



DRONESHIELD

Quarterly Report

For the period ending
30 June 2024

For personal use only



Image: DroneGun Mk4 counterdrone effector

DroneShield Limited (ASX:DRO)

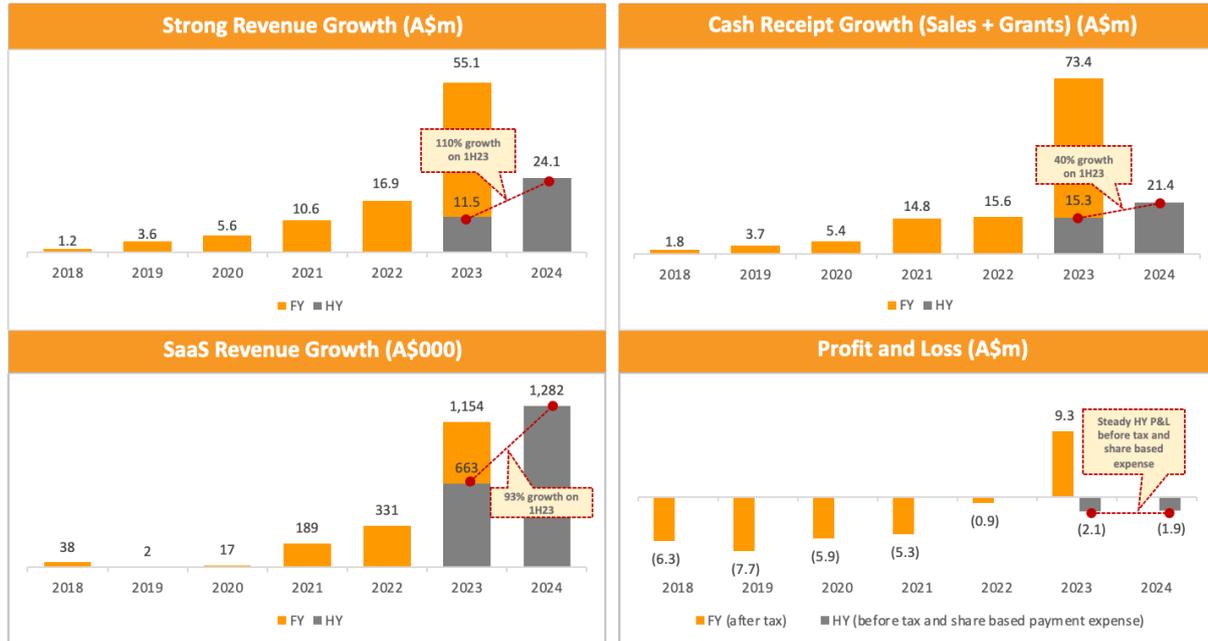
ASX Release

ABN 26 608 915 859

Quarterly Activities/Appendix 4C Cash Flow Report

DroneShield Limited (ASX:DRO) ("DroneShield" or the "Company") is pleased to release its business update and Appendix 4C for the three-month period ended 30 June 2024.

Highlights



Results for 1H24 are preliminary estimates. The reviewed results are due in August 2024, as part of 2024 Half-Year Report.

- 1H24 revenues of **\$24.1 million, up 110%** on 1H23 (\$11.5 million)
 - **Highest ever first half year revenues in DroneShield's history**
 - Includes 2Q24 revenues of \$7.4m
- 1H24 customer cash receipts of **\$21.4 million, up 40%** vs 1H23 (\$15.3 million)
 - **Highest ever first half year cash receipts in DroneShield's history**
 - Includes 2Q24 cash receipts of \$14.2m
- The primary difference between revenues and cash receipts is driven by US customers paying 30 days after delivery
- The second half of the year, and especially the December quarter, have traditionally been stronger performance periods for DroneShield
 - October and November often correspond to the start of a new budget cycle for many US Government customers, with end of year underspend catch up and commencement of new year monies being deployed
- 2x increase in pipeline** since 31 March 2024 to **\$1.1 billion¹** (as at 15 July 2024)
 - Significant ramp up in the Asia region (especially countries neighboring China), as multiple Governments are commencing substantial C-UAS programs against the threat of small Chinese drones conducting surveillance of sensitive areas, harassment and potential

¹ There is no assurance that any of the Company's sales opportunities will result in sales.

For personal use only



attacks

- Ongoing steady rise in C-UAS demand across US and Europe
- Drones are continuing to play a major role in the Ukraine war
- DroneShield continuing to invest in ready-to-sell inventory to support this strong pipeline of high-quality customer opportunities with inventory book value of \$42 million at 30 June 2024 vs \$24 million at 31 March 2024

- **1H24 SaaS revenues of \$1.3 million, up 93% vs 1H23 (\$663k)**
 - SaaS growth underpinned by customers requiring the Company's latest AI software engines, upgraded quarterly, in response to a rapidly evolving drone threat
 - Additional SaaS based solutions planned for launch in the next 12 months
- **Cash balance of \$146 million** as of 30 June 2024, no debt or convertibles
 - Substantial majority of this amount is earmarked for the inventory acquisition process
 - DroneShield's hardware carries sophisticated componentry (which assists high margins and competitive differentiation), driving the requirement for componentry purchasing in advance due to the build time of 3-4 months
- **\$28 million** contracted **backlog**
 - Steady vs previous periods (equal order intake and delivery rates)
- Further expansion of DroneShield's Sydney facility and its supply chain network, the **manufacturing capacity will be increasing from the current \$400 million p.a. to \$500 million p.a.**
 - Signed lease for significant additional 1,800sqm space at the current Sydney HQ facility, from the current 2,100sqm, for the combined total of 3,900sqm, from this August
 - This is expected to provide additional revenue opportunities (through higher production capacity)
 - The associated increase in annual lease cost (and other costs) is not material. The fitout is expected to be covered via the landlord fitout incentive. DroneShield's own operations do not have substantial capex associated with them, as only the final assembly and testing part of the manufacturing is performed at the Company's own facility, and the remainder is outsourced with strict specifications
- 151 team members **including 114 engineers**, driving rapid progress
 - A number of hires are recent, with productivity expected to get a further significant boost as they ramp up their contribution to the business
- Buyers of C-UAS systems are rapidly becoming aware of the need to fulfil their counterdrone requirements, and are **presently gearing up for large acquisitions of C-UAS equipment**, following smaller purchases and trials over recent years
- The rapid evolution of drone technology also means the **software subscriptions, as well as new hardware generations, are critical for effectiveness**
- **The US is expected to continue to be the largest market for DroneShield** (around 70% of its 2023 revenues), with a growing customer base across numerous government agencies, including both military and non-military federal agencies
- In Europe, the NATO framework agreement awarded to DroneShield is expected to drive material sales, both directly and via the "halo effect" of being selected by the NATO authorities
- In Asia, several of China's neighbours are becoming increasingly concerned about the threat of small Chinese drones, and **have launched major acquisition processes**, where DroneShield will be well placed to participate

For personal use only

- Results for 1H24 are preliminary estimates. The reviewed results are due in August 2024, as part of Half-Year Report

Outlook and Key Themes

As the geopolitical environment deteriorates globally, small drones continue to be used by bad actors, both State and non-State alike. Counterdrone/Counter-UAS (“C-UAS”) market remains at a negligible saturation point today, due to the nascent nature of the drone market. This is in contrast to markets such as helmets, body armour and tactical radios, as those markets have existed for a relatively long time, and are saturated as a result.

This means the buyers of C-UAS systems, such as military planners and security acquirers are rapidly becoming aware of the need to fulfil their counterdrone requirements, and are presently gearing up for large acquisitions of C-UAS equipment, following smaller purchases and trials over recent years.

Over the last 12 months, there appears to be penetration of military technologies into what was originally a consumer technology space for small drones. This makes such drones more challenging to detect, track and defeat. Significant ongoing technology efforts is required to keep up with this challenge by the C-UAS industry, benefitting DroneShield due to having a culture of rapid technology development.

The rapid evolution of drone technology also means the software subscriptions, as well as new hardware generations, are critical for effectiveness. DroneShield currently releases its AI firmware updates on a quarterly cycle; and releases new generations of its hardware every 2-3 years. While today the majority of hardware purchases are by customers who require additional equipment to what they may already have (or who acquire from a nil starting point), in the next 5-10 years a significant amount of sales will be driven by the customers moving from the older to the latest generation of hardware. For some customers, this may also lead to C-UAS-as-a-Service model, with longer term contracts which include hardware purchase and refreshes, regular software updates, installation and field support. This is a positive development, as much like the software updates, it reduces the lumpiness of cashflows.

While today the military makes the substantial bulk of the DroneShield customer base, over time the civilian segments are expected to go through rapid acquisition cycles, likely triggered by incidents in their respective areas. The spread of such acquisitions will be assisted by the cooperative nature of such customers to each other (as opposed to militaries of various countries being subject to various confidentiality protocols).

DroneShield’s Positioning

As a pioneer and global leader in the C-UAS sector, DroneShield has a number of technical and commercial differentiators compared to its competitors. These differentiators have been developed over years and are challenging to disrupt. On the commercial side, this includes deep trusted relationships and being written into multi-year requirement plans with key customers across the US Department of Defense (“DoD”) and other organisations directly, and the defence prime contractors working with the DoD, to support current and coming priorities. Global defence primes are often customers and partners, as opposed to competitors for DroneShield, as they prefer to leverage DroneShield’s expertise and organisational structure to operate and deliver at the required speed of innovation for the C-UAS sector.

The US is expected to continue to be the largest market for DroneShield (around 70% of its 2023 revenues), with a growing customer base across numerous government agencies, including both military and non-military federal agencies. With numerous customers and supporting several different C-UAS use cases, DroneShield is poised for continued diversified growth. The Company is actively progressing opportunities, both directly and as a subcontractor, across all of its major accounts.

With the current annual production capacity of \$400 million in hardware value, and rapidly growing with the addition of significant further space at its Sydney headquarters alongside the expansion of its manufacturing partners, the Company is well positioned for the quickly growing demand.

Technically, with a large team of hardware and software engineers, and a decade of solving C-UAS technology problems as they continue to rise in complexity, DroneShield is rapidly innovating and building on its unique differentiators, which include a dedicated Data Engineering team with a substantial proprietary database of data samples feeding its Artificial Intelligence software engines. This proprietary AI database grows through the ability of the field deployed devices with the customer option to relay the data back to DroneShield for prioritisation of new functionality and capabilities, and a number of tier 1 military and intelligence customers globally with trusted relationships, who are continuing to feed DroneShield's technology team with the latest field information on drone threats.

Payments to related parties of the entity and their associates

Board fees paid to Non-Executive Directors and salary to CEO amounted to \$1 million. This included performance incentive to the CEO of \$800k. Peter James (Independent Chairman) is paid \$110k a year and Jethro Marks (Independent Director) is paid \$50k a year.

This announcement has been approved for release to ASX by the Board.

For enquiries, please contact:



Oleg Vornik
CEO and Managing Director
E: oleg.vornik@dronesield.com
P: +61 2 9995 7280

About DroneShield Limited

DroneShield (ASX:DRO) provides Artificial Intelligence based platforms for protection against advanced threats such as drones and autonomous systems. We offer customers bespoke counterdrone (or counter-UAS) and electronic warfare solutions and off-the-shelf products designed to suit a variety of terrestrial, maritime or airborne platforms. Our customers include military, intelligence community, Government, law enforcement, critical infrastructure, and airports.

To learn more about DroneShield click here: www.dronesield.com/about

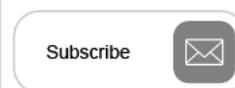
ENDS

For more information

Follow us



Get Updates



Visit our website



Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

DRONESHIELD LIMITED

ABN

26 608 915 859

Quarter ended ("current quarter")

30 June 2024

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
1.	Cash flows from operating activities		
1.1	Receipts from customers	14,230,651	21,325,597
1.2	Payments for		
	a) research and development	(864,462)	(1,459,035)
	b) product manufacturing and operating costs		
	<i>These costs correspond to more than the current period of sales, due to advanced inventory purchases</i>	(23,562,508)	(31,805,717)
	c) advertising and marketing	(1,640,598)	(3,070,258)
	d) leased assets	-	-
	e) staff costs	(6,218,360)	(10,777,857)
	f) administration and corporate costs	(1,450,323)	(4,475,869)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	614,783	682,462
1.5	Interest and other costs of finance paid	(11,836)	(20,356)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	1,259	27,175
1.8	Other	-	-
1.9	Net cash from / (used in) operating activities	(18,901,394)	(29,573,858)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	a) entities	-	-
	b) businesses	-	-

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
	c) property, plant and equipment <i>\$593k relates to leasehold improvements at DroneShield's new Sydney premises. IT equipment and production tools contribute to the remainder of the balance</i>	(1,702,283)	(2,196,945)
	d) investments	-	-
	e) intellectual property	-	-
	f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	a) entities	-	-
	b) businesses	-	-
	c) property, plant and equipment	-	-
	d) investments	-	-
	e) intellectual property	-	-
	f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
	Other		
2.5	<i>Leasing incentives received in relation to DroneShield's new Sydney premises. A further \$465k incentive for June is due 3Q24</i>	168,190	700,868
2.6	Net cash from / (used in) investing activities	(1,534,093)	(1,496,077)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	115,062,783	123,351,972
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	1,432,528	1,432,528
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(6,593,820)	(6,593,820)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
3.9	Other <i>Lease liability principal repayments relating to DroneShield's Office lease in Virginia</i>	(74,561)	(123,498)
3.10	Net cash from / (used in) financing activities	109,826,930	118,067,182
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	56,408,812	57,889,056
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(18,901,394)	(29,573,858)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,534,093)	(1,496,077)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	109,826,930	118,067,182
4.5	Effect of movement in exchange rates on cash held	(259,574)	654,378
4.6	Cash and cash equivalents at end of period	145,540,681	145,540,681

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	38,493,207	34,362,714
5.2	Call deposits	841,726	841,725
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposits)	106,205,748	21,204,373
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	145,540,681	56,408,812

6.	Payments to related parties of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to related parties and their associates included in item 1 <i>Payments to CEO and Non-Executive Directors</i>	1,011,424
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-



7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		-

8.	Estimated cash available for future operating activities	\$A
8.1	Net cash from / (used in) operating activities (item 1.9)	(18,901,394)
8.2	Cash and cash equivalents at quarter end (item 4.6)	145,540,681
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	145,540,681
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	7.7
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
	8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
	8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 22 July 2024

Authorised by: Board of Directors

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.