyte. Furthermore, we see potential upside to PwC's drone-powered solutions TAM estimate if considering all potential uses of drone technology.

### Regulatory framework in place

The government organizations responsible for aviation laws continue to scramble as they prepare for the demand for swift onset of drones in controlled airspaces. These regulatory bodies continue to assess the opportunity at hand and associated risks as private sector players race to commercialize a solution. It appears that the regulatory framework for drone operations are often divided by recreational and commercial usage. More advanced frameworks, such as Transport Canada's Aviation Regulations, consider several other aspects, including size of the UAV, flight area, time of day and altitude.

### Canada

In February 2018, Canadian regulators (Transport Canada) invited four industry members to create a concept of operations for beyond visual line of sight (BVLOS) operations. Each member of this study was applied to one of the four BVLOS trials in 2018, providing an opportunity to test their systems with real flight experience. The four organizations selected for these trials were:

- **Canada Post:** Explore deploying drones in remote and rural Canadian regions.
- **Canadian UAVs:** Conduct long-range pipeline surveys in Western Alberta.
- **Drone Delivery Canada:** Explore the use of drones for food and medical delivery.
- **ING Robotic Aviation:** Conduct a trial infrastructure survey in Western Canada.

Based on DDC's press releases to date, we understand that there are three stages to receiving approval for unmanned BVLOS operation. These three stages are 1) achieve compliance with Transport Canada's unmanned aircraft system standard; 2) complete BVLOS testing; and 3) complete BVLOS testing in a controlled airspace using standard frequencies. We expect that most of these trials are ongoing and believe that the DDC Robin and Falcon are in the initial BVLOS testing stage while the company awaits approval to begin testing the Condor. Note that DDC's Sparrow completed its BVLOS testing in a controlled airspace using standard aviation frequencies in late October.

### United States

Despite the number of drone-powered solutions being developed by US-based organizations (i.e., Amazon and Google), the US and the Federal Aviation Administration (FAA) has been reluctant to grant permission for BVLOS testing until recently. The FAA took its first steps towards integrating drones into its airspace last year with its Unmanned Aircraft System (UAS) Integration Pilot Program (IPP). This program granted 10 cities and their commercial partners the right to test a variety of drone operations; the FAA received 150 applications. Since the start of the program in 2017, the FAA has taken another step towards integration by granting waivers for BVLOS operations to several of these partners – there have been 24 BVLOS waivers issued in total. We see this as the beginning of drone-powered solutions being offered in the US and expect other players, specifically Amazon and Google who have been testing their solutions in foreign jurisdictions, to make a push for similar approval.

**Figure 21: Companies with BVLOS Waivers in the US**

Company	Data Issued	Expiration	Company	Data Issued	Expiration
Airobotics	Oct 2018	Oct 2022	Matternet	Oct 2018	Oct 2022
Alaska Center for UAS Integration	Feb 2019	Oct 2020	Mosaic	Nov 2017	Nov 2021
Astraeus Aerial	Mar 2017	Mar 2021	Pinnacel X	Jan 2018	Jan 2022
BNSF Railway Company	Aug 2016	Aug 2020	Praxis Aerospace Concepts Int'l	Jul 2018	Jul 2022
CAPE Productions	Jul 2017	Jul 2021	PrecisionHawk	Aug 2016	Aug 2020
CyPhy Works	Feb 2018	Feb 2022	Project Wing	Jul 2018	Jul 2022
FLIR Unmanned Aerial Systems	May 2017	Apr 2021	Flytcam Motion Pictures	Jan 2018	Jan 2022
Flirtey	Feb 2019	Feb 2023	State Farm	Nov 2018	Nov 2022
GreenSight Agronomics	May 2018	Jan 2022	University of Alaska Fairbanks	Mar 2019	Mar 2023
Kansas DoT - Division of Aviation	Dec 2018	Sep 2022	Untamed Aero Solutions	Dec 2017	Dec 2021
Lockheed Martin Orlando	Aug 2017	Aug 2021	Xcel Energy	Nov 2018	Apr 2019
Lucas Fischer	Nov 2018	Nov 2022	Zipline Int'l	Dec 2018	Dec 2022

Source: FAA

## Competitive landscape

### Competitors

A market this large with the potential growth being discussed here has attracted and will likely continue to attract players from all corners of the technology and aerospace landscape. In the following section, we detail what we view as the most relevant competitors and players in the market for drone-powered delivery services, noting that there is the potential for partnership, “co-opitition” and potential new entrants.

### Amazon (AMZN-NASDAQ: US\$1,814.19 | BUY; US\$2,250)

It’s hard to imagine a world with drone deliveries without picturing an Amazon-branded service. The global e-commerce giant has been among the most active player in coordinating such a service and has made leaps and bounds towards being able to provide a feasible and reliable service. Now, it seems like the only factors preventing the company from using drones to deliver packages are existing laws surrounding unmanned aerial vehicles and the buildout/rollout of the infrastructure needed.

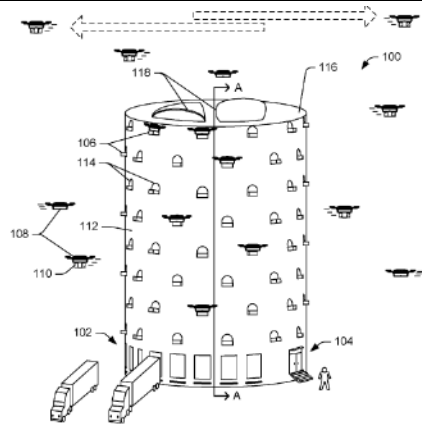
Figure 22: Amazon's various drone designs



Source: Company Website (Amazon)

Amazon’s plans to offer drone-based delivery were announced by Jeff Bezos during a 60 Minutes interview in 2013. Roughly two years after the announcement, it was granted an exemption to fly prototype drones in the US under the mandated altitude of 400 ft, speed of 100 mph and within the pilot’s line of site. Amazon has expressed the view that ideal drones will carry a payload of 5 lbs to locations within a 10-mile radius of the control centre at altitudes between 200 – 500 ft at up to 50 mph. Amazon Prime Air completed its first delivery on December 7 in England where it has built a fulfillment centre after announcing a partnership with the British government to test its drone-based delivery services. Prime Air’s first delivery was completely autonomous and took just 13 minutes from the time the order was placed (see video here: [link](#)).

Figure 23: Multi-level fulfillment center



Source: US Patent and Trademark Office

Amazon has developed several drone-related technologies which it has patented. We highlight some of these patents below:

- **Drone fulfillment towers:** In 2017, Amazon filed a patent for “multi-level fulfillment centers”, which it describes as a center to “accommodate landing and takeoff of unmanned aerial vehicles (UAVs)”. According to the filing statement, these multi level centers could have several landing and deployment locations.
- **Aerial fulfillment centres:** Amazon was recently granted a patent for its “aerial fulfillment centers”. These centers are effectively floating product fulfillment centers that are serviced by drones.
- **Self destruction:** To address the safety concerns of drones falling from the sky, Amazon has filed a patent for a “fragmentation controller”. This controller, in the event of an emergency, would strategically fragment the drone in a sequence that minimizes the number of large parts falling from the sky.



**Google (GOOGL-NASDAQ: US\$1,198.98 | BUY; US\$1,250)**

X Development, the research and development arm of Google, was founded in 2010 to turn forward thinking concepts (which it calls “moonshot ideas”) into realities – some of its better-known ideas include the autonomous driving start-up known as Waymo and the infamous Google Glass. In 2014, Google announced Project Wing with the initial intention of delivering defibrillator kits to heart attack victims via drone. This idea has evolved into delivering everything from medicine to pizza. Wing began delivering takeout food earlier this year (January) at its test facility in Australia.

**Figure 24: Google Wing’s drone**



Source: Company Website (Project Wing / Google)

Project Wing’s drones can carry up to 1.5 kg over a maximum of 14 km (round-trip) at an altitude of 400 ft. Similar to DDC’s solution, Wing’s drones are controlled by proprietary software, enabling them to operate autonomously under the watch of an operator.

**Zipline (Private)**

We see California-based Zipline as one of the first real-world commercial applications of drone-based delivery. Founded in 2014, Zipline uses drones to deliver critical medical products to remote locations. The company now operates six facilities across Rwanda and Ghana and has completed over 11,240 deliveries in total. It has the capacity to expand operations to 500 deliveries per day per distribution center and has plans to deliver other critical medical products such as vaccinations, diagnostics test kits, contraceptives and life saving drugs.

**Figure 25: Zipline drone launch**



Source: Company Website (Zipline)

**Figure 26: Zipline emergency landing**



Source: Company Website (Zipline)

Zipline operates a fleet of autonomous fixed-wing drones with on-board navigation systems and a top speed of 100 kmph. These drones are launched by a slingshot system that resembles a navy aircraft carrier catapult.

**Flirtey (Private)**

Nevada-based Flirtey (Y Combinator, class of Summer 2015) wants to delivery critical medical equipment (i.e., automated external defibrillators) and commercial packages by drone. Flirtey is partnered with Reno as part of the FAA’s UAS IPP and has achieved several major milestones in US-drone delivery. Its list of “FAA authorized firsts” include the first authorized drone delivery in July 2015, the first automated drone delivery in an urban area in March 2016 and the first authorized drone delivery to a customer home in July 2016.

**Figure 27: Flirtey Drone**



Source: Fortune

Flirtey boasts an impressive customer and partner list; since its inception, it has worked with organizations such as Domino’s, 7-Eleven, NASA, John Hopkins University of Medicine. Its work with NASA to develop an air traffic control system for drones should will help them integrate into controlled airspaces and prevent them from colliding with aircraft.

**Avitas**

Based in Boston, General Electric (GE-NYSE | Not Rated) subsidiary Avitas Systems is building an autonomous inspection solution that uses aerial, ground and underwater sensors to collect data for its predictive analytics and AI solutions. It intends to use the data to increase safety and productivity while decreasing the cost of inspections for the oil and gas, power and transportation sectors. Avitas plans to offer semi and fully-autonomous inspection management, smart scheduling and cloud-based analytics.

**Figure 28: Avitas Drone**



Source: Company Website (General Electric)

In October 2018, Avitas received FAA Approval to conduct BVLOS drone operations in Loving County, Texas. Its authorization allows it to operate a UAS over 55 lbs at low altitudes for industrial inspection. According to the company, this is the first FAA-approved civil use of BVLOS with radar.

### **Competitive analysis**

DDC operates in an industry with little existing competition. We expect that as Transport Canada develops its regulatory framework, the level of competition could increase. However, we point to the company's favorable position and cabotage / foreign ownership laws as a safeguard against potential entrants.

### ***Favorable positioning with early stage regulatory frameworks***

There exists a short list of operators with the green light to test BVLOS drone operations alongside regulatory bodies continuing to develop a framework. We understand that until a framework has been established, operators outside of this select group must apply for a Special Flight Operations Certificate to conduct BVLOS flights; applications are reviewed case by case and the process can be time consuming and difficult. We believe this regulatory situation provides DDC with a first-mover advantage and an opportunity for DDC to establish an early presence in the highly anticipated market for BVLOS drones. We highlight the rigorous level of development associated with creating an autonomous drone platform that can operate BVLOS.

### ***Foreign ownership and cabotage laws***

DDC believes that the government will uphold the existing cabotage and foreign ownership laws from traditional aviation. Cabotage laws restrict foreign operators from conducting revenue-generating domestic routes (i.e. between two Canadian locations). It defines foreign operators as a company where 49% or more of its voting shares (or control) are owned by non-domestic residents. We would see these laws being upheld as extremely favorable for DDC given that it protects it from several international operators that are also developing BVLOS systems, including Google and Amazon.

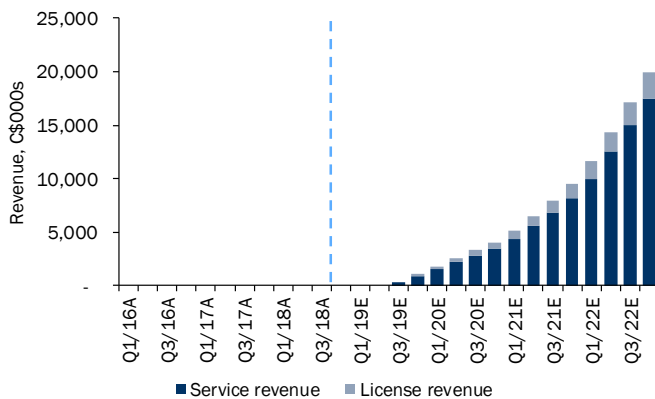
## Financial projections

DDC is at the cusp of its conversion from a concept to a commercial operation with initial revenues expected from its first commercial deployments in Q3/19. We model the company demonstrating a significant amount of revenue growth over the next couple of years fuelled largely through the expansion of its business with remote communities in Canada. Consistent with the large potential size of the addressable opportunity, we expect DDC to reinvest a significant amount of its capital into its platform over the coming years. As such, we expect a rather modest profit growth in the next two years.

### Revenue model – Services model initially, technology sales longer term

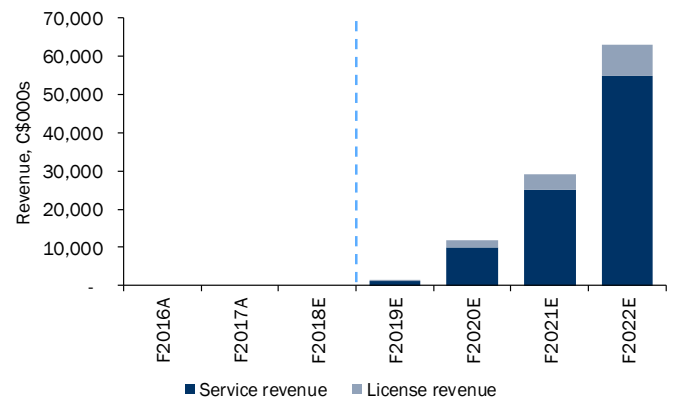
The company expects to begin servicing its first remote community (Moose Cree First Nation) as early as Q3. We expect that its run-rate revenue will quickly scale as DDC demonstrates its value proposition for remote communities. Additionally, as the global use of drones develops, we see DDC's software sales as a significant source of higher-margin revenue. We model revenue expanding from \$1.4M in 2019 to \$11.8M (755% Y/Y) in 2020, \$29.1M in 2021 (148% Y/Y) and \$63.0M in 2022 (116% Y/Y).

Figure 29: Revenue – quarterly



Source: Company Reports, Canaccord Genuity estimates

Figure 30: Revenue – annual



Source: Company Reports, Canaccord Genuity estimates

Our revenue growth expectations are driven by the following assumptions:

**Service revenue:** We see the company's drone revenue growing as it secures contracts with remote communities and accelerates the pace it adds new contracts. In our view, DDC's tight-knit relationship with the Moose Cree First Nation will help facilitate its expansion into other nearby remote communities (i.e., Kashechewan, Fort Albany and Attawapiskat). We model service revenue of \$1.3M this year scaling to \$10M in 2020 (700% Y/Y), \$25M in 2021 (150% Y/Y) and \$55M in 2022 (120% Y/Y). The revenue is expected to be a combination of set-up fees for the hardware / infrastructure and growing service-type revenue as additional routes are added in subsequent years.

Our estimates are driven by an average contract value of \$2.5M and adding two communities in 2019, four in 2020, eight in 2021 and 16 in 2022. Note that the company has established a stretch target of 200 communities in five years. Our estimates are much more conservative but still drive meaningful top-line growth.

**Software revenue:** DDC's software segment, in our view, represents a significant opportunity for the company as the global appetite for drone-powered solutions develops. It has not yet established a pricing model; however, it has spoken to an annual fee of \$1M plus a revenue-share / usage charge. It expects it will finalize its first contract this year. Until then, we model software revenue of \$0.1M in 2019, \$1.8M in 2020 (1,300% Y/Y), \$4.1M in 2021 (136% Y/Y) and \$8.0M in 2022 (94% Y/Y). Our estimates are based on it charging \$1.0M per year with no revenue-share component and adding one software customer in 2019, two in 2020, three in 2021 and four in 2022.

**Blue sky scenario analysis**

The company highlights a total of 1,000 target communities in Canada as its initial targets and, as stated earlier, has set itself a stretch target of delivering service to 200 communities in the next five years. Our own model is conservatively lower than this figure given a still unproven growth trajectory. We model ~22 in 2022 (average for the year; 30 at year end); however, we want to illustrate the upside potential if the company tracks closer to its target. Figures 31 and 32 show the range of potential annual revenue and EBITDA contributions from this line of business alone (i.e., not including licensing revenue) assuming the \$2.5M per average community price point holds.

Figure 31: DDC service revenue sensitivity

		Revenue per community (C\$M)						
		1.0	1.5	2.0	2.5	3.0	3.5	4.0
Number of communities	22	22	33	44	55 <sup>1</sup>	66	77	88
	100	100	150	200	250	300	350	400
	160	160	240	320	400	480	560	640
	200	200	300	400	500 <sup>2</sup>	600	700	800
	220	220	330	440	550	660	770	880
	230	230	345	460	575	690	805	920
	235	235	353	470	588	705	823	940

1. CG initial 2022 model  
2. DDC five-year stretch target

Source: Company Reports, Canaccord Genuity estimates

Figure 32: DDC service EBITDA sensitivity

		EBITDA margin (%)						
		30%	40%	45%	60%	70%	80%	90%
Number of communities	22	17	22	25 <sup>1</sup>	33	39	44	50
	100	75	100	113	150	175	200	225
	160	120	160	181	240	280	320	360
	200	150	200	226	300 <sup>2</sup>	350	400	450
	220	165	220	249	330	385	440	495
	230	173	230	260	345	403	460	518
	235	176	235	266	353	411	470	529

\*Assuming per community service revenue of \$2.5M

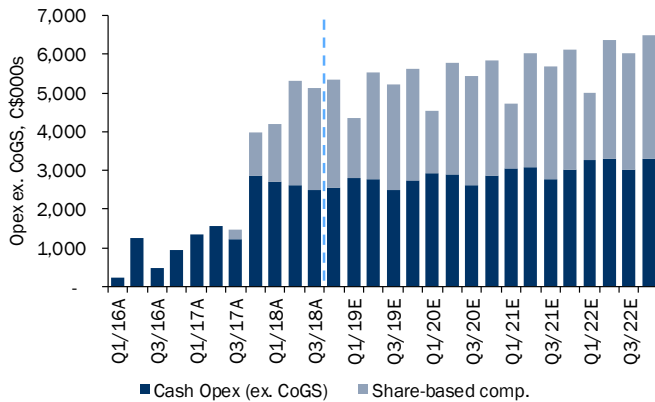
1. CG initial 2022 model  
2. DDC five-year stretch target

Source: Company Reports, Canaccord Genuity estimates

**EBITDA – Expect a significant degree of reinvestment**

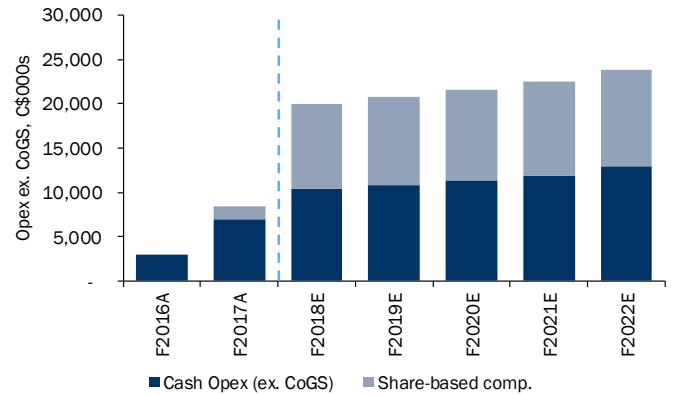
Over the past couple of years, DDC has continued to invest a significant amount of capital in R&D, supporting the commercial launch of its cargo drone platform. It has seen quarterly operating expenses ranging between \$0.2M and \$5.3M (\$0.2M to \$2.7M excl. stock-based comp). Historically, a significant amount of the company's opex has been stock-based compensation tied to its rapidly appreciating share-price. We note that stock-based compensation (up to 51%) remains a significant percentage of its current cost structure at present and may be volatile. In the analysis below, we highlight both EBITDA on a non-adjusted and adjusted-basis and note that we value the company based on fully diluted shares outstanding to capture the cost of stock-based compensation.

Figure 33: Opex – quarterly



Source: Company Reports, Canaccord Genuity estimates

Figure 34: Opex – annual

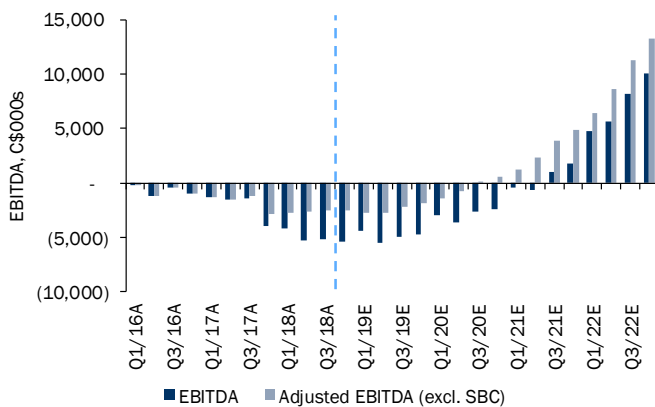


Source: Company Reports, Canaccord Genuity estimates

The company has now established a new commercial operations center outside Toronto which can handle a significant amount of traffic both within Canada and abroad. DDC expects to occupy this operation center by Q2 (fully operational in Q3) and will consolidate its fragmented operations (currently four facilities) into the new facility. Once this center is established, we believe that the company should be able to demonstrate a significant amount of operating leverage as revenue ramps.

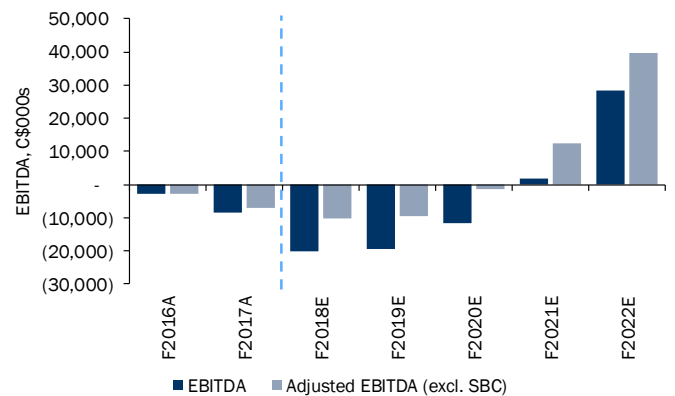
While sensitive to the timing of revenue, based on our current model, we anticipate the company reporting EBITDA losses through 2020. We model adjusted EBITDA of -\$9.6M in 2019, -\$1.5M in 2020, +\$12.4M in 2021 and +\$39.5M in 2022. We model the company scaling EBITDA margins (non-adjusted) from 45% in 2022 to 50% in the medium term (vs. management’s expectations of 60% at scale).

Figure 35: EBITDA – quarterly



Source: Company Reports, Canaccord Genuity estimates

Figure 36: EBITDA – annual

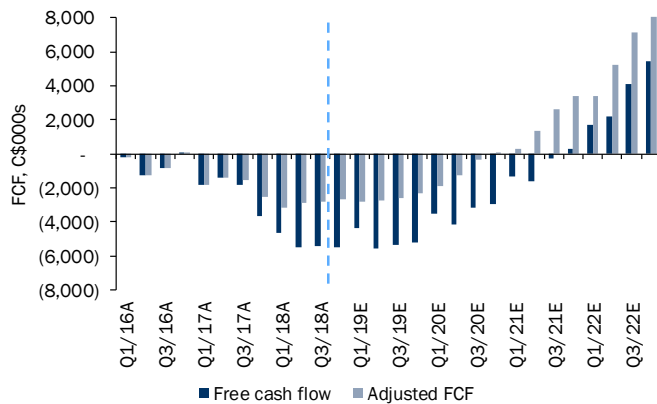


Source: Company Reports, Canaccord Genuity estimates

### Capital expenditures and cash flow

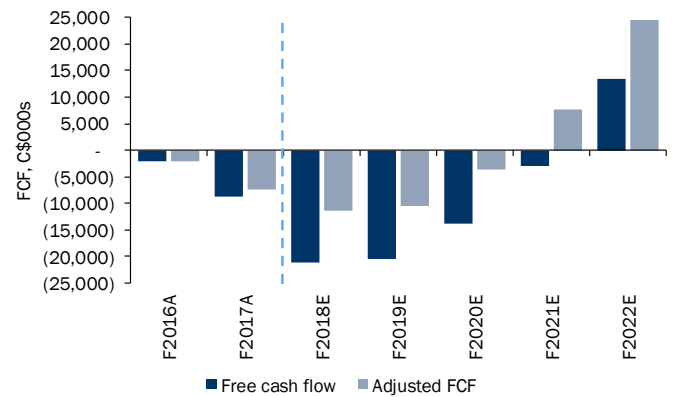
DDC has invested a modest amount in capex to date on its patents and drones; the bulk of its drone development costs have been through R&D costs. We expect capex to be light (\$0.3M per new community contract) and estimate that DDC will begin generating FCF in 2021. We model adjusted FCF of -\$10.5M in 2019, -\$3.5M in 2020, \$7.7M in 2021 and \$24.4M in 2022. Our near-term cash flow expectations are based on the company growing into its cost base in the next few years and investing in working capital. We also assume a significant amount of the hardware cost will be captured in cost of goods sold as depreciation as we understand that DDC will retain ownership of the drones and related infrastructure.

Figure 37: FCF- quarterly



Source: Company Reports, Canaccord Genuity estimates

Figure 38: FCF - annual



Source: Company Reports, Canaccord Genuity estimates

### Balance sheet

Following the close of the recent equity financing, the company has pro forma cash of \$25.8M and no debt. We model the company receiving an additional \$8.7M from the conversion of in-the-money warrants. While we do not model the company delivering on our growth expectations with the current capital on hand, we do note that a more rapid acceleration of new client on-boards may require the company to seek additional capital to help fund growth.

### Summary of model expectations

Figure 39: Model assumptions

C\$000s	F2019E	F2020E	F2021E	F2022E	Assumption Rationale (In C\$)
Service revenue	1,250	10,000	25,000	55,000	Our service revenue estimates are based on the company charging \$2.5M per community. We model the company adding 2 communities / contracts in 2019 and doubling the number of new communities added each year through to 2022.
License revenue	125	1,750	4,125	8,000	We expect the company to secure its first license customer in late 2019 and the company quickly ramping its license sales. Our estimates are based on a conservative \$1.0M annual contract value (vs. the company at \$1.0M + a revenue share) and it adding 1 customer in 2019, 2 in 2020, 3 in 2021 and 4 in 2022.
Gross margin	80.9%	81.5%	81.4%	81.3%	We model service gross margins of 80% and license gross margins of 90%. Our service margins are largely driven by handler costs (3 local employees per contract at \$40k each) and costs associated with the operating center. Our 90% license margins represent typical licensing margins.
EBITDA margin	n/a	n/a	6.0%	45.3%	We model OPEX remaining relatively stable as the company grows into its already established infrastructure.
Tax rate	0.0%	0.0%	56.1%	26.5%	Our model applies a 26.5% tax rate to any profits generated by the company.
Capex	600	1,200	2,400	4,800	We estimate that the company will spend ~\$0.3M per new contract.
Depreciation	59	258	575	1,199	We model depreciation of 20% throughout the forecast period.

Source: Canaccord Genuity estimates

## Valuation

We are initiating coverage on Drone Delivery Canada (FLT-TSXV) with a C\$2.00 target, implying an 77% return to the current share price, based on our discounted cash flow analysis. While our target represents a premium valuation, we see this as justified given the company's significant, but long-winded, growth potential and status as one of four operators in Canada licensed to conduct BVLOS testing.

### Discounted cash flow analysis

We present our DCF analysis in Figure 40 which drives our target of C\$2.00 (rounded down from \$2.03). Our target represents 77% upside potential from the current share price.

Figure 40: Discounted cash flow analysis

(In CAD\$ MM)	Explicit Forecast Period							Medium-Term Model				
FYE: July 31	F2017A	F2018E	F2019E	F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	Terminal
Drone revenue	-	-	1.3	10.0	25.0	55.0	94.6	135.5	170.6	197.1	215.5	222.0
Software revenue	-	-	0.1	1.8	4.1	8.0	11.8	14.5	16.2	17.2	17.7	18.2
<b>Revenue</b>	-	-	<b>1.4</b>	<b>11.8</b>	<b>29.1</b>	<b>63.0</b>	<b>106.4</b>	<b>150.0</b>	<b>186.8</b>	<b>214.3</b>	<b>233.2</b>	<b>240.2</b>
Y/Y Growth %	-	-	-	754.5%	147.9%	116.3%	68.8%	41.0%	24.5%	14.7%	8.8%	3.0%
<b>EBITDA</b>	<b>(8.3)</b>	<b>(20.0)</b>	<b>(19.5)</b>	<b>(11.7)</b>	<b>1.7</b>	<b>28.5</b>	<b>53.2</b>	<b>75.0</b>	<b>93.4</b>	<b>107.1</b>	<b>116.6</b>	<b>120.1</b>
EBITDA margin %	-	-	-	-	6.0%	45.3%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Less: Depreciation and amortization	(0.0)	(0.0)	(0.1)	(0.3)	(0.6)	(1.2)	(2.1)	(3.0)	(3.7)	(4.3)	(4.7)	(4.8)
<b>EBIT</b>	<b>(8.4)</b>	<b>(20.0)</b>	<b>(19.6)</b>	<b>(12.0)</b>	<b>1.2</b>	<b>27.3</b>	<b>51.1</b>	<b>72.0</b>	<b>89.7</b>	<b>102.9</b>	<b>111.9</b>	<b>115.3</b>
Less: Taxes	-	-	-	-	(0.7)	(7.2)	(13.5)	(19.1)	(23.8)	(27.3)	(29.7)	(30.6)
Effective tax rate %	-	-	-	-	56.1%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Add: Stock-based compensation	1.4	9.6	9.9	10.3	10.6	11.0	13.9	14.7	13.8	11.8	9.7	10.0
% of revenue	-	-	722.2%	87.5%	36.5%	17.5%	13.1%	9.8%	7.4%	5.5%	4.1%	4.1%
Add: Depreciation and amortization	0.0	0.0	0.1	0.3	0.6	1.2	2.1	3.0	3.7	4.3	4.7	4.8
% of revenue	-	-	4.3%	2.2%	2.0%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Less: Capital expenditures	(0.2)	(0.2)	(0.6)	(1.2)	(2.4)	(4.8)	(8.3)	(11.8)	(14.9)	(17.2)	(18.8)	(19.4)
% of revenue	-	-	43.6%	10.2%	8.2%	7.6%	7.8%	7.9%	8.0%	8.0%	8.1%	8.1%
Less: Net working capital investment	(0.2)	(0.9)	(0.3)	(0.9)	(1.6)	(3.1)	(4.7)	(5.9)	(6.4)	(6.2)	(5.6)	(5.8)
% of revenue	-	-	(22.6%)	(7.6%)	(5.6%)	(4.9%)	(4.4%)	(3.9%)	(3.4%)	(2.9%)	(2.4%)	(2.4%)
<b>FCFF</b>	<b>(7.4)</b>	<b>(11.5)</b>	<b>(10.5)</b>	<b>(3.5)</b>	<b>7.7</b>	<b>24.4</b>	<b>40.7</b>	<b>53.0</b>	<b>62.2</b>	<b>68.3</b>	<b>72.2</b>	<b>74.4</b>

WACC 13.5%

Present value of forecast cash flows	116
Present value of terminal cash flow	227
<b>Present value of cash flows</b>	<b>343</b>
Add: Current net cash	21
Add: Cash from ITM warrants and options	14
<b>Equity value</b>	<b>377</b>
Shares outstanding (000)	186
<b>DCF value per share (\$)</b>	<b>2.03</b>

Source: Company Reports, Canaccord Genuity estimates

Terminal growth rate	Discount rate						
	10.5%	11.5%	12.5%	13.5%	14.5%	15.5%	16.5%
1.5%	2.76	2.40	2.11	1.87	1.68	1.51	1.37
2.0%	2.87	2.48	2.17	1.92	1.71	1.54	1.39
2.5%	2.98	2.57	2.24	1.97	1.75	1.57	1.42
3.0%	3.12	2.67	2.31	2.03	1.80	1.60	1.44
3.5%	3.28	2.78	2.39	2.09	1.84	1.64	1.47
4.0%	3.45	2.90	2.48	2.15	1.89	1.68	1.50
4.5%	3.66	3.04	2.58	2.23	1.95	1.72	1.54

The key assumptions of our valuation are:

- 1) Our model assumes a steep ramp in our explicit forecast period which is supported by the opportunity to serve remote communities in Canada. We expect a gradual reversion from high double-digit to high single-digit Y/Y growth in the medium term. Recall that the overall opportunity to service remote communities represents ~1,000 communities (DDC is targeting a ~20% penetration rate).
- 2) We model the company achieving first profitability in 2021 and exiting 2022 with 45% EBITDA margins (unadjusted). In the medium term, we expect margins of 50% in the medium term, (below management's expectations of ~60%).
- 3) We model capex of \$0.3M per new contract (drones and construction of permanent drone spots) and depreciation of 20% per year. We expect capex to remain roughly 8% of revenue in the medium term.



- 4) We assume continued working capital investment to support business growth. We model net working capital investment of \$0.3M in 2019, \$0.9M in 2020, \$1.6M in 2021 and \$3.1M in 2022, declining as a percent of revenue as the company's growth profile normalizes in the medium term.
- 5) Our valuation utilizes a WACC of 13.5%, to reflect a high degree of risk inherent in a pre-revenue story, and a terminal growth rate of 3%.

### Relative valuation is challenging

The nascent stage of DDC and the industry overall leaves very few natural comps with which to analyse relative valuation. We list several aerospace and technology comparables below. However, we do not believe the relative valuation gap is relevant until DDC's business model matures. See Figure 41.

Figure 41: FLT comps

Name	Ticker	Price	Market cap	EV	EV/Sales					EV/EBITDA				
					NTM	2019	2020	2021	2022	NTM	2019	2020	2021	2022
<b>Canadian aerospace:</b>														
Air Canada	AC-CA	C\$ 33.56	8,723	9,623	0.5x	0.5x	0.5x	0.4x	0.4x	2.6x	2.7x	2.5x	2.6x	n/a
CAE	CAE-CA	C\$ 29.90	7,848	9,112	2.5x	2.5x	2.4x	2.2x	n/a	10.7x	10.8x	10.0x	9.4x	n/a
Chorus Aviation	CHR-CA	C\$ 7.31	1,121	2,455	1.7x	1.7x	1.6x	1.5x	1.5x	7.0x	7.0x	6.0x	5.6x	4.8x
Exchange Income	EIF-CA	C\$ 33.50	1,037	1,975	1.5x	1.5x	1.4x	1.4x	1.3x	6.2x	6.2x	5.8x	5.6x	4.9x
Heroux-Devtek	HRX-CA	C\$ 16.42	576	833	1.5x	1.5x	1.4x	1.3x	n/a	9.8x	9.5x	8.7x	8.1x	n/a
Magellan Aerospace	MAL-CA	C\$ 17.80	1,034	1,057	1.1x	1.0x	1.0x	1.0x	n/a	6.4x	6.4x	6.2x	6.3x	n/a
Maxar Technologies	MAXR-CA	C\$ 5.92	322	4,593	1.9x	1.8x	1.8x	1.8x	1.8x	6.6x	7.2x	6.6x	7.1x	5.7x
WestJet	WJA-CA	C\$ 19.93	2,216	2,783	0.5x	0.5x	0.5x	0.5x	0.4x	3.6x	3.6x	3.1x	2.9x	2.5x
<b>Canadian aerospace</b>					<b>1.6x</b>	<b>1.6x</b>	<b>1.5x</b>	<b>1.5x</b>	<b>1.4x</b>	<b>7.2x</b>	<b>7.2x</b>	<b>6.6x</b>	<b>6.4x</b>	<b>5.3x</b>
<b>Canadian technology:</b>														
Celestica	CLS-CA	C\$ 11.37	1,333	1,809	0.2x	0.2x	0.2x	0.2x	n/a	5.0x	4.9x	4.2x	3.8x	n/a
Enghouse Systems	ENGH-CA	C\$ 33.72	1,853	1,663	4.6x	4.6x	4.2x	3.8x	n/a	14.9x	15.2x	13.9x	12.1x	n/a
Open Text	OTEX-CA	C\$ 51.28	13,790	16,619	4.3x	4.4x	4.2x	4.2x	n/a	11.3x	11.6x	10.9x	10.5x	n/a
Kinaxis	KXS-CA	C\$ 79.16	2,033	1,797	7.2x	7.2x	6.1x	4.9x	n/a	29.1x	29.3x	23.6x	16.9x	n/a
EXFO	EXFO-US	US\$ 3.69	87	96	0.3x	0.3x	0.3x	0.3x	n/a	3.4x	4.3x	3.1x	2.7x	n/a
Sylogist	SYZ-CA	C\$ 11.70	262	231	5.6x	5.8x	5.1x	n/a	n/a	11.9x	12.3x	10.6x	n/a	n/a
Descartes	DSG-CA	C\$ 49.43	3,734	3,732	8.5x	8.5x	7.7x	6.8x	6.0x	23.5x	23.5x	20.8x	19.2x	16.9x
Patriot One	PAT-CA	C\$ 2.45	321	290	n/a	13.2x	5.2x	n/a	n/a	n/a	n/a	18.5x	8.2x	n/a
Absolute Software	ABT-CA	C\$ 9.19	371	324	2.4x	2.5x	2.3x	2.1x	n/a	13.1x	13.8x	12.5x	11.2x	n/a
Computer Modelling Group	CMG-CA	C\$ 6.10	494	448	6.1x	6.1x	5.8x	n/a	n/a	14.2x	14.2x	13.6x	n/a	n/a
Sierra Wireless	SW-CA	C\$ 16.49	596	474	0.5x	0.5x	0.4x	0.4x	n/a	10.5x	10.5x	6.7x	4.9x	n/a
BlackBerry	BB-CA	C\$ 12.75	7,368	7,038	4.7x	4.7x	4.2x	3.9x	n/a	40.0x	40.7x	25.6x	25.4x	n/a
<b>Canadian technology</b>					<b>4.0x</b>	<b>4.8x</b>	<b>3.8x</b>	<b>2.9x</b>	<b>6.0x</b>	<b>16.1x</b>	<b>16.4x</b>	<b>13.7x</b>	<b>11.5x</b>	<b>16.9x</b>
<b>Courier and logistics:</b>														
UPS	UPS-US	US\$114.43	77,841	99,987	1.3x	1.3x	1.3x	1.2x	1.1x	9.3x	9.3x	8.6x	8.0x	7.1x
FedEx	FDX-US	US\$186.45	47,271	63,737	0.9x	0.9x	0.8x	0.8x	0.8x	7.0x	6.9x	6.4x	6.0x	5.6x
Deutsche Post (DHL)	DPW-DE	€ 29.44	35,859	39,017	0.6x	0.6x	0.6x	0.6x	0.5x	5.1x	5.2x	4.8x	4.6x	4.4x
<b>Courier and logistics</b>					<b>0.9x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>0.8x</b>	<b>7.1x</b>	<b>7.1x</b>	<b>6.6x</b>	<b>6.2x</b>	<b>5.7x</b>
<b>Drone Delivery Canada</b>	<b>FLT-CA</b>	<b>C\$ 1.13</b>	<b>173</b>	<b>156</b>	<b>n/a</b>	<b>47.4x</b>	<b>9.5x</b>	<b>4.8x</b>	<b>2.4x</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>15.2x</b>	<b>5.0x</b>
<b>Drone Delivery Canada (CG est.)</b>	<b>FLT-CA</b>	<b>C\$ 1.13</b>	<b>210</b>	<b>176</b>	<b>n/a</b>	<b>n/a</b>	<b>15.0x</b>	<b>6.0x</b>	<b>2.8x</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>14.2x</b>	<b>4.5x</b>

Source: FactSet, Company Reports, Canaccord Genuity estimates

## Appendix 1: Summary financial statements

Figure 42: Summary income statement

Summary income statement											
FYE: December 31	F2016A	F2017A	Q1/18A	Q2/18A	Q3/18A	Q4/18E	F2018E	F2019E	F2020E	F2021E	F2022E
Denomination: C\$000	31 Dec 16	31 Dec 17	31 Mar 18	30 Jun 18	30 Sep 18	31 Dec 18	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22
Service revenue	-	-	-	-	-	-	-	1,250	10,000	25,000	55,000
License revenue	-	-	-	-	-	-	-	125	1,750	4,125	8,000
<b>Revenue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,375</b>	<b>11,750</b>	<b>29,125</b>	<b>63,000</b>
Consensus Revenue (FactSet)	-	-	-	-	-	-	-	3,300	16,500	32,841	66,511
Growth Y/Y, %	-	-	-	-	-	-	-	-	754.5%	147.9%	116.3%
Growth Q/Q, %	-	-	-	-	-	-	-	-	-	-	-
Cost of goods sold	-	-	-	-	-	-	-	263	2,175	5,413	11,800
<b>Gross profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,113</b>	<b>9,575</b>	<b>23,713</b>	<b>51,200</b>
Gross margin	-	-	-	-	-	-	-	80.9%	81.5%	81.4%	81.3%
<b>Operating expenses:</b>											
Advertising and promotion	127	1,346	832	995	638	871	3,336	3,503	3,678	3,862	4,055
Depreciation and amortization	18	11	3	5	6	4	17	59	258	575	1,199
Consulting	1,049	1,424	370	179	286	225	1,060	1,086	1,114	1,141	1,170
Interest and bank charges	7	4	1	2	1	-	4	-	-	-	-
Office and general	227	1,197	339	211	410	440	1,399	1,754	1,798	1,843	1,889
Professional fees	196	379	17	29	27	27	101	121	133	147	161
Shareholder information	160	346	79	28	140	-	247	-	-	-	-
Research and development	450	2,297	1,059	1,182	989	989	4,219	4,261	4,304	4,347	4,390
Share-based compensation	-	1,359	1,506	2,676	2,624	2,789	9,595	9,931	10,278	10,638	11,010
Other	690	-	-	-	-	-	-	-	-	-	-
<b>Operating expenses</b>	<b>2,924</b>	<b>8,364</b>	<b>4,206</b>	<b>5,306</b>	<b>5,121</b>	<b>5,345</b>	<b>19,978</b>	<b>20,716</b>	<b>21,563</b>	<b>22,553</b>	<b>23,875</b>
<b>EBITDA</b>	<b>(2,899)</b>	<b>(8,348)</b>	<b>(4,202)</b>	<b>(5,299)</b>	<b>(5,114)</b>	<b>(5,341)</b>	<b>(19,957)</b>	<b>(19,544)</b>	<b>(11,730)</b>	<b>1,735</b>	<b>28,524</b>
Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.0%	45.3%
Consensus EBITDA (FactSet)	-	-	(1,350)	-	-	-	(16,500)	(6,800)	(1,300)	10,290	31,502
<b>Adjusted EBITDA</b>	<b>(2,899)</b>	<b>(6,989)</b>	<b>(2,696)</b>	<b>(2,624)</b>	<b>(2,490)</b>	<b>(2,552)</b>	<b>(10,362)</b>	<b>(9,613)</b>	<b>(1,452)</b>	<b>12,373</b>	<b>39,534</b>
Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	42.5%	62.8%
<b>EBIT</b>	<b>(2,916)</b>	<b>(8,360)</b>	<b>(4,205)</b>	<b>(5,304)</b>	<b>(5,120)</b>	<b>(5,345)</b>	<b>(19,974)</b>	<b>(19,603)</b>	<b>(11,988)</b>	<b>1,159</b>	<b>27,325</b>
Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.0%	43.4%
EBT	(2,924)	(8,364)	(4,206)	(5,306)	(5,121)	(5,345)	(19,978)	(19,603)	(11,988)	1,159	27,325
Total Income Taxes	-	-	-	-	-	-	-	-	-	651	7,241
<b>Net loss</b>	<b>(2,924)</b>	<b>(8,364)</b>	<b>(4,206)</b>	<b>(5,306)</b>	<b>(5,121)</b>	<b>(5,345)</b>	<b>(19,978)</b>	<b>(19,603)</b>	<b>(11,988)</b>	<b>509</b>	<b>20,084</b>
% Effective Tax Rate	-	-	-	-	-	-	-	-	-	56.1%	26.5%
<b>EPS (Diluted)</b>	<b>\$ (0.04)</b>	<b>\$ (0.07)</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.13)</b>	<b>\$ (0.11)</b>	<b>\$ (0.07)</b>	<b>\$ 0.01</b>	<b>\$ 0.15</b>
Consensus EPS (FactSet)	-	-	(0.01)	-	-	-	(0.09)	(0.03)	(0.01)	0.05	0.15
Weighted average S/O (Diluted)	77,222	116,700	154,481	161,337	161,539	161,539	159,724	172,530	172,530	179,380	186,230

Source: Company Reports, Canaccord Genuity estimates

Figure 43: Summary balance sheet

Summary balance sheet											
FYE: December 31	F2016A	F2017A	Q1/18A	Q2/18A	Q3/18A	Q4/18E	F2018E	F2019E	F2020E	F2021E	F2022E
Denomination: C\$000	31 Dec 16	31 Dec 17	31 Mar 18	30 Jun 18	30 Sep 18	31 Dec 18	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22
<b>Current assets:</b>											
Cash	-	18,897	21,812	18,968	16,347	13,667	13,667	12,562	9,020	16,724	41,129
Amounts receivable	-	813	985	1,169	1,333	1,333	1,333	1,652	2,552	4,183	7,295
Prepaid expenses	-	270	100	143	121	207	207	216	226	239	263
<b>Total current assets</b>	-	<b>19,980</b>	<b>22,897</b>	<b>20,280</b>	<b>17,801</b>	<b>15,207</b>	<b>15,207</b>	<b>14,429</b>	<b>11,797</b>	<b>21,146</b>	<b>48,687</b>
Equipment	-	63	60	91	85	81	81	622	1,564	3,388	6,989
Patents	-	307	320	380	429	429	429	429	429	429	429
<b>Total assets</b>	-	<b>20,351</b>	<b>23,277</b>	<b>20,751</b>	<b>18,315</b>	<b>15,716</b>	<b>15,716</b>	<b>15,479</b>	<b>13,789</b>	<b>24,963</b>	<b>56,104</b>
<b>Liabilities</b>											
Accounts payable and accrued liabilities	-	893	466	559	456	414	414	431	451	478	525
Loan	-	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	-	<b>893</b>	<b>466</b>	<b>559</b>	<b>456</b>	<b>414</b>	<b>414</b>	<b>431</b>	<b>451</b>	<b>478</b>	<b>525</b>
<b>Equity:</b>											
Share capital	-	25,772	35,123	35,139	35,379	38,168	38,168	57,517	67,795	78,433	89,443
Share-based payments reserve	-	5,715	3,924	6,594	9,141	9,141	9,141	9,141	9,141	9,141	9,141
Deficit	-	(12,029)	(16,235)	(21,541)	(26,662)	(32,007)	(32,007)	(51,610)	(63,598)	(63,089)	(43,006)
<b>Total equity</b>	-	<b>19,458</b>	<b>22,811</b>	<b>20,192</b>	<b>17,859</b>	<b>15,302</b>	<b>15,302</b>	<b>15,048</b>	<b>13,338</b>	<b>24,485</b>	<b>55,579</b>
<b>Total liabilities and equity</b>	-	<b>20,351</b>	<b>23,277</b>	<b>20,751</b>	<b>18,315</b>	<b>15,716</b>	<b>15,716</b>	<b>15,479</b>	<b>13,789</b>	<b>24,963</b>	<b>56,104</b>

Source: Company Reports, Canaccord Genuity estimates

Figure 44: Summary cash flow statement

Summary cash flow statement											
FYE: December 31	F2016A	F2017A	Q1/18A	Q2/18A	Q3/18A	Q4/18E	F2018E	F2019E	F2020E	F2021E	F2022E
Denomination: C\$000	31 Dec 16	31 Dec 17	31 Mar 18	30 Jun 18	30 Sep 18	31 Dec 18	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22
<b>CFO:</b>											
<b>Net income</b>	<b>(2,924)</b>	<b>(8,364)</b>	<b>(4,206)</b>	<b>(5,306)</b>	<b>(5,121)</b>	<b>(5,345)</b>	<b>(19,978)</b>	<b>(19,603)</b>	<b>(11,988)</b>	<b>509</b>	<b>20,084</b>
Depreciation and amortization	18	11	3	5	6	4	17	59	258	575	1,199
Stock-based compensation	-	1,359	1,506	2,676	2,624	2,789	9,595	9,931	10,278	10,638	11,010
Other	991	-	-	-	-	-	-	-	-	-	-
Cash from operations excl. NWC changes	(1,915)	(6,993)	(2,697)	(2,626)	(2,491)	(2,552)	(10,366)	(9,613)	(1,452)	11,722	32,293
Accounts receivable	(167)	(566)	(172)	(184)	(164)	-	(520)	(319)	(900)	(1,631)	(3,113)
Inventory	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	(66)	(169)	170	(43)	22	(86)	63	(8)	(10)	(13)	(24)
Accounts payable and accrued liabilities	135	574	(426)	93	(103)	(42)	(478)	17	20	26	48
Net working capital changes	(97)	(161)	(429)	(133)	(245)	(128)	(935)	(310)	(890)	(1,618)	(3,089)
<b>Cash from operations</b>	<b>(2,012)</b>	<b>(7,154)</b>	<b>(3,125)</b>	<b>(2,759)</b>	<b>(2,736)</b>	<b>(2,680)</b>	<b>(11,300)</b>	<b>(9,924)</b>	<b>(2,342)</b>	<b>10,104</b>	<b>29,205</b>
<b>FCF (CG def'n)</b>	<b>(2,156)</b>	<b>(8,716)</b>	<b>(4,645)</b>	<b>(5,529)</b>	<b>(5,409)</b>	<b>(5,469)</b>	<b>(21,052)</b>	<b>(20,454)</b>	<b>(13,820)</b>	<b>(2,934)</b>	<b>13,394</b>
<b>Adjusted FCF (CG def'n)</b>	<b>(2,156)</b>	<b>(7,357)</b>	<b>(3,138)</b>	<b>(2,854)</b>	<b>(2,785)</b>	<b>(2,680)</b>	<b>(11,457)</b>	<b>(10,524)</b>	<b>(3,542)</b>	<b>7,704</b>	<b>24,405</b>
<b>CFI:</b>											
Acquisition of equipment	(36)	(5)	-	(35)	-	-	(35)	(600)	(1,200)	(2,400)	(4,800)
Acquisition of patents	(109)	(198)	(13)	(60)	(49)	-	(122)	-	-	-	-
Net assets acquired on RTO	-	-	-	-	-	-	-	-	-	-	-
<b>Cash from investing activities</b>	<b>(144)</b>	<b>(203)</b>	<b>(13)</b>	<b>(95)</b>	<b>(49)</b>	<b>-</b>	<b>(157)</b>	<b>(600)</b>	<b>(1,200)</b>	<b>(2,400)</b>	<b>(4,800)</b>
<b>CFF:</b>											
Repayment of loan	-	(50)	-	-	-	-	-	-	-	-	-
Issuance of common shares	2,524	14,012	-	-	-	-	-	9,419	-	-	-
Proceeds from exercise of options	211	-	100	-	200	-	300	-	-	-	-
Proceeds from exercise of warrants	-	11,082	5,952	10	(36)	-	5,927	-	-	-	-
Other	238	-	-	-	-	-	-	-	-	-	-
<b>Cash from financing activities</b>	<b>2,973</b>	<b>25,044</b>	<b>6,052</b>	<b>10</b>	<b>164</b>	<b>-</b>	<b>6,227</b>	<b>9,419</b>	<b>-</b>	<b>-</b>	<b>-</b>
Effect of FX changes	-	-	-	-	-	-	-	-	-	-	-
<b>Change in cash</b>	<b>816</b>	<b>17,687</b>	<b>2,914</b>	<b>(2,843)</b>	<b>(2,621)</b>	<b>(2,680)</b>	<b>(5,230)</b>	<b>(1,105)</b>	<b>(3,542)</b>	<b>7,704</b>	<b>24,405</b>
<b>Cash, BoP</b>	<b>394</b>	<b>1,210</b>	<b>18,897</b>	<b>21,812</b>	<b>18,968</b>	<b>16,347</b>	<b>18,897</b>	<b>13,667</b>	<b>12,562</b>	<b>9,020</b>	<b>16,724</b>
<b>Cash, EoP</b>	<b>1,210</b>	<b>18,897</b>	<b>21,812</b>	<b>18,968</b>	<b>16,347</b>	<b>13,667</b>	<b>13,667</b>	<b>12,562</b>	<b>9,020</b>	<b>16,724</b>	<b>41,129</b>

Source: Company Reports, Canaccord Genuity estimates

## Appendix 2: Investment risks

### **Unproven business model with limited financial visibility**

The company has not yet secured meaningful contracts. Its roadmap to achieving sustainable revenue, profitability and cash flow is contingent on several factors, including successfully receiving the necessary regulatory approval for its drones and achieving a critical mass of customer contracts.

### **Going concern risk**

DDC has yet to record revenue and has a largely fixed cost structure. The company has ~\$26M in cash and its operations consume ~\$3M in cash per quarter. This means that failure to develop the business as quickly as anticipated or to tap the capital markets when needed could lead to bankruptcy and therefore raises going concern risks.

### **Risk of further dilution**

We do not model the company requiring additional capital in the near term; however, if the company delivers on its publicly stated growth targets, it could require additional capital. Depending on the existing market conditions, such funding could be dilutive.

### **Evolving regulatory environment**

The regulatory framework for BVLOS flying in Canada is still under development. While the current path suggests that drones will be approved for BVLOS operations in the near future, regulatory changes are still possible. Any regulatory changes that extend the timeline temporarily or indefinitely would have a significant impact on DDC's operations and financial performance.

### **Reputation or brand risk**

The company is in the early stages of developing its drone-powered delivery offering for remote communities. While it has had no accidents in the past, failing to conduct its delivery service in a safe and reliable manner could have an adverse effect on the company's reputation, and potentially its business and operations.

### **Potential competitive technologies**

The drone-powered services space is highly topical and is becoming increasingly crowded. There now exist several well capitalized companies (i.e., Google and Amazon) with significant resources and expertise to execute on the opportunity at hand. DDC has little to no competition at this point in time; however, we believe new entrants in the space could potentially erode DDC's market share and apply pressure on its margins.

### **Reliance on third parties**

DDC outsources its manufacturing to third party suppliers. This introduces both integration and quality control risks that could impact the company's public image, operational performance and financial results.

### **Legal liability**

Drone operation could represent a significant liability. Any bodily or property damage caused by the company's drone operations (hardware and software) would likely result in legal proceedings.

## Appendix 3: Leadership

### Management team

#### **Tony Di Benedetto – Co-founder and CEO**

Mr. Di Benedetto is the Co-founder and Chief Executive Officer of Drone Delivery Canada. Mr. Di Benedetto founded the company in 2014 after leaving Data Centers Canada, which was acquired by Terago Networks in 2013. Prior to his time at Data Centers Canada, he served as the CEO of Millennium Data Systems for 16 years. Mr. Di Benedetto received his degree from York University.

#### **Paul Di Benedetto – Founder and CTO**

Mr. Di Benedetto is the Co-founder and Chief Technology Officer of Drone Delivery Canada. Prior to starting the company in 2014, he served as the Chief Technology Officer of MDS Wireless for over 15 years. Mr. Di Benedetto studied computer science at York University.

#### **Robert Suttie – CFO**

Mr. Suttie serves as Drone Delivery Canada's Chief Financial Officer and has been with the company since October 2015. In addition to his position at DDC, he provides management services to several junior mining companies and currently serves as senior management (mostly as CFO) for 10+ companies. Mr. Suttie attended the University of Western Ontario and McGill University.

#### **Michael Zahra – SVP, Operations & Strategy**

Mr. Zahra is the Senior Vice President of Operations and Strategy at Drone Delivery Canada. Prior to joining the company in December 2018, he served in various management positions, most recently as the President of Staples Business Advantage Canada for over 16 years. Mr. Zahra was also the President of Yahoo for two years and Schlumberger for 10 years. Mr. Zahra received his Bachelor of Science in Electrical Engineering and his Master of Business Administration from the City University of Seattle.

#### **Richard Buzbuzian – Head of Capital Markets**

Mr. Buzbuzian is the President and Head of Capital Markets at Drone Delivery Canada. As the Head of Capital Markets, he is responsible for the company's day-to-day finance activities and investor relations.

### Board of Directors

#### **Tony Di Benedetto – Director**

Please see Mr. Di Benedetto's profile in the management section above.

#### **Michael Della Fortuna – Director**

Mr. Fortuna is the CEO of NEXEYA Canada, a subsidiary of NEXEYA which provides solutions for the space, transportation, energy and defence sectors. Mr. Fortuna received his Bachelor of Engineering in Engineering Management from the Royal Military College of Canada.

#### **Chris Irwin – Director**

Mr. Irwin is a Partner at Irwin Lowy LLP, a Toronto-based corporate law firm focused on corporate and securities law, and the President of Irwin Professional Corporate. Mr. Irwin received his Bachelor of Arts from Bishop's University, his Bachelor of Laws from the University of New Brunswick and his Master of Laws from Osgoode Hall Law School at York University. Mr. Irwin was called to the bar in 1996.

**Rob Montemarano – Director**

Mr. Montemarano is an experienced residential and commercial property developer that has served on public boards for over 15 years. Mr. Montemarano serves as a Vice President and Partner of Lakeview Group (Lakeview Homes), a developer of residential homes in Ontario with properties in Cambridge (Ontario), Aurora, Newmarket, Queensville and Brampton. Mr. Montemarano also serves as a Partner of Lavelle and Thompson Hotels, two popular venues located in the King West neighborhood in Toronto.

**Kevin Sherkin – Director**

Mr. Sherkin is the President of Levine Sherkin Boussidan Professional Corporation, a Toronto-based litigation firm focused on commercial and civil litigation. Mr. Sherkin attended the University of Western Ontario and received his Doctor of Law from Osgoode Hall Law School at York University. Mr. Sherkin was called to the bar in 1987.

**Advisory Board**

**Deepak Chopra – Strategic Advisor, Commercialization**

Mr. Chopra is the former President and Chief Executive Officer of Canada Post Corp., the primary operator of postal services in Canada. Mr. Chopra was appointed the President and CEO of Canada Post by Stephen Harper in 2011 and served as its leader until 2018. Since leaving Canada Post, he has served as a board member for several companies, including Drone Delivery Canada. Mr. Chopra is a Chartered Professional Accountant and received his Bachelor of Commerce from Delhi University.

**Stan Kapashesit – Director of Economic Development, Moose Cree First Nation**

Mr. Kapashesit is the Director of Economic Development for the Moose Cree First Nation and has held his post since May 2014. Mr. Kapashesit received his Community Economic Development Certificate from the University of Waterloo.

**Tim Strauss – Vice President, Air Canada Cargo**

Mr. Strauss is the Vice President of Air Canada's cargo operations and possesses 31 years of experience in the air cargo industry. Prior to joining Air Canada in 2017, he served as the Vice President and Managing Director of Cargo, the Principal of Strauss Consulting Group, a consultant in the air cargo and related logistics industries and held positions with Delta Air Lines, Northwest Airlines (incl its cargo unit) and Emery Worldwide (now UPS Supply Chain Logistics). Mr. Strauss attended the Ohio State University, the Massachusetts Institute of Technology and the Cambridge Institute.

**Duncan Card – Partner, Bennett Jones LLP**

Mr. Card is a Partner at Bennett Jones LLP, a Canadian law firm with ~360 attorneys across 10 offices. Mr. Card's expertise is in technology, managed services, procurement and complex transactions and was ranked this year by the National Post as one of the best technology law lawyers in Canada. Mr. Card received his Master of Laws from the University of Toronto, his Bachelor of Laws from Queen's University and the London School of Economics and Political Science, and his Bachelor of Arts from Queen's University.

**Richard Buzbuzian – Head of Capital Markets**

Please see Mr. Buzbuzian's profile in the management section above.

## Appendix 4: Canadian UAV regulations

Figure 45: Summary comparison of regulatory frameworks for unmanned air systems

Regulatory Category	Transport Canada			Future: BVLOS	Federal Aviation Administration				
	25 kg or less, operated within visual line-of-sight				Under 55 lb., operated within visual line-of-sight	Future: Micro UAV Category	Future: Urban/Over People	Future: BVLOS	
	Very Small	Small Limited (lower risk, remote areas)	Small Complex (urban areas, aerodromes)						Recreational users of UAs over 250 g
Aircraft Marking and Registration	Marked with basic information (name, contact)	Marked with basic information (name, contact)	Marked with basic information (name, contact) Registered with Transport Canada Marked with aircraft registry	<p>BVLOS operations are reviewed on a case-by-case basis through SFOC applications, and subject to thorough review.</p> <p>A Government-Industry Working Group has submitted a report with recommendations on BVLOS regulations.</p> <p>BVLOS regulatory development will begin once VLOS regulations are implemented.</p>	Register with the FAA (name, contact information)	Register with the FAA (name, contact information)	<p>Currently, micro (very small) UAVs are subject to the existing framework and rules. However, the FAA is still considering a micro UAV rule, but has not established a timeline or published proposed requirements.</p> <p>Higher risk operations over people in urban areas are permitted through an online waiver/authorization.</p> <p>The FAA struck a stakeholder committee to make recommendations for operations over people. The committee proposed four categories of UAV based on weight/energy impact thresholds and level of risk. There is no timeline for the implementation of this rule.</p>	<p>BVLOS operations are only allowed as part of the Pathfinder pilot project program in extremely controlled circumstances. There are currently only six Pathfinder projects.</p> <p>BVLOS regulations are currently not under consideration by the FAA, but have been identified as a future area of focus.</p>	
Personnel Licensing and Training	Basic knowledge test	Basic knowledge test	Comprehensive knowledge test Pilot Permit Issued		N/A	TSA vetted knowledge test Remote pilot certificate issued			
Medical Fitness	Required to be fit to fly	Required to be fit to fly	Required to be fit to fly		No	Driver's licence required			
Age Restrictions	14	14	16		N/A	Minimum of 16 years			
Aircraft Design Standard	N/A	N/A	Required		No	No airworthiness certification			
Operations in Urban Areas	Permitted	Restricted	Permitted		N/A	Operations in this category require a waiver authorization from FAA			
Operations over People	Restricted	Restricted	Permitted with conditions		Not permitted near stadiums	Operations in these categories require a waiver authorization from FAA			
Night Operations	Restricted	Restricted	Permitted with conditions	N/A					
Airspace Restrictions	3 NM away from aerodromes, 1 NM from heliports	3 NM away from aerodromes and built-up area, 1 NM from heliports	At aerodrome, prior coordination required in controlled airspace, within built-up area with conditions	<p>A Government-Industry Working Group has submitted a report with recommendations on BVLOS regulations.</p> <p>BVLOS regulatory development will begin once VLOS regulations are implemented.</p>	Notification to airports for operations within a 5-mile radius	Class G only — waiver authorization required for other airspace	<p>Currently, micro (very small) UAVs are subject to the existing framework and rules. However, the FAA is still considering a micro UAV rule, but has not established a timeline or published proposed requirements.</p> <p>Higher risk operations over people in urban areas are permitted through an online waiver/authorization.</p> <p>The FAA struck a stakeholder committee to make recommendations for operations over people. The committee proposed four categories of UAV based on weight/energy impact thresholds and level of risk. There is no timeline for the implementation of this rule.</p>	<p>BVLOS operations are only allowed as part of the Pathfinder pilot project program in extremely controlled circumstances. There are currently only six Pathfinder projects.</p> <p>BVLOS regulations are currently not under consideration by the FAA, but have been identified as a future area of focus.</p>	
Liability Insurance	Required	Required	Required		No	No			
Model Aircraft	If operated recreationally and a member in good standing of MAAC, would be exempt from the proposed regulations, provided they meet the conditions of the exemption.				Model aircraft are regulated under separate law; required to operate in accordance with guidelines of an association.				

Source: Transport Canada

## Appendix: Important Disclosures

### Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

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### Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### Investment Recommendation

Date and time of first dissemination: April 02, 2019, 04:00 ET

Date and time of production: April 02, 2019, 07:59 ET

### Target Price / Valuation Methodology:

Drone Delivery Canada Corp. - FLT

Our target price of C\$2.00 is derived using a discounted cash flow analysis (13.5% WACC; 3% terminal growth rate).

### Risks to achieving Target Price / Valuation:

Drone Delivery Canada Corp. - FLT

### Unproven business model with limited financial visibility

The company has not yet secured meaningful contracts. Its roadmap to achieving sustainable revenue, profitability and cash flow is contingent on several factors, including successfully receiving the necessary regulatory approval for its drones and achieving a critical mass of customer contracts.

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DDC has yet to record revenue and has a largely fixed cost structure. The company has ~\$26M in cash and its operations consume ~\$3M in cash per quarter. This means that failure to develop the business as quickly as anticipated or to tap the capital markets when needed could lead to bankruptcy and therefore raises going concern risks.

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We do not model the company requiring additional capital in the near term; however, if the company delivers on its publicly stated growth targets, it could require additional capital. Depending on the existing market conditions, such funding could be dilutive.

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### Reputation or brand risk

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### Potential competitive technologies

The drone-powered services space is highly topical and is becoming increasingly crowded. There now exist several well capitalized companies (i.e., Google and Amazon) with significant resources and expertise to execute on the opportunity at hand. DDC has little to no competition at this point in time; however, we believe new entrants in the space could potentially erode DDC's market share and apply pressure on its margins.

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DDC outsources its manufacturing to third party supplies. This introduces both integration and quality control risks that could impact the company's public image, operational performance and financial results.

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**Distribution of Ratings:**

**Global Stock Ratings (as of 04/02/19)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	544	61.05%	47.98%
Hold	201	22.56%	29.35%
Sell	19	2.13%	26.32%
Speculative Buy	127	14.25%	70.08%
	891*	100.0%	

\*Total includes stocks that are Under Review

**Canaccord Genuity Ratings System**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**12-Month Recommendation History (as of date same as the Global Stock Ratings table)**

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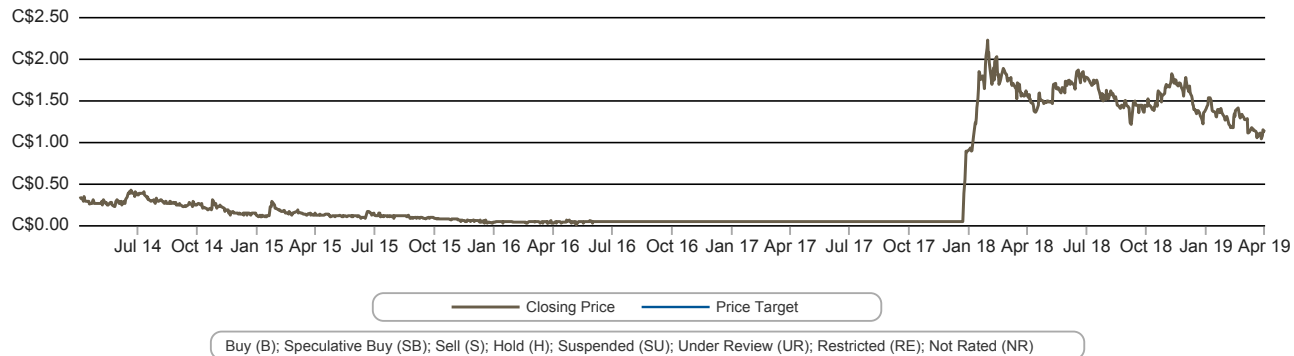
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**Drone Delivery Canada Corp. Rating History as of 04/01/2019**



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