

RESEARCH REPORT

DRO Annual Report 2024

Scaling Innovation and Global Expansion in Counter-Drone Technology

12-Month Target* \$1.01

Price \$0.84

Implied Return 20.24%

*Implied Return

DroneShield (DRO) delivered a largely pre-released result for CY24, with a 6% YoY revenue growth to \$57.5 million, but faced challenges in scaling operations. EBITDA of -\$8.6 million missed our estimate (-\$8.0 million) due to higher operating expenses. The better-than-expected net loss of -\$1.3 million was due to a \$5.5 million income tax benefit, leading to a more favourable outcome compared to our previous projection of -\$4.8 million. Cash outflows and capital investments reflect scaling efforts, while strong sales pipeline growth signals potential upside in FY25.

- **Contracted Revenue for FY2025:** DroneShield has secured \$52 million in contracted revenue for FY2025, which already represents approximately 90% of its CY24 revenue. The company has recognised \$18 million of this revenue year-to-date (YTD) as of February 18, 2025, providing visibility into future growth.
- **Sales Pipeline:** The company has a highly promising sales pipeline, with \$1.2 billion worth of defined project discussions for FY2025 and FY2026. Notably, the company has not included some major near-term sales opportunities such as the LAND156 program in Australia, which involves the rollout of Counter-Unmanned Systems (C-UxS) solutions across the Australian Defence Force. This program has the potential to significantly boost revenue but is currently difficult to quantify.
- **SaaS Revenue Growth:** A key highlight from the result was the 100% YoY increase in SaaS revenue, which reached \$2.8 million, up from \$1.4 million in CY23. This growth suggests that DroneShield is successfully diversifying its revenue streams beyond traditional hardware-based solutions.

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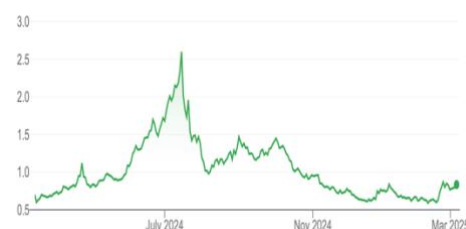
Company Data

ASX code	DRO
ASX price	\$0.80
Shares on issue	872.1m
Share Description	Ordinary Fully paid
12-month price range	\$0.59-\$2.72
ASX turnover (3m avg. daily vol.)	11.5m

Key Personnel

Oleg Vornik	CEO & Managing Director
Matt McCrann	CEO, DroneShield (USA)
Angus Bean	Chief Technology Officer
Carla Balanco	Chief Financial Officer
Raffael Blattner	Operations Manager

Price Chart (ASX:DRO)



Source:

Earnings Estimates

	CY24A	CY25F	CY26F	CY27F
Revenue (\$m)	57.5	105.2	139.1	177.1
EBITDA (\$m)	-8.6	19.7	41.7	68.2
NPAT (underlying) (\$m)	-1.3	17.5	32.2	38.1
NPAT (reported) (\$m)	-2.1	17.5	32.2	38.1
Dividend (cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	0%	5%	9%	10%

RESEARCH REPORT

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Key Financial Highlights:

- **Revenue:** DroneShield achieved \$57.5 million in revenue for CY24, reflecting a solid YoY growth of 6.4%. While this growth is positive, it fell somewhat short of the high expectations that had been set. However, it's important to note that this revenue figure represents the highest annual revenue for the company to date.
- **Gross Margin:** The company maintained a strong gross margin of 71.7%, which is a healthy indicator of its operational efficiency despite the challenges in the broader financial results.
- **EBITDA:** The reported EBITDA loss of -\$8.6 million was below our estimate of -\$8.0 million. This was largely driven by an increase in operating expenses, which are tied to the company's ongoing efforts to scale its workforce and expand operations.
- **Net Loss:** The company recorded a better-than-expected net loss of -\$1.3 million, compared to our projection of -\$4.8 million. This was largely attributed to a one-off \$5.5 million income tax benefit, which significantly improved the bottom line relative to our earlier estimate.
- **Operating Cash Flow:** DroneShield recorded an operating cash outflow of -\$62.2 million for CY24, which was worse than our expected outflow of -\$55.9 million. Despite the negative cash flow, the company remains in a relatively strong liquidity position.
- **Cash and Term Deposit Balance:** As of December 31, 2024, DroneShield held a robust cash balance of \$221 million. As of February 18, 2025, this cash balance stood at \$215.2 million, indicating a solid buffer to support future growth initiatives.
- **Dividend:** No dividend was declared for CY24, which was anticipated given the company's focus on reinvesting cash into scaling operations.

Strategic and Market Positioning:

Global Expansion:

- DroneShield's international presence continues to grow, with 91% of its FY2024 revenue derived from offshore markets. This is a clear reflection of the company's strong global positioning in the counter-drone solutions market.
- The U.S. remains DroneShield's largest market, accounting for approximately 70% of FY2024 revenue. The company's robust growth in the U.S. is driven by increasing demand for counter-drone solutions across various sectors, including military, intelligence, border security, airports, and critical infrastructure.
- The company has expanded its manufacturing capabilities to support a \$500 million annual production capacity, positioning it well to meet future demand as its product offerings gain traction in global markets.

Technology & Product Development:

- DroneShield continues to invest heavily in R&D, with a staff of 204 engineers out of a total of 275 employees. The company plans to expand its engineering team to 330 employees by mid-2025 to support the development of next-generation technologies.
- A key product, the DroneSentry-X Mk2™, is undergoing a production ramp-up, and this product is expected to be a significant driver of revenue growth starting in FY2025 and beyond. The company's investment in product development is expected to sustain its long-term differentiation in the counter-drone market.

Geopolitical Tailwinds:

- DroneShield is well-positioned to capitalise on the ongoing geopolitical tensions driving global demand for counter-drone solutions. The company is benefiting from increasing demand in sectors such as military, law enforcement, border security, and critical infrastructure protection.
- With the AUKUS export framework now in place, DroneShield has become one of the first Australian companies to be registered under this framework, further enhancing its ability to access lucrative markets in the U.S. and other AUKUS partner countries.

RESEARCH REPORT

DRO Annual Report 2024

Scaling Innovation and Global Expansion in Counter-Drone Technology

- The company is also competing as a Systems Integration Partner (SIP) for the LAND156 program, a major counter-drone defence rollout for the Australian Defence Force. This represents a significant growth opportunity, though it is not yet included in the company's sales pipeline.

Regional Market Breakdown:

- **North America:** The company generated \$382 million in revenue from 47 projects in North America, with a strong focus on U.S. government and military contracts. DroneShield is also expanding its footprint across NATO member countries as part of its broader international strategy.
- **Australia:** DroneShield's revenue in Australia totalled \$64 million across 8 projects. This includes a \$10 million, two-year Department of Defence contract, with expectations for larger contract renewals in mid-2025. The company is well-positioned to capitalise on additional opportunities such as the LAND156 program.
- **Latin America & Middle East:** The company has a solid presence in Latin America and the Middle East, with a combined revenue of \$95 million across 48 projects. In Latin America, DroneShield is focusing on a \$52 million pipeline across 21 projects. The Middle East remains a key market for the company, with ongoing demand for counter-drone solutions in high-security areas.

Risks

- **Customer Retention & Acquisition Risk:** Failure to retain or attract customers impacts revenue growth and financial performance.
- **R&D Risk:** Lagging in product development and rapid tech advancements could harm operations and competitiveness.
- **Operational Investment Risk:** High marketing, development, and facility costs may lead to profitability challenges and working capital shortages.

RESEARCH REPORT

DRO Annual Report 2024

Scaling Innovation and Global Expansion in Counter-Drone Technology

Earnings Estimate

Profit & Loss Statement (A\$m)

	CY23	CY24	CY25e	CY26e	CY27e
Revenue	54.1	57.5	105.2	139.1	177.1
Change (%)	222%	6%	83%	32%	27%
Cost of Sales	-15.1	-16.3	-28.9	-37.6	-46.9
Gross Profit	39	41.2	76.3	101.5	130.2
Gross Margin (%)	72.00%	71.70%	72.50%	73.00%	73.50%
Expenses (excl. D&A, int.)	-36.4	-51.1	-56.6	-59.8	-62
EBITDA	3.7	-8.6	19.7	41.7	68.2
Depreciation & Amortisation	-1.5	-3.6	-3.7	-4.6	-24
EBIT	2.2	-12.2	16	37.1	44.2
Net Interest (Expense)/Revenue	0.9	5.5	4	2.5	3.2
Pre-Tax Profit	3.1	-6.8	20	39.6	47.4
Income Tax Benefit / (Expense)	6.2	5.5	-2.5	-7.4	-9.4
Reported NPAT	9.2	-1.3	17.5	32.2	38.1

Cash Flow Statement (A\$m)

	CY23	CY24	CY25e	CY26e	CY27e
EBITDA	3.7	-8.6	19.7	41.7	68.2
(-) Change in Working Capital	-7.5	51.6	17.2	11.2	-2.1
Gross Cash Flow	11.2	-60.2	2.5	30.5	70.3
Income Tax Refunded / (Paid)	-1.7	-2	-2.5	-7.4	-9.4
Operating Cash Flow	9.5	-62.2	4	25.6	64.2
Payments for PPE	-1.7	-6.4	-6.4	-6.9	-7.5
Payments for Capitalised R&D	-	-6.7	-36	-21.6	-
Investing Cash Flow	-2	-165.3	-42.4	-28.5	-7.5
Net Proceeds from Issue of Shares	39.7	231.3	-	-	-
Proceeds / (Repayments) of Borrowings	-	-	-	-	-
Payment of Lease Liabilities	-0.6	-0.4	-	-	-
Other	0	1	2.9	-	-
Financing Cash Flow	39.1	231.9	2.9	-	-
Net Change in Cash	46.6	4.4	-35.5	-2.9	56.7
Cash at Start of Period	10.1	56.7	219.5	183.9	181
Exchange Rate Impact	-0.1	1.5	-	-	-
Cash at End of Period	56.7	219.5	183.9	181	237.7

RESEARCH REPORT

DRO Annual Report 2024

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