

AeroVironment, Inc

(NASDAQ: AVAV)

03/01/2024 Closing Share Price: \$128.73
Implied Share Price: \$183.23



AeroVironment, Inc

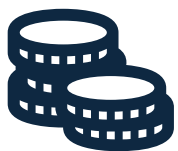
Cozzi, Falconer, Faraher and Leonard
WAKE FOREST INVESTMENT CLUB

Agenda



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Investment Thesis

AeroVironment, Inc

Investment Thesis

Strong Moat in Booming Industry

- Market leader with proven track record for unmanned drones and various other products
- Unmanned Aerial System CAGR of 11.1% between 2023-2027

Attractive Growth Opportunity

- With global conflict on the rise, governments will continue to try and use unmanned weapons to protect their people
- The Replicator program has potential to surge revenue for years with 300 million initial requests

Company and Industry Overview

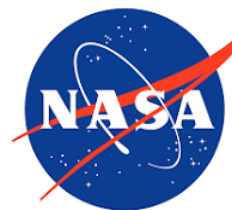


Company Overview

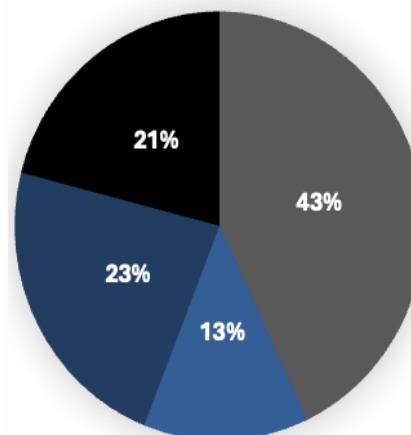
Commentary

- Founded in 1971, AeroVironment is a leading provider of unmanned aircraft systems and provides frequent and reliable solutions for the military
- Recently acquired Tomahawk Robotics in September 2023, a leader in AI-enabled robotic control systems
- Awarded a \$65 million contract by the U.S. Army last April
- AeroVironment operates under three core business segments:
 - Small Unmanned Aircraft Systems - The Puma and Raven drones are industry-leading solutions designed for surveillance with advanced imaging systems
 - Medium Unmanned Aircraft Systems - The JUMP technology, provides enhanced operational flexibility with vertical takeoff and landing capabilities, designed for surveillance, reconnaissance, and target acquisition without runways
 - Tactical Missile Systems - Switchblade is a tactical missile system designed as a portable, guided loitering munition

Top Customers



Revenue by Segment



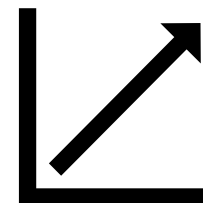
- Small Unmanned Aircraft System
- Medium Unmanned Aircraft System
- Tactical Missile Systems
- Other

Industry Overview

Growth Drivers

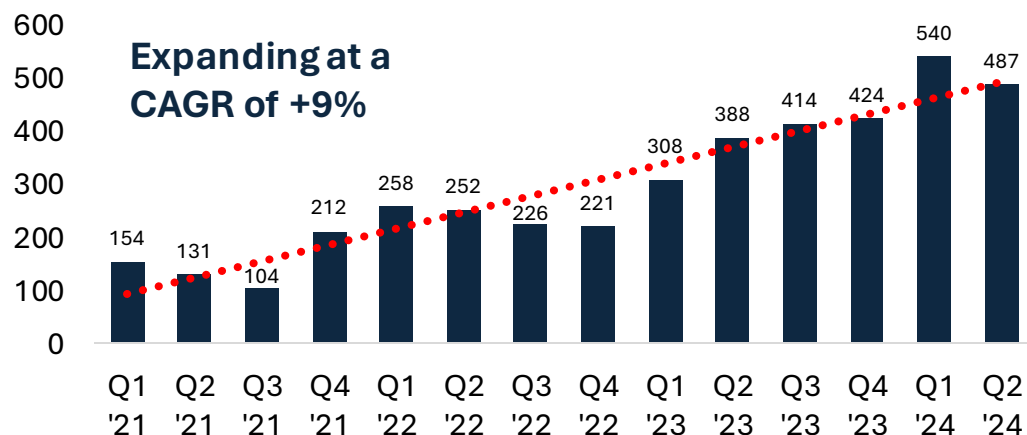
- Rapid advancements in drone technology and the defense sector moving towards more unmanned tactics provide strong secular tailwinds
- Through unlocking potential across the unmanned aircraft system industry, industry valuation is expected to exceed \$65 Billion by 2032

Industry Growth

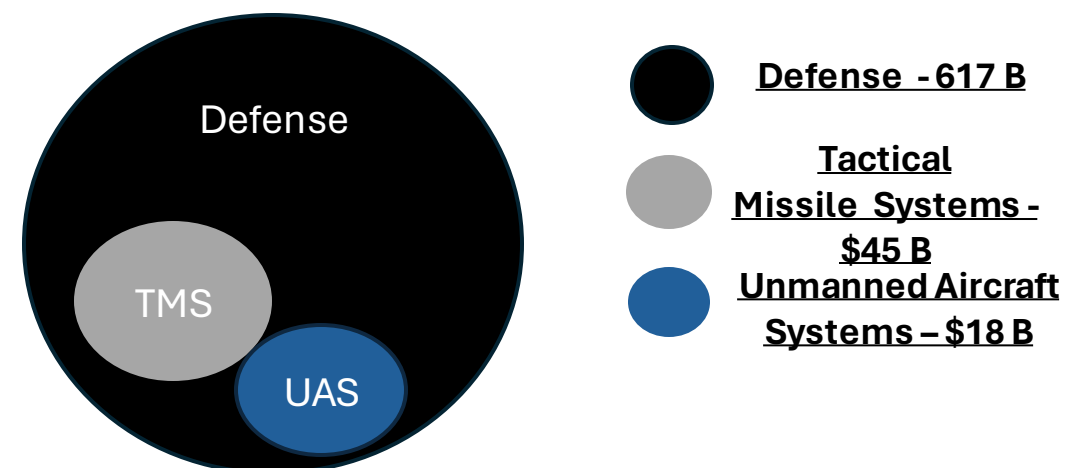


~11.1%
CAGR '23 – '27

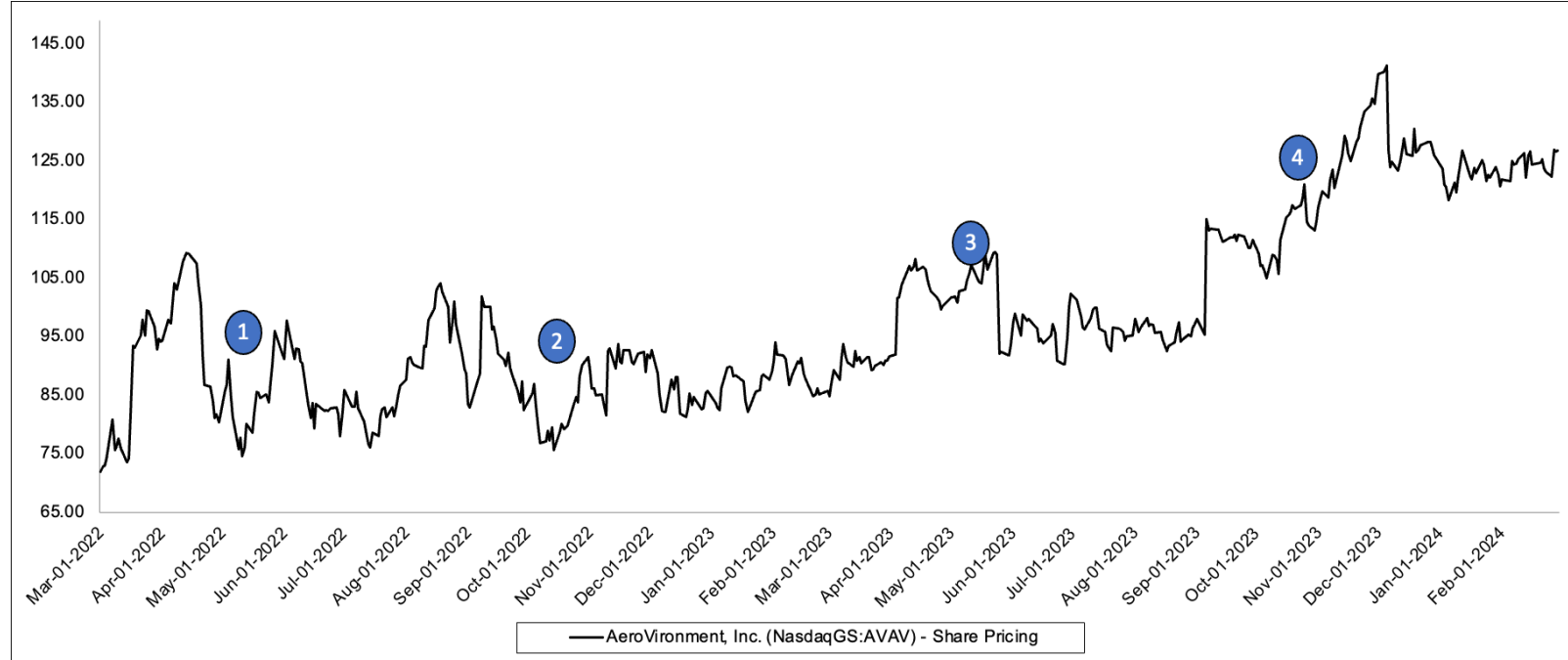
AeroVironment's Backlog (in \$M USD)



Total Addressable Market



Annotated Stock Price



Commentary

- 1 **May 22** – Supply chain constraints and a tight labor market, War in Ukraine increased demand
- 2 **Oct 22** – \$176 million Puma UAS systems contract, still struggling with supply chain & inflation
- 3 **Apr 23** – Revenue high, strong performance of systems in Ukraine
- 4 **Sep 23** – Acquisition of Tomahawk, battlefield priorities support unmanned systems, Gaza attack

Competitive Position



Tactical Missile Solution

Switchblade 600 Overview

- A precision-guided loitering munition that locates, identifies, and eliminates designated targets
- The first operational deployment was in 2011
- 24-mile range, 40 minutes of loitering endurance and the ability to fly at speeds of up to 115 miles per hour

Differentiation

- Stands out for its precision strike capability
- The design emphasizes stealth
- Highly portable and can be deployed by individual soldiers



Small Unmanned Aircraft Systems

Overview

- **Puma:** A hand-launched UAV designed for land and maritime surveillance.
- **Raven:** Hand-launched and focuses on low-altitude reconnaissance. It has a shorter range and flight duration compared to the Puma.
- Both are used as UAVs and are known for their reliability and ease of deployment
- They offer real-time video feeds in both day and night



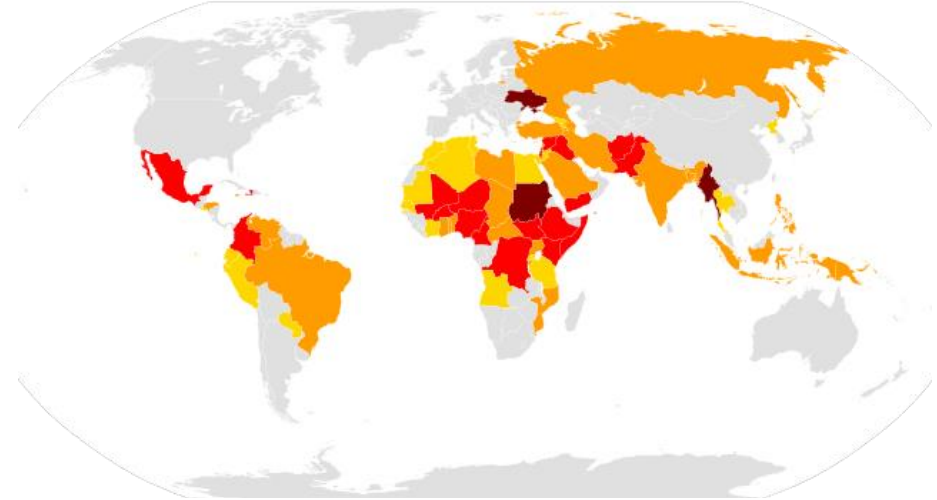
Differentiation

- Surveillance lasts for more than 14 hours
- Very durable and easy to launch
- Operates effectively at various altitudes, offering flexibility in surveillance
- They both feature a secure digital data link that protects against hacking

Global Conflicts

Current and Potential Conflicts

- Ukraine war has shown unmanned drones have been extremely effective
- Easy for other countries to send to foreign battles
- A small army can fend off the masses with the help of these drones



Replicator Drones

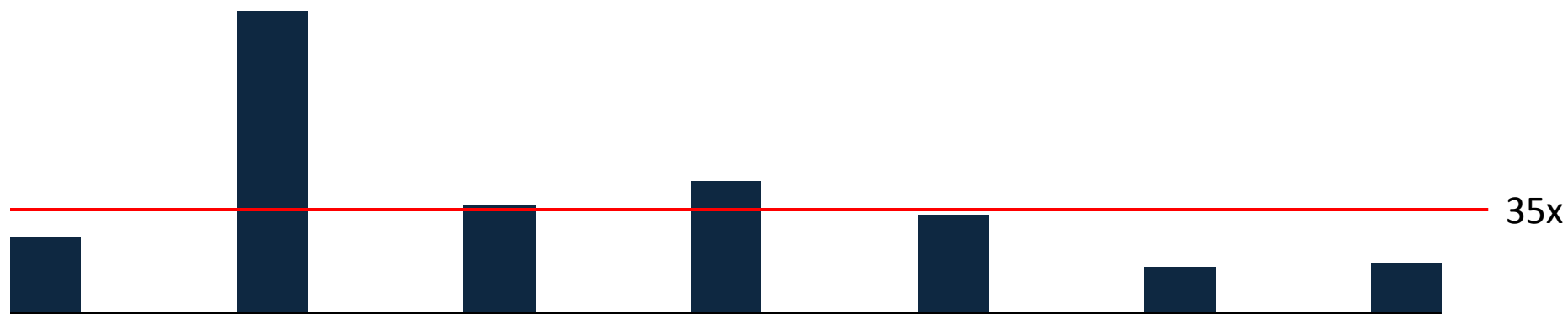
- DOD wants to prepare itself for future conflicts with China and other countries without putting Americans in danger
- The Replicator program is a pledge to field thousands of drones in two years to help counter China
- Initially seeking 300 million and Switch Blade 600 a top candidate



Valuation and Risk



Peer Group Benchmarking



All \$ in millions

	AU AeroVironment™	mercury	KRATOS	BOEING	ASTRONICS	MDA	CADRE HOLDINGS
Market Cap	3,598.70	1,765.00	2,689.40	122,027.00	645.10	1,297.30	1,344.10
TEV	3,609.00	2,304.40	2,968.00	160,210.00	808.50	1,667.90	1,420.50
Revenue '26	851.65	949.79	1,363.56	109,811.83	954.81	1,538.13	625.45
TEV / EBITDA	26.3x	100.9x	36.7x	44.4x	33.6x	16.1x	17.3x
ROA	6.23%	-2.14%	1.27%	0.59%	-0.21%	2.54%	9.38%
Gross Margin '26	40.80%	26.80%	25.90%	21.60%	17.50%	30.00%	41.70%
D / E	14.01%	18.29%	32.94%	46.65%	67.42%	49.31%	79.14%
Beta	1.1	0.7	0.8	1.27	1.63	0.13	1.34

Base Case

	Historical			Consensus Estimates		Extrapolation		
	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Income Statement								
Revenue	\$395	\$446	\$541	\$701	\$790	\$884	\$973	\$1,050
YoY Growth		12.9%	21.3%	29.7%	12.7%	12.0%	10.0%	8.0%
Cost of Revenue	\$230	\$304	\$367	\$433	\$482	\$548	\$584	\$620
Gross Profit	\$165	\$141	\$174	\$268	\$307	\$336	\$389	\$431
% Margin	41.7%	31.7%	32.1%	38.3%	38.9%	38.0%	40.0%	41.0%
Research and Development	\$54	\$55	\$64	\$86	\$86	\$106	\$117	\$126
% Revenue	13.6%	12.3%	11.9%	12.2%	10.9%	12.0%	12.0%	12.0%
Selling, General & Administrative	\$67	\$96	\$132	\$116	\$130	\$151	\$175	\$204
% Revenue	17.1%	21.6%	24.4%	16.5%	16.4%	16.4%	16.4%	16.4%
Adj. EBITDA	72	62	(33)	130	154	172	190	205
% margin	18.2%	13.9%	(6.1%)	18.5%	19.5%	19.5%	19.5%	19.5%
D&A	19	61	100	36	40	44	49	53
% Revenue	4.88%	13.65%	18.50%	5.2%	5.1%	5.0%	5.0%	5.0%
PF EBIT	\$53	\$1	(\$133)	\$94	\$114	\$128	\$141	\$152
Capex	11.3	22.3	14.9	32.4	48.3	35.4	38.9	42.0
% Revenue	2.9%	5.0%	2.8%	4.6%	6.1%	4.0%	4.0%	4.0%
(increase) / Decrease in NWC		99.6	(97.2)	75.2	5.0	5.0	(5.0)	(10.0)
% Revenue		22.3%	(18.0%)	10.7%	0.6%	0.6%	(0.5%)	(1.0%)
Unlevered FCF	\$51	(\$69)	(\$40)	\$158	\$93	\$119	\$120	\$125

Key Observations

1
Revenue growth is driven by increased contracts as the government seeks to add more drones to their arsenal

Revenue Growth YoY
26,27,28

Bull 15%, 12%, 10%

Base 12%, 10%, 8%

Bear 10%, 8%, 7%

2
Gross margin increase is driven by improved drone pricing and efficiency

Football Field



52 - Week Low – High		Analyst Price Targets Dec-24		Discounted Cash Flow			Discounted Cash Flow			Trading Comps		
High		High		WACC			WACC			EBITDA		
144.0		155.0		11.0%			11.0%			130.00		
Low		Low		Revenue Projections			Exit Multiple EV/EBITDA			Exit Multiple EV/EBITDA		
84.9		144.0		Bear	-	Bull	32.5x	-	37.5x	32.5x	-	37.5x

Risk

Market & Company Risks

- Volatility in geopolitical + economic environment
- Regulatory standards
- U.S. government spending
- Technological Competition

Future Events to Watch

- Global conflict
- Technological developments
- Contracts & acquisitions

Risk Thesis

- Downside volatility lower than overall volatility
- Positive net equity
- Beta in line with several competitors
- Defense & Aerospace industry is inherently risk prone

B	σ	Sortino	Margin of Safety
1.1	.03	.08	30%

Allocation Strategy

Commentary

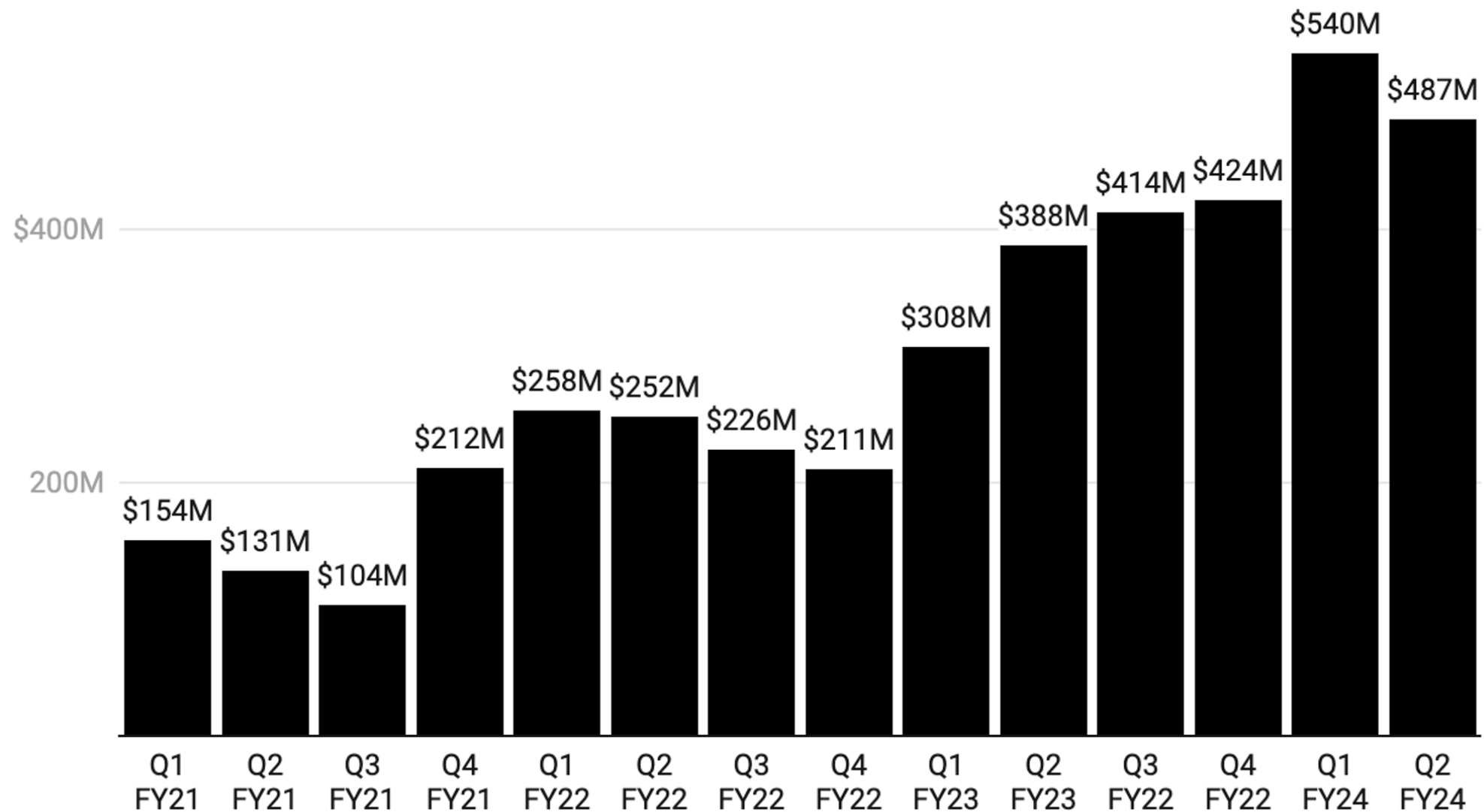
- Weighted average pricing over the course of one year
- Time horizon: 3-5 years
- Potential upside is 43.14% in the base case



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Appendix

Aerovironment's Backlog



Bull Case

	Historical			Consensus Estimates		Extrapolation		
	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Income Statement								
Revenue	\$395	\$446	\$541	\$701	\$790	\$908	\$1,017	\$1,119
YoY Growth		12.9%	21.3%	29.7%	12.7%	15.0%	12.0%	10.0%
Cost of Revenue	\$230	\$304	\$367	\$433	\$482	\$563	\$610	\$660
Gross Profit	\$165	\$141	\$174	\$268	\$307	\$345	\$407	\$459
% Margin	41.7%	31.7%	32.1%	38.3%	38.9%	38.0%	40.0%	41.0%
Research and Development	\$54	\$55	\$64	\$86	\$86	\$109	\$122	\$134
% Revenue	13.6%	12.3%	11.9%	12.2%	10.9%	12.0%	12.0%	12.0%
Selling, General & Administrative	\$67	\$96	\$132	\$116	\$130	\$151	\$175	\$204
% Revenue	17.1%	21.6%	24.4%	16.5%	16.4%	16.4%	16.4%	16.4%
Adj. EBITDA	72	62	(33)	130	154	177	198	218
% margin	18.2%	13.9%	(6.1%)	18.5%	19.5%	19.5%	19.5%	19.5%
D&A	19	61	100	36	40	45	51	56
% Revenue	4.88%	13.65%	18.50%	5.2%	5.1%	5.0%	5.0%	5.0%
PF EBIT	\$53	\$1	(\$133)	\$94	\$114	\$132	\$148	\$162
Capex	11.3	22.3	14.9	32.4	48.3	36.3	40.7	44.7
% Revenue	2.9%	5.0%	2.8%	4.6%	6.1%	4.0%	4.0%	4.0%
(increase) / Decrease in NWC		99.6	(97.2)	75.2	5.0	5.0	(5.0)	(10.0)
% Revenue		22.3%	(18.0%)	10.7%	0.6%	0.6%	(0.5%)	(0.9%)
Unlevered FCF	\$51	(\$69)	(\$40)	\$158	\$93	\$122	\$126	\$134

Bear Case

	Historical			Consensus Estimates		Extrapolation		
	FY	FY	FY	FY	FY	FY	FY	FY
	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Income Statement								
Revenue	\$395	\$446	\$541	\$701	\$790	\$868	\$938	\$1,004
YoY Growth		12.9%	21.3%	29.7%	12.7%	10.0%	8.0%	7.0%
Cost of Revenue	\$230	\$304	\$367	\$433	\$482	\$538	\$563	\$592
Gross Profit	\$165	\$141	\$174	\$268	\$307	\$330	\$375	\$411
% Margin	41.7%	31.7%	32.1%	38.3%	38.9%	38.0%	40.0%	41.0%
Research and Development	\$54	\$55	\$64	\$86	\$86	\$104	\$113	\$120
% Revenue	13.6%	12.3%	11.9%	12.2%	10.9%	12.0%	12.0%	12.0%
Selling, General & Administrative	\$67	\$96	\$132	\$116	\$130	\$151	\$175	\$204
% Revenue	17.1%	21.6%	24.4%	16.5%	16.4%	16.4%	16.4%	16.4%
Adj. EBITDA	72	62	(33)	130	154	169	183	196
% margin	18.2%	13.9%	(6.1%)	18.5%	19.5%	19.5%	19.5%	19.5%
D&A	19	61	100	36	40	43	47	50
% Revenue	4.88%	13.65%	18.50%	5.2%	5.1%	5.0%	5.0%	5.0%
PF EBIT	\$53	\$1	(\$133)	\$94	\$114	\$126	\$136	\$146
Capex	11.3	22.3	14.9	32.4	48.3	34.7	37.5	40.1
% Revenue	2.9%	5.0%	2.8%	4.6%	6.1%	4.0%	4.0%	4.0%
(increase)/ Decrease in NWC		99.6	(97.2)	75.2	5.0	5.0	(5.0)	(10.0)
% Revenue		22.3%	(18.0%)	10.7%	0.6%	0.6%	(0.5%)	(1.0%)
Unlevered FCF	\$51	(\$69)	(\$40)	\$158	\$93	\$117	\$116	\$119

WACC

Weighted Average Cost of Capital (WACC) Calculation	
Cost of Equity	
10-yr treasury yield, as of March 01, 2023	4.3%
Adj. 2-yr Beta of RKLB's Equity	1.2
Market risk premium	5.7%
Cost of Equity	11.2%
Total Debt	\$126.0
Interest Expense	\$7.0
Tax Rate	18.0%
Cost of Debt (as int. exp / total debt)	4.6%
Diluted Shares Outstanding	28.0
Current Share Price	\$128.0
Market Capitalization	\$3,584.0
Total Capitalization	\$3,710.0
Weight in Equity	96.6%
Weight in Debt	3.4%
Weighted-average cost of capital	11.01%