



Picture: The Nordic Unmanned-operated drone that completed the world's first cargo drone flight to an offshore facility in Aug'20, from Equinor's Mongstad base to the Troll A platform.

Nordic Unmanned (Buy, TP NOK 65)

Perfectly positioned for commercial drone megatrend

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Please note that SpareBank 1 Markets acted as Manager and Bookrunner in the Dec'20 private placement and listing on Euronext Growth

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SpareBank
MARKETS 

Nordic Unmanned (Buy, TP NOK 65)

Perfectly positioned for commercial drone megatrend

We initiate coverage of Nordic Unmanned (NUMND) with a Buy recommendation and NOK 65 target price. We believe the company is perfectly positioned for the ongoing commercial drone megatrend. The European drone market is expected to double to USD 10bn by 2025, equal to 14% CAGR. The military has utilized drones for many years, while commercial drone applications are relatively new. The commercial segment is expected to see the strongest growth going forward, as drones are greener, cheaper and safer than legacy solutions. We expect EBITDA will grow from NOK 3m in 2020 to NOK 44m/88m in 2021/22, both from higher revenues and margins. Current estimates are supported by a solid backlog and a huge pipeline, which also provide upside potential to estimates. EV/EBITDA stands at 9.5x/8.9x for 2022/23, which we find attractive based on the strong growth outlook and relevant peers trading at an average of 15x for 2022. Our NOK 65 target price equals 15x EV/EBITDA for 2022, in line with the peer average.

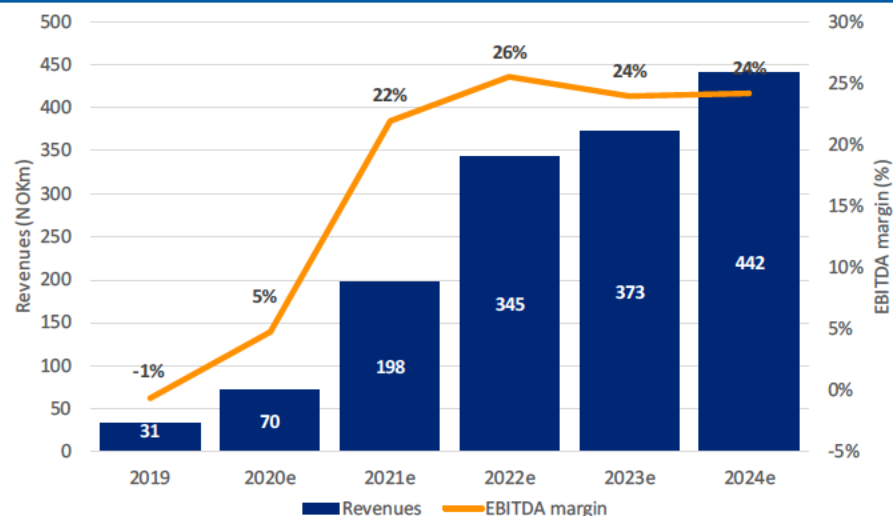
- **The drone market is booming – Commercial applications are just in the beginning:** The drone market is seeing strong growth and increased applications across several segments. Nordic Unmanned focuses on the European market, which is expected to double to around USD 10bn by 2025, equal to 14% CAGR. The military has utilized drones for many years and accounts for ~70% of the market today. While military is also expected to grow further, the highest growth is expected to come in the commercial sector. Commercial applications are relatively new but the usage is expected to accelerate significantly. Services and operations make up 73% of estimated market size in 2025, which is the part of the value where NU has its focus. Nordic Unmanned owns and operates drones from Schiebel and Lockheed Martin in addition to its own Staaker drones.
- **Drones are greener, cheaper and safer than legacy solutions:** Using North Sea offshore operations as an example, Nordic Unmanned's Camcopter drones emit 98% less CO2 per kilometer than a traditional Sikorsky S-92 helicopter. This is an important metric, as CO2 emissions are high on the agenda for clients like Equinor and governments. It also contributes to a high ESG score. Drones furthermore cost 36% less than helicopters per flight hour while capex is around 10% of similar-use helicopters. The unmanned nature of drones also makes them safer. We expect drones will take market share from helicopters going forward, supported by the contracts Equinor awarded to NU in 2020/21.
- **Green Solutions dominates current backlog - Huge contract opportunity pipeline:** Nordic Unmanned focuses on four core segments: Green Solutions, Defence & Security, Logistics & Robotization and Digitalization. The NOK 295m backlog as of Dec'20 is dominated by Green Solutions and repeat customer EMSA, as IMO 2020 boosts demand for maritime pollution monitoring. Nordic Unmanned has identified contract opportunities worth NOK 6.5bn over the next four years, with the largest and easiest identifiable within Defence & Security. In addition, the company foresees NOK 12.8bn unidentified contract potential next four years, driven by strong industry growth and increasing applications. The latter is underpinned by Nordic Unmanned today performing operations which was not identifiable one year back. Note also that Defence & Security by nature provides longer tender visibility due to defence budgets, while tenders in the other segments often come at shorter notice.
- **Strong estimated revenue and EBITDA growth, supported by current backlog and pipeline:** We expect to see strong growth in revenue and EBITDA in the coming years, with revenues up from NOK 70m in 2020e to NOK 198m/345m in 2021/22e and EBITDA from NOK 3m to NOK 44m/88m. Our estimates are in line with company targets, but we see significant upside potential to estimates on the back of the strong contract pipeline. Current backlog provides solid support to estimates, with coverage of 58%/30%/18% for 2021-23e. The remainder of our revenue estimates come mainly from the identified pipeline adjusted for probability of contract award. If we had also included the unidentified adjusted pipeline in our estimates, our revenue estimates would have been 2.9-3.4x higher the next four years. There is hence vast upside potential to current estimates.
- **EV/EBITDA of 9.5x/8.9x for 2022/23e looks attractive based on the strong growth outlook and peer group pricing:** EV/EBITDA stands at 8.9x/9.8x for 2022/23e, which we find attractive based on the strong growth outlook and peer group average at 15x for 2022, ex helicopter operator Bristow. Bristow operates in a flat/declining market and represents one of the legacy solutions Nordic Unmanned seeks to replace. The other players in our peer group all have exposure to drones, although Nordic Unmanned is the only pure-play listed drone operator. AeroVironment has the highest drone exposure of peers, and also the highest multiples at 26x/20x EV/EBITDA for 2022/23. We initiate coverage on Nordic Unmanned with a Buy rating and NOK 65 target price, equal to 15x EV/EBITDA for 2022.

Nordic Unmanned at a glance

Company introduction

Nordic Unmanned delivers high-end drone services to European governments and blue chip industrial clients. The company was founded in 2014 and has seen strong growth since inception. Drones are in the process of replacing legacy methods like helicopters, as drones are greener, safer and cheaper. The European drone market is expected to grow at 14% CAGR to 2025, while commercial demand is expected to grow even more as it takes market share from Military. NU is perfectly positioned to capitalize on this growth. NU is one of only few system integrators in the value chain, with direct interaction with end-customers and operating experience.

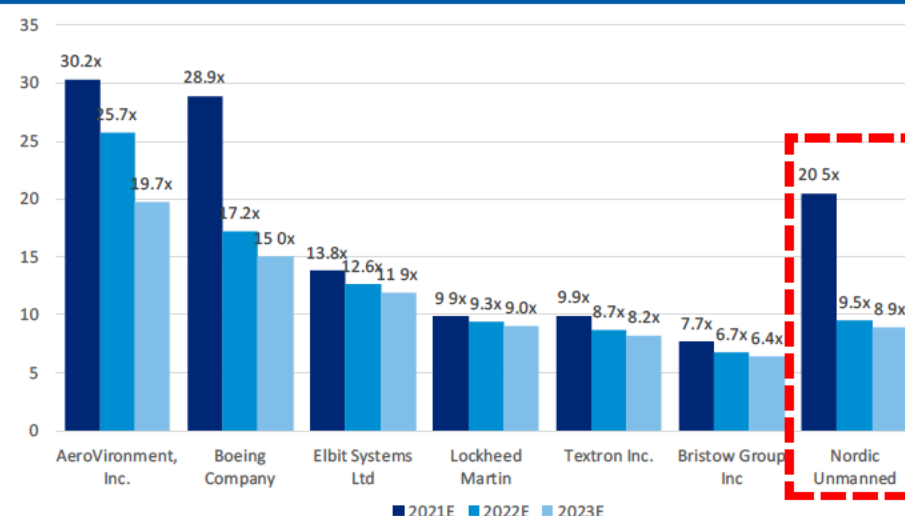
Revenue and EBITDA margin estimates



Emission monitoring with sniffer drone – A key demand driver

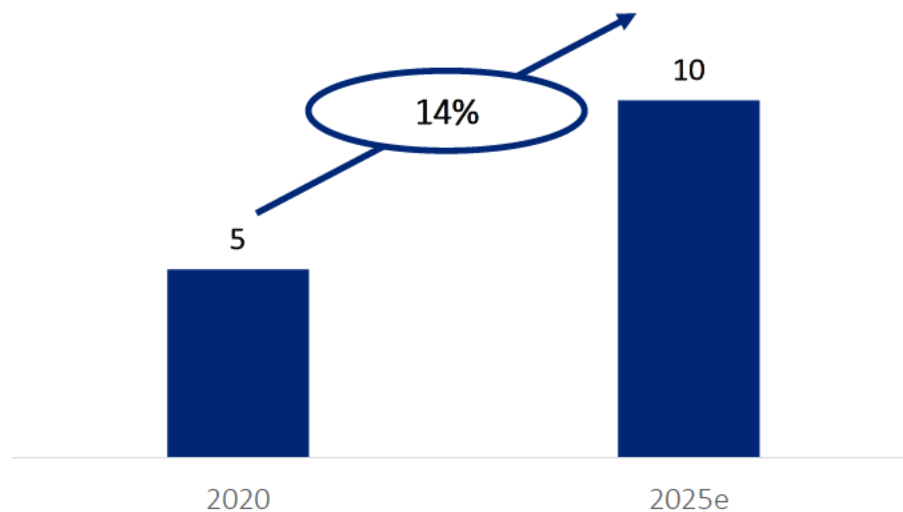


EV/EBITDA vs broad peer group

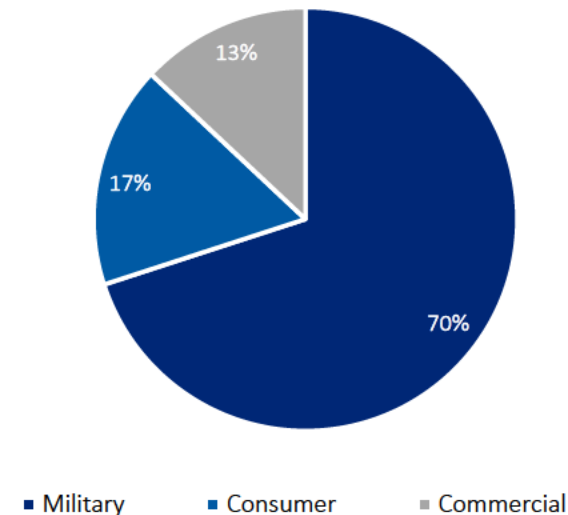


European drone market expected to double to USD 10bn by 2025, equal to 14% CAGR

European drone market size (USDbn)



Drone market sector split

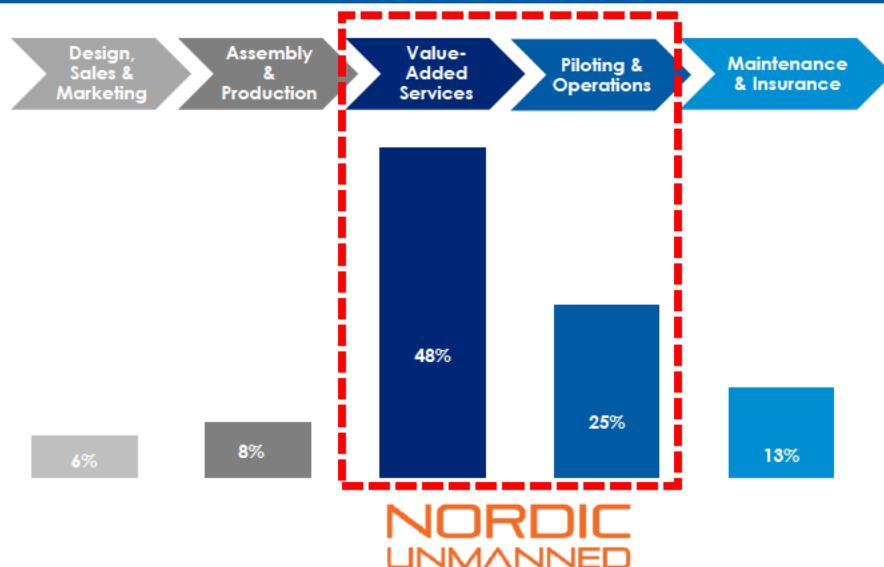


- The drone market is seeing strong growth and increased applications across several segments. Nordic Unmanned focuses on the European market, which is expected to double to around USD 10bn by 2025, equal to 14% CAGR.
- The military has utilized drones for several years and today makes up around 70% of the drone market. While the military sector is also expected to grow further, the highest growth is expected to come in the commercial sector. Commercial applications are relatively new but the usage is expected to accelerate significantly over the coming years.
- Covid-19 has also accelerated growth as keeping distance has become important, with e.g. physical fishery controls of vessels increasingly replaced by drones.

Nordic Unmanned focuses on services and operations – Largest part of the drone value chain

Owens and operates drones from Schiebel and Lockheed Martin, in addition to its own Staaker drones

Drone market revenue split (2025e)



- Services and operations make up 73% of estimated market size in 2025, which is Nordic Unmanned's focus areas. Nordic Unmanned owns and operates drones from Schiebel and Lockheed Martin in addition to its own Staaker drones.

Nordic Unmanned drone portfolio



Schiebel
CAMCOPTER®
S-100



Lockheed Martin
Indago 3



Staaker BG100



Staaker BG200



Staaker BG300

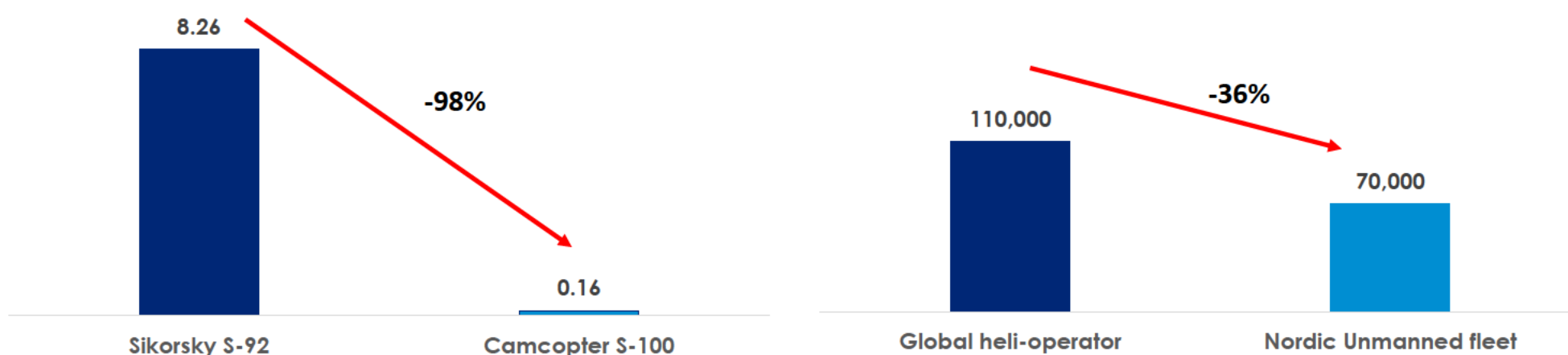
Own IP

Drones are greener, cheaper and safer than legacy solutions like helicopters

Capex for drones around 10% of similar-use helicopters

CO2 emissions per km - Sikorsky helicopter vs Camcopter drone





Estimated cost for customer (NOK per flight hour)



- Using North Sea offshore operations as an example, Nordic Unmanned's Camcopter drones emit 98% less CO2 per kilometer than a traditional Sikorsky S-92 helicopter. This is an important metric, as CO2 emissions are high on the agenda for clients like Equinor and governments. It also contributes to a high ESG score. Drones also cost 36% below helicopters per flight hour while the capex for drones is around 10% of similar-use helicopters. The unmanned nature of drones also makes them safer. We expect drones will take market share from helicopters going forward, supported by the contracts Equinor awarded to NU in 2020/21.
- In August 2020, Nordic Unmanned performed the world's first cargo drone flight to an offshore facility, from Equinor's Mongstad base to the Troll A platform. In January 2021, Equinor awarded Nordic Unmanned a contract to study how drones can be used between installations and vessels, in search & rescue operations, to and from shore travel, and more. Operational testing will be performed during summer of 2021.

Focus on four core segments, with clients mainly European governments and blue chip industrials

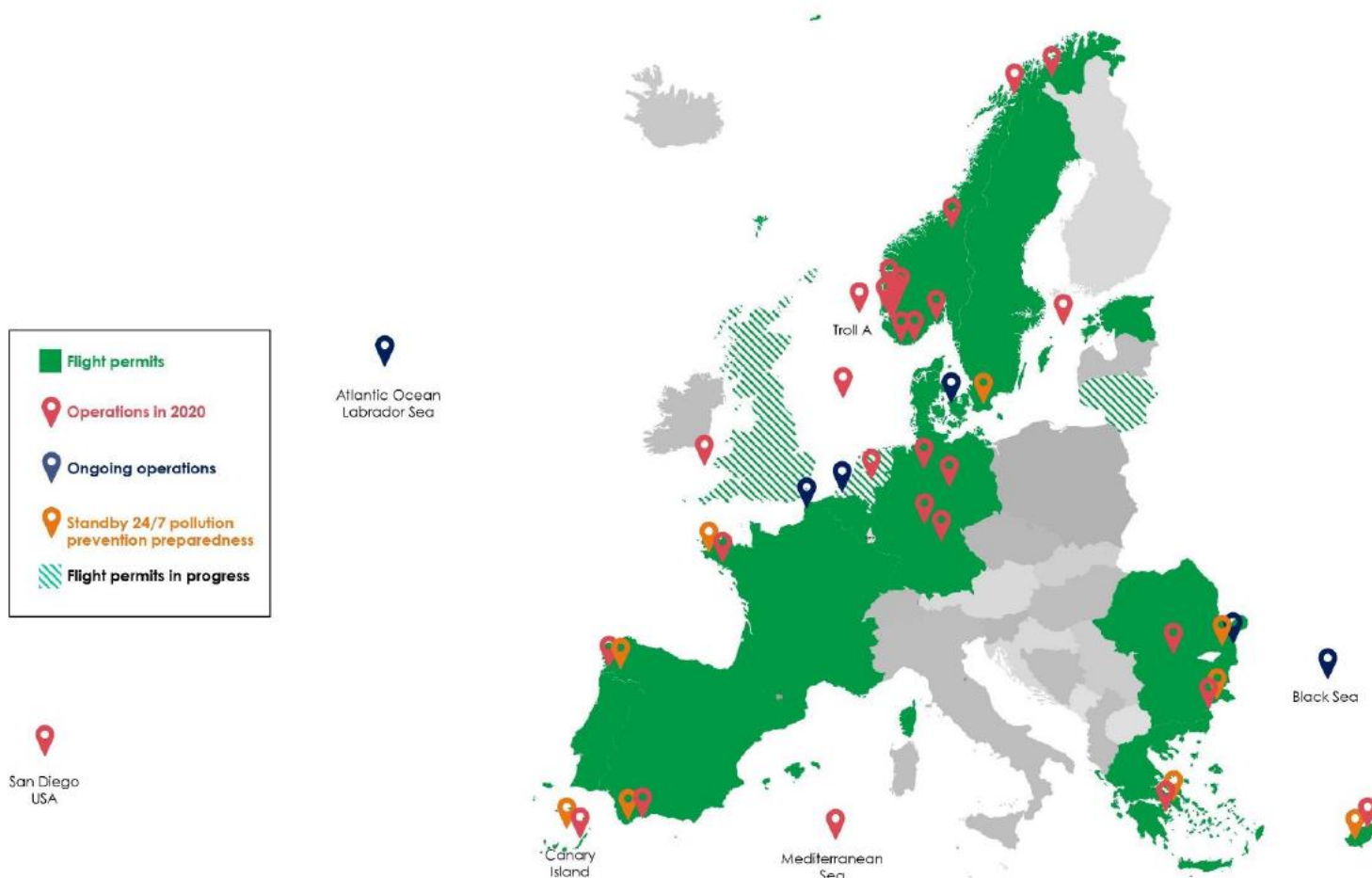
Contracts structured as long-term frame agreements with recurring revenues

General contract length		
Green Solutions	3-6 years	
Defence & Security	up to 7 years	
Logistics & Robotization	2 years with expected increase	
Digitalization	Up to 3 years	

Strong operational footprint, with permits in 14 countries and strong operator track record

Permit in Lithuania received on 5 January 2021, marking the 14th country on the company's permit list

Nordic Unmanned flight permits and operations in 2020



Common EU regulations replace national drone rules from Jan'21 – Positive for Nordic Unmanned

New European drone regulations from Jan'21

- A common EU regulation replaces national rules for drones from Jan'21. The purpose is to accelerate the adoption of drones in a regulated and safe manner.
- Europe is the first continent to adopt a common set of rules for drones
- Nordic Unmanned already operates under the new EU rules and has been doing so for the last two years

Advantages for Nordic Unmanned

- 1 Professionalization and consolidation to the high-end operators with higher barriers to entry
- 2 Drone industry moves closer to the conventional aviation industry with less-cross border red tape
- 3 European regulatory bodies will facilitate and accelerate growth
- 4 Increased number of use cases will be approved in each country with resulting market increase

Nordic Unmanned is a leading system integrator and only listed pure-play drone operator

Competitors

Green Solutions



Logistics & Robotization



Defence & Security



Digitalization



NUMND advantage

- The only large rotary wing drone operator
- The only provider of marine emission data from vessels
- Runway independent
- Vessel based operations
- Large toolbox of systems

- Only offshore operator
- Regular flight permits in 13 European countries
- Drone agnostic
- Beyond line-of-sight experience and permission

- Agile and customer focused
- No big legal department
- System integrator with a large portfolio
- Hands on systems and service experience
- No internal politics

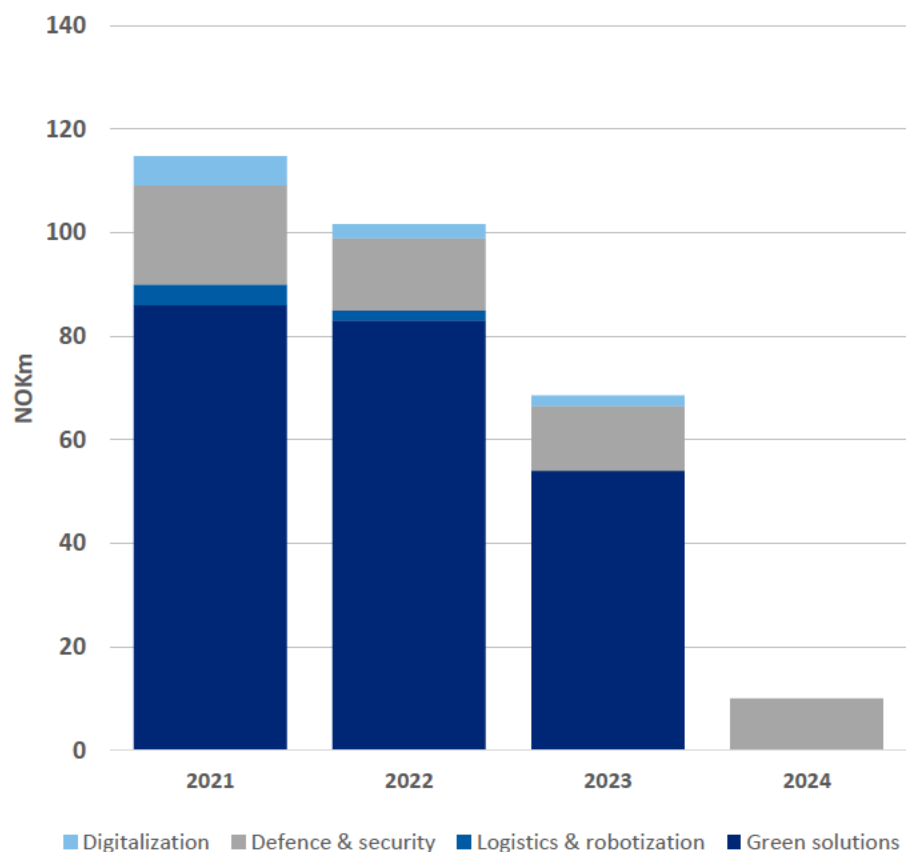
- Focused on datasets from advanced sensors
- Internal integration and development of systems and services
- Disruptive market approach

- In the operator- and system integrator space there are few large competitors to NU, and fewer with operating history
- No competitor competes with NU across all business segments, as they focus on one segment (often originated from focus on other businesses, like logistics or defence)
- Fragmented supplier industry (hardware and software)
- There are numerous micro-operating companies in Europe, and most are just one-man operations

NOK 295m backlog, mainly within Green Solutions and repeat customer EMSA*

EMSA contracts related to maritime pollution prevention – Demand boosted by IMO 2020 (SOx) and IMO 2021 (NOx)

Breakdown of NU's current backlog of NOK 295m



Drone with sniffing capability (measures sulfur level)



The largest and easiest identifiable contract opportunities are in the Defence & Security segment

Defence budgets provides long visibility – Tenders in the other three segments come at shorter notice

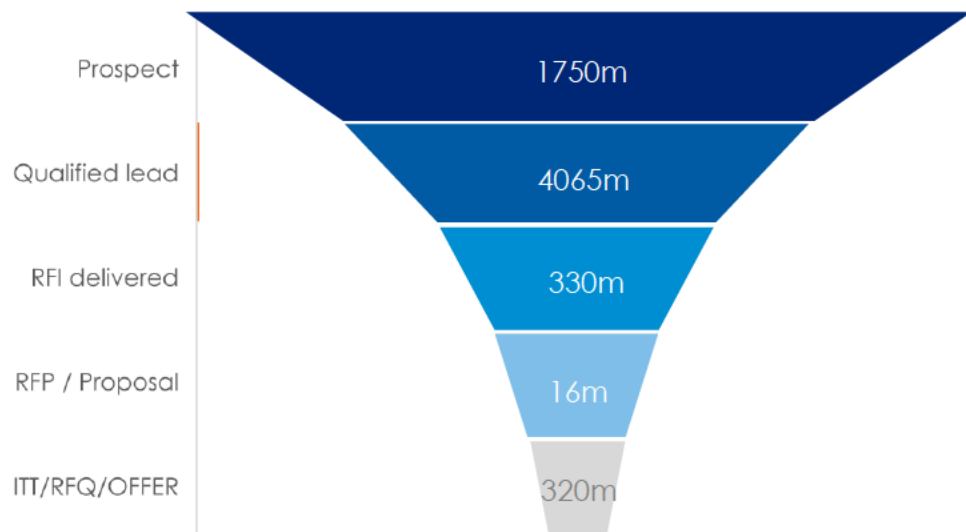
Largest contract opportunities in the identified pipeline

Client	Business area	Size	Win% (assumed)	Start	End
Public security agency	Defence & Security	NOK 500m	5%	2024	2031
Public environmental agency	Green Solutions	NOK 500m	25%	2024	2028
Energy company	Logistics & Robotization	NOK 443m	20%	2022	2028
A Ministry of Defence (MOD) in Europe	Defence & Security	NOK 400m	10%	2022	2032
MOD in Europe	Defence & Security	NOK 400m	50%	2022	2025
MOD in Europe	Defence & Security	NOK 352m	5%	2022	2025
MOD in Europe	Defence & Security	NOK 300m	75%	2022	2029
MOD in Europe	Defence & Security	NOK 300m	10%	2023	2030

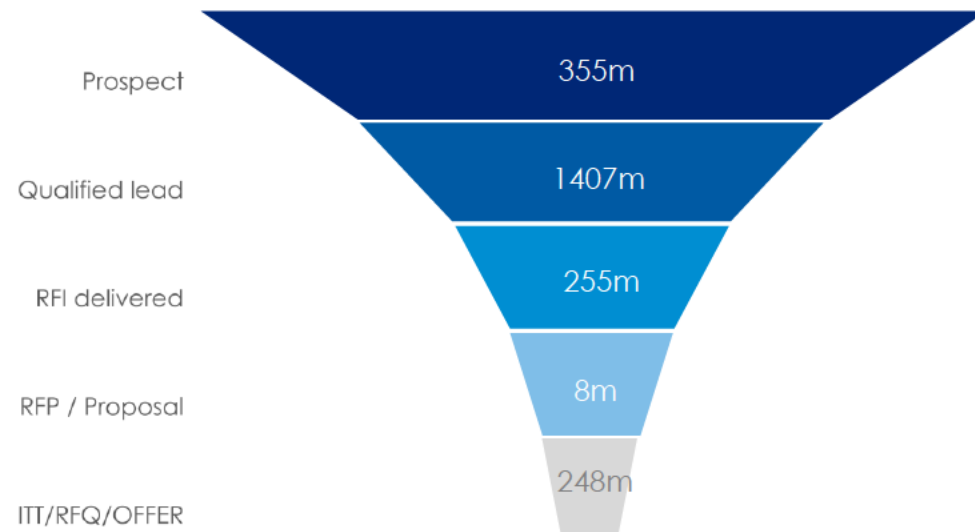
Identified pipeline of NOK 6.5bn next 4 years –when adjusting for probability of award

In addition, NOK 12.8bn est. unidentified pipeline driven by the rapid market growth and new applications

Total sales pipeline of NOK 6.5bn



Adjusted sales pipeline of NOK 2.3bn*

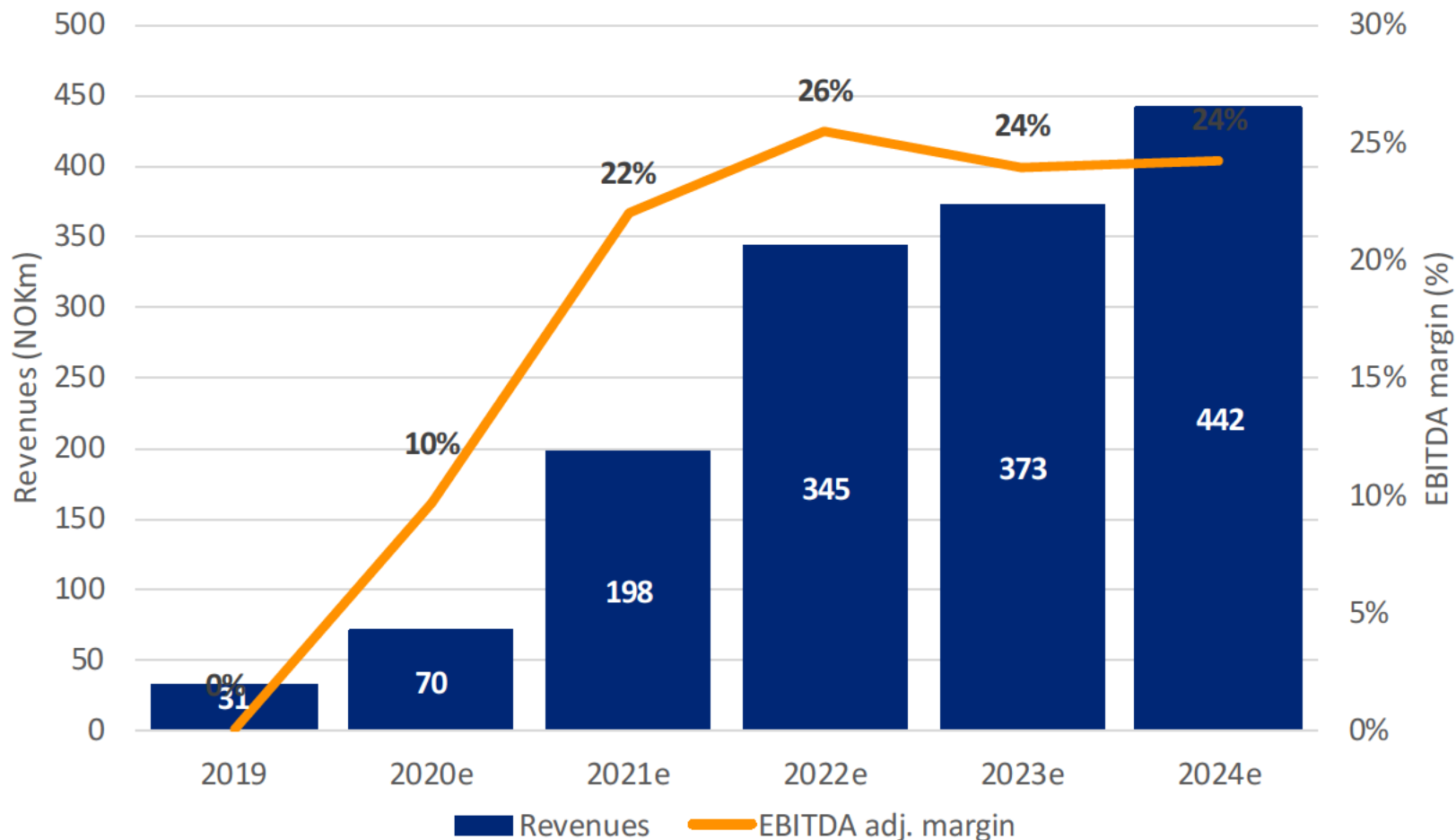


*adjusted with probability of contract award

- Nordic Unmanned has identified contract opportunities worth NOK 6.5bn over the next four years, with the largest and easiest identifiable within Defence & Security. In addition, the company foresees NOK 12.8bn unidentified contract potential next four years, driven by the strong industry growth and increasing applications in all segment. Note that Defence & Security by nature provides longer tender visibility due to defence budgets, while tenders in the other segments often come at shorter notice.

Strong estimated growth in revenues and EBITDA in the coming years

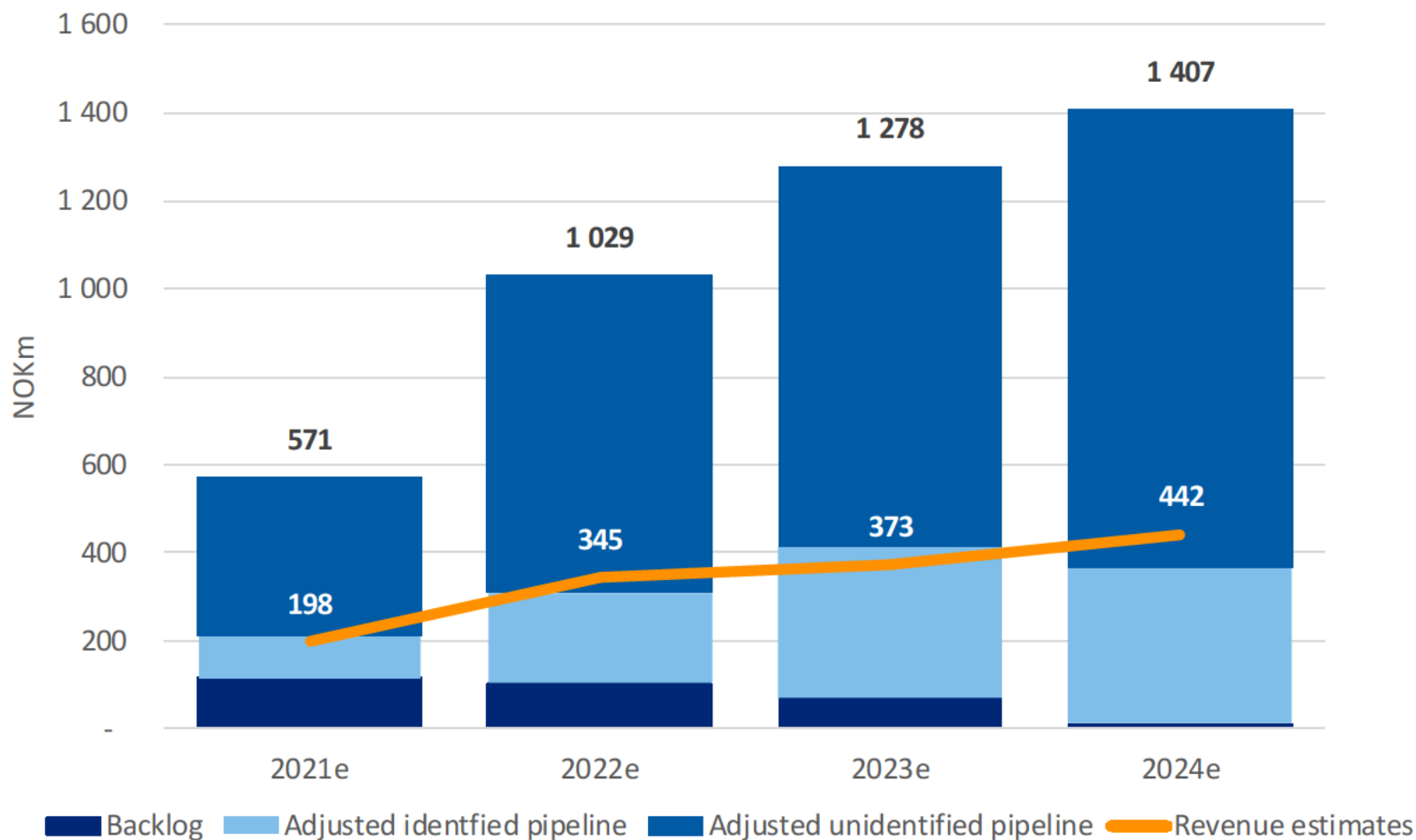
Revenue and EBITDA margin estimates



Current backlog and contract pipeline provide strong support to estimates

Backlog coverage of 58%, 30% and 18% for 2021-23e

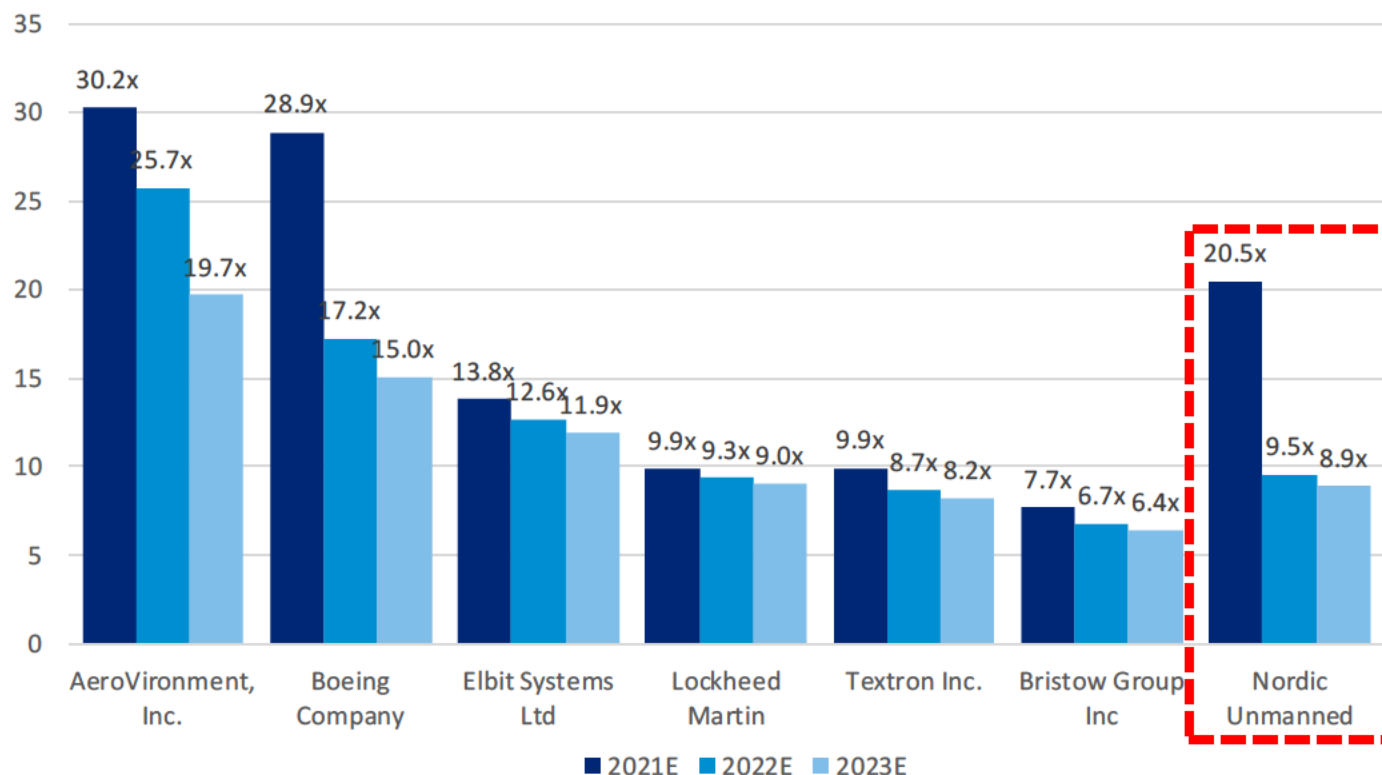
Revenue estimates breakdown on backlog and pipeline



Trades at attractive EV/EBITDA multiples of 9.5x/8.9x for 2022/23

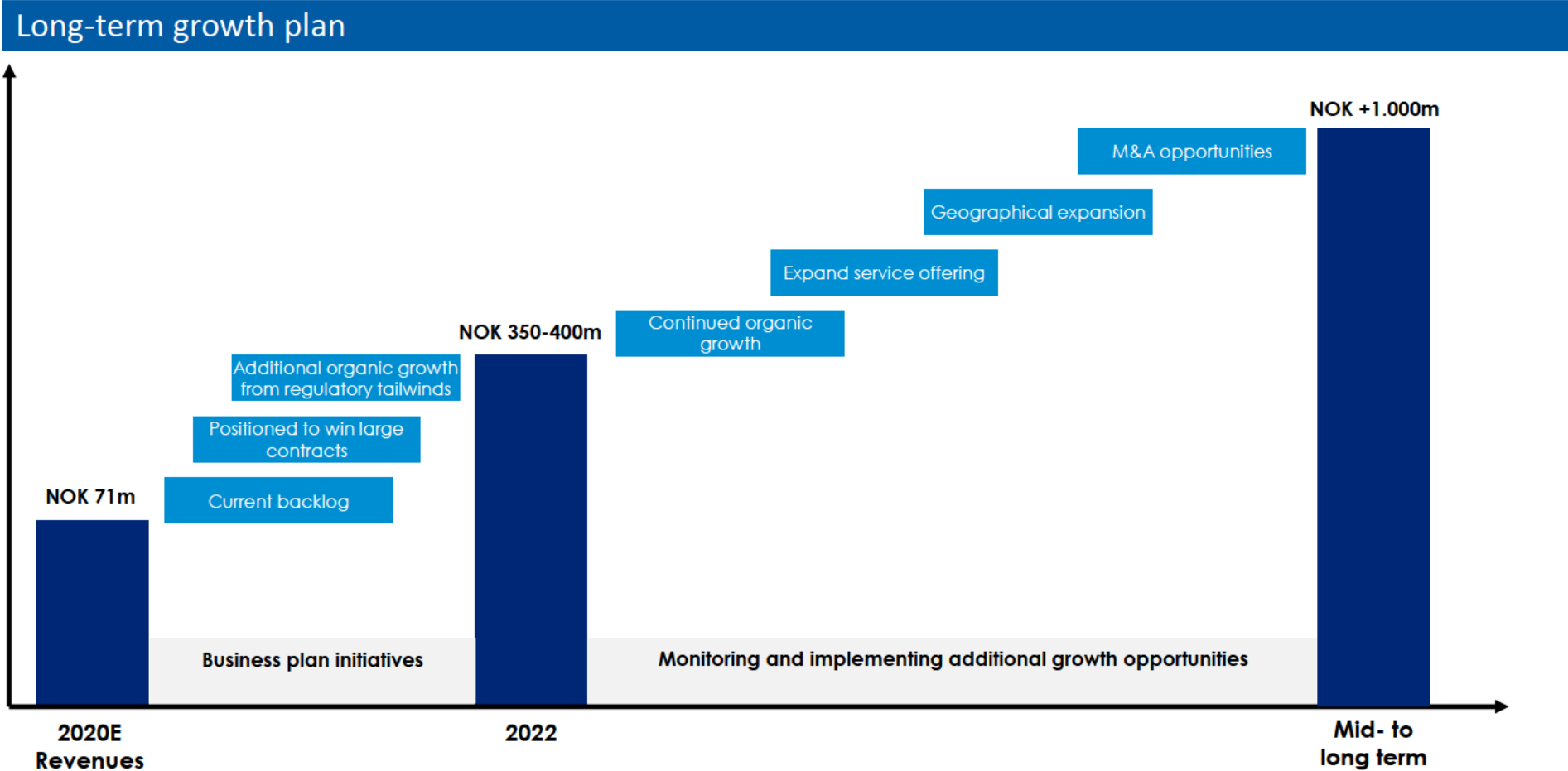
Our NOK 65 target price equals 15x EV/EBITDA for 2022e, in line with peer group average ex Bristow

EV/EBITDA vs peers



- **Bristow:** Helicopter competitor. Flat/declining market and capex heavy. NU operates in a growing market and is less capital intensive --> NU should trade at higher multiple.
- **AeroVironment:** Defence manufacturer, primarily involved in UAVs. Highest share of revenues from drones in our peer group, after Nordic Unmanned.
- **Elbit Systems:** Provider of UAV systems. Same end-demand as NU.
- **Textron:** Industrial conglomerate with wide range of businesses, including UAVs. One of Nordic Unmanned's partners.
- **Lockheed Martin:** Global aerospace and defence company, with drones part of the product line. NU owns and operates drones from Lockheed Martin and has also been a European reseller of LM drones since 2016.
- **Boeing:** The world's largest aerospace company, and also a manufacturer of drones.

Long-term goal to build an industry leader within drone services and generate NOK 1bn+ revenues



Financial summary

Annual financials

P&L , NOKm	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
Revenues	11	11	31	70	198	345	373	442
EBITDA	-6	-4	0	3	44	88	90	107
EBITDA margin	-52%	-35%	-1%	5%	22%	26%	24%	24%
EBIT	-7	-6	-2	0	28	68	70	87
EBIT margin	-63.0%	-50.3%	-5.6%	0.1%	14.0%	20%	19%	20%
Pretax profit	-10	-7	-3	-2	19	59	62	80
Net income	-10	-3	1	-2	13	41	42	55

Balance Sheet, NOKm	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
Total fixed assets	7	10	34	88	218	208	208	209
Cash and equivalents	1	0	1	53	5	37	54	83
Other current assets	10	5	11	20	57	57	62	68
Total Assets	18	15	45	162	280	302	324	359
Total equity	3	2	15	110	124	164	207	261
Total non current liabilities	9	3	7	27	113	89	65	41
Total current liabilities	5	9	23	25	43	49	53	57
Total equity and liabilities	18	15	45	162	280	302	324	359

Net debt (cash)	8	10	21	-27	107	52	11	-42
Equity ratio	18%	13%	33%	68%	44%	54%	64%	73%

Cash flow, NOKm	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
Cash flow from operations				13	11	66	61	73
Cash flow from investments				-50	-145	-10	-20	-20
Cash flow from financing				90	86	-24	-24	-24
Change in cash				52	-48	32	17	29
Cash CB				53	5	37	54	83

Valuation	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
EV/EBITDA				229.7x	20.5x	9.5x	8.9x	6.9x
EV/EBIT				n/m	32.1x	12.3x	11.4x	8.5x
P/E				neg	41.7x	17.0x	16.3x	13.0x

Quarterly financials

P&L , NOKm	3Q20	4Q20e	1Q21e	2Q21e	3Q21e	4Q21e	1Q22e	2Q22e
Total revenues	23	29	29	29	69	72	87	87
EBITDA adj.	3	4	6	6	15	16	22	22
EBITDA adj. margin	14.3%	12.1%	22.0%	22.0%	22.0%	22.0%	25.5%	25.5%
EBIT	3	3	5	3	10	10	17	17
Net income	2	1	2	1	5	6	10	10

Balance Sheet, NOKm	3Q20	4Q20e	1Q21e	2Q21e	3Q21e	4Q21e	1Q22e	2Q22e
Total fixed assets	39	88	142	178	183	218	213	208
Cash and equivalents	1	53	41	4	41	5	20	29
Other current assets	28	20	30	27	55	57	58	58
Total Assets	68	162	213	210	279	280	290	294
Total equity	20	110	112	113	118	124	134	144
Total non current liabilities	18	27	76	72	119	113	107	101
Total current liabilities	32	25	25	25	42	43	50	50
Total equity and liabilities	68	162	213	210	279	280	290	294

Net cash (debt)	26	-27	35	68	77	107	87	72
Equity ratio	29%	68%	53%	54%	42%	44%	46%	49%

Cash flow, NOKm	3Q20	4Q20e	1Q21e	2Q21e	3Q21e	4Q21e	1Q22e	2Q22e
Cash flow from operations	0	13	-7	7	0	10	20	15
Cash flow from investments	0	-50	-55	-40	-10	-40	0	0
Cash flow from financing (incl FX)	0	90	49	-4	47	-6	-6	-6
Change in cash	0	52	-13	-37	37	-36	14	9
Cash CB	0	53	41	4	41	5	20	29

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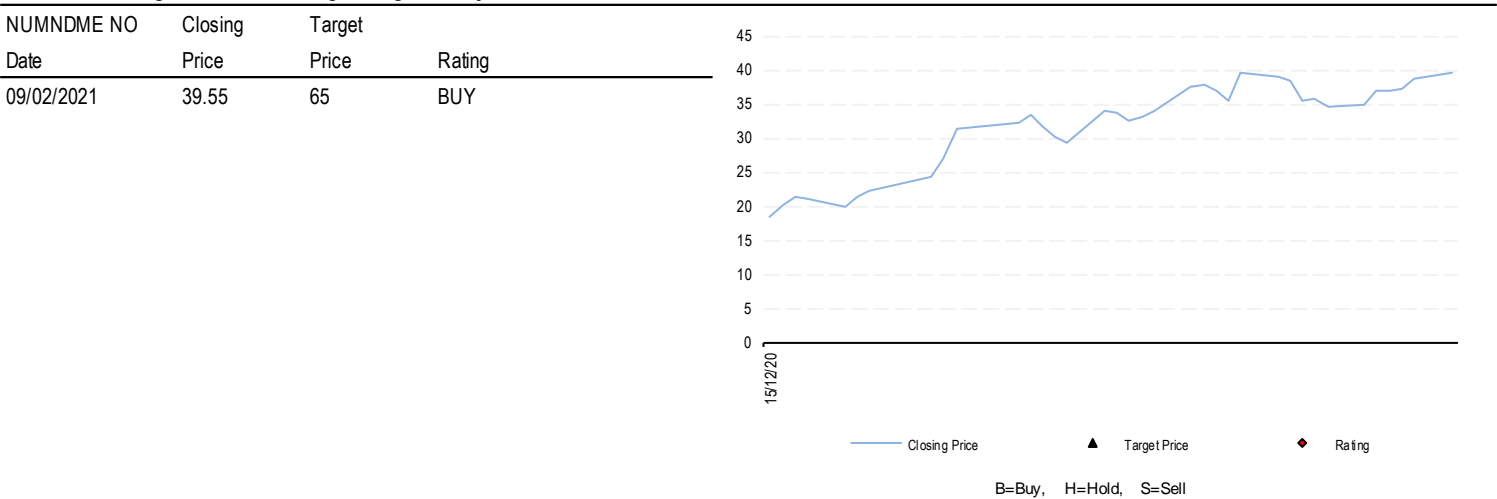
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3-Year Price, Target Price and Rating Change History Chart for NUMNDME NO



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Recommendation	Percentage of companies under coverage with this recommendation	Percentage of companies under coverage for which SB1 Markets has provided investment banking services in the past 12 months
Buy	61.4%	22.3%
Neutral	24.9%	6.7%
Sell	13.7%	3.0%
Total	100%	

IMPORTANT DISCLOSURES AND CERTIFICATIONS

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