

**Recommendation: Buy (S)**  
**Target Price: \$1.50**

## Drone Delivery Canada Corp. (FLT-TSXV)

### Revenue Flights Progressing Nicely

Current Price	\$0.58	Shares Outstanding (MM)	
52 Wk High	\$1.74	Basic	172.8
52 Wk Low	\$0.50	Diluted	172.8
Cash (MM)	\$9.8	Mngt. & Dir.	22.8
Total Debt (MM)	\$0.6	Market Cap (MM)	\$100.2
Net Debt (MM)	\$(9.2)	Float (MM)	\$87.0
Dividend	\$0.00	EV (MM)	\$91.1
Yield	0.0%	Net Debt/Cap.	-143%
Implied ROR	158.6%	Net Debt/EBITDA	n.a.

Fiscal YE Dec. 31	2019	2020E	2021E	
Revenue (MM)	\$0.0	\$4.3	\$24.0	
EBITDA (MM)	Q1	\$0.0	\$(4.0)	\$(1.8)
	Q2	\$(3.2)	\$(3.6)	\$(1.0)
	Q3	\$(2.6)	\$(2.4)	\$1.5
	Q4	\$(2.9)	\$(1.9)	\$2.9
	FY	\$(9)	\$(12)	\$2
Adj. EPS	Q1	\$(0.02)	\$(0.02)	\$(0.01)
	Q2	\$(0.02)	\$(0.01)	\$(0.00)
	Q3	\$(0.02)	\$(0.01)	\$0.00
	Q4	\$(0.03)	\$(0.01)	\$0.01
	FY	\$(0.09)	\$(0.05)	\$(0.00)
Price / Sales	n.a.	23.1x	4.2x	
EV/EBITDA	n.a.	n.a.	55.4x	

Unless otherwise denoted, all figures shown in C\$

#### Event:

Recently, FLT announced several operational updates and released its last pre-revenue quarterly results.

#### Impact:

Slight Positive.

#### Commentary:

**Q4/19 Results:** As DDC did not generate any revenue in the quarter, investor attention was centred on the quarterly cash burn, which was \$4.0 MM and consistent with the previous quarter. DDC ended the year with \$9.8 MM of cash on the balance sheet.

**DSV Contract Update:** Yesterday after the market close, DDC announced that it has completed approximately 400 flights per month since commercial operations were activated at the end of March. Recall, the company is paid a fixed monthly fee for each route it operates, which we believe is \$10,000-20,000.

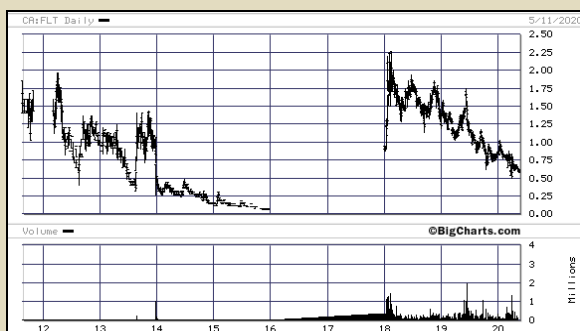
While no additional routes with DSV were announced, Management noted that it expects multiple subsequent inbound and outbound routes for DSV's customers, and most importantly, other prospective companies. When the contract was awarded in October, it contained an option for 20 additional routes, which we believe could be added sometime in 2020.

**Vision Contract:** While Management anticipated that first revenue flight with Vision would begin in Q1/20, it has been pushed to Q2, pending final permit. We believe the Vision contract will help win additional business as the company is allowing DDC to showcase its flight operations at Vision's facilities.

**Drone Testing Underway:** Last month DDC announced that it will begin commercial testing of its Condor drone, which is capable of carrying up to 400 lbs of cargo. This phase of Beyond Visual Line of Sight flights is being conducted at the Foremost UAS Test Range in Alberta. With the global pandemic front and centre and an increased emphasis on limiting person-to-person contact, interested DDC customers have asked for fast-track the commercialization process, which DDC is now doing. We believe regulatory approval of the Condor will be a game-changer as it opens the floodgates to new customers and industries that require time-sensitive deliveries at a reasonable price, such as Mining, Healthcare, and Oil & Gas.

#### Investment Conclusion:

Like any early-stage company, DDC is not without its risks. However, the company's first-mover advantage in Canada, cabotage restrictions, and strong value proposition make us willing to bet on this horse. We continue to rate DDC a Buy (S) with a \$1.50 one-year target.



Source: BigCharts.com, May 11, 2020

**Figure 1: Cormark Price Target**

<b>Fiscal YE December 31</b> <b>(\$000s except where denoted)</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
EBITDA	1,643	11,277	33,034	50,598
x Multiplier	11.0x	11.0x	11.0x	11.0x
= EV	18,074	124,042	363,373	556,581
- Debt	1,643	(10,453)	(15,158)	(37,042)
= EV to Shareholders	16,431	134,496	378,532	593,624
/ Shares (FD in Millions)	206,448	211,698	211,698	211,698
= Undiscounted Value Per Share	\$0.08	\$0.64	\$1.79	\$2.80
Discount Rate	15%	15%	15%	15%
Discount Factor	0.9	0.8	0.7	0.6
= Discounted Value Per Share	\$0.07	\$0.48	\$1.18	\$1.60
<b>Cormark Rounded Price Target</b>	<b>\$0.00</b>	<b>\$0.50</b>	<b>\$1.25</b>	<b>\$1.50</b>

Source: Company Reports; Cormark Securities Inc.

**Figure 2: DDC Forecast Summary**

<b>Fiscal YE December 31</b> <b>(\$000s except where denoted)</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Total Revenue	-	4,340	24,013	53,244	89,936	125,092
Adj. EBITDA	(8,701)	(11,859)	1,643	11,277	33,034	50,598
Operating Profit (EBIT)	(11,981)	(12,850)	(7)	8,044	28,261	44,485
Net Income	(15,597)	(9,452)	(12)	5,906	20,765	32,690
EPS	\$(0.09)	\$(0.05)	\$(0.00)	\$0.03	\$0.10	\$0.15
FCFPS	\$(0.10)	\$(0.06)	\$(0.05)	\$(0.03)	\$0.02	\$0.10
<b>Income Statement Ratios</b>						
Increase in Total Revenue	n.a	n.a	453.3%	121.7%	68.9%	39.1%
Increase in EPS	-27.0%	-46.7%	-99.9%	-48732.2%	251.4%	57.5%
EBITDA/Sales	0.0%	-273.3%	6.8%	21.2%	36.7%	40.4%
Net Debt	(9,153)	(19,030)	(16,405)	(10,453)	(15,158)	(37,042)
Net Debt to Total Capital	-143%	-197%	-85%	-34%	-32%	-64%
Adj. Net Debt / EBITDA	n.a.	n.a.	-10.0x	n.a.	-0.5x	-0.7x

Source: Company Reports; Cormark Securities Inc.

**Drone Delivery Canada Corp.**

Updated May 11, 2020

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<i>Reduce or Tender</i>	2%	<i>Reduce or Tender</i>	0%
<i>Not Rated</i>	22%		

Recommendation / Target Chg	Date	C\$
	07-Jan-20	1.50 (B-S)

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2) What type of security is it?

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If YES

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**Drone Delivery Canada Corp.**<sup>1,2,7,11</sup>**BUY**

FLT-TSXV

May 6, 2020

Last: **C\$0.62**  
Target: **C\$2.00****FLASH: Management update post 2019 results**

- **Summary:** We had the opportunity to host Drone Delivery Canada (“DDC”) management on an investor call last night following their recently announced 2019 year-end results. Topics discussed and key takeaways are below.

**Key takeaways**

- **DSV live and operational with 400 flights/month:** DDC reiterated that commercial operations with DSV Air & Sea Inc. went live in late March and that it is currently flying ~400 flights per month at DSV’s Milton facility. This initial route is between DSV business units and DSV has identified over a dozen additional routes with off-site customers looking for time-sensitive deliveries. No financial details were disclosed but DDC believes that our estimate of ~\$10k/month/route is on the “extreme low end” of a hypothetical commercial drone route and that none of its current customer agreements are at this level.
- **Waiting for municipal permit for Vision; first approval for Moose Cree funding:** Vision Profile, DDC’s first commercial customer announced back in September 2019, continues to be delayed by a municipal permit requirement. DDC however is confident that this permit will be approved shortly and that the commercial launch is imminent. Management was also optimistic on its \$2.5mm commercial agreement with Moose Cree First Nation and noted that they have received approval from one funding source and are currently waiting for another. Lastly, Edmonton Regional Airports Authority is progressing well and remains on track, but no updated timeline was given. We continue to expect a June/July start.
- **New COVID-19 opportunities:** DDC said that it is receiving several inbounds from First Nations communities, governments, laboratories and hospitals during the current pandemic. Notably, management highlighted its discussions with Indigenous Services Canada as an example where it is exploring potential COVID-19 use cases for DDC’s products and technology. Management believes that COVID-19 has created a unique opportunity to accelerate drone delivery adoption and that the Canadian government is onside with fast-tracking approvals and funding for COVID-19 related projects. This was in line with our recent discussions with industry contacts. We see good prospects for DDC to benefit from COVID-19 given it offers an automated economic solution to improving delivery into remote regions and communities in Canada.
- **Managing cash burn; 7-month runway:** DDC is managing cash burn and noted that prior results are not a direct comparable for 2020 as there were several one-time costs associated with testing and foundational R&D. As of Q4/19, cash was \$9.8mm and DDC believes this provides them with runway until the end of 2020.
- **Certification for the high payload Condor and Robin XL expected this summer:** DDC said that the testing and certification process is underway for new drones such as the Robin XL (25lbs, 60km travel) and the Condor (180kg payload, 200km travel). DDC expects both drones to be commercially ready by the end of summer.

**Share Statistics**

Shares o/s (mm, basic/f.d.)	172.8 / 195.6
52-week high/low	\$1.74 / \$0.50
Market capitalization (mm)	\$121.3
Projected return	250%

*All figures in Canadian dollars, unless otherwise stated.* [Current Chart](#) [Previous Research](#)**Deepak Kaushal, P.Eng., CFA** (416) 943-6686  
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**Our view: Positive. COVID-19 a positive and DDC remains on track for new commercial opportunities.**

- The commercial launch of DSV was a major milestone for DDC and the drone industry in our opinion. Looking forward, we believe COVID-19 accelerates drone delivery adoption and that the company is well-positioned to capitalize on this new development. Furthermore, we think commercial interest will ramp up after DDC's high payload Condor drone receives Transport Canada certification in H2/2020, given its expanded use cases. Lastly, management reiterated that the sales funnel is strong and we expect several existing and new opportunities (i.e. additional DSV routes, COVID-19 projects, Vision Profile, licensing deal) to materialize in 2020. In our view, successful execution here will also be necessary to ensure the balance sheet is sufficiently capitalized for growth.

**Recommendation: Maintain BUY rating and C\$2.00 target**

**Figure 1. Comparable valuation**

Companies			5/5/2020 Price	Market Cap (M)	Enterprise Value (M)	EV/SALES			EV/EBITDA			PRICE/FCF		
						LTM	C2019	C2020	LTM	C2019	C2020	LTM	C2019	C2020
Drone Delivery Canada Corp	FLT-CA	CAD	0.62	121.3	111.5	n.a	n.a	19.2x	n.a	NA	NA	NA	NA	NA
<b>Early Stage Tech</b>														
AppFolio Inc Class A	APPF-US	USD	111.50	3,978.4	4,047.9	14.9x	15.8x	12.7x	111.4x	114.5x	79.6x	139.6x	NA	NA
Ambarella, Inc.	AMBA-US	USD	50.40	1,697.3	1,302.7	5.7x	5.7x	5.6x	NA	148.8x	NA	42.0x	40.5x	70.2x
Coupa Software, Inc.	COUP-US	USD	189.73	12,142.5	12,175.6	31.2x	32.1x	25.3x	NA	259.9x	255.3x	216.1x	225.0x	220.0x
Alteryx, Inc. Class A	AYX-US	USD	116.06	8,023.5	7,970.9	19.1x	19.1x	14.7x	167.4x	98.8x	99.0x	352.9x	352.9x	NA
ParaZero Ltd.	PRZ-ASX	AUD	0.04	4.6	4.4	1.9x	NA	NA	NA	NA	NA	NA	NA	NA
<b>Average</b>						<b>14.6x</b>	<b>18.2x</b>	<b>14.6x</b>	<b>-7.7x</b>	<b>155.5x</b>	<b>87.0x</b>	<b>149.8x</b>	<b>206.2x</b>	<b>-442.5x</b>
<b>Logistics and Transportation</b>														
Descartes Systems Group Inc.	DSG-CA	CAD	59.97	5,133.9	5,071.4	11.1x	11.1x	10.0x	31.7x	31.7x	27.7x	36.7x	36.7x	31.4x
Cargojet Inc.	CJT-CA	CAD	132.00	1,823.3	2,455.5	5.0x	5.0x	4.8x	16.3x	15.7x	14.0x	NA	NA	25.2x
Canadian Pacific Railway Limited	CP-CA	CAD	305.00	41,846.0	52,034.0	6.4x	6.7x	6.9x	12.6x	13.6x	13.4x	49.1x	33.3x	34.8x
Union Pacific Corporation	UNP-US	USD	156.38	107,308.0	135,659.0	6.3x	6.2x	7.0x	12.4x	12.6x	13.5x	40.3x	20.8x	21.8x
Canadian National Railway Company	CNR-CA	CAD	112.84	80,556.5	95,323.5	6.4x	6.4x	6.8x	13.2x	13.3x	13.7x	103.7x	40.4x	29.4x
Kansas City Southern	KSU-US	USD	125.40	12,059.8	15,593.8	5.3x	5.4x	5.8x	10.6x	11.1x	11.2x	35.0x	25.9x	22.7x
<b>Average</b>						<b>6.8x</b>	<b>6.8x</b>	<b>6.9x</b>	<b>16.1x</b>	<b>16.3x</b>	<b>15.6x</b>	<b>40.3x</b>	<b>-407.9x</b>	<b>27.5x</b>
<b>FAANG Stocks</b>														
Facebook, Inc. Class A	FB-US	USD	207.07	593,876.8	544,264.8	7.4x	7.7x	7.0x	15.8x	13.7x	14.8x	24.5x	29.1x	30.2x
Apple Inc.	AAPL-US	USD	297.56	1,310,659.9	1,334,292.9	5.0x	5.1x	4.9x	17.6x	17.5x	17.2x	24.9x	21.9x	20.0x
Amazon.com, Inc.	AMZN-US	USD	2,317.80	1,172,806.8	1,201,383.8	4.1x	4.3x	3.5x	32.8x	27.8x	26.6x	60.6x	43.6x	43.8x
Alphabet Inc. Class C	GOOG-US	USD	1,351.11	935,328.9	834,903.9	5.0x	5.2x	4.9x	17.6x	14.2x	14.4x	32.2x	30.0x	27.7x
Netflix, Inc.	NFLX-US	USD	424.68	192,165.2	203,278.8	9.5x	10.1x	8.2x	15.9x	65.3x	45.7x	NA	NA	NA
Alibaba Group Holding Ltd. Sponsored ADR	BABA-US	USD	195.02	521,507.9	505,453.6	7.2x	7.5x	5.7x	28.0x	24.8x	19.0x	NA	20.0x	21.2x
Microsoft Corporation	MSFT-US	USD	180.76	1,387,333.0	1,333,732.0	9.6x	10.0x	8.9x	20.8x	22.2x	19.4x	48.6x	34.8x	31.4x
<b>Average</b>						<b>6.8x</b>	<b>7.1x</b>	<b>6.2x</b>	<b>21.2x</b>	<b>26.5x</b>	<b>22.5x</b>	<b>70.0x</b>	<b>70.0x</b>	<b>70.0x</b>
<b>Group Average</b>						<b>9.4x</b>	<b>10.7x</b>	<b>9.2x</b>	<b>9.9x</b>	<b>66.1x</b>	<b>41.7x</b>	<b>86.7x</b>	<b>-43.9x</b>	<b>-115.0x</b>

Notes: Averages exclude outliers. Estimates from FactSet and Bloomberg

Source: Stifel GMP, FactSet

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# Drone Delivery Canada Corp.

## Aerospace Technology

Canadian Equity Research  
5 May 2020

**Rating**  
**SPECULATIVE BUY**  
unchanged

**Price Target**  
**C\$1.75**  
unchanged

**FLT-TSXV**

**Price**  
**C\$0.62**

### Market Data

52-Week Range (C\$) :	0.50 - 1.74
Avg Daily Vol (000s) :	325
Market Cap (C\$M) :	113.2
Shares Out. (M) <sup>1</sup> :	182.6
Total Return to Target (%) :	182.3
Net Debt (Cash) (C\$M) :	(11.8)
Enterprise Value (C\$M) :	101
Last Reported Quarter:	Q4/19A

<sup>1</sup>Shares outstanding include ITM warrants and the associated proceeds.

FYE Dec	2019A	2020E	2021E	2022E
Sales (C\$M)	0.0	5.0↓	21.9↓	52.3↓
Previous	-	6.7	22.8	53.3
EBITDA Adj (C\$M)	(11.6)	(6.9)↓	4.8↓	27.3↓
Previous	-	(4.4)	6.6	29.3
Free Cash Flow Adj (C\$M)	(16.0)	(9.1)	0.5	15.8
EV/Sales (x)	NA	20.1	4.6	1.9
EV/EBITDA (x) Adj	(8.8)	(14.7)	21.3	3.7



Priced intraday 5 May 2020

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

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## 2020 to be the Year of Commercialization

### Investment Recommendation

We received an update from Drone Delivery following the recent release of Q4 results in what is expected to be the final pre-revenue quarter. Recall, the company launched its first commercial contract in March with DSV (click [here](#) to view report). The recent pandemic has intensified interest for unmanned services and the company reports a growing pipeline of near-term opportunities, in addition to executing on the contracts already announced. We expect that financial performance will build and support the reinflation of FLT shares as the company transitions from concept to commercialization. We maintain a SPECULATIVE BUY rating and \$1.75 target price.

### Investment Highlights

- **Q4 results are a non-event.** Drone Delivery Canada recently reported Q4 results with no revenue, as anticipated. Cash operating costs were \$2.9M compared with \$2.6M in Q3 and our prior forecast for \$2.3M as general and administrative expenses came in higher than expected.
- **First commercial agreement launched in March, with additional contracts expected in Q2.** We highlight the following updates on recently announced and potential new contracts:
  - **DSV:** The company began flying in late March as previously announced. We understand that DSV is now flying 400+ flights per month on a single route and is looking to establish several more in the near term.
  - **Vision:** The company awaits a final permit related to construction of the ground infrastructure and hopes to commercialize in the next month or two.
  - **Edmonton International Airport:** DDC is working towards establishing the first couple of routes on the EIA property in the coming months, which will serve as references for other customers on the airport's substantial real estate footprint.
  - **Moose Cree:** The first source of government funding is approved and the remainder is expected in the near term, which will allow the company to proceed. The company also notes heightened interest from other remote communities looking to secure safe supply chains in today's world.
- **Pipeline is rapidly expanding.** As reported in Canaccord's recent drone industry report (view [here](#)), investments in the unmanned ecosystem increased 68% in 2019 to \$1.2B. According to the FAA, commercial drone registrations increased 15% in Q1/20 after reporting 39% growth in 2019. Consistent with these findings, DDC has reported increased interest in the application of drone technology from remote communities and healthcare organizations to help with the safe and secure delivery of critical supplies. In addition, the company continues to receive interest from international players looking to license DDC's platform for use in other jurisdictions.
- **Small changes to estimates.** We have updated our near-term expectations to reflect timing changes on initial contracts but continue to anticipate a significant revenue expansion through H2/20 and beyond. We now model 2020E revenue of \$5.0M (from \$6.7M) scaling to \$21.9M (from \$22.8M) in 2021E with EBITDA of \$4.8M (from \$6.6M). DDC closed Q4 with \$9.8M in cash and expects to receive a \$2.8M HST credit in Q1. With commercialization expenses expected to decline in 2020 and ongoing warrant exercise receipts, the company is confident in its capital position as commercialization ramps this year.

### Valuation

Our \$1.75 target is unchanged and is derived using a rounded discounted cash flow analysis (15.5% WACC; 3% terminal growth rate). Our target now represents a 182% one-year return from the current intraday price.

Figure 1: Estimate revisions

(C\$ Millions)	Q1/20E		F2020E		F2021E		F2022E	
	New	Previous	New	Previous	New	Previous	New	Previous
Revenue	0.0	0.6	5.0	6.7	21.9	22.8	52.3	53.3
Adjusted EBITDA	(2.6)	(1.9)	(6.9)	(4.4)	4.8	6.6	27.3	29.3
EBITDA margin (%)	n/a	n/a	n/a	n/a	21.8%	29.1%	52.2%	54.9%
Adjusted EPS (\$)	(0.02)	(0.01)	(0.05)	(0.04)	0.01	0.03	0.13	0.15

Source: Company Reports, Canaccord Genuity estimates

Figure 2: DCF analysis

(In CAD\$ MM)	Explicit Forecast Period					Medium-Term Model					
FYE: July 31	F2019A	F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E	Terminal
Service revenue	-	4.0	18.8	45.3	80.6	115.1	139.7	154.6	160.4	165.2	170.2
License revenue	-	1.0	3.1	7.0	12.6	18.8	23.7	26.9	28.7	29.6	30.4
<b>Revenue</b>	-	<b>5.0</b>	<b>21.9</b>	<b>52.3</b>	<b>93.2</b>	<b>133.8</b>	<b>163.4</b>	<b>181.5</b>	<b>189.1</b>	<b>194.9</b>	<b>200.6</b>
Y/Y Growth %	-	-	334.8%	139.0%	78.2%	43.5%	22.1%	11.1%	4.2%	3.0%	3.0%
<b>EBITDA</b>	<b>(15.2)</b>	<b>(8.9)</b>	<b>2.7</b>	<b>25.1</b>	<b>46.6</b>	<b>66.9</b>	<b>81.7</b>	<b>90.8</b>	<b>94.6</b>	<b>97.4</b>	<b>100.3</b>
EBITDA margin %	-	-	12.2%	48.1%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Less: Depreciation and amortization	(0.4)	(0.7)	(0.8)	(1.2)	(1.9)	(2.7)	(3.3)	(3.6)	(3.8)	(3.9)	(4.0)
<b>EBIT</b>	<b>(15.6)</b>	<b>(9.6)</b>	<b>1.9</b>	<b>24.0</b>	<b>44.7</b>	<b>64.2</b>	<b>78.4</b>	<b>87.1</b>	<b>90.8</b>	<b>93.5</b>	<b>96.3</b>
Less: Taxes	-	-	(0.8)	(6.3)	(11.9)	(17.0)	(20.8)	(23.1)	(24.1)	(24.8)	(25.5)
Effective tax rate %	-	-	41.0%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Add: Stock-based compensation	3.6	2.0	2.1	2.2	1.9	2.7	3.3	3.6	3.8	3.9	4.0
% of revenue	-	40.3%	9.6%	4.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Add: Depreciation and amortization	0.4	0.7	0.8	1.2	1.9	2.7	3.3	3.6	3.8	3.9	4.0
% of revenue	-	13.2%	3.7%	2.3%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Less: Capital expenditures	(2.3)	(0.7)	(1.5)	(2.7)	(3.6)	(5.1)	(6.2)	(6.8)	(7.1)	(7.3)	(7.5)
% of revenue	-	14.0%	6.6%	5.1%	3.8%	3.8%	3.8%	3.8%	3.7%	3.7%	3.7%
Less: Net working capital investment	(2.1)	(1.5)	(2.0)	(2.5)	(3.8)	(4.5)	(4.3)	(3.4)	(2.1)	(0.7)	(0.7)
% of revenue	-	(30.1%)	(9.2%)	(4.9%)	(4.1%)	(3.4%)	(2.6%)	(1.9%)	(1.1%)	(0.4%)	(0.4%)
<b>FCFF</b>	<b>(16.0)</b>	<b>(9.1)</b>	<b>0.5</b>	<b>15.8</b>	<b>29.2</b>	<b>43.0</b>	<b>53.8</b>	<b>61.1</b>	<b>65.1</b>	<b>68.5</b>	<b>70.5</b>

WACC 15.5%

Present value of forecast cash flows	139
Present value of terminal cash flow	172
<b>Present value of cash flows</b>	<b>310</b>
Add: Current net cash	9
Add: Cash from ITM warrants and options	3
<b>Equity value</b>	<b>322</b>
Shares outstanding (000)	183
<b>DCF value per share (\$)</b>	<b>1.76</b>

Terminal growth rate	Discount rate						
	12.0%	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%
1.5%	2.42	2.15	1.93	1.75	1.59	1.45	1.33
2.0%	2.49	2.21	1.98	1.78	1.62	1.47	1.35
2.5%	2.57	2.27	2.02	1.82	1.65	1.50	1.37
3.0%	2.66	2.34	2.08	1.86	1.68	1.52	1.39
3.5%	2.76	2.41	2.13	1.90	1.71	1.55	1.41
4.0%	2.87	2.49	2.19	1.95	1.75	1.58	1.44
4.5%	3.00	2.59	2.26	2.00	1.79	1.61	1.46

Source: Company Reports, Canaccord Genuity estimates

Figure 3: Summary income statement

Summary Income statement											
FYE: December 31	F2016A	F2017A	F2018A	F2019A	Q1/20E	Q2/20E	Q3/20E	Q4/20E	F2020E	F2021E	F2022E
Denomination: C\$000	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19	31 Mar 20	30 Jun 20	30 Sep 20	31 Dec 20	31 Dec 20	31 Dec 21	31 Dec 22
Service revenue	-	-	-	-	13	470	1,423	2,129	4,036	18,768	45,318
License revenue	-	-	-	-	-	125	375	500	1,000	3,125	7,000
<b>Revenue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>595</b>	<b>1,798</b>	<b>2,629</b>	<b>5,036</b>	<b>21,893</b>	<b>52,318</b>
Growth Y/Y, %	-	-	-	-	-	-	-	-	-	334.8%	139.0%
Growth Q/Q, %	-	-	-	-	-	4,433.3%	202.2%	46.2%	-	-	-
Cost of goods sold	-	-	-	-	7	154	468	740	1,368	6,258	13,827
<b>Gross profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>441</b>	<b>1,330</b>	<b>1,890</b>	<b>3,668</b>	<b>15,635</b>	<b>38,491</b>
Gross margin	-	-	-	-	50.0%	74.2%	74.0%	71.9%	72.8%	71.4%	73.6%
<b>Operating expenses:</b>											
Advertising and promotion	127	1,346	2,711	796	69	70	71	71	281	289	298
Depreciation and amortization	18	11	24	389	154	165	177	170	667	809	1,190
Consulting	1,049	1,424	2,324	3,221	600	606	612	618	2,436	2,509	2,585
Interest and bank charges	7	4	5	7	-	-	-	-	-	-	-
Office and general	227	1,197	1,696	3,945	1,243	1,256	1,268	1,281	5,048	5,200	5,356
Professional fees	196	379	145	312	76	76	77	77	306	315	325
Shareholder information	160	346	256	424	75	75	76	76	302	311	320
Research and development	450	2,297	4,042	2,823	538	543	548	548	2,177	2,243	2,310
Share-based compensation	-	1,359	8,410	3,609	500	505	510	515	2,030	2,091	2,154
Other	690	-	-	-	-	-	-	-	-	-	-
<b>Operating expenses</b>	<b>2,924</b>	<b>8,364</b>	<b>19,612</b>	<b>15,597</b>	<b>3,255</b>	<b>3,297</b>	<b>3,340</b>	<b>3,356</b>	<b>13,247</b>	<b>13,768</b>	<b>14,537</b>
<b>EBITDA</b>	<b>(2,899)</b>	<b>(8,348)</b>	<b>(19,583)</b>	<b>(15,201)</b>	<b>(3,094)</b>	<b>(2,690)</b>	<b>(1,832)</b>	<b>(1,297)</b>	<b>(8,913)</b>	<b>2,676</b>	<b>25,144</b>
Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.2%	48.1%
<b>Adjusted EBITDA</b>	<b>(2,899)</b>	<b>(6,989)</b>	<b>(11,173)</b>	<b>(11,592)</b>	<b>(2,594)</b>	<b>(2,185)</b>	<b>(1,322)</b>	<b>(782)</b>	<b>(6,883)</b>	<b>4,768</b>	<b>27,297</b>
Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	21.8%	52.2%
<b>EBIT</b>	<b>(2,916)</b>	<b>(8,360)</b>	<b>(19,607)</b>	<b>(15,590)</b>	<b>(3,248)</b>	<b>(2,855)</b>	<b>(2,010)</b>	<b>(1,466)</b>	<b>(9,579)</b>	<b>1,867</b>	<b>23,954</b>
Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8.5%	45.8%
EBT	(2,924)	(8,364)	(19,612)	(15,597)	(3,248)	(2,855)	(2,010)	(1,466)	(9,579)	1,867	23,954
Total Income Taxes	-	-	-	-	-	-	-	-	-	766	6,348
<b>Net loss</b>	<b>(2,924)</b>	<b>(8,364)</b>	<b>(19,612)</b>	<b>(15,597)</b>	<b>(3,248)</b>	<b>(2,855)</b>	<b>(2,010)</b>	<b>(1,466)</b>	<b>(9,579)</b>	<b>1,101</b>	<b>17,606</b>
% Effective Tax Rate	-	-	-	-	-	-	-	-	-	41.0%	26.5%
<b>EPS (Diluted)</b>	<b>\$ (0.04)</b>	<b>\$ (0.07)</b>	<b>\$ (0.12)</b>	<b>\$ (0.09)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.05)</b>	<b>\$ 0.01</b>	<b>\$ 0.13</b>
Weighted average S/O (Diluted)	77,222	116,700	159,817	172,779	177,304	177,304	177,304	177,304	177,304	179,942	182,580

Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: May 05, 2020, 14:16 ET

Date and time of production: May 05, 2020, 14:16 ET

### Target Price / Valuation Methodology:

Drone Delivery Canada Corp. - FLT

Our target price of C\$1.75 is derived using a discounted cash flow analysis (15.5% 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.

#### Going concern risk

DDC has yet to record revenue and has a largely fixed cost structure. The company has ~\$14M in cash and its operations consume ~\$4M 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 supplies. 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.

**Distribution of Ratings:**

**Global Stock Ratings (as of 05/05/20)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	505	59.91%	53.27%
Hold	200	23.72%	40.00%
Sell	18	2.14%	27.78%
Speculative Buy	120	14.23%	74.17%
	843*	100.0%	

\*Total includes stocks that are Under Review

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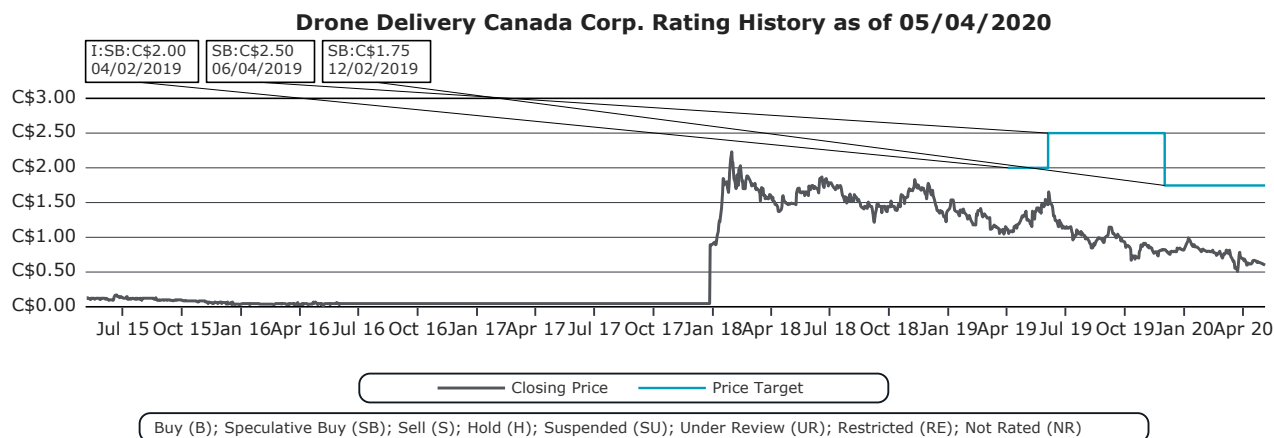
**12-Month Recommendation History (as of date same as the Global Stock Ratings table)**

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Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from Drone Delivery Canada Corp. in the next three months.

An analyst has visited the material operations of Drone Delivery Canada Corp.. Partial payment was received for the related travel costs.



**Past performance**

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