



DRONESHIELD

Quarterly Report

For the period ending
30 September 2024



Image: DroneSentry-X Mk2 on a vehicle

DroneShield Limited (ASX:DRO)

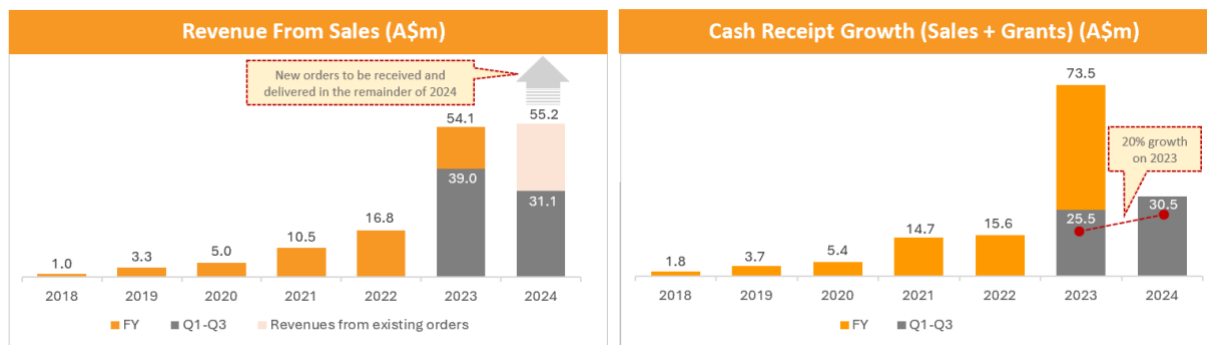
ASX Release

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 September 2024.

Highlights



Notes:

- Revenues from existing orders relate to existing orders scheduled to be delivered and recognised as revenue in 4Q24. Excludes revenues for any additional sales to be made and delivered for the remainder of 2024.
 - Results for YTD 3Q24 are preliminary estimates. The audited results are due in February 2025, as part of the 2024 Annual Report.
- 1Q-3Q 2024 cash receipts of **\$30.5 million**, up 20% vs 2023 (\$25.5 million) – noting the 2023 1Q-3Q period included \$2.4 million in R&D tax incentive (now received as a tax offset)
 - Highest 1Q-3Q cash receipts in DroneShield's history**
 - 3Q24 customer cash receipts of \$9.1 million**, up 18% vs 3Q23 (\$7.7 million)
 - Highest 3Q customer cash receipts in DroneShield's history**
 - 1Q-3Q 2024 revenues of **\$31.1 million**
 - 1Q-3Q 2023 revenue was \$39.0 million – difference with 1Q-3Q 2024 due to the delivery of a material amount of the \$33 million order announced in July 2023, during the 3Q2023
 - There are material deliveries already delivered and scheduled for 4Q2024 from existing orders, of which an additional \$24.1 million in revenue is estimated for 4Q2024, resulting in an estimate of **\$55.2 million in 2024 revenue only from the existing orders, prior to any additional new orders to be received and delivered prior to year-end** (vs \$54.1 million total revenue in 2023)¹
 - DroneShield is **well placed to deliver orders at short notice** prior to year-end, with \$240 million in existing inventory (completed and in progress/long lead items) by sale value held
 - The technology obsolescence is managed by providing quarterly AI software updates to a number of products, as well as forecasting inventory requirements by comparing sales pipeline vs the timeframe of release of the next generation of hardware across its products
 - The hardware carries sophisticated componentry (assisting high margins and differentiation), driving the requirement for componentry purchasing in advance due to the build time of 3-4 months
 - Customers have urgent requirements and are unable to wait months for delivery
 - The sales team is focussed on maximising revenues prior to the calendar year-end, with October marking the start of the US new fiscal year

¹ Estimate only, and should not be considered as guidance.

- **Robust pipeline of \$1.1 billion²** (as at 25 October 2024)
 - Buyers of C-UxS systems are aware of the need to fulfil their requirements, and are **gearing up for large acquisitions of C-UxS equipment**, following earlier smaller purchases and trials
 - Significant ramp up in the Asia region (especially countries neighboring China), as multiple Governments are commencing C-UxS programs against the threat of small Chinese drones conducting surveillance of sensitive areas, harassment and potential attacks
 - **The US is expected to continue to be the largest market for DroneShield** (70% of 2023 revenues, and 60% for 2024 YTD), with a growing customer base across numerous government agencies, including military and non-military agencies
 - Drones are continuing to play a major role in the Ukraine war, including C-UxS foreign military aid into Ukraine
 - 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
 - With the larger C-UxS program acquisitions, the procurement times to award are longer for larger projects, due to additional probity requirements associated with larger deals. There are currently 34 separate sale opportunities, each in excess of \$5 million, in the \$1.1 billion sales pipeline. Some may be potentially awarded prior to year-end.²
- **Strong cash balance** as of 30 September 2024 of **\$238.3 million**, no debt or convertibles
 - Up from \$145.5 million as of 30 June 2024, and including the proceeds from the \$120 million Placement in August 2024
 - This also includes cash outflows of \$19 million during the quarter on inventory
 - There is currently \$40 million in additional inventory payment commitments
 - Key areas of spend going forward will be R&D investment to stay ahead of innovation in the drone technology, as well as a gradual build out of inventory
- Current team of 220 staff includes **140 engineers** to drive the technology development with quarterly AI software updates and 2-3 year hardware development cycles
 - 300 staff including 220 engineers planned by the end of 2025
 - A number of hires are recent, with productivity expected to get a further significant boost as they ramp up their contribution to the business
 - DroneShield receives significant amounts of cutting-edge tech intelligence on drone trends from Ukraine, Middle East and elsewhere globally via its network of tier 1 customer and partner relationships
 - Ramp up in Europe, with 3 experienced senior sales hires (all with ex-C-UxS competitor background) in Denmark and Germany, as well as an experienced senior sales hire in the Middle East. Two senior ex-Australian Defence Force (ADF) Australian hires (VP Strategy and a senior adviser) have joined the business engaging on ADF's C-UxS deployments, which are expected to ramp up significantly. They are supported by other ex-senior ADF staff as advisers where appropriate
 - DroneShield has also hired Kacey Lam-Evans as its Government Affairs Director, based in Canberra, who was in the original team at Pyne and Partners with Hon Christopher Pyne, as the Company expects Australia to commence large C-UxS programs in near term
- Ukraine, Middle Eastern and other global conflicts substantively use small drones
 - This is driving significant innovation in the small drone warfare, and as a result innovation in counterdrone (**C-UxS**) systems. DroneShield does not consider itself competing with other C-UxS companies in the market, but rather the drone technologies themselves
- **1H24 SaaS revenues of \$1.3 million, up 93% vs 1H23 (\$663k)**
 - SaaS revenue update incl 3Q and 4Q will be available as part of the 2024 full year results
 - Customers require the Company's latest AI software engines, upgraded quarterly on SaaS basis, in response to a rapidly evolving drone threat

² There is no assurance that any of the Company's sales opportunities will result in sales.

- As the hardware becomes more flexible/open-ended with each generation of the product, the **software updates will play an increasing role, critical to effectiveness**
- Additional SaaS based solutions planned for launch in the next 12 months
- **\$42 million contracted backlog**
 - Increasing amount (\$28 million in 2Q24), and with \$24.1 million expected to be delivered this quarter and recognised as revenue
- Further expansion of DroneShield's Sydney facility and its supply chain network, which is expected to increase the **manufacturing capacity from the current \$400 million p.a. to \$500 million p.a.**
 - Signed lease for a significant additional 1,800sqm space at the current Sydney HQ facility, from the current 2,100sqm, for the combined total of 3,900sqm, with the move into the expanded space planned to occur prior to 2024 year-end
 - Expected to provide additional revenue opportunities (through higher production capacity)
 - Majority of the expanded space is for [DroneSentry-X Mk2](#) production (multi-mission vehicle/fixed site/vessel detect and defeat system), which is expected to drive significant revenue in 2025 and beyond
 - 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 outlays 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

Outlook and Key Themes

As the geopolitical environment deteriorates, **small drones continue to be used by bad actors, both State and non-State alike**. C-UxS market **remains at a low saturation**.

The C-UxS program managers are seeing the rapid evolution of drones on the battlefield, which drives a degree of delay in larger acquisitions, for the concern of the purchased equipment not being fit for purpose within a couple of years. DroneShield is approaching this concern in a number of ways, including building a **higher degree of flexibility in its hardware** (with software updates driving the technology), as well as **commercial structures in its engagement that reflect the fast changing technology landscape**. The Company also benefits from having a wide range of products, including handheld solutions, deploying AI on edge (in contrast with the server farms in the cloud, which is the more traditional deployment of AI, however not suitable for battlefield applications with no readily available network access at all times).

In terms of the evolution of drones, over the last 12 months, there appears to be **penetration of military technologies into what was originally a consumer technology space for small drones**, with a key focus to avoid detection and defeat of C-UxS systems on both sides of the Ukraine conflict. Ongoing technology effort is required to keep up with this challenge. DroneShield is well placed to meet this challenge due to its culture of rapid technology development.

While today the majority of hardware purchases are by customers who require additional equipment to what they may already have (or it's their initial purchase), in the next 5-10 years significant sales are expected to be driven by the customers moving from the older to the latest generation of hardware. For some customers, this may also lead to C-UxS-as-a-Service model, with longer term contracts which include hardware purchase and refreshes, regular software updates, installation and field support. This is positive, as it reduces the lumpiness of cashflows.

While today the military is majority of DroneShield's customer base, over time the civilian segments are expected to go through rapid acquisition cycles, likely triggered by incidents. The spread of such acquisitions will be assisted by the cooperative nature of information sharing of such customers (as opposed to militaries).

The C-UxS sector is continuing to consolidate in 2024, with Axon acquiring Dedrone, Bridgepoint acquiring MyDefence and High Point acquiring Radio Hill, this year alone. **DroneShield remains the only publicly listed pure-play C-UxS company globally, as well as one of the last original C-UxS pioneers in this space.**

DroneShield's Positioning

As a pioneer and global leader in the C-UxS 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 primes are often customers and partners, as opposed to competitors for DroneShield, as they prefer to leverage DroneShield's ability to deliver at the required speed of innovation.

With numerous customers and supporting several different C-UxS 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 a large and agile team of hardware and software engineers (estimated as the largest C-UxS engineering team globally), and a decade of solving C-UxS technology problems as they continue to rise in complexity, DroneShield is rapidly innovating and building on its unique differentiators.

Payments to related parties of the entity and their associates

Board fees paid to Non-Executive Directors and salary to CEO amounted to \$561,483.

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

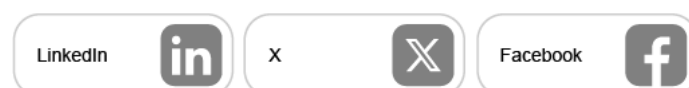
DroneShield (ASX:DRO) provides Artificial Intelligence based platforms for protection against advanced threats such as drones and autonomous systems. We offer customers bespoke counterdrone (or counter-UAS) and electronic warfare solutions and off-the-shelf products designed to suit a variety of terrestrial, 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

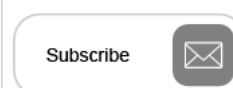
ENDS

For more information

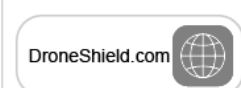
Follow us



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 September 2024

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
1.	Cash flows from operating activities		
1.1	Receipts from customers	9,086,328	30,411,925
1.2	Payments for		
	a) research and development	(912,178)	(2,371,213)
	b) product manufacturing and operating costs		
	<i>These costs correspond to more than the current period of sales, due to advanced inventory purchases</i>	(19,017,571)	(50,823,288)
	c) advertising and marketing	(892,815)	(3,963,073)
	d) leased assets	-	-
	e) staff costs	(6,991,794)	(17,769,651)
	f) administration and corporate costs	(2,187,586)	(6,663,455)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1,474,537	2,156,999
1.5	Interest and other costs of finance paid		
	<i>Interest paid relating to the lease liability for DroneShield's Office lease in Virginia and Sydney. Payments for the Sydney office commenced in July 2024.</i>	(84,819)	(105,175)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	97,629	124,804
1.8	Other	-	-
1.9	Net cash from / (used in) operating activities	(19,428,269)	(49,002,127)

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	a) entities	-	-
	b) businesses	-	-
	c) property, plant and equipment <i>\$879k relates to leasehold improvements at DroneShield's new Sydney premises. IT equipment, vehicle and production tools contribute to the remainder of the balance</i>	(2,332,311)	(4,529,256)
	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 Sydney premises.</i>	422,476	1,123,344
2.6	Net cash from / (used in) investing activities	(1,909,835)	(3,405,912)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	120,062,501	243,414,473
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	1,432,528
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(5,400,000)	(11,993,820)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other <i>Lease liability principal repayments relating to DroneShield's Office lease in Virginia and Sydney. Payments for the Sydney office commenced in July 2024.</i>	(242,384)	(365,882)
3.10	Net cash from / (used in) financing activities	114,420,117	232,487,299
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	145,540,681	57,889,056
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(19,428,269)	(49,002,127)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,909,835)	(3,405,912)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	114,420,117	232,487,299
4.5	Effect of movement in exchange rates on cash held	(288,238)	366,140
4.6	Cash and cash equivalents at end of period	238,334,456	238,334,456

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	56,158,487	38,493,207
5.2	Call deposits	861,377	841,726
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposits)	181,314,592	106,205,748
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	238,334,456	145,540,681

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>	561,483
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)	(19,428,269)
8.2	Cash and cash equivalents at quarter end (item 4.6)	238,334,456
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	238,334,456
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	12.27
<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

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.

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: 25 October 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.