Mark Bunting
Publisher

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CAPITAL IDEAS DIGEST

Drone Delivery Canada's Plan of Attack

Company races for certification and commercialization

by Mark Bunting, Publisher, Capital Ideas Research

Drones are the new marijuana.

At least, that's according to **Tony Di Benedetto**, the CEO of **Drone Delivery Canada** (FLT:CSE). Mr. Di Benedetto says his company's current race to get a government licence and to commercialize deliveries by drone, is similar to where many marijuana companies were a few years ago.

"Some people compare this industry as no different from the marijuana space where you had a lot of these upcoming producers starting to mobilize their businesses getting ready for a change (in regulations)."

Tony Di Benedetto, CEO Drone Delivery Canada

Tony Di Benedetto, CEO, Drone Delivery Canada

"It's a brand new industry. It's a very disruptive space," he says. "Some people compare this industry as no different from the marijuana space where you had a lot of these upcoming producers starting to mobilize their businesses getting ready for a change (in regulations). Without licences you can't generate revenues. It sounds like a parallel industry, and we see what's going on with the marijuana stocks."

"We have about 40 clients that we're engaged with in some shape or form. Everything from medical to food to logistics, and traditional courier companies."

Tracking the path of marijuana companies

Yes, we do see. Marijuana stocks in Canada have generally soared in the last year as licensed producers ramp up production of medical marijuana, and as anticipation increases ahead of the expected legalization in Canada of recreational marijuana.

There's no guarantee of course that Drone Delivery can generate the same kinds of returns as the likes of Canopy Growth and PharmaCan Capital, but Mr. Di Benedetto is hopeful, as are many investors, that the company is in the early stages of what may be a strong growth story.

Drone Delivery's back story

In 2010, the Canadian federal government started a drone unmanned aerial vehicle (UAV) program, prompting engineers from the University of Waterloo and University of Toronto to get involved. In 2013, Asher Resources, essentially a shell company looking for a business, decided to target the sector, and changed its name to Drone Delivery Canada.

The company started tapping a lot of that academic brainpower for its research and engineering needs. Mr. Di Benedetto says these alliances have been very helpful in giving the company what he believes is "first mover advantage" in the sector.

Drone Delivery's management team hit on its business model after having frequent discussions with the federal government, which Mr. Di Benedetto describes as "pro-technology and pro-innovation".

The company realized the area that had the most potential, and would serve as the best and fastest way to approach commercialization, was the country's "backyard" — rural and remote communities where transportation of goods can be a lengthy and costly process.

"It's pretty scaleable, and we see the opportunities as really being endless. It's a very efficient and high margin model with a lot of recurring revenue, and I think the sky's the limit."

Drones as a cheaper alternative

Mr. Di Benedetto gave us scenarios that can occur in rural and remote regions if certain goods need to be delivered in a short period of time.

"A case of water, from what we're told, costs $25 dollars," he says. "A jug of orange juice costs $35 dollars, and medical supplies can quickly ramp up to the thousands if you need it just in time. So we saw there's an immediate application there."

Drone Delivery thinks it can deliver those kinds of products to far flung outposts in a "faster, easier and cheaper" way than current delivery systems. To that end, the company's plan, from a geographic standpoint, is to develop its business from the outside in.

"We want to start here and then commence testing, commercialization and operations in this geography, and then slowly, over time, we start bringing it closer to more suburban areas, and then, potentially later on, to more of an urban area."

Customer list growing

Drone Delivery has been lining up customers that it hopes to serve, and to derive revenue from when it becomes a commercial business. Some of these companies include Staples, the office supply retailer, and NAPA Canada, the auto parts company.

Part of Drone Delivery's initial plan is to facilitate business-to-business deliveries more so than business-to-consumer. So don't expect that drone-delivered pizza at your door anytime soon.

"We have about 40 clients that we're engaged with in some shape or form," Mr. Di Benedetto says. "Everything from medical to food to logistics, like traditional courier companies. There's been expressions of interest from general commodities companies. First responders is another one. So there's a tremendous amount of applications for this technology."

Halfway to certification

Drone Delivery is about 50% off the way toward getting its operator status certificate, according to Mr. Di Benedetto. The company has been testing its drones in the Waterloo area within visual line of sight (VLOS) restrictions meaning, as the name suggests, the drones had to remain within sight.

In the spring, Drone Delivery will be the first company to begin commercial testing at the Transport Canada-approved beyond visual line of sight (BVLOS) range in Foremost, Alberta. It offers operators 700 square nautical miles of restricted airspace up to 18,000 feet above sea level. Mr. Di Benedetto calls it a "significant milestone" for Drone Delivery.

Drone Delivery also plans to conduct testing at a range in Alma, Quebec, where, in 2012, Canada's CAE and Israeli defence company, Aeronautics Ltd, demonstrated potential civilian use for military drones, such as inspection of pipelines and surveillance of forest fires.

Amazon, Google and DHL are among some of the other companies testing deliveries by drone in other parts of the world.

Cashing up

Drone Delivery is in the process of raising $7 million by issuing warrants, which will give the holders the right to convert them into shares in the company. Mr. Di Benedetto says the money is needed because Drone Delivery is growing faster than expected.

"Acceleration of projects is really what it boils down to," he says. "Our demand from a variety of different customers is really ramping up very quickly, and things are just happening a lot faster than we had anticipated. This is a race to the starting line. It's not a finish line. We want to run as fast as possible to get to where we really need to be to really capture the market."

Not another Blackberry

Another key decision made by Drone Delivery was to focus on the software within its drones and not the drones themselves.

"We see our business as being extremely scaleable," Mr. Di Benedetto says. "It's not really dependent on an air frame, the drone. We didn't want to be a Blackberry, if that makes sense, we didn't want to focus on the handheld. So we said 'let's build a hardware agnostic platform' that as better air frames come to market, we take our logic and put them into the drones. No different than a SIM card into a cellphone. It gives us the ability to really leverage the development that's happening around the world, and with that we're able to achieve different capacities and distances and speeds."

The investment case

Drone Delivery Canada is a speculative, lightly-traded stock. The company is pre-revenue, has a market cap of about $31 million, and no analysts cover it. But, Drone Delivery expects to be profitable in 2018, if it gets its operating license this year, and executes on its business plan. If that happens, the company's stock could follow the path of so many marijuana companies, which were in a similar position a few years ago.

"It's pretty scaleable, and we see the opportunities as really being endless," Mr. Di Benedetto says. "It's a very efficient and high margin model with a lot of recurring revenue, and I think the sky's the limit."

***Click here to watch video from Drone Delivery Canada.**
http://www.dronedeliverycanada.com/depot-to-depot-drone-delivery/

Drone Delivery Canada Corp | One year chart

SMART MONEY

Looking for a way to invest with some of the world's top hedge fund managers?

In a recent article, Barron's writer Andrew Bary points to a pair of European-listed, closed-end funds that offer investors a **“cheap way to invest with prominent hedge-fund managers Bill Ackman and Daniel Loeb."**

He cites Pershing Square Holdings (PSH.Netherlands) and Loeb’s Third Point Offshore Investors (TPOU.UK) as trades at **"sizable discounts"** to net asset value.

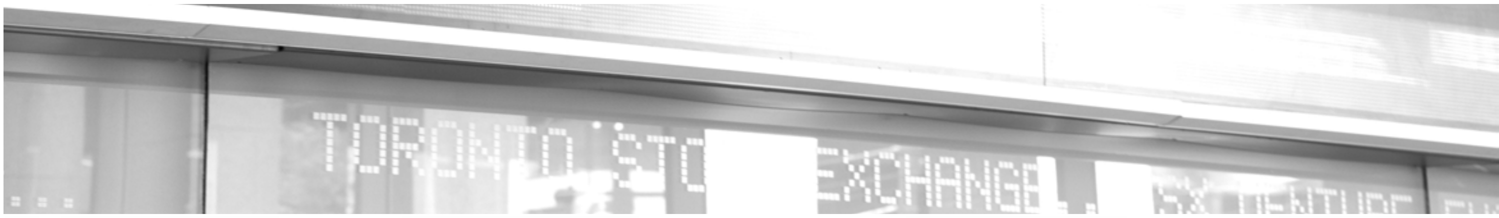
"They offer other advantages as well, including daily liquidity and no investment minimums," Bary writes.

He says the two overseas funds can be purchased through many brokerage firms, including Fidelity, Merrill Lynch, Interactive Brokers, and Morgan Stanley.

But there's a catch. They restrict purchases to high-net-worth clients because the funds aren’t registered in the U.S. Bary says shareholders in taxable accounts receive a Passive Foreign Investment Company tax form.

"Pershing Square is a bet on Ackman’s revival, while Third Point is a play on a return to its historically good performance," he writes. Pershing Square has had two losing years in a row with the fund absorbing a more than 22% loss in 2015.

"There may be a place in investment portfolios for funds run by historically successful managers. The Pershing Square and Third Point closed-end funds offer an attractive way to get that exposure at a discounted price. The Third Point and Greenlight reinsurers offer a similar play for those wanting U.S.-listed shares."



This week's initiations

PharmaCan Capital Corp. (MJN-X) was rated new "buy" by Beacon Securities analyst Vahan Ajamian with a $3.50 target, which is also the analyst average. The stock is currently trading around $2.40.

PharmaCan is also raising $15 million in a bought deal financing. A syndicate of underwriters will buy 6.7 million shares at $2.25 each.

The company, which is set to change its name to Cronos Group, "is a geographically diversified and vertically integrated cannabis company that operates two wholly owned LPs and has a few investments in other LPs and applicants," Mr. Ajamian said in a note.

He said the company's prior approach was to take minority investments in a portfolio of LPs and applicants.

"While the company was able to get in early and at attractive valuations, its business ran into problems. In May 2016, Michael Gorenstein was named the company's CEO. He changed the company's business model to be an operator of wholly owned LPs, attracted other top-tier talent and capital and enacted meaningful operational improvements. In our view, this resulted in the business being stabilized and set on track for growth. We believe 2017 will be a year of significant expansion across Cronos' multi-provincial footprint and we may see the company take its existing presence in Germany to the next level."

All three analysts that cover the stock have a "buy" recommendation.

■ ■ ■

Hardwoods Distribution (HWD-T) Rated New "outperform" at National Bank

CRH Medical (CRH-T) Rated new Sector Perform at National Bank.

RBC Dominion Securities analyst Benjamin Owens initiated coverage of **Enerflex Ltd.** (EFX-T) with an "outperform" rating. Mr. Owens set a price target of $22 for the stock. Consensus is $22.11. The stock is currently trading around $18.70.

Mr. Owens said the booking and backlog trends "appear to be on the rise," after declines in recent years. "As recurring revenues grow as a percentage of the overall mix, we think investors will reward EFX with a higher multiple," he said in a note, adding that Enerflex is up 40 per cent since it began trading in June 2011 (to Feb. 10), while the Canadian oilfield services index is down 38 per cent.

"Since re-emerging as a standalone public entity in 2011, Enerflex has shown a slow but steady approach to growing its dividend. While near-term free cash flow will likely be directed toward debt repayment, we see flexibility to potentially resume growing the dividend returning in 2018," he said.

All nine analysts that cover the stock have a "buy" recommendation.

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Raymond James analyst David Quezada assumed coverage of **Alterra Power Corp.** (AXY-T) with an "outperform" and $8 price target, up from the firm's previous target of $7.50.

Consensus is $6.86. The stock is currently trading around $5.40.

"With shares of Alterra down [approximately] 27 per cent from August, 2016 highs (versus the TSX up 7 per cent) and trading below the recent $6/share equity issue we believe the stock represents good value at current levels," he said in a note.

Among five analysts that cover the stock, three have a "buy" and two a "hold."

IN THE NEWS

TIO Networks Corp. (TNC-X) was mentioned in our **July 11, 2016 Digest,** based on research from PI Financial. The analyst had a price target on the stock of $3.35 a share. That is exactly the price at which the company is being bought by **PayPal Holdings Inc.** (PYPL-Q) in a $304-million all-cash deal. That's a return of **50% in eight months**.

TIO has been reduced to "hold" from "buy" by Canaccord Genuity analyst Kevin Wright following the announcement.

"PayPal's offer of $3.35 per share represents a 6.7-per-cent premium to TIO's closing price [on Tuesday] of $3.14," he said in a note.

Mr. Wright's target price for TIO shares moved to $3.35 from $3.25 to reflect the bid. The analyst consensus is $3.29. The stock is currently trading around $3.31.

"There is potential for a competing bid given TIO Networks' position as one of the largest providers of walk-in bill payment technology in North America, though timing is tight given an April shareholder vote on the transaction," he said.

Restaurant Brands International Inc. (QSR-N, QSR-T) is an "outperform" at RBC Dominion Securities. Analyst David Palmer increased his target to $59 (U.S.) from $54. Consensus is $50.38. The stock is currently trading around $53.85.

"RBI's 100-per-cent-franchised business model offers stability and predictability of earnings and cash flows with low capital requirements and insulation from input costs," he said. "In addition, international unit growth has been accelerating and the company's sales momentum seems to have improved in recent months. With Tim Hortons, the company has created additional value by employing cost discipline, which may lead to returning capital to shareholders and accelerating international unit growth."

BMO Nesbitt Burns analyst Peter Sklar raised his target to $57 from $52 with an "outperform" rating. CIBC World Markets analyst Mark Petrie raised his target to $60 from $54 with an "outperformer" rating.

Among 14 analysts that cover the stock, eight have a "buy" and eight a "hold."

Shopify Inc. (SHOP-N, SHOP-T) was upgraded to $65 (U.S.) from $48 by Citi analyst Kenneth Wong after its fourth-quarter earnings report. The stock is currently trading around $60.97 on the NYSE. Consensus is $64.22.

Ottawa-based Shopify reported revenue of $130-million, which beat expectations of $122-million.

Mr. Wong kept his "neutral" rating.

"We have a hard time chasing with SHOP up 41 per cent year to date and trading at seven times calendar year 2018 sales," said Mr. Wong. "We are intrigued by the opportunity presented by the new Plus pricing scheme and could get more constructive as we develop a better sense of the economic uplift, all things equal."

RBC Dominion Securities analyst Ross MacMillan increased his target to $66 (U.S.) from $63 with an "outperform" rating.

"Another strong quarter with a 7-per-cent revenue beat (86 per cent year-over-year growth) and a 5-per-cent raise on FY17 (54 per cent year-over-year growth) and we continue to see multiple areas of potential conservatism," he said in a note. "The biggest push back is valuation and the lack of leverage. We think growth adjusted valuation is ok, while big investments reflect the market opportunity."

Upgrades & Downgrades

We start with a roundup of pharmaceutical and biotech research.

Centric Health (CHH-T) Rated New Buy at Laurentian Bank Securities. **Fabrice Taylor named this a Top pick on BNN's Market Call last Thursday.**

Axovant Sciences (AXON-N). RBC maintains "outperform" rating with speculative risk on this company developing an Alzheimer's treatment. Price target of $40 (U.S.), which implies upside of 241%.

Acorda Therapeutics (ACOR-O). RBC maintains "outperform" rating with speculative risk on this company developing a Parkinson's treatment. Price target of $45, which implies 84% upside potential.

Prothena Corp (PRTA-O). RBC maintains "outperform" rating with speculative risk on this biotech. Price target of $95, which implies upside of 83%.

Medicure (MPH-V). Mackie Research maintains Buy, raises price target to $14.70 from $6.90, implying 55% upside. The target revision is to reflect the acquisition of Apicore which the analysts say is "highly accretive" ...and "should significantly elevate MPH's growth rate and provide significant cash flow." **Medicure has risen 352% since Mackie initiated coverage in September of 2014.**

Theratechnologies (TH-T). Mackie Research maintains "buy" and price target of $7.60 on this developer of HIV drug treatments. The stock has an 81% projected return.

Intellipharmaceutics International. (IPCI-O). Mackie Research maintains "speculative buy" and price target of $6 (U.S.), which implies 134% upside, following the company's earnings, but cut its estimates saying it is a difficult company to model due to the uncertainty of when product launches will occur.

Conifex Timber Inc. (CFF-T) was upgraded to "outperform" from "sector perform" by RBC analyst Paul Quinn with a target of $4.50 (Canadian), up from $3. Consensus is $4.65.

Northern Dynasty Minerals Ltd. (NDM-T) was upgraded to "speculative buy" from "hold" by TD Securities analyst Craig Hutchison. His target remains $5, which is also the consensus. The company, meanwhile, says negative assertions made in a short seller's report are "unfounded".

TrueCar (TRUE-O). RBC maintains "outperform" and price target of $17, which implies 29% upside.

LogMeIn (LOGM-O). RBC maintains "outperform" on this cloud software company. Price target of $125, which implies upside of 32%.

Cameco Corp. (CCO-T, CCJ-N) was upgraded to "outperform" from "market perform" by BMO Nesbitt Burns analyst Edward Sterck. His target price for the stock increased to $18 (Canadian) from $17. It was raised to "buy" from "hold" by Cantor Fitzgerald analyst Rob Chang with a target of $16.90, up from $15.35. Consensus is $16.03.

Gran Tierra Energy Inc. (GTE-T) was upgraded to "outperform" from "neutral" by CIBC World Markets. Analyst David Popowich kept his target at $4.50. Consensus is $5.56.

Paramount Resources Ltd. (POU-T) was upgraded to "strong buy" from "outperform" by Raymond James analyst Kurt Molnar. His target price was increased to $27.50 from $25. Consensus is $19.58.

PrairieSky Royalty Ltd. (PSK-T) was upgraded to "outperform" from "market perform" by Raymond James analyst Jeremy McCrea. He maintained a target price of $34 for the stock. Consensus is $33.25.

Keyera Corp. (KEY-T) was raised to "buy" from "hold" at GMP by analyst Ian Gillies. His target rose to $45 from $43.50. It was raised to "buy" from "hold" by TD Securities analyst Linda Ezergailis. Her target rose to $46 (Canadian) from $43, while the average is $45.38. Consensus is $45.38.

Precision Drilling Corp. (PD-T, PDS-N) was upgraded to "market perform" from "underperform" by Raymond

James analyst Andrew Bradford. He also raised his target price for the stock to $8.25 from $6.50. Consensus is $9.14.

Colliers International Group Inc. (CIGI-Q, CIGI-T) is an "outperform" at BMO Nesbitt Burns. Analyst Stephen MacLeod raised his target price for the stock to $49 (U.S.) from $41 with an "outperform" rating. Consensus is $44.41.

Westshore Terminals Investment Corp. (WTE-T) was raised to "outperform" from "sector perform" at RBC by analyst Walter Spracklin with a target of $30 (Canadian), up from $27. Consensus is $26.80.

Enerplus Corp. (ERF-T, ERF-N) was upgraded to "outperform" from "market perform" by BMO Nesbitt Burns analyst Ray Kwan. Mr. Kwan kept his target price of $15 for the stock. Consensus is $15.18.

New Gold Inc. (NGD-N, NGD-T) was raised to "sector perform" from "sector underperform" by Scotia analyst Trevor Turnbull. His target remains $3 (U.S.), versus the consensus of $3.74.

Emera Inc. (EMA-T) is a "buy" at Desjardins Securities. Analyst Mark Jarvi increased his target to $51 from $50. Consensus is $52.96.

Bank of America Corp. (BAC-N) was raised to "outperform" from "neutral" at Macquarie by analyst David Konrad. He raised his target to $28 (U.S.) from $25. Consensus is $24.87.

Capella Education Co. (CPLA-Q) was upgraded to "outperform" from "market perform" by BMO Nesbitt Burns analyst Jeffrey Sibler. He moved his target to $84 (U.S.) from $83. Consensus is $79.33.

FirstService Corp. (FSV-Q, FSV-T) is an "outperform" at Raymond James. Analyst Frederic Bastien increased his target price to $60 (U.S.) from $53. RBC Dominion Securities analyst Michael Smith has an "outperform" and increased his target to $58 (U.S.) from $56. Consensus is $53.50.

BCE Inc. (BCE-T, BCE-N) is a "buy" at Desjardins Securities as the company gets regulatory approval for its takeover of Manitoba Telecom (MBT-T). Analyst Maher Yaghi increased his by a loonie to $65. Consensus is $59.66.

CAE Inc. (CAE-T, CAE-N) is a "buy" at Desjardins Securities. Analyst Benoit Poirier raised his target by $1 to $23. Consensus is $20.57.

Agrium Inc.'s (AGU-N, AGU-T) is a "market perform" at Raymond James. Analyst Steve Hansen increased his target to $110 (Canadian) from $96. BMO Nesbitt Burns analyst Joel Jackson has a "market perform" and raised his target to $100 from $95. Consensus is $105.83.

Superior Plus Corp.'s (SPB-T) is an "outperform" at Raymond James. Analyst Steve Hansen raised his target price to $15 from $14. Consensus is $13.28.

Teck Resources Ltd. (TECK.B-T, TECK-N) is a "buy" at Canaccord Genuity. Analyst Dalton Baretto lowered his target price to $39.50 (Canadian) from $43. Consensus is $35.24.

Yellow Pages Ltd. (Y-T) is a "buy" at Beacon Securities. Analyst Vahan Ajamian dropped his target to $16 from $26. Canaccord Genuity analyst Aravinda Galappatthige maintained a "buy" rating with a target of $22, down from $28. Consensus is $25.50.

Cara Operations Ltd.'s (CARA-T) was downgraded to "hold" from "buy" at Canaccord Genuity. Analyst Derek Dley lowered his target price for the stock to $29 from $34. Consensus is $31.25.

Enbridge Income Fund Holdings Inc. (ENF-T) was downgraded to "hold" from "buy" at GMP by analyst Ian Gillies. His target remains $36.50 per share. Consensus is $35.77.

Electrovaya Inc. (EFL-T) was downgraded to "market perform" from "outperform" at FBR Capital Markets by analyst Carter Driscoll with a target of $2.25 (down from $3.50). Consensus is $2.25.

Groupon Inc. (GRPN-Q) was downgraded to "neutral" from "outperform" at Wedbush by analyst Aaron Turner with a target of $4.50 (U.S.), down from $6.50. Consensus is $4.93.

Home Capital Group Inc. (HCG-T) was downgraded to "hold" from "buy" at Laurentian Bank by analyst Marc Charbin. His target fell to $28 from $35. The average is $29.73.

Starbucks Corp. (SBUX-Q) was downgraded to "hold" from "buy" at Argus by analyst John Staszak without a specified target. The average is $64.35. (U.S.).

Valeant Pharmaceuticals International Inc. (VRX-N, VRX-T) is a "sector perform" at RBC Dominion Securities. Analyst Doug Miehm lowered his target to $22 (U.S.) from $29. Consensus is $22.87.

Technically SPEAKING by Dwight Galusha

setyourstop.com

Total Energy Services (TOT-T) broke out from a massive basing pattern to new 52-week highs, in December. Now, with momentum (MACD) and the relative strength index (RSI) both turning higher, the stock appears to be breaking out from a continuation pattern.

Westshore Terminals (WTE-T) is breaking out from a three month consolidation pattern on massive volume. With the MACD surging above zero and the RSI(14) performing a powerful breakout, this move appears to be extremely bullish.

Alacer Gold (ASR-T) is breaking out from a bull flag consolidation pattern. With MACD accelerating and the RSI(14) surging higher, this move appears to have legs.