J&T BANKA

Primoco UAV SE

Company Valuation

April 19, 2021; 8:00 am CET

Summary

Primoco UAV SE is a Czech manufacturer of medium-size unmanned vehicles, with the One 150 model sold for civilian purposes. The main purpose of unmanned aerial vehicles is to monitor oil and gas pipelines or control state borders and water corridors. Primoco customers so far included companies and government agencies, mainly from the Middle East and Asia. Non-European countries offer potential mainly because they do not have strict restrictions on the operation of commercial unmanned aerial vehicles and at the same time use them for a number of purposes (long border lines, thousands of kilometres of product pipelines, security situation).

The main **competitive advantage of Primoco is the aircraft price**: The One 150 model is able to carry out tasks previously performed mainly by helicopters and it is able to do that at a lower price and with lower operating costs. At the same time, the UAV is more affordable than competing models from manufacturers in Israel or the USA. Primoco aircraft manufacturing **does not require large fixed costs** which should allow the company to make a profit even with relatively low sales. This has already been confirmed in previous quarters.

We notice that **the move into larger Primoco orders is taking longer** than the management originally expected. We see as the main reasons (a) the instability of governments in some countries outside Europe, (b) the short duration and small size of the company which slows down the first orders, and (c) the Covid-19 pandemic which postponed the start of aerial services. Although Primoco last year reported its highest sales so far of CZK 31 mil., this result lagged far behind the expectations of the management, which expected revenues of CZK 200 - 300 mil. In the jargon of American investment banks, Primoco can still be understood as a "show-me story", i.e. a company that has yet to prove its ability to win larger contracts.

But we see **several indications that there could be a significant increase in sales in 2021-22**. First, over the past year, Primoco has established co-operation with potential customers in major markets (BEML in India and MEST in Saudi Arabia) and has conducted test flights for the Czech Police. Second, Primoco under the investor presentation, generated higher revenues in the 1Q21 than in the first half of last year (which was CZK 10 million). Third, Primoco announced the intention to make a **secondary subscription of shares (SPO)** on the Prague Stock Exchange. It plans to offer 100 to 655 ths. of new shares for the price of CKZ 260 - 360/share and wants to use the proceeds primarily to build a larger production hall. It should increase production capacity from the current 50-100 to 200-250 aircraft per year. This indicates management's confidence in the high volume of orders in the coming years.

We still use conservative assumptions in valuing the company. The company plans to increase production to 250 aircraft per year in the long term and get sales of over CZK 1 billion. In our model, we anticipate deliveries of only tens of pieces of aircraft and sales below CZK 0.5 billion per year until 2025. Based on valuation using discounted cash flow, we determine **a target price of CZK 370/share**. Given the market price of CZK 340/share, we consider the company to be **roughly adequately priced**. We value the company "post-money", i.e. after the execution of the SPO (see below). We also point out that the target price is sensitive to the discount rate used and to the

Primoco UAV SE

Basic Information

Primoco UAV SE is a Czech manufacturer of medium-size unmanned aerial vehicles. Primoco has developed two models of civilian unmanned vehicles, One 100 and One 150, the latter of which it now offers to customers. The most common use of this aircraft is either monitoring of product pipelines (oil pipelines, gas pipelines) or monitoring of state or sea borders. The company sees the main sales potential in Asia and the Middle East, but recently the range of potential customers has significantly geographically expanded. The company manufactures aircraft in Prague-Radotín and performs test flights at the airport in Krašovice near Písek acquired in 2019. It now plans to build a new production hall.

The company's shares are traded on the Start market of the Prague Stock Exchange where the company made an initial subscription of shares (IPO) in 2018. Ladislav Semetkovský, CEO, is also one of the two founders and the largest shareholder.

Basic Information	
Price of last trading on the stock exchange	CZK 324
Number of shares	4,344,710
Market capitalization	CZK 1.4 billion
Key shareholder:	L. Semetkovský (64.4%)
Free float	6.2 %

Pavel Ryska
Analyst
ryska@jtbank.cz

expected rate of long-term growth which is uncertain for a young company. The decrease in the discount rate due to the reduction of risk premiums for some non-European countries is the main reason why our target price has increased significantly compared to the valuation as of 15 May 2020 (target price CZK 255).

Primoco: Market, Production and Company Ownership

Primoco position in the unmanned aerial vehicle market

Unmanned Aerial Vehicles (UAVs) are currently a fast-growing industry with applications for military and civilian purposes. So far, the greatest development has been recorded by military unmanned aerial vehicles which are already manufactured by most large armaments companies in the USA (Lockheed Martin, Northrop Grumman, Boeing, etc.). On the contrary, civilian unmanned aerial vehicles have emerged more recently and medium-sized and smaller companies tend to produce them. Within civil aircraft, we can distinguish between consumer UAVs (small drones or helicopters mainly for video production) which are available to the general public, and commercial UAVs which are mainly purchased by companies or the public sector. Primoco operates in this second category.

It is not known how many companies currently do business in each category. In total, it is estimated that a total of 450-1,000 companies worldwide operate in the production of UAVs for military and civilian purposes. In the field of civil commercial UAVs for companies and the public sector, we believe there are maybe dozens of companies. Primoco identifies 9 companies worldwide as its main competitors.

According to Macrosource Media estimate from 2021, global spending on commercial UAVs is expected to increase from current USD 2.8 billion (on an annual basis) to USD 11.8 billion in 2026. This means an average annual market growth of about 27%. Due to Primoco's low initial production and supply base, growth in its potential could be above market dynamics.

Primoco: Sources of Revenues

Primoco implements or plans to generate revenues from 4 sources:

(1) **Sale of One 150 Model.** The standard delivery is 3 pieces for a total price of approx. CZK 45 mil.
(2) **Sale of spare parts** to customers who have already purchased the aircraft.
(3) **Pilot training.** The aircraft is operated from the ground by 2 pilots who are client employees and their training is necessary in order to learn to fly the UAV.
(4) **Aerial services.** A client who does not want or cannot buy an aircraft pays for a specific flight or project directly to Primoco which will undertake it with its pilots.

We consider the sale of aircraft and, in the short term, the sale of spare parts to be the main source of sales for the future. The company obtained permission to operate aerial services in the Russian Federation but the Covid-19 pandemic and the ban on the free movement of persons delayed the start of work. Currently the company expects the start of these flights in 2Q 2021.

The company's current outlook and EBITDA margin

Primoco in its investor presentation from 1 April 2021 and in previous presentations has several assumptions for production and finance:

- **Long-term production capacity of 250 aircraft per year.** The current production hall in Prague-Radotín has a capacity of 50-100 aircraft per year, so the management plans to build a new hall in Krašovice near Písek, next to the airport owned by Primoco. Assuming that the company obtains sufficient funds from the SPO, we expect the construction of the hall in the years 2022 - 2023. (We are conservative in the economic projection and do not expect deliveries higher than in the order of dozens of aircraft per year until 2025 with revenues of up to CZK 0.5 billion.)
- **The company is in advanced negotiations to supply 233 UAVs to 40 customers** in Asia, the Middle East, Africa, Central America and Europe for a total value of EUR 236 million, i.e. about CZK 6 billion. The company expects an average EBITDA margin of 30 - 40%.
- **In 2021, it expects the sale of a total of up to 18 aircraft to various clients for a total of approximately CZK 300 mil.** We believe that this is only an indicative outlook and that the actual sales can differ significantly, because, a contract for only 6 aircraft means sales generating almost 100 million. We are careful in our projection and expect revenues of CZK 180 million this year (see Table 1).

Aircraft and production: selected specifics

We consider the following information about Primocao production and sales to be important:

- **Product:** Primoco developed two medium-size commercial unmanned aerial vehicle the One 100 and One 150 where the number means takeoff weight in kg. Currently it only the offers One 150 model. The aircraft has a range of up to about 2,000 km and flies at a speed of 100 - 150 km/h. Take-off and landing require a 300 m long runway.
- **Use:** The two main purposes are (1) monitoring of product pipelines (oil pipelines, gas pipelines) and early identification of failures, risks, etc. and (2) monitoring and surveillance of borders and water corridors. The company's clients are therefore both private companies and the public sector (police, border guards, armies). To a lesser extent, aircraft are used to map areas, mines, construction projects, natural systems, etc.
- **Geographical distribution of demand:** The company expects the largest sales in the Middle East and Asia, and also sees potential in Africa and, more recently, in Europe. In May 2020, test flights took place on the Czech-Austrian border which in our opinion could help with a contract for the Police of the Czech Republic. Primoco plans to operate aerial services for the purpose of monitoring nature and product pipelines in Russia.
- **Competitive advantage:** The work performed by the UAV can be performed by a manned helicopter or in some cases by a satellite. The disadvantage of the satellite is a significant inaccuracy, and the helicopter has significantly higher operating costs (fuel consumption, repairs). According to Primoco, its One 150 model reduces operating costs compared to a helicopter by 50-90%.
- **Production capacity:** Primoco is able to produce 50-100 aircraft per year in the current production hall in Prague-Radotín. Our estimate envisages deliveries of aircraft in the order of tens of pieces per year until 2025, and given that this capacity should be sufficient with a reserve.
- **Certification.** In October 2020, Primoco was recognized by the Department of Military Aviation Supervision of the Ministry of Defence of the Czech Republic as an approved production and development organization. This step should help to obtain a military type certificate for the One 150 model. In terms of sales, we believe that the company may have a better chance of succeeding in tenders for customers who prefer or require such certifications.

SPO and shareholder structure

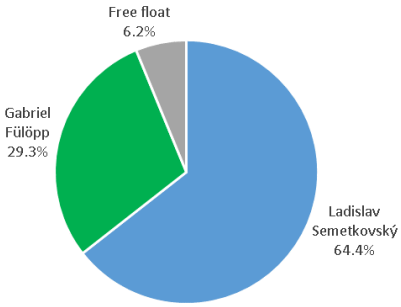
Primoco announced its intention to make a secondary subscription of shares (SPO) on the Prague Stock Exchange. It plans to offer up to 655,290 new shares for the price of CZK 260 - 360/share and wants to use the proceeds primarily to build a larger production hall and repay the shareholder loan. The issue of the maximum number of shares would mean that the total number of Primoco shares would increase from 4,344,710 to 5,000,000.

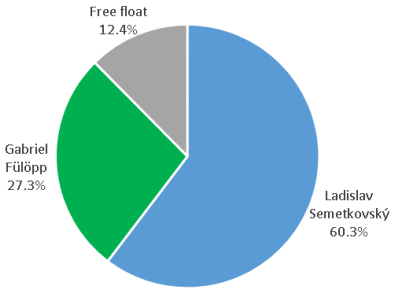
The result of the SPO cannot be accurately predicted, and therefore we work on the assumption that the company will subscribe for half the maximum number (328 thousand shares) for the price in the middle of the interval (310 CZK), which means a yield of CZK 102 mil. We believe that Primoco will use approximately CZK 60 million for the purchase of land and the construction of a new production hall, CZK 28 million for the repayment of a shareholder loan (it will then have zero debt) and the rest for other purposes.

After an SPO with these parameters, the amount of free-float shares should double from 6.2% to 12.4% (Pic. 1). We do not expect the two largest shareholders, Ladislav Semetkovský and Gabriel Fülöpp, to subscribe for part of the new shares offered, and therefore their shares will fall proportionally.

In the long run, in our opinion, the company would consider it advantageous if a major company from the aviation or armaments industry bought a partial stake in it, which would open the way for larger orders. However, at present we do not know of any such specific interest.

Picture 1: Shareholder structure as of 31 March 2021 Picture 2: Expected shareholder structure after SPO





Source: Primoco UAV, J&T Bank

Financial results: Gradual sales growth with EBITDA margin approaching 40%

Low fixed costs and mild competition can bring high profitability

From the investor's point of view, Primoco has a relatively easy production model. The company manufactures its own components such as the airframe structure, engine and control station. Primoco sources the autopilot and datalink (communication between the aircraft and the ground station) from foreign suppliers and assembles the aircraft. About 70% of the production costs for the production of aircraft are electronics which the company purchases based on the agreed contracts. This means that the company is not burdened with large fixed costs. At the same time, currently only a few companies in the world operate in the segment of aircraft weighing 100 - 250 kg, which means that there is not much pressure on prices yet and the company can work with a significant margin. In our opinion, Primoco offers one of the cheapest products in this category.

We expect growing sales and profits but we do not rule out high volatility

Primoco results have been volatile (Table 1) which is typical for low revenues. Last year's revenues of CZK 31 mil. have not yet been sufficient to create a positive EBITDA, as it was burdened last year with the extraordinary costs of obtaining certification from the Ministry of Defence of the Czech Republic (see above). Primoco expects about a tenfold increase in sales from last year's CZK 31 million to approx. CZK 300 mil. this year. According to us, there will be a significant growth but due to the slow progress with orders in recent years, we have a more cautious outlook and expect revenues of CKZ 180 mil. The extraordinary costs of certifications will probably continue, so we expect an EBITDA margin of 25% and an EBITDA profit of CZK 45 mil. while in the long run the margin will get to 30 - 40%.

In the coming years, we expect revenue growth enabled by current negotiated orders. Due to the low level of sales so far, we point out that one larger order may cause high fluctuations in sales between quarters and years. The EBITDA margin will also depend on the revenue mix: new aircraft with all equipment should generate an EBITDA margin of 40%, spare parts from the Primoco, in our opinion, a margin of around 50%, while the margin from aerial work is still uncertain. This, combined with the extraordinary costs, may cause larger margin fluctuations in the coming years.

In the model in Table 1, we calculate the yield from the SPO according to the assumptions above.

Low capital expenditures allow high conversion of profit into cash

According to us, the current production hall in Prague-Radotín is sufficient to cover the pace of production in the coming years (in our opinion in the order of dozens of new aircraft vs. the capacity of Radotín 50-100 aircraft per year). At the same time, the company does not need to make any significant investments in equipment or production. The test airport in Krašovice near Písek has been acquired. The development plan for the construction of a new production hall in Krašovice near Písek should be financed from the expected SPO. As a result, the company will be able to convert a large part of EBITDA into free cash flow (see Table 1).

The company is not burdened with debt except for a shareholder loan

Our financial projections also do not take into account the long-term payment of interest, given that the company does not have or does not plan to have debt to banks or other external creditors. The current shareholder loan (CZK 28 million at the end of 2020) should be repaid from the SPO income. At the same time, we are not aware of any other significant liabilities of the company.

Due to the current financial results, we do not

Primoco management stated at the IPO in 2018 that it counts on the payment of dividends as an important policy of the company as soon as the financial results allow it. The current level of sales and

project a dividend payment.

profits does not allow the payment of dividends and the company has no dividend policy, and therefore we do not anticipate it in our projections.

Table 1: Management projections and market multiples

PERIOD, mil. CZK	2017	2018	2019	2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024	exp. 2025
Revenues	1.1	27.5	1.4	30.9	180.0	234.0	304.2	401.5	481.9
EBITDA	-5.5	4.1	-20.9	-5.1	45.0	72.5	100.4	140.5	182.1
EBITDA margin	*NA*	*15%*	*-1545%*	*-16.5%*	*25.0%*	*31.0%*	*33.0%*	*35.0%*	*37.8%*
Operating result	-7.0	2.0	-23.4	-7.0	40.8	63.8	90.2	129.0	171.6
Financial result	-0.6	-1.7	-0.5	-2.5	-0.9	0.0	0.0	0.0	0.0
Net profit	-7.6	0.4	-24.0	-9.4	31.5	50.4	71.3	101.9	135.6
Net profit margin	*NA*	*1%*	*-1767%*	*-30.6%*	*17.5%*	*21.6%*	*23.4%*	*25.4%*	*28.1%*
Earnings per share (CZK)	-1.9	0.1	-5.5	-2.2	6.9	10.8	15.3	21.8	29.0
Free cash flow	-10.4	-14.6	6.7	-1.4	16.2	53.3	72.8	98.7	132.1
P/E (at the price of CZK 310/share)					45.9	28.7	20.3	14.2	10.7
EV/EBITDA (at the price of CZK 310/share)					30.9	18.6	12.9	8.5	5.8

Source: J&T Bank, Primoco; Free cash flow is operating cash flow minus maintenance capital expenditures

Valuation: Discounted cash flow and relative comparison

Valuation method

We valued Primoco with a discounted free cash flow model for shareholders (Free Cash Flow to Equity), the parameters of which are shown in Tables 2 and 3. The model determines the value of the company as the sum of all future free cash flows discounted to the present. Free cash flows are determined by our model (Table 1 and Appendix) and the discount rate is determined as:

cost of equity = risk-free rate + equity risk premium

Due to the fact that Primoco generates sales in several countries around the world, the risk-free rate and equity-risk premium are weighted by the average of local rates over 5 geographical areas (within them the averages of selected countries) and the weights are our expected shares in these geographies in the company's sales (Table 3). At the risk-free rate, we use the yield of a 10-year government bond in a foreign currency (USD, EUR) and the equity risk premium is derived from the CDS (credit-default spread) according to Damodaran Online. We add that we do not use the WACC (weighted-average cost of capital) model to determine the discount rate, but we only use the cost of equity, as the company has no debt to any external creditors, does not plan to take on debt and the current shareholder loan is understood as short-term.

In the Phase 1 until 2025 we have a complete economic projection (see Table 1 or in more detail the Appendix) and in the Phase 2 after 2025 we expect a long-term growth of cash flow of 5% per year. For Primoco, we calculated the required rate of return (discount rate) of 11.49%. The discount rate fell quite significantly compared to the value of 14.46%, which we used in the valuation on 15 May 2020. The reason is the decline in equity risk premiums in most countries. Even so, it is a relatively high discount rate, which, however, reflects the company's operations in relatively risky emerging markets in the Middle East, Asia, Africa and Russia.

We perform the valuation "post-money", i.e. assuming the execution of the SPO according to our expectations above (i.e. half the volume of subscribed shares compared to the maximum possible).

Table 2: Company Valuation

mil. CZK	Phase 1 exp. 2021	exp. 2022	exp. 2023	exp. 2024	exp. 2025	Phase 2 exp. 2025+
Free cash flow for shareholders	59.3	38.3	57.8	98.7	132.1	2136.7
Discounted cash flow (present value)	54.8	31.7	42.9	65.8	78.9	1,276.9
Phase 1 value			274.0			
Phase 2 value						1,276.9
Company value (current value)			1,551			
Fair value of the share (CZK)			332			
Annual target price (CZK)			370			
Risk - free rate of return			4.16%			
Share premium			7.33%			
Cost of capital (required rate of return)			11.49%			
Long-term cash flow growth rate			5.00%			

Source: J&T Bank, Bloomberg, Damodaran online

Table 3: Calculation of cost of equity (required rates of return)

	Risk - free rate of return	Weight	Share premium
Czech Republic	1.92%	5%	5.31%
Russia	3.06%	10%	6.85%
Middle East	4.05%	30%	7.65%
Asie	3.25%	35%	6.42%
Afrika	7.01%	20%	9.20%
Weighted average	4.16%	100%	7.33%
	7.33%		
Cost of equity	11.49%		

Source: J&T Bank, Bloomberg, Damodaran online

The fundamental valuation indicates the value of the company of approximately CZK 1.55 billion and the annual target price of CZK 370/share.

Our valuation model indicates the current value of the company of CZK 1.55 bil., i.e. fair (current) value of the share CZK 332 and the annual target price CZK 370. Considering the price of the last trade on the stock exchange of CZK 324 and expected subscription price (mid-point) in the SPO of CZK 310, in our opinion Primoco has room for share price growth.

Table 4 shows how the value of the company and the target price change if the required rate of return (discount rate) or the long-term rate of cash flow growth changes. We consider this to be significant, as the riskiness of emerging economies can lead to significant discount rate fluctuations and the investor may also have different assumptions about the long-term cash flow growth rate of the Primoco business. For example, in the spring of 2020, due to events in the world economy, there were also short-term significant changes in discount rate components: the so-called risk-free rate of return given by government bond yields fell sharply, while the so-called equity risk premium rose sharply, especially in emerging markets. Subsequently, equity risk premium began to return. Other such fluctuations can significantly change the overall discount rate and thus the valuation of the company.

Table 4: Sensitivity of valuation to the long-term rate of cash flow growth and the required rate of return

Sensitivity analysis	Long-term growth rate	Required rate of return				
		7.49%	9.49%	11.49%	13.49%	15.49%
	1%	1,767	1,313	1,034	847	712
	3%	2,459	1,654	1,232	972	797
Sensitivity of the company's value (CZK m)	5%	4,263	2,301	1,551	1,157	915
	7%	20,798	3,985	2,155	1,456	1,088

	9%	n.m.	19,420	3,729	2,021	1,369
Sensitivity of the current fair value (CZK)	1%	378	281	221	181	152
	3%	526	354	264	208	171
	5%	912	492	332	248	196
	7%	4,451	853	461	312	233
	9%	n.m.	4,156	798	433	293
Sensitivity of the annual target price (CZK)	1%	406	308	247	206	176
	3%	566	388	294	236	197
	5%	981	539	370	281	226
	7%	4,785	934	514	354	269
	9%	n.m.	4,551	890	491	338

Source: J&T Bank

Relative valuation by traded companies

As an additional method, we add comparisons with similar companies, based on market multiples. We compared the P/E and EV/EBITDA multiples of Primoco with unmanned aerial vehicles manufacturers that are already traded on stock exchanges (Table 5). Estimates of net profit and EBITDA for Primoco are based on our model, while for other companies we use the market consensus according to Bloomberg. Since we expect the announced SPO, we calculate the multiples at Primoco at the average price of the offered interval of 260 - 360 CZK, i.e. 310 CZK/share. Please note that the list of companies is small and some of them do not have a large number of financial results estimates. It is therefore necessary to understand the table as a guide.

We consider AeroVironment (USA) and Elbit Systems (Israel) to be the closest comparable companies. We also excluded from the comparison large American armaments companies, which produce unmanned aerial vehicles but for them they mean a very small part of sales at the moment. Multiples for them would be meaningless for Primoco.

The table shows that Primoco is valued above the median and average of the selected set of companies according to P/E and EV/EBITDA. However, we note that the average is pulled down by the large companies such as Airbus, Textron Systems and Leonardo, which generate most of the sales from other products and in which no significant growth in the market is expected and this reduces their ratios. Similar companies such as AeroVironment and Elbit Systems, on the other hand, are more expensive in multiples while they are at similar levels in other areas as Primoco. In addition, the multiples of Primoco are significantly increased in 2021, when the company will still have a small profit, while, for example, the multiples for 2023 are already comparable with other companies due to the growth in sales and profit.

Table 5: Relative valuation (companies in descending order) - Primoco post-money after SPO, other companies as of 31 March 2021

Company	exp. avg. P/E 2021-23
AeroVironment	36.5
Airbus	29.2
Elbit Systems	17.8
Textron Systems	16.2
Leonardo	6.2
Average	21.2
Median	17.8
Primoco at CZK 310/share	31.7

Company	exp. avg. EV/EBITDA 2021-23
AeroVironment	19.6
Elbit Systems	11.6
Airbus	10.6
Textron Systems	9.3
Leonardo	5.0
Average	11.2
Median	10.6
Primoco at CZK 310/share	20.8

Source: Bloomberg, J&T Bank

Conclusion

The profitable business model is awaiting the start of orders

In our opinion, Primoco UAV is well placed to increase sales and profitability: it offers a competitive product, operates in a growing segment and its operations are not burdened by high fixed costs or the need for recurring capital expenditures. On the other hand, since the company's entry into the stock exchange, it has become clear that obtaining major orders is a long process and that the visibility (predictability) of sales for the next quarters and years is difficult for investors and management. Therefore, we consider the ability of management to conclude the first major orders and quickly build a reputation for the company as a key factor in the coming years.

Our financial projections are based on several orders indicated by management for this year, followed by gradual growth in the coming years. Based on this projection, we value the company using the discounted cash flow method which gives us the current valuation of the company at CZK 1.55 bil., i.e. fair value of the share CZK 332 and the annual target price CZK 370/share. Considering the price of the last trade on the stock exchange of CZK 324 and expected subscription price (mid-point) in the SPO of CZK 310, we believe that Primoco's share price may increase.

We note that we see possible significant fluctuations both in the economic projection and in the determination of the discount rate and the long-term growth rate. This is due to the difficult predictability of the company's revenues and the significant movement of interest rates and risk premiums in emerging economies. Therefore, in the analysis, we also present sensitivity tables, which are an integral part of it.

Opportunities

- A fast growing industry with a number of applications.
- Arranged sales of 233 aircraft for 40 customers (April 2020), plus possible additional revenues from the sale of spare parts and aerial work.
- The advantage of the product over helicopters in terms of operating costs and over competing unmanned aerial vehicles in terms of purchase price.
- Relatively high profitability from a small production volume, given the low fixed costs and currently limited competition on the world market (i.e. the absence of significant pressure on the price of the product).
- A possible partnership with a major company in the field of aviation and weapons production can bring new orders.
- Zero liabilities to banks or other external creditors (shareholder loan only) and a zero-debt business plan.
- Long-term planned return of funds to shareholders in the form of a dividend.
- The current shareholders have committed that their combined share will not fall below 75% within 5 years of the IPO in 2018.
- The CEO is also the largest shareholder which creates the motivation for maximizing profits and, in the long run, dividends.
- Expected growth of free-float from 6.2% to 12.4% after SPO.

Risks

- The short history of the company and its small volume of deliveries can cause uncertainty for potential major clients (i.e. the natural preference for large and established companies as a guarantee of reliability).
- Political instability of the client's countries and the resulting uncertainty of the size and timing of orders.
- Early phase of business - low visibility of sales, continuous product modification, changes in target customers.
- Product replicability, i.e. potential competition, may build and offer similar unmanned aerial vehicles in the future.
- Regulation of flying UAVs in Europe and the USA (ban on civilian UAVs outside the pilot's eye contact) and possible spread of regulation to other countries.
- UAVs in the Czech Republic are of dual-use that requires the consent of the Ministry of Industry and Trade for export (geopolitical export risk).
- In developing countries the lack of qualified people to manage UAVs.
- Personnel risk - dependence of the company's success on the key person of the founder and CEO.
- Limited liquidity on the Start market of the Prague Stock Exchange.

Appendix

PERIOD, mil. CZK	2017	2018	2019	2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024	exp. 2025
Revenues	1.1	27.5	1.4	30.9	180.0	234.0	304.2	401.5	481.9
EBITDA	-5.5	4.1	-20.9	-5.1	45.0	72.5	100.4	140.5	182.1
EBITDA margin	NA	14.8%	-1,544.6%	-16.5%	25.0%	31.0%	33.0%	35.0%	37.8%
Operating result	-7.0	2.0	-23.4	-7.0	40.8	63.8	90.2	129.0	171.6
Financial result	-0.6	-1.7	-0.5	-2.5	-0.9	0.0	0.0	0.0	0.0
Net profit	-7.6	0.4	-24.0	-9.4	31.5	50.4	71.3	101.9	135.6
Net profit margin	NA	1.4%	-1767.4%	-30.6%	17.5%	21.6%	23.4%	25.4%	28.1%
Earnings per share (CZK)	-1.9	0.1	-5.5	-2.2	6.9	10.8	15.3	21.8	29.0

Balance Sheet

PERIOD, mil. CZK	2017	2018	2019	2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024	exp. 2025
Total assets	**26.6**	**56.1**	**52.1**	**50.5**	**158.6**	**214.8**	**292.0**	**398.8**	**538.4**
Fixed assets	8.9	8.1	32.9	30.2	58.0	67.8	76.6	70.1	65.6
Current assets	17.7	47.9	19.1	20.2	100.6	147.0	215.3	328.6	472.7
of which cash	5.1	23.5	2.4	0.7	60.1	98.3	156.1	254.8	386.9
Total liabilities	**26.6**	**56.1**	**52.1**	**50.5**	**158.6**	**214.8**	**292.0**	**398.8**	**538.4**
Equity	-7.7	55.8	31.3	21.8	154.9	205.4	276.6	378.6	514.2
Provisions	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Liabilities	34.3	0.2	20.7	28.6	3.6	9.4	15.2	20.1	24.1
Long-term liabilities	28.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term liabilities	5.3	0.2	20.7	28.6	3.6	9.4	15.2	20.1	24.1

Cash flow

PERIOD, mil. CZK	2017	2018	2019	2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024	exp. 2025
Operating cash flow	-10.4	-14.6	6.7	-1.4	18.2	56.8	76.8	103.7	138.1
Investment cash flow	-6.9	-1.1	-27.8	-0.2	-32.0	-18.5	-19.0	-5.0	-6.0
Financial cash flow	18.5	34.2	0.0	0.0	73.2	0.0	0.0	0.0	0.0
of which dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	2.1	18.5	-21.2	-1.6	59.3	38.3	57.8	98.7	132.1
Free cash flow for shareholders	NA	18.5	-21.2	-1.6	59.3	38.3	57.8	98.7	132.1

Contacts

Trading Equity

Jan Pavlik	Head of Equity Trading	+420 221 710 628	jpavlik@jtbank.cz
Michal Znojil	Trading - Czech and Foreign Equities	+420 221 710 131	znojil@jtbank.cz
Barbora Stieberova	Trading - Czech and Foreign Equities	+420 221 710 613	stieberova@jtbank.cz
Milan Svoboda	Trading - Czech and Foreign Equities	+420 221 710 554	msvoboda@jtbank.cz
Miroslav Nejezchleba	Trading - Foreign Equities	+420 221 710 633	nejezchleba@jtbank.cz
Marek Truchly	Trading - Foreign Equities	+420 221 710 661	truchly@jtbank.cz
Tatana Maresova	Treasury sales	+420 221 710 300	tmaresova@jtbank.cz
Jan Jandak	Treasury sales – FI & Corporates	+420 221 710 762	jandak@jtbank.cz

TRADING – Atlantik, eAtlantik

Vratislav Vacha	Trading – Czech and Foreign Equities	+420 221 710 677	vratislav.vacha@atlantik.cz
Michal Vacek	Trading – Czech and Foreign Equities	+420 221 710 676	michal.vacek@atlantik.cz

Sales and Client Service

Martin Ludik	Client Service	+420 221 710 402	j&t@jtbank.cz
Michaela Brozova	Client Service	+420 221 710 645	j&t@jtbank.cz

Portfolio Management – Client Service

Roman Hajda	Chief Investment Officer	+420 221 710 224	hajda@jtbank.cz
Katarina Scecinova	Portfolio manager	+420 221 710 498	scecinova@jtfg.com

Portfolio Management

Martin Kujal	Chief Investment Officer; bonds	+420 221 710 698	kujal@jtfg.com
Marek Janecka	Portfolio manager - equity	+420 221 710 699	janecka@jtfg.com
Michal Semotan	Portfolio manager - equity	+420 221 710 642	semotan@jtbank.cz
Marek Sevcik	Portfolio manager - bonds, equity	+420 221 710 429	msevcik@jtbank.cz

Research

Milan Vanicek	Chief Analyst; strategy, pharma, telecom	vanicek@jtbank.cz
Milan Lavicka	Banking, financials, utilities	lavicka@jtbank.cz
Pavel Ryska	Media, real estate	ryska@jtbank.cz
Petr Sklenar	Macroeconomics, fixed income	sklenar@jtbank.cz

J&T Banka, a.s.

J&T Banka, a. s.
Pobrezni 14, 186 00 Prague 8
T.: +420 221 710 111
Czech Republic
www.jtbank.cz

J&T Banka, a. s., pobocka zahranicnej banky
Dvorakovo nabrezie 8
811 02 Bratislava
T.: +421 259 418 111
Slovakia
www.jt-bank.sk

ATLANTIK financni trhy, a.s.

Pobrezni 14, 186 00 Prague 8
T.: +420 221 710 676
Czech Republic
atlantik@atlantik.cz
www.atlantik.cz

Overview of recommendations and relationships with issuers

	Avast	CEZ	CZG	Erste	Kofola	KB	Moneta Money Bank	O2 CR	Philip Morris ČR	Stock Spirit	VIG
Recommendation	Buy	Buy	Not rated	Pending	Pending	Buy	Buy	Buy	Hold	Not rated	Hold
Target price	GBp 430	CZK 721	Not rated	Pending	Pending	CZK 836	CZK 106	CZK 289	Pending	Not rated	EUR 24.5
Market price on recommendation issuance day	374 GBp	CZK 595	-	EUR 26.5	CZK 204	CZK 580	CZK 76.6	CZK 231.5	CZK 15,900	-	EUR 18.1
Date	5-IX-2019	14-IV-2021	-	18-II-2021	20-III-2020	25-XI-2020	18-II-2019	29-XI-2018	21-IX-2017	-	12-V-2017
Analyst	Pavel Ryska	Milan Lávička	Pavel Ryska	Milan Lavicka	Pavel Ryska	Milan Lávička	Milan Lávička	Milan Vaníček	Milan Vaníček	Milan Lávička	Milan Lávička
Overview of recommendations for selected stocks in the previous 12 months (quarterly basis).											
Recommendation	Buy	Buy	.	Buy	Buy	Hold	Buy	Hold	Hold	.	.
Target price	USD 330	CZK 708	.	EUR 40.9	CZK 435	CZK 940	CZK 100	CZK 260	CZK 12705	.	.
Date	27-VI-2018	23-VII-2020	.	17-IV-2019	17-VII-2019	11-III-2018	21-V-2018	21-7-2017	24-VIII-2016	.	.
Recommendation	.	Pending	.	Buy	Hold	Hold	Buy	Buy	.	.	.
Target price	.	Pending	.	EUR 40	CZK 426	CZK 972	CZK 98	CZK 260	.	.	.
Date	.	3-XI-2019	.	31-VIII-2018	9-I-2016	5-IV-2018	1-III-2018	31-10-2016	.	.	.
Recommendation	.	Buy	.	Hold	.	Hold	Buy	.	.	.	.
Target price	.	CZK 701	.	EUR 34	.	CZK 996	CZK 104	.	.	.	.
Date	.	19-II-2019	.	21-VIII-2017	.	16-XI-2017	13-XI-2017	.	.	.	.
Recommendation	.	Buy	.	.	.	.	Buy	.	.	.	.
Target price	.	CZK 568	.	.	.	.	CZK 104	.	.	.	.
Date	.	23-11-2017	.	.	.	.	13-XI-2017	.	.	.	.
Valuation method	DFCF	DFCF	.	DDM	DFCF	DDM	DDM	DFCF	DDM	.	DDM
Frequency of recommendations	.	.	.	.	.	.	.	.	.	.	.
The issuer has a direct or indirect share of over 5% in J&T Banka's share capital.	No	No	No	No	No	No	No	No	No	No	No
J&T Banka has a direct or indirect share of over 0.5% in the issuer's share capital.	No	No	No	No	No	No	No	No	No	No	No
Other material financial interests of J&T Banka and/or its related parties in relation to the issuer.	No	No	No	No	No	No	No	No	No	No	No
The author of the document has a direct or indirect share of over 0.5% in the share capital of the issuer.	No	No	No	No	No	No	No	No	No	No	No
Other material financial interests of the author in relation to the issuer.	No	No	No	No	No	No	No	No	No	No	No
Relationships of J&T Banka with issuers											
Management or co-management of the issue of the security in the past 12 months.	no	no	no	no	no	no	no	no	no	no	no
Contractual relationship between J&T Banka and the respective issuer concerning the provision of investment servicers.											
An agreement between J&T Banka and the respective issuer on the dissemination of investment recommendations.	no	no	no	no	no	no	no	no	no	no	no
J&T Banka's market making in the stock of the respective issuer.	Yes	Yes	no	Yes	Yes	Yes	Yes	Yes	Yes	Yes	yes

Note: DFCF – Discounted free cash flow model, DDM – Dividend discount model, ERM – Excess return model

Source: J&T Banka

Disclaimer

J & T BANKA, a. s. (hereinafter only "the Bank") is a licensed bank and a member of the Prague Stock Exchange authorized to provide investment services as outlined in Act No. 256/2004 Sb. on Business Activities on the Capital Market, as amended. ATLANTIK finanční trhy, a.s. (hereinafter only "ATLANTIK FT") is a licensed securities brokerage authorized to provide investment services as outlined in Act No. 256/2004 Sb. on Business Activities on the Capital Market, as amended. The Bank prepares, creates and disseminates investment recommendations in accordance with legal regulations of the Czech Republic, directly applicable EU regulations and its internal regulations. ATLANTIK FT disseminates the recommendations. The activities of ATLANTIK FT and the Bank are subject to the oversight of the Czech National Bank, Na Příkopě 28, Prague 1, Postcode: 115 03 – http://www.cnb.cz/.

This document contains some important information and notice related to the creation and dissemination of investment recommendations.

The Bank and ATLANTIK FT issue investment recommendations created by the employees of the Bank (hereinafter also "Analysts"). Analysts who create investment recommendations bear full responsibility for the objectivity of such recommendations.

Levels of investment recommendations used

The Bank uses the following levels of investment recommendations:

- **BUY** – It is anticipated that the percentage difference between the one-year target price of the share (determined by one of the valuation methods stated below) and the current market price exceeds the minimum theoretical required return for the respective share. This required return is calculated as the sum of earnings from a risk-free asset (Czech government bonds with the longest term to maturity) and the product of beta coefficient and a risk premium (determined individually for each company and derived from the risk premium for the Czech market).
- **HOLD** – It is anticipated that the percentage difference between the one-year target price of the share (determined by one of the valuation methods stated below) and the current market price is less than the minimum theoretical required return for the respective share but, at the same time, exceeds the return from a risk-free asset.
- **SELL** – It is anticipated that the percentage difference between the one-year target price of the share (determined by one of the valuation methods stated below) and the current market price is less than the return from a risk-free asset.

Valuation methods

To valuate companies and investment projects the Bank uses first of all a method of discounted cash flow (FCFE or DDM). A method of relative comparison is an integral part of every valuation, but it serves more as a corroborative test for the discounting method due to the following reasons: (i) differences in accounting standards, (ii) differences in the sizes of companies, (iii) information availability, (iv) impacts of acquisitions and subsidiaries on balance sheet structures, (v) differences in dividend strategies, and (vi) differences in expectations of future profit margins. If the fundamental valuation is in principle consistent with the range of values determined on the basis of the relative comparison, this implies that the projections of cash flows and other key assumptions of the discount model are correct (especially the discount factor, growth rate for the so-called "infinite period," capital structure, etc). In the reverse case, it is necessary to identify factors which cause principal differences between the findings of the two valuation methods.

Measures preventing conflicts of interest in association with investment instruments:

The remuneration to persons who participate in producing investment recommendations depends in particular on the quality of the work performed, the results achieved and the company's overall profit. Those who participate in producing the investment recommendations have neither financial nor other motivations to issue investment recommendations of a particular level or direction. The remuneration of persons who participate in producing investment recommendation is not derived from transactions of the Bank and ATLANTIK FT or of a controlling or controlled legal entity or a legal entity forming a holding (hereinafter only "a related party").

In complying with the rules for prudently providing investment services and for organizing internal operations, the Bank and ATLANTIK FT apply procedures and rules set forth by legal regulations and their internal regulations which prevent conflicts of interest in association with investment instruments contained in the investment recommendations disseminated by the Bank and ATLANTIK FT, and they do so in particular by implementing a relevant internal structure including information barriers among specific divisions and regular internal control.

Simultaneously, the Bank and ATLANTIK FT draws attention to the fact that this document may contain information related to investment instruments or issuers of investment instruments that the investment recommendation directly or directly concerns (hereinafter only "the Issuer" with respect to which some of the entities belonging to the regulated consolidation unit of the Bank may have own interest. This interest may consist in a direct or an indirect share in these entities, the performance of operations in investment instruments related to these entities or the performance of operations in investment instruments stated in this document.

Additional notice

ATLANTIK FT, the Bank and their related parties, and persons that have a legal or actual relationship with them, including members of authorised representative bodies, senior employees or other employees, may trade in investment instruments or make other investments or transactions related to them, and may during a decisive period buy or sell, or offer to buy or sell on regulated markets or elsewhere, whether as a broker, an intermediary, or in another legal role.

Brokers and other employees of ATLANTIK FT and the Bank and/or related parties may offer clients and its own trading division oral or written market commentaries or trading strategies reflecting opinions which are at variance with the opinions expressed in investment recommendations.

In making investment decision, investors, including potential customers of the Bank or ATLANTIK FT (hereinafter also the "Customer/Customers"), should regard investment recommendations only as one of several factors to be considered. Investment analyses and recommendations issued by the Bank and disseminated by the Bank, ATLANTIK FT and/or related parties have been prepared in accordance with the rules of conduct and internal regulations for managing conflicts of interest associated with investment recommendations.

An overview of changes in the level for an investment instrument in regard to which the Bank has issued an investment recommendation and its price targets during the past 12 months are published and accessible at https://www.jtbank.cz/informacni-povinnost/#povinne_uverejnovane_informace

The issuer was not acquainted with the recommendation prior to its issuance and therefore the recommendation has not been modified or adjusted in any way at the issuer´s request.

It is always the Client's responsibility to make the final investment decisions and the Client bears full responsibility for them.

Although investment recommendations of the Bank are prepared by Analysts in good faith, in a professional and a fair manner and with due care, the Bank cannot accept responsibility and cannot guarantee that the information contained therein is complete or accurate, except for the information concerning the Bank and/or ATLANTIK FT.

The investment recommendations express the opinions of Analysts as at the date of their publication and may be changed without prior notice. Past performance of investment instruments does not guarantee future performance. This document is not a public offering for the purchase or subscription of investment instruments within Act No. 256/2004 Sb. on Business Activities on the Capital Market, as amended, and nor does it constitute an offer to purchase or sell any investment instruments. The individual investment instruments or strategies stated in the investment recommendations do not have to be suitable for every Customer. The opinions and recommendations stated therein do not take into account the situation of individual Customers, their financial positions, objectives or needs. The investment recommendations should serve those Customers who are anticipated to make their own investment decisions without depending unreasonably on the information stated in the investment recommendations. These Customers are obliged to make their own decisions as to the expediency of investments made in any investment instruments by appropriately considering the price, possible threats and risks, along with their own investment strategies and financial situation. The value or price of any investment may change in time and the return of the originally invested sum or the amount of potential profit is not guaranteed.

Please note a potential conflict of interest:

Additional rules for disclosing interests or conflicts of interest pursuant to EU Regulation No. 2016/958:

The Bank notes that:

- This report has been prepared by an analyst who owns the issuer's shares, which were bought on 12 March 2021 at a price of CZK 256/share.