

Drone Delivery Canada Corp.^{1,7}

BUY

FLT-TSXV

September 10, 2019

Last: **C\$1.15**
Target: **C\$4.00**

FLASH: Drone Delivery announces first commercial route via Air Canada Cargo with Vision Profile

- Summary:** FLT announced this morning that it has signed its first commercial agreement via its Air Canada Cargo partnership with Vision Profile Extrusions Limited (“Vision”) to deploy FLT’s drone delivery platform. Vision is a manufacturing company based out of Vaughan, Ontario that produces extruded-plastic products such as window frames, barriers, and railing, and is part of a larger family of companies under the Vision Group that manufactures steel doors, windows, and outdoor patio products.
- No financial details released, but we estimate \$100k/year/route:** Drone Delivery did not release specific contract terms but highlighted that it will be paid a monthly fee per drone route and that the initial contract term will be for twelve months plus additional successive one-year terms as needed. We estimate that the contract is in line with the illustrative route that management highlighted at their 2019 AGM. CEO Michael Zahra provided an example of single route economics with Air Canada and estimated that it could generate \$100,000/year per route in revenue based on assumptions of a wholesale cost of \$10/package, 5 packages/drone, 8 flights/day and 250 flights per year.
- Agreement details:** FLT will be deploying its takeoff and landing infrastructure at Vision’s manufacturing sites imminently and will be utilizing its 10lb Sparrow drone on defined routes in Vaughan, ON. More importantly, these routes have already been approved by Transport Canada and Drone Delivery expects to begin delivery in Q4 2019.

Our view: Positive

- First commercial route with Air Canada Cargo marks the beginning of commercialization:** We think that the Vision commercial agreement represents a first of its kind in the drone industry and validates the commercial market opportunity for Drone Delivery Canada. In our view, this is the first time we have seen a regularly scheduled commercial agreement for drone delivery in North America. We believe this offers a significant boost to DDC’s credibility with customers, regulators, and investors and accelerates commercialization and growth in Canada, and worldwide. Furthermore, a successful deployment with Vision will allow Drone Delivery to showcase its technology and delivery platform to other prospective Air Canada Cargo customers while adding comfort to regulators and government to ease concerns around safety and public perception. Management highlighted that there is a robust pipeline of opportunities and we expect more route announcements to come.

Maintain BUY and C\$4.00 target price

Share Statistics

Shares o/s (mm, basic, f.d)	163.9 / 185.2
52-week high/low	C\$1.86 / C\$0.85
Market capitalization (mm)	\$213.0
Projected return	242%

All figures in CDN dollars, unless otherwise stated.

 [Current Chart](#)

 [Previous Research](#)

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Figure 1. Comparable valuation

Companies	9/10/2019	Market	Enterprise	EV/SALES			EV/EBITDA			PRICE/FCF				
				Price	Cap (M)	Value (M)	LTM	C2018	C2019	LTM	C2018	C2019	LTM	C2018
Drone Delivery Canada Corp	FLT-CA	CAD	1.15	213.0	193.5	n.a	n.a	79.2x	n.a	n.a	NA	NA	NA	NA
Early Stage Tech														
AppFolio Inc Class A	APPF-US	USD	94.96	3,362.7	3,395.4	15.3x	17.9x	13.3x	107.0x	89.9x	101.4x	115.5x	NA	NA
Ambarella, Inc.	AMBA-US	USD	64.95	2,134.3	1,765.9	8.3x	7.6x	7.9x	NA	106.2x	1,871.4x	73.6x	65.4x	64.9x
Coupa Software, Inc.	COUP-US	USD	136.88	8,491.8	8,438.6	26.5x	33.2x	23.3x	NA	432.4x	317.7x	365.2x	295.0x	209.5x
Alleryx, Inc. Class A	AYX-US	USD	120.48	7,543.6	7,423.3	24.0x	29.3x	19.8x	175.1x	467.2x	170.5x	384.6x	391.9x	311.2x
ParaZero Ltd.	PRZ-ASX	AUD	0.08	8.0	7.3	5.0x	NA	NA	NA	NA	NA	NA	NA	NA
Average						15.8x	22.0x	16.1x	13.5x	273.9x	615.3x	187.5x	250.8x	195.2x
Logistics and Transportation														
Descartes Systems Group Inc.	DSG-CA	CAD	52.30	4,072.2	4,095.7	11.6x	11.4x	9.5x	37.5x	36.0x	27.7x	43.2x	41.3x	29.0x
Cargojet Inc.	CJT-CA	CAD	103.29	1,404.7	2,071.3	4.3x	4.6x	4.2x	15.1x	16.2x	13.6x	NA	46.4x	43.9x
Canadian Pacific Railway Limited	CP-CA	CAD	310.49	43,530.7	52,399.7	6.9x	7.2x	6.6x	14.2x	15.0x	13.5x	55.0x	38.9x	34.3x
Union Pacific Corporation	UNP-US	USD	166.12	117,613.0	143,810.0	6.3x	6.3x	6.4x	13.2x	13.4x	12.8x	42.8x	24.1x	21.5x
Canadian National Railway Company	CNR-CA	CAD	121.45	87,990.5	101,275.5	6.8x	7.1x	6.5x	14.1x	14.8x	13.3x	145.9x	36.1x	37.6x
Kansas City Southern	KSU-US	USD	131.86	13,241.6	16,311.0	5.8x	6.0x	5.7x	12.1x	12.4x	11.6x	42.6x	35.7x	32.3x
Average						7.0x	7.1x	6.5x	17.7x	18.0x	15.4x	52.2x	37.1x	33.1x
FAANG Stocks														
Facebook, Inc. Class A	FB-US	USD	188.76	542,685.0	502,284.0	8.0x	9.0x	7.2x	15.8x	15.0x	13.4x	33.3x	36.3x	30.8x
Apple Inc.	AAPL-US	USD	214.17	985,477.6	999,015.6	3.9x	3.8x	3.8x	13.5x	12.4x	13.0x	22.4x	15.7x	16.0x
Amazon.com, Inc.	AMZN-US	USD	1,831.35	921,169.1	951,002.1	3.8x	4.1x	3.4x	30.8x	28.7x	22.9x	41.7x	48.0x	30.6x
Alphabet Inc. Class C	GOOG-US	USD	1,204.41	843,031.6	735,137.6	5.0x	5.4x	4.5x	16.7x	14.6x	12.5x	30.4x	35.8x	26.5x
Netflix, Inc.	NFLX-US	USD	294.34	133,099.1	141,772.9	8.0x	9.0x	7.0x	13.7x	70.6x	46.2x	NA	NA	NA
Alibaba Group Holding Ltd. Sponsored ADR	BABA-US	USD	177.78	468,339.2	473,506.7	7.9x	9.3x	7.0x	27.7x	27.2x	22.6x	NA	26.5x	24.5x
Microsoft Corporation	MSFT-US	USD	137.52	1,063,029.6	1,015,665.6	8.1x	8.6x	7.7x	18.7x	20.3x	17.5x	43.5x	30.3x	27.1x
Average						6.4x	7.0x	5.8x	19.6x	27.0x	21.1x	70.0x	70.0x	70.0x
Group Average						9.7x	12.0x	9.5x	16.9x	106.3x	217.3x	103.2x	119.3x	99.4x

Notes: Averages exclude outliers. Estimates from FactSet and Bloomberg

Source: GMP Securities, FactSet

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