



A flying prospect for investors

Delta Drone International (ASX: DLT) is an emerging global Drone-as-a-Service provider currently focusing on the mining and agricultural industry verticals. The company recently divested its ParaZero drone safety business and is focused on its commercial drone services business.

Opportunities in the drone market are soaring

Driven by technological advances and favourable changes in the regulatory environment, drones are increasingly finding applications in various end markets, such as mining, agriculture, construction, insurance and oil & gas. We believe that due to its broad portfolio of complementary services and patented technology, DLT is well-placed to take advantage of the increasing demand for drones in commercial applications.

Australian expansion to drive near-term growth

When DLT listed on the ASX, it was well established in southern Africa, but listed in Australia with the intent of growing a presence Down Under. Although it is early days, the company is beginning to see its efforts pay off. In the December quarter, 23% of its cash receipts from operations and 12% of group revenue were derived from Australia.

A beneficiary of its parent entity, Delta Drone Group

In the bigger picture, DLT operates as a subsidiary under the Delta Drone Group (DDG) (EPA: ALDR), with DDG owning 55.22% of DLT's shares as of February 2022. DLT's integration into DDG extends its reach into the EU market and potentially enables it to extract synergies within the group.

Valuation range of A\$0.05–0.09 per share

We value DLT at A\$0.05 per share base case and A\$0.09 bull case using a DCF model. Key risks are (1) aviation regulations in different geographies, (2) execution risk in materialisation of synergies and (3) lower adoption within new markets.

Year to Dec (AUD)	CY20a	CY21a	CY22e	CY23e	CY24e
Sales (mn)	3.4	4.6	7.0	11.5	16.7
EBITDA (mn)	0.2	(1.6)	(0.5)	0.6	2.0
Net Profit (mn)	(0.1)	(3.6)	(0.6)	0.3	1.4
EPS (cents)	(0.08)	(0.71)	(0.12)	0.06	0.28
DPS (cents)	NM	NM	NM	NM	NM
EV/Sales		2.3x	1.5x	0.9x	0.6x
EV/EBITDA		NM	NM	18.7x	5.3x
P/E		NM	NM	37.3x	8.3x

Source: Company, Pitt Street Research

Share Price: A\$0.018

ASX: DLT

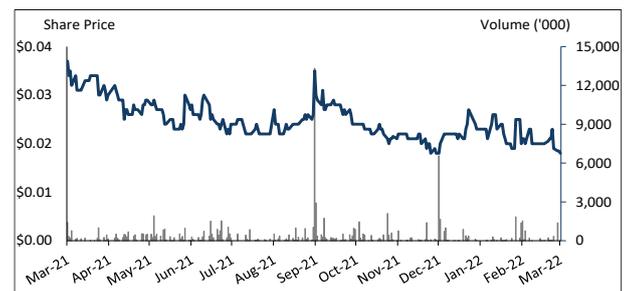
Sector: Technology Hardware & Equipment

7 March 2022

Market cap. (A\$m)	9.2
# shares outstanding (m)	511.6
# shares fully diluted (m)	580.1
Market cap full. dil. (A\$m)	10.4
Free float	34.1%
52-week high/low (A\$)	0.040 / 0.017
Avg. 12M daily volume ('1000)	371.0
Website	https://dlti.com.au

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv Eikon, Pitt Street Research

Valuation metrics	
DCF fair valuation range (A\$)	0.05–0.09
Discount rate	12.2%
Assumed terminal growth rate	2.0%

Source: Pitt Street Research

Disclosure: Pitt Street Research directors own shares in Delta Drone.

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DLT was formed in October 2020 as a result of the merger between ParaZero Limited and DDSA

Introducing Delta Drone International, ASX: DLT

Delta Drone International is an ASX-listed company formed in October 2020 as a result of a merger between drone services and safety provider ParaZero Limited - which was already ASX listed - and Delta Drone South Africa (Pty) Limited (DDSA) which offered commercial Drone Data Services for agriculture and mining sectors in Africa. In August 2021, Delta Drone acquired a majority stake in Arvista, a Perth-based provider of aerial and terrestrial surveying services for the mining, engineering and construction industries. In January 2022, Delta Drone parted ways with ParaZero, selling the business for A\$6m to a consortium of investors led by Nasdaq-listed firm Medigus.

ParaZero divestment and Arvista acquisition to unlock value

As a result of the Arvista acquisition and ParaZero divestment, this entity has the following key value propositions to offer:

- **Revenue synergies** due to cross-selling between Arvista and DLT. This may involve DLT leveraging Arvista's sales knowledge and thereby sell its full-suite of service offerings to Arvista's growing Australian blue-chip mining customer base.
- The integration of two like-minded drone companies could result in group **cost savings**, which in turn should drive margin upside.
- Immediately **scale up** DLT's Australian operation due to the opportunity to service Arvista's clients.
- Thanks to the divestment proceeds, DLT will have a **stronger balance sheet** to underpin execution of growth plans, as it can invest in building a marketing team and operational infrastructure.
- A **strong blue-chip client base**, particularly in the resources sector, including Northern Star Resources, South32, Anglo American Platinum and Newmont.
- A **full range of drone-as-a-service products** that are applicable in multiple industries and the prospect of product expansion in the future through development of existing products or acquisition of new products.

Focus is on winning enterprise customers

In addition to strengthening its foothold in the mining and agriculture sectors of Africa and Australia, DLT aims to expand its customer base to new end markets. Particularly, the focus of the company is on winning enterprise customers with expected new markets being oil & gas, security surveillance, entertainment, etc. This will be underpinned by training services provided by its Drone Aviation Training Services business as it builds trust in drone solutions, thereby driving adoption rates.

DLT aims to expand its customer base to new end markets

DLT enjoys multiple revenue streams

Given the wide range of products and services offered to various end markets, DLT has the advantage of earning an income from multiple sources. As a merged entity, the company expects to generate revenue from the following three sources:

- Fees from ongoing or one-time contracts for its Drone-as-a-Service (DaaS) offering in Australia and Africa.
- Fees from providing training and consulting services under the Drone Safety & Legal brand.



Delta Drone International

A beneficiary of its parent entity, Delta Drone SA (France)

In a bigger picture, DLT operates as a subsidiary under the Delta Drone Group (DDG) (EPA: ALDR), with DDG owning 55.22% of DLT's shares as of February 2022. DLT's integration into DDG extends its reach into the EU market and potentially enables it to extract synergies within the group.

On 4 March 2022, Volatus Aerospace (TSXV:VOL), a listed Canadian drone technology & services provider has made a strategic investment in Delta Drone SA (France)¹. Volatus has a similar services-based business model as DLT, within the logistics & defence sectors, which we believe to be broadly complimentary to DLT, which primarily focuses on the mining & agriculture industries.

Key reasons to look at Delta Drone International

- 1) **An expanded product portfolio with complementing products.** While DLT provides drone data services, its DSL subsidiary offers drone training services which are expected to drive the adoption of drone solutions. We believe this further cements DLT's position as a full-service provider in the commercial drone market.
- 2) **Proven operations in South Africa.** DLT has a proven track record underpinned by acceptance of its products in the mining and agriculture sectors of Africa.
- 3) **Australia expansion to drive near-term growth.** DLT has strengthened its Australian footprint through its acquisition of Arvista Pty Ltd, a Perth-based unmanned aerial vehicle provider that serves an established and growing pool of enterprise customers. In our view, the Arvista business is highly complementary to DLT, which we expect to bring strategic benefits to the merged group including operational synergies.
- 4) **Abundant opportunities for expansion into new end markets and geographies.** Leveraging on its success in the mining and agriculture sectors of South Africa, DLT can target these sectors in Australia. Additionally, with the growing acceptance of drones, DLT has the potential to target other new end markets, such as oil & gas, construction, entertainment and security, across the globe.
- 5) **The commercial drone market is witnessing rapid growth.** The overall global drone market is expected to grow at a CAGR of 13.8% over 2020–2025 to reach US\$42.8bn. Driven by technological improvements, drones are increasingly finding applications beyond defence. Companies are finding innovative ways of gathering information and drones have proven highly efficient for both visual line of sight (VLOS) and beyond visual line of sight (BVLOS) operations.
- 6) **Changes in regulatory framework to act as a growth driver.** The unmanned aircraft systems market is highly regulated. However, regulatory bodies are contemplating relaxing the rules, given that drones have safety equipment and are operated by accredited pilots.
- 7) **A diverse customer base acts as a safeguard against cyclicality.** DLT serves a diverse range of companies spanning across sectors, including mining, agriculture, solar and wind farms, as well as insurance companies

¹ Aerospace Makes Strategic Investment in Delta Drone to Solidify Global Drone Presence | News Direct



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and high-end consumers. We believe this protects the company from downturns in a particular end market.

- 8) **Strong leadership and board.** Since the merger between Delta and ParaZero, DLT has been headed by Christopher Clark, former CEO of DDSA, who has extensive experience in the drone technology sector. He is supported by an experienced board consisting of veterans from diverse fields, including air force, technology, financial markets and cross-border transactions.
- 9) **Potential for further acquisitions.** DLT has the balance sheet strength and flexibility to explore accretive bolt-on acquisitions and expedite its global growth trajectory.
- 10) **We believe that DLT is undervalued at its current market price.** Our intrinsic value for DLT comes out to be A\$0.05 in the base case and A\$0.09 in the bull case. We believe re-rating will be driven by provision of drone data services in the mining and agriculture sectors in Australia in the short term and by targeting adjacent end markets across the globe in the medium-long term

Company overview

In March 2020, the French public company Delta Drone SA signed a Letter of Intent with ParaZero Limited, under which it agreed to sell 100% stake in its South African subsidiary DDSA to ParaZero. The deal was executed in October 2020, and as a result, a new entity – Delta Drone International Limited (DLT) – was created. Following the successful merger process, DLT was re-listed on the Australian stock exchange on 31 December 2020. In conjunction with the acquisition, DLT raised A\$5m in additional capital.

In August 2021, DLT announced the acquisition of 60% of Perth-based drone company Arvista for \$960,000. Arvista was founded in 2012 and is one of the first certified operators in Western Australia to provide commercial UAV surveying services for the mining, engineering and construction industries.

Fast forward to January 2022 and DLT decided to divest ParaZero because of the rapid growth in its drone services business. The sale was completed for A\$6m with A\$4.65m payable on completion - A\$5.1m less \$0.15m transaction costs and A\$0.3m debt.

Divestment offers an assortment of growth drivers

The most immediate benefit to DLT shareholders is the cash return to the business. This will give DLT balance sheet flexibility to accelerate growth across its businesses. The company intends to pursue further acquisition opportunities that will allow it to complement its current services with new technical capabilities or to expand into new geographic locations.

Despite the divestment, DLT still has some exposure to ParaZero. It has kept usage rights in relation to use of the technology and products developed by ParaZero and obtained warrants which may facilitate a future investment back into the company under certain conditions.

In conjunction with the acquisition, DLT raised A\$5m in additional capital



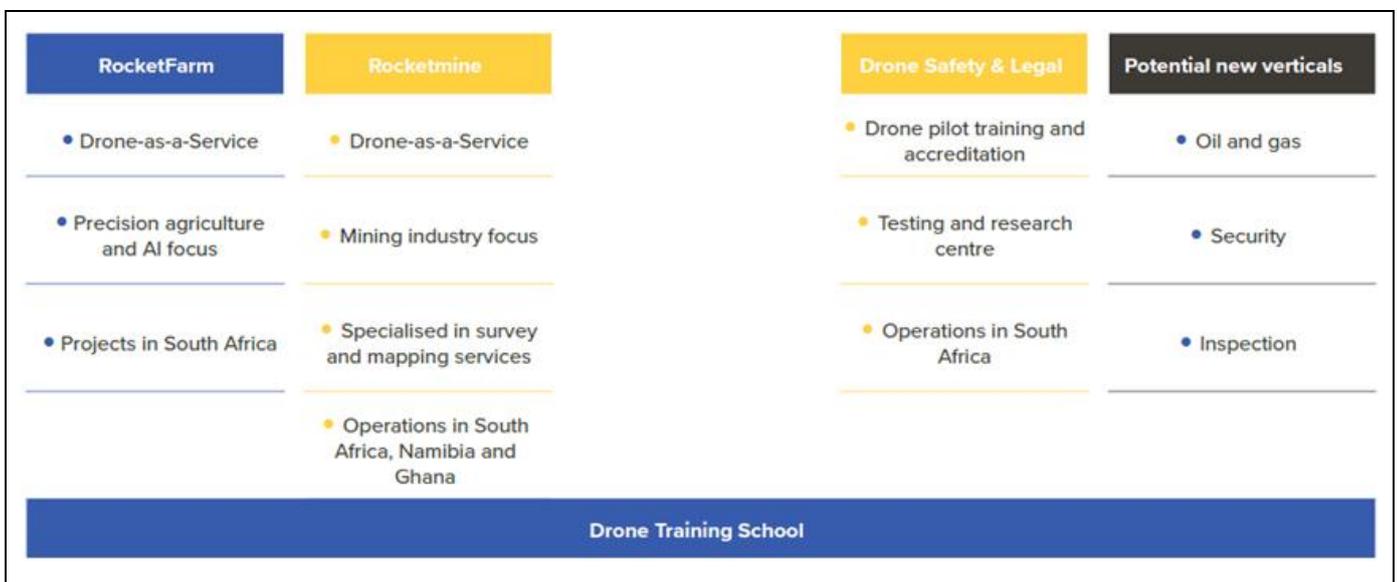
DLT broadens its offerings with DDSA on board

There are various synergies between DDSA and DSL, as complementary products and services provide a competitive edge within key industries. DLT plans to provide drone services to key mining and agricultural markets in South Africa and Australia before making inroads into other commercial and industrial sectors in these two regions and other overseas markets.

We believe that with DDSA under its umbrella, DLT is well-positioned to broaden its product offerings and services through several strategically adjacent and complementary brands. Additionally, the combined product portfolio of the new entity allows it to provide its customers a full-service offering (Figure 1).

DDSA's offerings complement DLT's legacy product portfolio

Figure 1: Delta Drone is now positioned to offer a full-service offering to its customers



Source: Company

Rocketmine and Rocket Farm provide path to new end markets

DDSA operates via multiple trading companies, including Rocketmine South Africa, Rocketmine Ghana, and Drone Safety and Legal.

Under the Rocketmine brand, DDSA offers DaaS to the mining industry in South Africa, Namibia and Ghana. The services include aerial surveying and mapping, security and surveillance, and blast monitoring and fragment analysis (Figure 2). Similarly, Rocketfarm offers DaaS to the agriculture industry in South Africa, including precision agriculture services and AI.



Figure 2: Key services offered by Rocketmine and Rocketfarm businesses

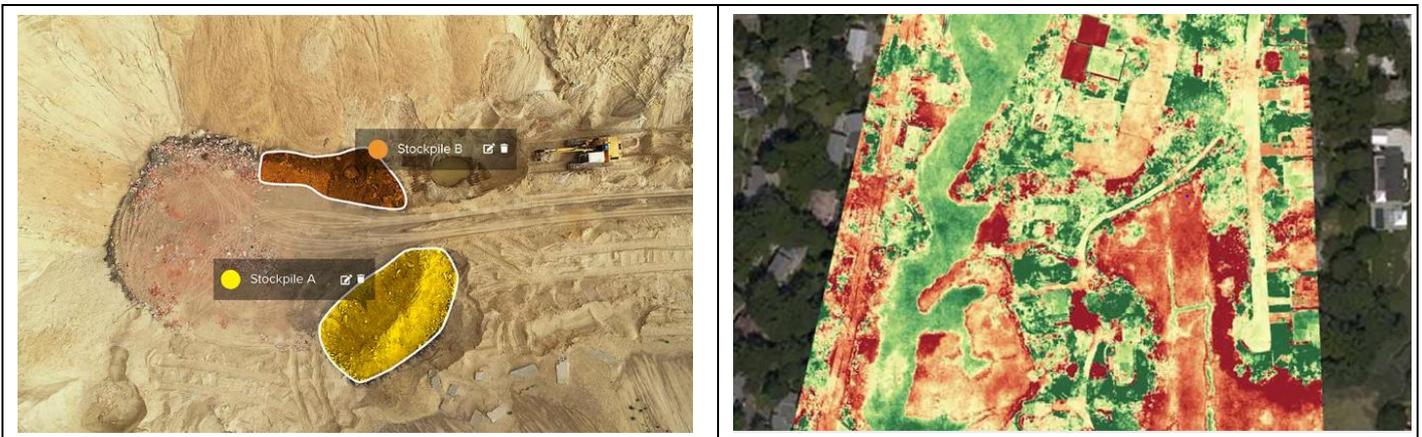
Rocketmine	Rocketfarm	
Survey and mapping	Plant population	Plant disease analysis
Blast and thermal monitoring	Weed analysis	Nitrogen status in crops
Highwall mapping and monitoring	Flowering estimation	Canopy analysis
3D reality capture	Water-logging analysis	Plant stress analysis
Underground survey mapping	Yield estimation (maize)	Pest and drought analysis

Source: Company

What is Drone-as-a-Service?

Under the Drone-as-a-Service offering, DDSA deploys a fully trained, Civil Aviation Authority (CAA) approved pilot on-site for operating the drone to collect data. The drone is equipped with RGB or thermal sensors to gather data, which is analysed by DDSA. The results of the analysis are presented to the customer in various forms, including 4K video, high-resolution photos, point clouds (LAS, LAZ, XYZ), Orthophotos and 360° photos (Figure 3).

Figure 3: Outputs provided by Rocketmine



Source: Company

Rocketmine has an established customer base

The Rocketmine division of DDSA enjoys long-standing relationships with its mining customers, such as Glencore, Anglo-American, Exxaro, South 32 and Newmont Mining. Typically, these clients utilise Rocketmine’s services to conduct aerial surveys for data collection and analysis.

Rocketmine has applications beyond the mining sector

In addition to serving the mining sector, Rocketmine’s services can be deployed in other sectors that require aerial inspections. These include the following:

- **Solar farms:** Rocketmine provides Thermogram Orthomaps that help in the inspection of solar panels.



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- **Construction sites:** Rocketmine’s solutions help conduct asset inspections and condition surveys and evaluate damage and fatigue.
- **Wind farms:** Rocketmine’s drones are robust and can remain stable in strong wind conditions, which helps conduct wind inspections for immediate fault detection.

Rocketfarm provides access to the highly lucrative agriculture sector

Launched in January 2019, Rocketfarm is DDSA’s foray into precision agriculture services, wherein it provides market solutions for weed analysis, yield estimation, water-logging analysis, etc. Notably, within 12 months of its launch, this business landed projects with various established global brands, such as Pioneer, Bayer and Syngenta. Establishing a partnership with a big brand provides DLT the opportunity for further expansion. For instance, in February 2021, DLT announced that it has received another project from Syngenta, this time allowing it to enter a new market in the African continent – Zambia. Under this contract, DLT would be supporting Syngenta’s R&D process via virtual visualisation and analysis of crops and providing data from remote areas and from Syngenta’s field trials in Zambia.

Drone Safety and Legal offers an additional revenue stream

DDSA operates a drone training and safety business under the ‘Drone Safety and Legal’ brand. It offers drone pilot training and accreditation in South Africa and operates a dedicated testing and research centre. This division is expected to be renamed Drone Aviation Training Services (DATS) in the merged entity. DATS offers drone training services for enterprises and aims to develop awareness of drone technology in existing and future industries. It showcases how drone data simplifies solutions, reduces cost impact and propels productivity.

It has opened up additional opportunities and projects for Rocketmine and Rocketfarm, developing trust in drone solutions and further reinforcing DLT as the pre-eminent full-service leader in the drone market in the geographies in which it operates. DATS is the only Aviation Training Organisation (ATO) to offer this tailored training package and the only ATO with a university partnership in South Africa.

DLT’s growth strategy summarised

DLT has developed a five-point growth plan to capitalise on its core and adjacent opportunities:

- **Provide Drone Data Services in Australia:** In the near term, DLT plans to roll out DDSA’s proven operating model in the mining and agriculture sectors in Australia. The Arvista acquisition has accelerated this process.
- **Continue to grow Drone Data Services in South Africa:** Benefitting from DDSA’s market expertise and brand value, DLT plans to continue to expand its market share in Africa.
- **Provide commercial Drone Data Services in urban environments across Australia and Southern Africa:** As ParaZero’s proprietary drone safety technology supports the use of drones in urban and populated environments, DLT plans to expand the deployment of DDSA’s drone data service operations in commercial and industrial sectors in these environments.
- **Continue to grow and develop Drone Aviation Training Services and adjacent business opportunities:** DLT plans to continue to expand DDSA’s

Drone training and safety services cement DLT’s position as a full-service provider



training business while opportunistically developing additional drone-related businesses.

Commercial drone market set for significant growth

The drone market has evolved from its primarily military use days and is now witnessing significant global demand from the commercial and enthusiast segments. The global UAV market was valued at US\$22.4bn in 2018², of which 28% of demand originated from commercial use customers. Some estimates suggest that the overall market can reach US\$48.8bn by 2025, growing at a 15.5% CAGR³. Region-wise commercial drone demand is dominated by the US and China, which together make up two-thirds of global demand. However, future demand is expected to come from Asia, not only China but also Japan and India.

Not far behind is Australia, where the overall drone market is worth A\$5.5bn and the economic impact of drones in 2040 is estimated at A\$14.5bn, along with 5,500 full-time equivalent jobs in the industry according to Deloitte. This growth is driven by adoption and implementation of drone technology across several industries to save cost and time, and, in some cases, even ensure human safety. As compared to the South African market, demand for commercial drone services is much higher in Australia, along with significant growth potential (Figure 4). Australia is rapidly becoming a hub for beyond visual line of sight (BVLOS) testing and over 1,200 drone operators⁴, which are developing technologies to support a larger drone ecosystem.

The Australian drone market is estimated to reach A\$14.5bn and support 5,500 full-time equivalent jobs by 2040

Figure 4 : Commercial drone services market of Australia vs. South Africa

Table 6.3.1 - Total Commercial Drone Services Turnover (USD)

Country	2019	2020	YoY Growth
Australia	\$357,814,507	\$471,324,621	31.9%
South Africa	\$79,241,527	\$95,778,801	20.9%

Source: Drone Industry Insights, Drone Market Study, September 2020

Table 7.3.2 - Commercial Drone Services Turnover by Use Case (USD)

Country	Use Case	2019	2020
Australia	Inspection	\$81,857,407	\$107,838,369
	Mapping	\$60,210,200	\$78,854,135
	Surveying	\$49,839,910	\$65,392,797
	Other Uses	\$165,906,990	\$219,239,320
South Africa	Inspection	\$18,223,942	\$22,025,951
	Mapping	\$13,334,138	\$16,024,104
	Surveying	\$11,037,536	\$13,288,599
	Other Uses	\$36,645,911	\$44,440,147

Source: Drone Industry Insights, Drone Market Study, September 2020

Source: Company

The versatility of UAVs makes them suitable for application in multiple industries, but mining has witnessed exceptional value creation due to the adoption of drones. Drones can help with assessment before drilling or blasting, quarry operation monitoring, and even hazard identification and

² Deloitte-Managing the evolving skies.

³ Markets and Markets.

⁴ Australian Trade and Investment Commission.



Drones are increasingly being used in sectors such as mining and precision agriculture

mitigation, including regular monitoring of tailing dams. Improvement in the speed of mining surveys and frequency of data collection is allowing for better forecasting of mineral stock available for sale. On top of that, it's cost-effective, and saves time and effort compared with a conventional survey. Safety is vastly improved w.r.t. survey of underground active mines, as exposure to chemicals, flyrocks and other potential hazards can be completely removed by using drones. Mining holds significant importance in the Australian economy and contributed around 10.4% to total GDP in 2019–2020⁵. The Australian mining sector is almost tenfold larger than its South African counterpart⁶ and is home to global mining behemoths, such as BHP Group, Rio Tinto and South32.

With climate change negatively affecting crop yields (annually reducing global rice yield by 0.3% and wheat yield by 0.9%) and the ever-growing demand for 'farm to fork', there is a need to modernise crop management. Precision agriculture advocates sustainable farming practices, with primary focus on technology to more accurately monitor and control the growth of crops and livestock. Drones are helping farmers with soil and field analysis, autonomous spraying of crops, crop/livestock surveys and irrigation monitoring. Precision agriculture not only reduces human intervention and enhances per unit yield, but also minimises wastage, thus creating a sustainable agricultural ecosystem.

⁵ Australiamining.com.

⁶ Mineral Council of South Africa, Australiamining.com.



Regulation could provide upside potential

Drone regulation has been irregular across the globe, with each country imposing varying degrees of restrictions on drone usage. A few countries have specific regulations for drones, while many do not. Since the Gatwick Airport incident (which closed the airport for 33 hours, led to the cancellation of ~1,000 flights and caused reported losses of £50m), several safety concerns have been brought to light. While technology may develop at a faster pace than the law, the latter is definitely catching up in some countries.

In Australia, mandatory drone registration for commercial operators came into effect from November 2019, along with an annual registration fee. Commercial operators in the mining and farming domains, which earlier could operate over their own land without a Remote Pilot License (RePL) or Remotely Piloted Aircraft Operator Certificate (ReOC), have to now register their drones and obtain accreditation. Drone regulation in South Africa is quite similar to that in Australia, wherein commercial operators must register their drones and acquire certification from the Director of Civil Aviation, along with payment of a fee. As more countries regulate their aerospace, drone service providers are facing the heat and new entrants are finding it increasingly difficult to break into the market.

This is where DLT comes into place and it is well-positioned to fill this gap in the market through its drone aviation training services.

Abundance of opportunities in Australia

The strategic merger will not only help the company broaden its product portfolio, but also provide an opportunity to expand into new markets. In conjunction with the acquisition, DLT raised A\$5m in additional capital. The proceeds from this capital-raising exercise will be used to expand into the Australian market, initially targeting drone services for the domestic mining and agricultural industries – an addressable market of about A\$277m in 2020 in Australia alone.

With a significant expertise in providing drone services to key mining and agricultural markets in Southern Africa, DDSA considers Australia a natural expansion of its existing southern African services. It will leverage its long-standing customer relationships to foray into the Australian market. Importantly, most of the client firms are either based in Australia or have a strong presence in the country. In sync with its business strategy, DDSA formed a wholly owned subsidiary called Rocketmine Australia (Figure 5), in order to commence operational activities in the country. In July 2020, Rocketmine Australia received approval from the Civil Aviation Safety Authority (CASA), required to operate civilian drones for professional use. DLT is set to launch an Australian operation in early 2021, initially targeting the local mining and agricultural industries, before expanding to a more comprehensive service offering into industries that require drone services in urban or populated areas.

Moreover, the recent development of solutions for the digitisation of mining sites, including underground mines, opens up considerable development prospects. Even the CEO of DDSA, Christopher Clark, is expected to relocate to Australia in Q1 2021 to drive operations in the country. It is worthwhile to mention that Christopher Clark is considered the main architect of Rocketmine's success in Africa.

DDSA formed a 100% subsidiary, Rocketmine Australia, in order to commence operational activities in Australia



Delta Drone International

Figure 5: An indicative timeline of key milestones for planned Australian expansion



Source: Company



Competitive landscape

With commercial drone services gaining traction in South Africa, several small private firms have entered the market in the past few years

With commercial drone services gaining traction in South Africa, numerous small private companies and start-ups have entered the market in the past few years. The buzz around this industry regarding its impact and bright prospects is prompting firms to get a slice of the pie. Additionally, forays of companies such as Intel and Alphabet into the commercial UAV sector may eventually lead to increasing competition for DLT in the foreseeable future.

South Africa, which has regulations on the circulation of drones, is the largest drone market in Africa. Not only are drones currently deployed in the energy and mining industries, but also in agriculture, security and even wildlife protection. Notably, a number of privately held companies currently operate in the commercial drone services space (Figure 6).

Figure 6: Key competitors in the South African market

Company	Founded	Description	Services
Premier Mapping	1983	The company offers on-site integrated survey products and services to the mining, engineering, environmental and exploration sectors.	<ul style="list-style-type: none"> – Mapping: Topographical Mapping, Photogrammetry / 3D Mapping, Digital Terrain Model (DTM), Contouring, Stockpile Volumetric Calculations Aerial Survey and Mapping. – Aerial work: Manned and Unmanned Aviation. – Surveying: Mining Surveys, GPS Ground Survey, Survey Control Establishment, Borehole Collar Surveys, Precise Leveling, Slope Monitoring.
UDS	2013	UAV and Drone Solutions (UDS) deploys unmanned aerial vehicles (UAVs) to help combat wildlife crime and provide security and engineering services to both the public and private sectors.	<ul style="list-style-type: none"> – Security Services: Provide security intelligence to rail yards, container storage areas, above/below ground mines, utilities. – Infrastructure Inspection: Day and night inspections, Thermal mapping on any type infrastructure, Thermal hotspot identification on pipeline, 3D Modeling. – Survey and Stockpile Management: Accurate stockpile volume readings, Point cloud generation, 3D Modeling, Orthophoto Generation. – Blasting Profiles: Accurate pre and post blast 3D georeferenced models, Point Cloud Generation. – Environmental: UAV's and sensors used to support anti-poaching activities.
DC Geomatics	2014	A leading drone service provider that offers specialised solutions and commercial services to governments, corporates, and private firms.	<ul style="list-style-type: none"> – Drone Film and Photography. – Drone Surveys and Mapping. – Drone Spraying. – Drone Security. – Drone Inspections. – Business Consulting.



UDH	2016	United Drone Holdings (UDH) is a commercial drone holding company. The business model focusses on partnerships and thus the UDH Group creates a scalable and diversified drone enterprise.	<ul style="list-style-type: none"> – Advanced Aerial: Professional drone service provider, operating in multiple sectors such as mining, security and industrial applications. – RPAS Training Academy: Premium drone training facility run by highly experienced aviation experts. – Drone Con: A collaborative effort to organize Africa's largest annual Drone Conference – being organised since 2015. – Drone Ops: One of the few CAA-licensed drone operating businesses and provider of licensed operations to subsidiary companies. – Commercial drones: UDH Group provides customers with purpose-driven drone systems to solve specific requirements.
Darkwing Aerials	2012	With a combination of film and industrial inspection experience, Darkwing has evolved into a leading UAV company, with an extensive service offering	<ul style="list-style-type: none"> – Visual Inspection: HD Still imagery, 4K Video, Thermal Imagery, Security/Surveillance. – Survey: 2D/3D Mapping, LiDAR, UV-Corona Detection. – Non-Destructive Testing: Aerial NDT, Conventional NDT, Paint Inspection.

Source: Company, Pitt Street Research

In Asia Pacific, Australia remains a hotspot for drone service market

In Asia Pacific, Australia remains a hotspot for the drone services market. As the technical evolution of UAVs has progressively gained speed over the years, the Australian drone ecosystem is growing rapidly. The commercial UAV market has attained a certain maturity in technology and operational experience, empowering UAV service providers to offer tailor-made solutions to clients. Notably, in Australia alone, over 1,200 drone operators are rapidly developing technologies and services to support the larger drone ecosystem (Figure 7). Given the huge opportunities in the commercial drone services market in Australia compared to South Africa, firms (including DLT) are putting in a concerted effort to grab a slice of the pie.



Figure 7: Key competitors in the Australian market

Company	Founded	Description	Services & Products
<i>Australian UAV Pty Ltd</i>	2013	It provides aerial mapping, survey and inspection services.	<ul style="list-style-type: none"> – Aerial Survey and Mapping. – Asset Inspection. – Aerial LiDAR. – Specialist Sensors and Services.
<i>Measure Australia</i>	2014	It is Australia's leading data service provider to local and national clients. It specialises in enterprise-scale drone solutions.	<ul style="list-style-type: none"> – LiDAR Laser Surveying. – Drone Asset, Building and Roof Inspections. – Beyond Visual Line of Sight – BVLOS. – Drone Aerial Mapping and Land Surveying.
<i>Airsight Australia</i>	2012	Airsight has progressed from an UAV operations company to one of Australia's leading innovative geospatial solutions providers.	<ul style="list-style-type: none"> – UAV LiDAR Scanning. – Photogrammetric Surveys. – Mobile Laser Scanning. – Aerial Imagery. – Static GNSS Control Network. – Terrestrial Laser Scanning. – Detail Surveys. – Volumetric and Monitoring Surveys.
<i>RemSense Pty Ltd</i>	2006	RemSense works with clients to design engineered solutions and provide high-technology services.	<p>Service</p> <ul style="list-style-type: none"> – Technology Development as a Service (TDaaS); Aerial Imaging and Sensing; Virtual and Augmented Reality. <p>Product</p> <ul style="list-style-type: none"> – Virtual Plant: A productive and scalable photographic fabric environment that enables visual information from a distributed asset network to be centrally available to all users.
<i>National Drones</i>	2015	A leading drone service firm providing aerial intelligence and analysis.	<ul style="list-style-type: none"> – Asset Inspection. – BVLOS. – Drone Surveying. – LiDAR. – RPAS Training. – Thermal Imaging.

Source: Company, Pitt Street Research



DDSA has over six years of experience in providing drone services to the mining and agricultural sectors in Southern Africa

DLT poised for growth led by distinct competitive advantages

While we have identified ten of DLT's competitors across the South African and Australian markets that provide commercial drone services (ranging from mapping and surveying, and inspection to BVLOS), here are the key parameters that sets apart DLT from competitors.

Extensive experience in the South African markets: Through its subsidiary, Rocketmine South Africa, DDSA has over six years of experience, along with a proven track record of providing DaaS to the mining industry in South Africa, Namibia and Ghana. As most of DDSA's client firms, including BHP Billiton, South32 and Rio Tinto, are either based in Australia or have strong presence in the country, DDSA will leverage its long-standing existing customer relationships to make inroads into the Australian market and tap a much larger opportunity w.r.t. drone application in the mining and agriculture space over there.

Economies of scale: DDSA has proven expertise in achieving economies of scale, and DLT has broadened its product and services portfolio. Going forward, DLT is expected to unlock growth by expanding to new territories such as Australia, coupled with building on cross-selling opportunities.

High barriers to entry due to regulations: As the commercial applications of drones continue to grow, drone usage regulations (which vary across the globe) have become more important than ever. While countries such as Norway, Sweden and the UAE have relatively unrestricted legislation on commercial drone usage, countries such as Argentina, India and Saudi Arabia have outright banned commercial usage of drones⁷.

Valuation

We have undertaken a DCF valuation deriving A\$0.05 per share base case and A\$0.09 per share bull case.

Our key assumptions are set out below:

Revenue modelling

Post the divestiture of ParaZero, we have forecasted DLT's future revenues primarily based on its Data Services operations. For the Data Services operations, we have modelled three geographies — South Africa, Australia and Rest of the World. Of all the geographies, we expect the Australian market to be the key growth driver for DLT over the near/medium term.

Currently, we ascribe no material value for the DSL segment due to undisclosed revenue, but we note the upside potential it can bring to our valuation range.

In absence of any revenue guidance and unit economics of a DaaS project, we have attempted to forecast sales revenue by using a market share approach. This involves applying estimated market penetrations against the potential size of the DLT's addressable market. Since survey and mapping are DLT's operational expertise, we focus on the survey and mapping segments of the broader commercial drone services market across the world (South Africa: c.US\$29m; Australia: c.US\$144m)⁸.

On South Africa, we have modelled a 20-40 bps uplift in DLT's existing market share to 9-10% for CY21, underpinned by its strong market position and service differentiation as discussed earlier.

⁷ Rand Corporation: International Commercial Drone Regulation and Drone Delivery Services.

⁸ Drone Industry Insights, Drone Market Study, September 2020.



On Australia, we have assumed an initial modest share of 0.2% for CY21, which translates to A\$0.4m in revenue. We acknowledge that DLT's CY21 revenue would include 4 months of contribution from Arvista. However, given that historical financials of Arvista haven't been disclosed by DLT, we aren't able to ascertain this new added revenue stream. Post CY21, we expect sales growth to be driven by a growing commercial drone services market and DLT's proven value proposition for large enterprise customers.

Operating margins

Near term, we expect operating margins to remain compressed (Figure 8) mainly due to: 1) cost integration of the DDSA business, 2) increased marketing spend to drive customer sales in Australia, and 3) an early-stage revenue profile. As DLT grows, we expect its margins to gradually improve due to scale benefit and operational efficiency.

Figure 8: Near-term margins will remain suppressed

Margins (%)	2019a	2020a	2021a	2022e	2023e	2024e	2025e
EBITDA Margin	10%	5%	nm	nm	5%	12%	19%
EBIT Margin	4.1%	0.7%	-38.4%	-9.1%	1.8%	7.9%	15.0%
Net Profit Margin	4.5%	nm	nm	nm	2.7%	8.4%	10.7%

Source: Pitt Street Research

Discount rate

We have applied a 12.2%⁹ cost of equity against expected free cash flows to the firm. We have factored in a company specific risk premium to account for the volatility of DLT's sales cycle.

Capital

As at end of CY21, DLT had A\$1.4m in cash, representing 15% of its current market capitalisation. Our modelling believes DLT can sustainably fund its ongoing expenditure with its internal cash flows. Hence, we think the risk for dilutive raisings is low.

Figure 9: DCF valuation

Base Case		Bull Case	
Valuation (AUD)		Valuation (AUD)	
Present value of FCF	9.0	Present value of FCF	16.7
Present value of Terminal FCF	21.2	Present value of Terminal FCF	34.3
Enterprise Value (m)	30.2	Enterprise Value (m)	51.0
Net debt (cash)	(0.9)	Net debt (cash)	(0.9)
Equity value (m)	31.1	Equity value (m)	51.9
Diluted shares	580.1	Diluted shares	580.1
Implied price (A\$)	0.05	Implied price (A\$)	0.09
Current price (A\$)	0.02	Current price (A\$)	0.02
Upside (%)	198.1%	Upside (%)	396.7%

Source: Pitt Street Research

⁹ Beta of 1.2, risk-free rate of 2.0%, market risk premium of 6.4% and company specific risk premium of 3.0%.



Figure 10: Services revenue (A\$m)

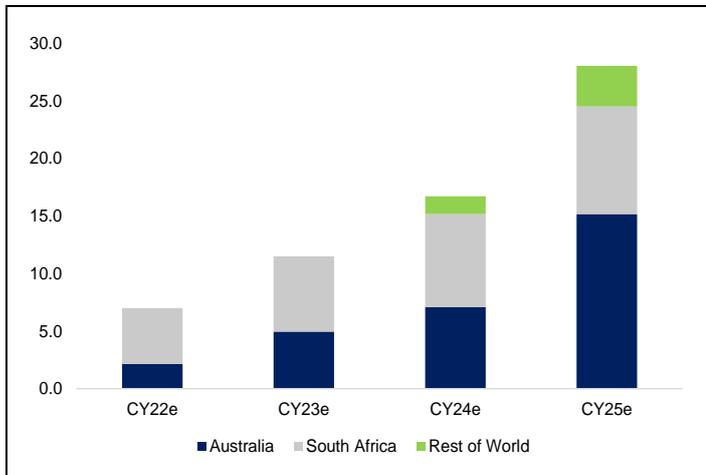
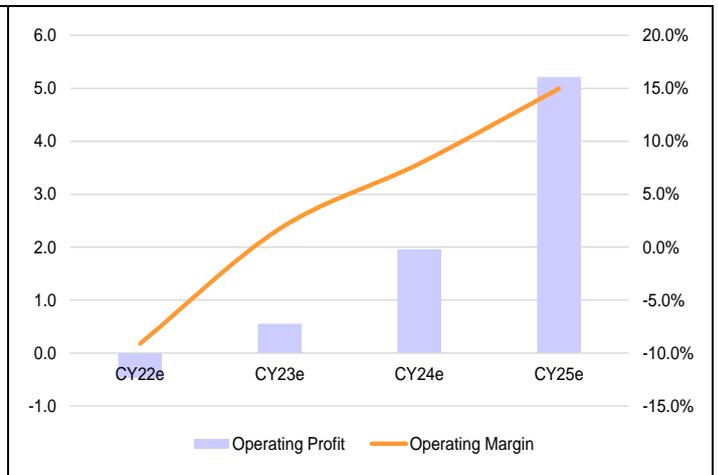


Figure 11: Operating profit profile (A\$m)



Source: Pitt Street Research

Peer group analysis

We view DLT as a drone data service provider rather than a pure hardware or technology business. As such, we have compiled a list of small companies that provide surveying and/or geospatial services as part of their overall service offering (Figure 12). We note some of those peers aim to capitalise on similar market segments as DLT, which include mining, agricultural and engineering.

Figure 12: Selected Peers

Company Name	Ticker	Market Capitalisation (AUD m)	EV/Sales LTM 30 June 2021	EV / Sales 2022e
Aerometrex	AMX	52.9	1.8x	1.7x
Pointerra	3DP	193.2	33.5x	7.0x
Remsense Technologies	REM	32.2	5.6x	nm
Veris	VRS	36.1	0.6x	nm
Average			10.4x	4.3x
Median			3.7x	4.3x
Delta Drone International	ASX:DLT	11.6	2.4x	1.5x

Source: Pitt Street Research, Capital IQ

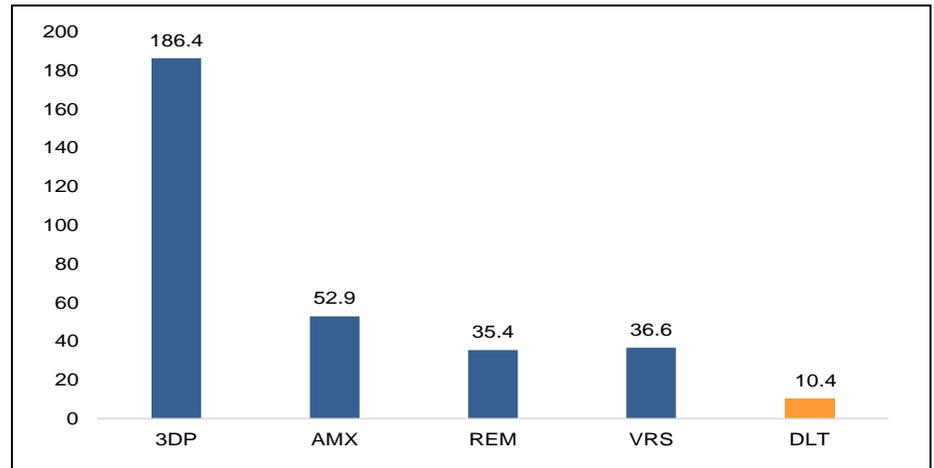
Absent consensus estimates, we can assess the growth expectations of those peers by looking at their current stock prices (Figure 13). Clearly, investors are currently perceiving higher growth for the peers versus DLT. We think this perception could be due to: 1) most peers have, to date, demonstrated greater scale than DLT; and 2) the technology solution of each peer that helps them to deliver their services is somewhat differentiated amongst each other. But we remain convinced at DLT's proven technology proposition, which we expect to propel the company's future growth in the drone services industry. Therefore, we argue that DLT deserves to be traded at a higher valuation than what investors are currently paying for.



Delta Drone International

We think DLT's current undervaluation is due to investors' under appreciation of its value proposition and growth drivers. If DLT can deliver as per our model assumptions, we expect the depressed expectations embedded in the current stock price to undergo upward revisions. In turn, this should facilitate DLT's stock price to move into our valuation range.

Figure 13: Market cap profile (A\$m)



Source: Pitt Street Research, Capital IQ

Re-rating

We believe that the current share price of DLT does not reflect its true long-term potential. We see the following milestones as potential drivers for the re-rating of the stock:

- **Establishment of Rocketmine's operations in Australia:** A major near-term growth driver for DLT would be the successful establishment of Rocketmine's Australian operations. Given the commercial success that Rocketmine has witnessed in South Africa, the company is in a good position to take advantage of Australia's highly lucrative mining sector.
- **Expansion in Africa:** As DDSA continues to build its name in the African continent as an experienced player in the commercial drone market, we believe that the company is well-placed to expand its market share and further develop its brand.
- **Successful entry into new end markets:** In the medium–long term, DLT could target enterprise consumers in other sectors, such as construction, utilities, entertainment, real estate, and safety and security.

Key risks

- **Regulatory risk:** Global regulations on drones vary across countries; while some countries are opening up and creating opportunities for commercial drone usage, others are less enthusiastic.
- **Integration risk:** There is a risk that management might not be able to extract the expected synergies from the integrated DLT/Arvista entity.

- **Execution risk:** Successful scaling of the business, as well as acquisition of new customers in a completely new geography, requires trust building and can be quite an expensive affair.
- **Safety risk:** Even though permits to fly drones over urban areas can be acquired, this carries great risk in case the drone suddenly stops working and crashes. Even though the ParaZero SafeAir solution is being leveraged, technology can often malfunction (even if the probability is marginal).

Diverse management and board

The current management and board members of Delta Drone are listed below (Figure 14):

Figure 14: Delta Drone’s management and board members

	Name and Designation	Profile
	<p>Christopher Clark CEO and Executive Director</p>	<ul style="list-style-type: none"> • Was involved in the mining services sector for over 10 years and has worked with the mining giant Anglo American. • Is currently the MD of DDSA and helps with business development in Africa. • Graduated from the University of Johannesburg and holds an MBA from the University of Pretoria.
	<p>Eden Attias Executive Chairman</p>	<ul style="list-style-type: none"> • Served as a pilot in Israel’s Air Force and has held several positions there for over 30 years. • Was named as Israel’s first Ministry of Defense Attaché to Canada, heading defense and military bilateral relations between the two countries. • Holds a BA in Computer Science from Tel Aviv University and an MA in Public Administration from the University of Haifa.
	<p>Stephen Gorenstein Board of Directors</p>	<ul style="list-style-type: none"> • Formerly the Regional Head of Asia Pacific Metals and Mining at Bank of America Merrill Lynch. • Has over 17 years of experience in capital markets.
	<p>Clive Donner Board of Directors</p>	<ul style="list-style-type: none"> • Has over 40 years commercial experience in both Australia and internationally in both debt and equity including: private equity, funds management, corporate and project financing, capital raising, investment advising and evaluation of companies across many sectors. • Founding Managing Director of the LinQ Group.



	<p>Christian VIGUIÉ Group Chariman</p>	<ul style="list-style-type: none"> • Served as CEO of the Unilog Group from 1998 to 2006, where he was responsible for relationships with the financial community. • Worked as a financial analyst before forming multiple financial reporting companies. • A member of the French Society of Financial Analysts. • A professor at the Financial Analysis Training Center.
	<p>Nicolas CLERC Group CFO</p>	<ul style="list-style-type: none"> • 20 years of experience within accounting and audit firms. • After working within several national and international firms, he became audit manager within a firm of about 60 people in the Auvergne-Rhône-Alpes region. • Joined the Delta Drone group in September 2017 as Group Administrative and Finance Director. • Advanced Degree in Accounting and Management.

Source: Company

Appendix I – Glossary

Beyond Visual Line of Sight (BVLOS): These drones cover far distances which are beyond the usual visual range of its pilot. It can cover large distances at a cheaper cost than manned helicopters and airplanes.

Drone-as-a-Service (DaaS): The concept encompasses the emerging market for services for piloting drones, either via remote or autonomous flight plans. Stringent regulations necessitate expertise to safely handle the apparatus.

Farm to fork: This concept promotes serving local food sourced directly from the producer. As the model gains popularity, it will help local farming communities

Gyration: The act of turning or whirling around a fixed centre. It can also be a circular or spiral motion around an axis.

Letter of intent: A document containing important details about how one party intends to conduct business with another. It lists the primary deal and conditions, if any.

Non-resident External (NRE): Parties or clients that are from a different geography than the one in which they conduct business.

Original Equipment Manufacturer (OEM): A company that manufactures and sells products that will be branded and further sold by another company to the final customer. OEMs are usually associated with a retail company that sells directly to its consumers

Orthophotos/Orthomaps: An aerial photo that has been corrected and is to scale with the actual measurements. It provides a highly detailed bird’s-eye view of important infrastructure, which is ideal for data collection.

Payload: Refers to the cargo carried by a vehicle for transportation purposes.

Point clouds (LAS, LAZ, XYZ): A set of data points that represent a three-dimensional shape or object. Accurate measurements are given by photogrammetry software and each point is represented on an X-Y-Z axis.

Precision Agriculture: Method of farming that emphasises usage of technology to maximise yield and automate the entire process.

Pyrotechnic: Art of creating an exothermic using fuel and oxidants, with the eventual goal of creating heat, light and/or gas from the reaction.



Pyrotechnics are widely used for entertainment as well as in military applications.

Synergy: When the combined power of multiple companies is greater than their individual power. Synergies can be created through cost savings and market dominance of the combined entity

Thermogram: Test that uses infrared cameras to detect heat transmission of a particular entity. It can be helpful in revealing features of a particular land, especially its thermal features, through aerial mapping.

Unmanned Aerial System (UAS): Refers to the entire UAV unit, the person controlling the flight as well as the system in place to connect them.

Unmanned Aerial Vehicle (UAV): An aircraft that does not require an on-board pilot to conduct flight. Often, the unit is controlled by an on-ground pilot but can also be operated autonomously via on-board computers called autopilot.

Appendix II – Capital Structure

Class	In million	% of fully diluted
Ordinary fully paid shares	299.9	51.7%
Ordinary fully paid shares restricted	211.7	36.5%
Unlisted options	10.4	1.8%
Unlisted performance shares and rights	58.0	10.0%
Fully diluted shares	580.1	

Source: Company

Appendix III – Major Shareholders

DLT has following three major shareholders:

- Delta Drone SA – 55.22%.
- Trust Company Funds Management Ltd – 5.33%.
- Merchant Funds Management Pty Ltd - 5.33%.

Appendix V – Analyst Qualifications

Marc Kennis has been covering the technology sector as an analyst since 1997.

- Marc obtained an MSc. in Economics from Tilburg University (the Netherlands) in 1996 and a post graduate degree in investment analysis in 2001.
- Since 1996, he has worked for a variety of brokers and banks in the Netherlands, including ING and Rabobank, where his main focus has been on the technology sector, including the semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equities research firm.
- In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including technology companies.



Delta Drone International

Profit & Loss (A\$m)	CY19a	CY20a	CY21a	CY22e	CY23e	CY24e
Sales Revenue	3.5	3.4	4.6	7.0	11.5	16.7
EBITDA	0.4	0.2	(1.6)	0.8	2.2	3.8
Depn & Amort	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)
EBIT	0.2	0.1	(1.7)	0.6	1.9	3.4
Net Interest	0.0	0.0	0.0	0.0	0.1	0.1
Profit before tax (before exceptionals)	0.2	0.0	(1.7)	0.6	2.0	3.5
Tax expense	(0.0)	(0.1)	0.0	-	(0.6)	(1.0)
Abnormals + Minorities	0.0	0.1	0.0	-	-	-
NPAT	0.1	(0.1)	(1.7)	0.6	1.5	2.5
Cash Flow (A\$m)	CY19a	CY20a	CY21a	CY22e	CY23e	CY24e
Profit after tax	0.2	(0.1)	(3.6)	0.6	1.5	2.5
Depreciation	0.2	0.2	0.1	0.2	0.3	0.5
Change in working capital	0.5	0.3	1.8	0.7	(0.3)	(0.4)
Operating cashflow	0.9	0.3	(1.7)	1.5	1.4	2.6
Capex	(0.3)	(0.2)	(0.7)	4.2	(1.1)	(1.6)
Other investing activities	0.0	0.2	0.2	-	-	-
Investing cashflow	(0.3)	(0.0)	(0.5)	4.2	(1.1)	(1.6)
Dividends	-	-	-	-	-	-
Equity raised (repurchased)	-	4.4	-	-	-	-
Debt drawdown (repaid)	(0.2)	(0.2)	(0.1)	-	-	-
Other financing activities	-	(0.1)	(0.0)	-	-	-
Net change in cash	(0.2)	4.1	(0.2)	-	-	-
Cash at End Period	0.8	5.0	1.4	7.1	7.5	8.5
Net Debt (Cash)	2.8	(4.3)	(0.9)	(6.6)	(7.0)	(8.0)
Balance Sheet (A\$m)	CY19a	CY20a	CY21a	CY22e	CY23e	CY24e
Cash	0.8	5.0	1.4	7.1	7.5	8.5
Total Assets	3.1	14.3	12.0	12.2	14.2	17.2
Total Debt	3.6	0.7	0.5	0.5	0.5	0.5
Total Liabilities	3.7	2.9	3.4	3.0	3.5	4.0
Shareholders' Funds	(0.6)	11.5	8.2	8.8	10.2	12.7

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