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# **AeroVironment, Inc. Overview for Gabelli 24<sup>th</sup> Annual Aerospace and Defense Symposium**

September 13, 2018

# Safe Harbor Statement

- Certain statements in this presentation may constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words such as "believe," "anticipate," "expect," "estimate," "intend," "project," "plan," or words or phrases with similar meaning. Forward-looking statements are based on current expectations, forecasts and assumptions that involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause our business, strategy or actual results to differ materially from the forward-looking statements.
- Factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, reliance on sales to the U.S. government; availability of U.S. government funding for defense procurement and R&D programs; changes in the timing and/or amount of government spending; our ability to perform under existing contracts and obtain new contracts; risks related to our international business, including compliance with export control laws; potential need for changes in our long-term strategy in response to future developments; unexpected technical and marketing difficulties inherent in major research and product development efforts; the impact of potential security and cyber threats; changes in the supply and/or demand and/or prices for our products and services; the activities of competitors and increased competition; failure of the markets in which we operate to grow; uncertainty in the customer adoption rate of commercial use unmanned aircraft systems; failure to remain a market innovator and create new market opportunities; changes in significant operating expenses, including components and raw materials; failure to develop new products; the extensive regulatory requirements governing our contracts with the U.S. government; product liability, infringement and other claims; changes in the regulatory environment; and general economic and business conditions in the United States and elsewhere in the world.
- For a further list and description of such risks and uncertainties, see the reports we file with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are available at [www.sec.gov](http://www.sec.gov). We do not intend, and undertake no obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

# Table of Contents

- AeroVironment Overview.... Slide 4
- Financial Summary.... Slide 15

# AeroVironment Overview



# We Provide More Actionable Intelligence So You Can Proceed With Certainty



# Investment Thesis: Focused on Near and Long-Term Value Creation

## Profitable Growth through Technology-Based Innovation

- Proprietary IP portfolio underpins success
- Proven and experienced management team

## Significant Optionality from Multiple High-Value Growth Opportunities

- Small UAS: continued evolution in U.S. military market, accelerating adoption in international military markets
- Tactical Missile Systems: accelerating adoption, high volume potential
- High-Altitude Pseudo-Satellites (HAPS): global broadband telecommunications platform and business
- Commercial Information Solutions: emerging market opportunity

## Strong Financial Foundation

- Consistent cash generation
- Strong, efficient, growth-oriented balance sheet
- Managing investments carefully to capitalize on significant multimarket growth opportunities

## History of Creating Differentiated and Industry Leading Solutions

- Pioneer & market leader in small UAS, Tactical Missile Systems, HAPS, Commercial Drone Solutions

# A Success Story of Serial Innovation and Entrepreneurship Since Our Founding in 1971



**1977**  
**Gossamer Condor**  
1<sup>st</sup> controlled human powered flight





**1981**  
**Solar Challenger**  
World Records: Longest, highest, farthest solar powered flights





**1986**  
**Pointer**  
1<sup>st</sup> backpack portable small UAS





**1995**  
**Pathfinder/Pathfinder Plus**  
Solar platform for HALE flight





**2001**  
**Helios**  
World Record: Highest flying airplane in history



**2005**  
**Global Observer Prototype**  
1<sup>st</sup> liquid hydrogen powered UAS



**2010**  
**Global Observer®**  
Test flight program begins



**2012**  
**Switchblade®**  
1<sup>st</sup> operational deployment of back-packable tactical missile system



**2014**  
**Commercial UAS**  
1<sup>st</sup> FAA-approved commercial services over land




**2017**  
**Snipe™**  
1<sup>st</sup> dual-sensor, military-grade, pocketable UAS


1977


2018

2007 IPO





**1979**  
**Gossamer Albatross**  
1<sup>st</sup> human powered flight across English Channel







**1985**  
**Pterosaur**  
Featured in IMAX film, On The Wing







**1987**  
**Sunraycer**  
Winner 1<sup>st</sup> solar car race






**2003**  
**Dragon Eye**  
1<sup>st</sup> U.S. DoD Small UAS Program of Record







**2005**  
**Raven®**  
1<sup>st</sup> to deploy 1000s of backpack portable UAVs to U.S. Forces in a single year




**2008**  
**Small UAS Digital Data Link (DDL™)**  
A wireless communications link that provides greater security, range and utility than analog links




**2011**  
**Nano Air Vehicle**  
1<sup>st</sup> flapping wing nano UAV with tri-axis control



**2013**  
**Long Endurance Puma™**  
1<sup>st</sup> small UAS extended solar flight: nine hours



**2016**  
**Blackwing™**  
1<sup>st</sup> submarine-launched loitering ISR system for US Navy



**2018**  
**Quantix™ and AVDSS™**  
1<sup>st</sup> integrated drone, sensor, analytics solution as an app

# Key Messages

1. AeroVironment is a pure-play unmanned solutions company focused on delivering innovative solutions based on future-defining technologies that include robotics, sensors, software analytics and connectivity
2. We are at the forefront of multiple large, promising global value-creation opportunities
3. Our strong financial position enables our growth strategy
4. Excellent fiscal 2018 results and solid first quarter fiscal 2019 - demonstrated track record of capitalizing on growth opportunities



# AeroVironment is a Technology Solutions Provider at the Intersection of Future-Defining Capabilities



# Small UAS - Embedded in the Fabric of U.S. Security

**62%**

**Of fiscal 2018  
company revenue**

**86%**

**of all unmanned aircraft in U.S.  
Dept. of Defense inventory<sup>1</sup>**



<sup>1</sup>Source: United States Department of Defense Unmanned Systems Roadmap 2013-2038, page 5

# Tactical Missile Systems – Accelerating U.S. DoD Adoption of Expanding Family of Loitering Systems

**24%**

**Of fiscal 2018  
company revenue**

**\$110 million+**

**Switchblade hardware and  
services orders in fiscal 2018**

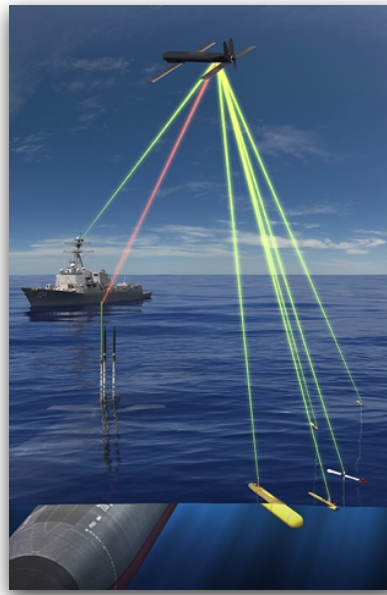
**\$113 million**

**Funding for LMAMS in U.S. Army fiscal  
2019 budget request**



## **Switchblade®**

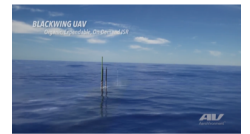
- Lethal, high-precision, rapidly deployed munition
- In use by United States forces
- Current solution for Army LMAMS requirement



## **Blackwing™**

- Intelligence, surveillance, reconnaissance and communications solution
- Deploying on U.S. Navy submarines and positioned for Program of Record

**Additional Switchblade Variants in development**





# High-Altitude, Pseudo-Satellite (HAPS) – Global Potential for Commercial Telecom Market

**5G set to massively boost IT infrastructure spending of \$326B by 2025.**

- Forbes, February 2018

**U.S. mobile operators will spend \$100B on 5G by 2020, study says.**

- GSMA, March 2018

**Dish Could Spend Up to \$1B on NB-IoT Network, \$10B on Nationwide 5G.**

- Wirelessweek, May 2018

**Upgrade to 5G costs \$200 Billion a year...**

- Bloomberg, December 2017

- HAPSMobile, Inc. joint venture with SoftBank Corp. to create global broadband telecommunications business
- Last mile connectivity solution for rapid and flexible global telecom infrastructure build-out
- Joint venture funding \$70+ million AeroVironment solar HAPS UAS development & demonstration project
- AeroVironment to develop, manufacture and supply solar HAPS UAS to HAPSMobile, Inc. on an exclusive basis, subject to joint venture agreement terms
- AeroVironment possesses exclusive rights to non-commercial markets for HAPS UAS ex-Japan

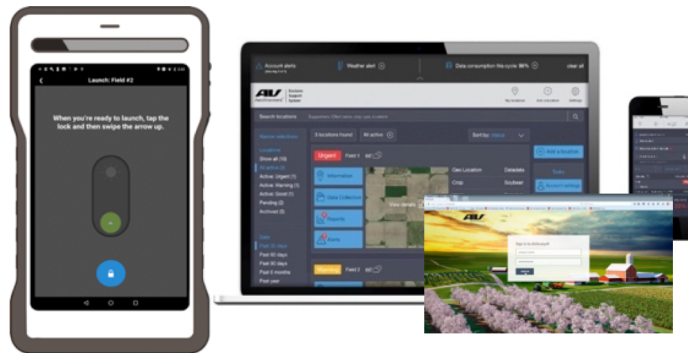


# Commercial Information Solutions – Global Potential in Multiple Large Industry Segments

## Drone, Sensors, Software & Analytics as an App



Quantix™ Drone



AV Decision Support System

## Multi-Billion Dollar Market Opportunity



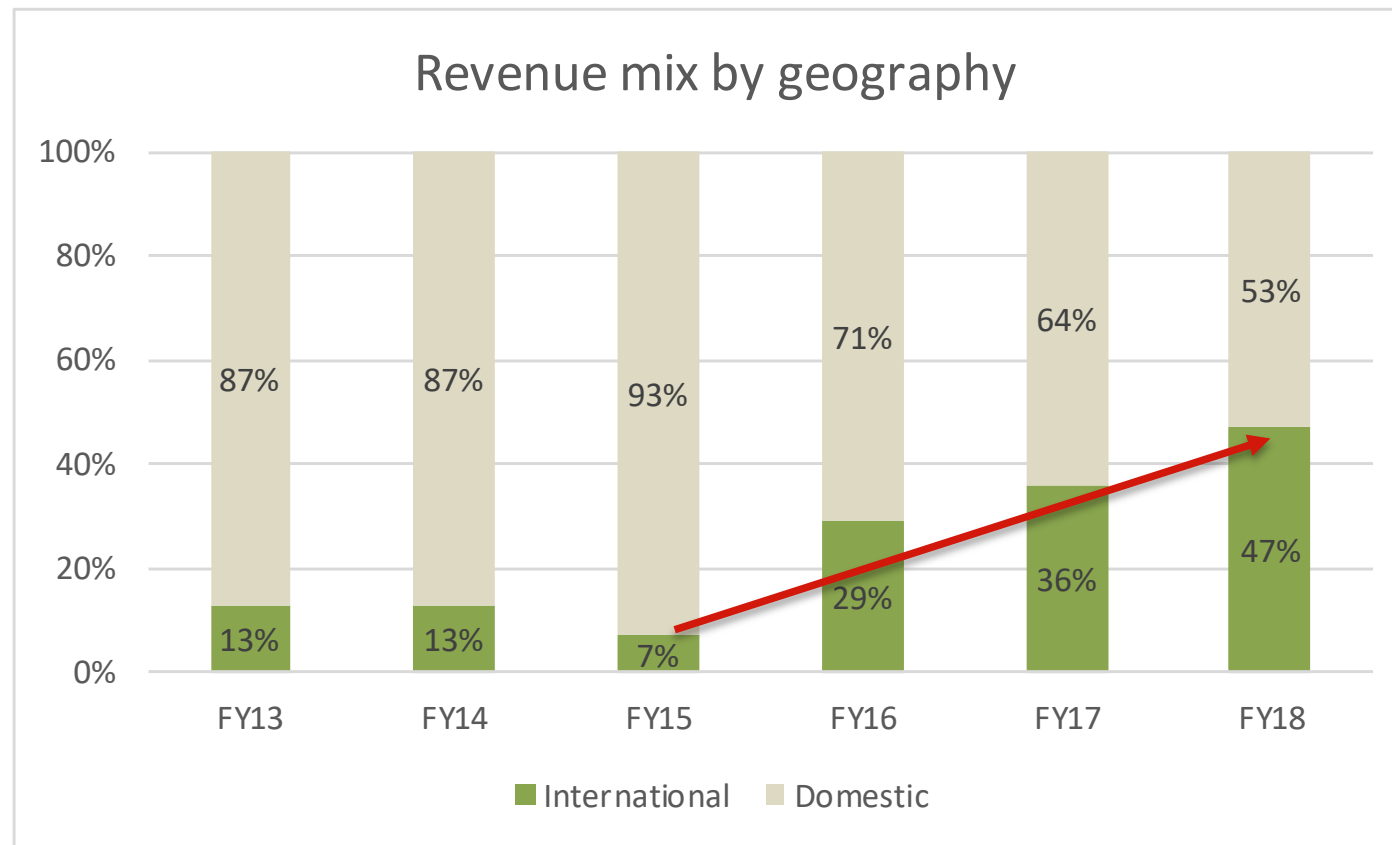
*“The Commercial segment holds the most potential for growth, in our view, with a triple-digit CAGR over the next five years and a \$21bn TAM.”*  
– Goldman Sachs, “Drones: Flying into the Mainstream”, March 2016

*“PwC estimates the addressable market of drone powered solutions in agriculture industry at \$32.4bn.”*  
– PwC, “Clarity from Above”, May 2016



# International Revenue Growth Since Fiscal 2015 Driven by Small UAS; by HAPS in Fiscal 2018

- More than 45 international AeroVironment UAS customers, most with additional procurement potential, and many other countries evaluating small UAS



*Note: FY13 – FY16 figures have not been adjusted for ASC-606.*

## Sample Customers



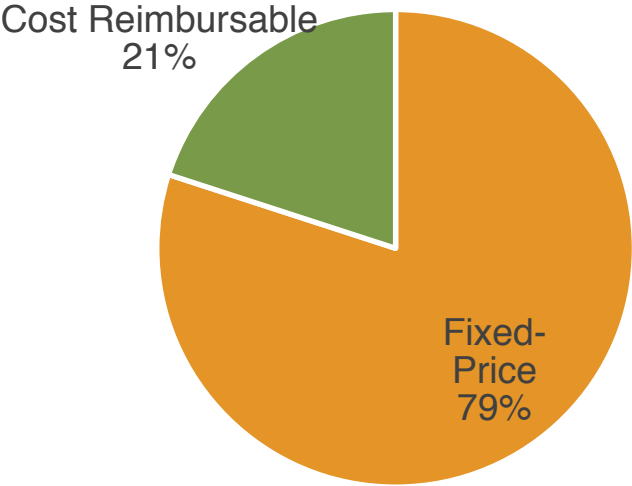
# Financial Summary

# Focused on Successfully Executing Business Model

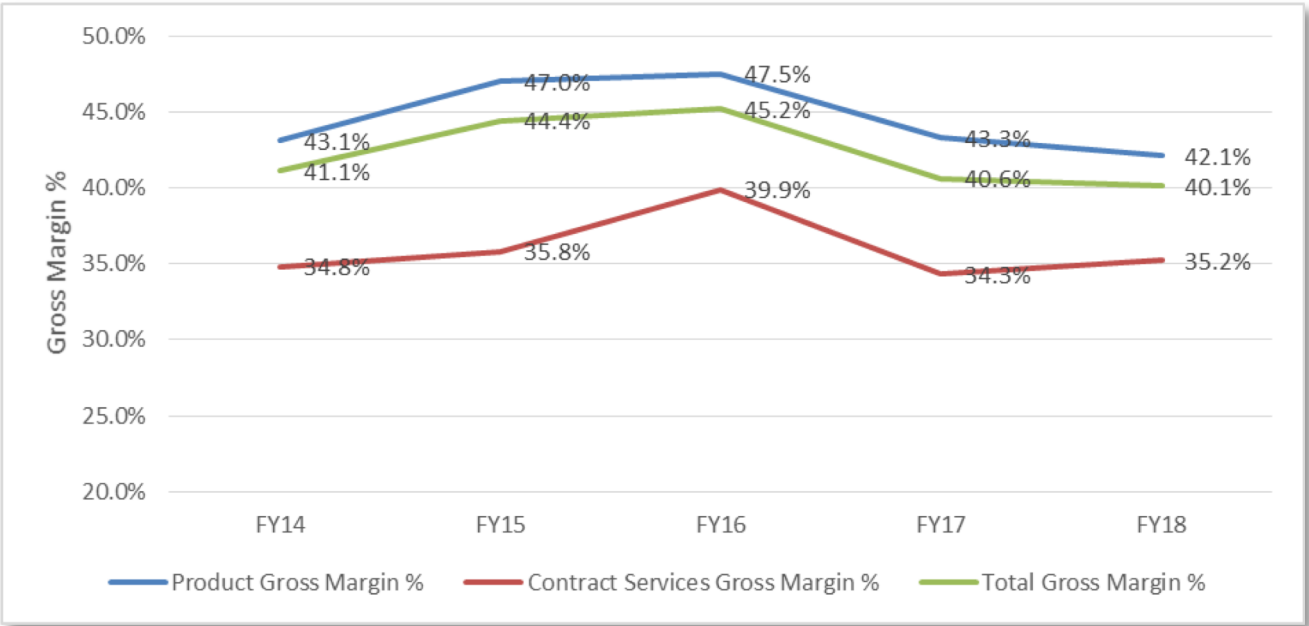
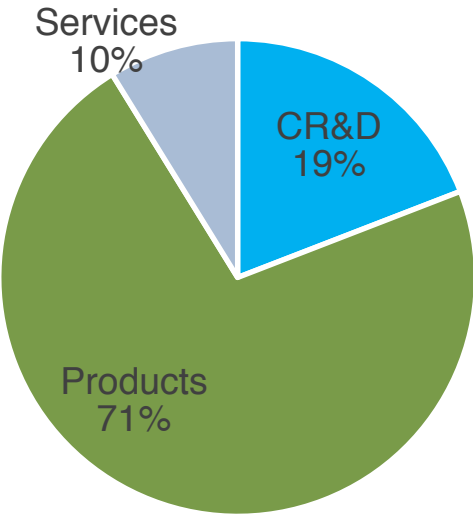
- Strong financial position
- Increasingly diverse revenue streams
- Margin sensitivity to revenue mix and volume
- Increasing focus on strategic investments
- Anticipating continued growth

# Product and Services Revenue Mix Drives Gross Margin

Revenue by Contract Type  
FY 2018



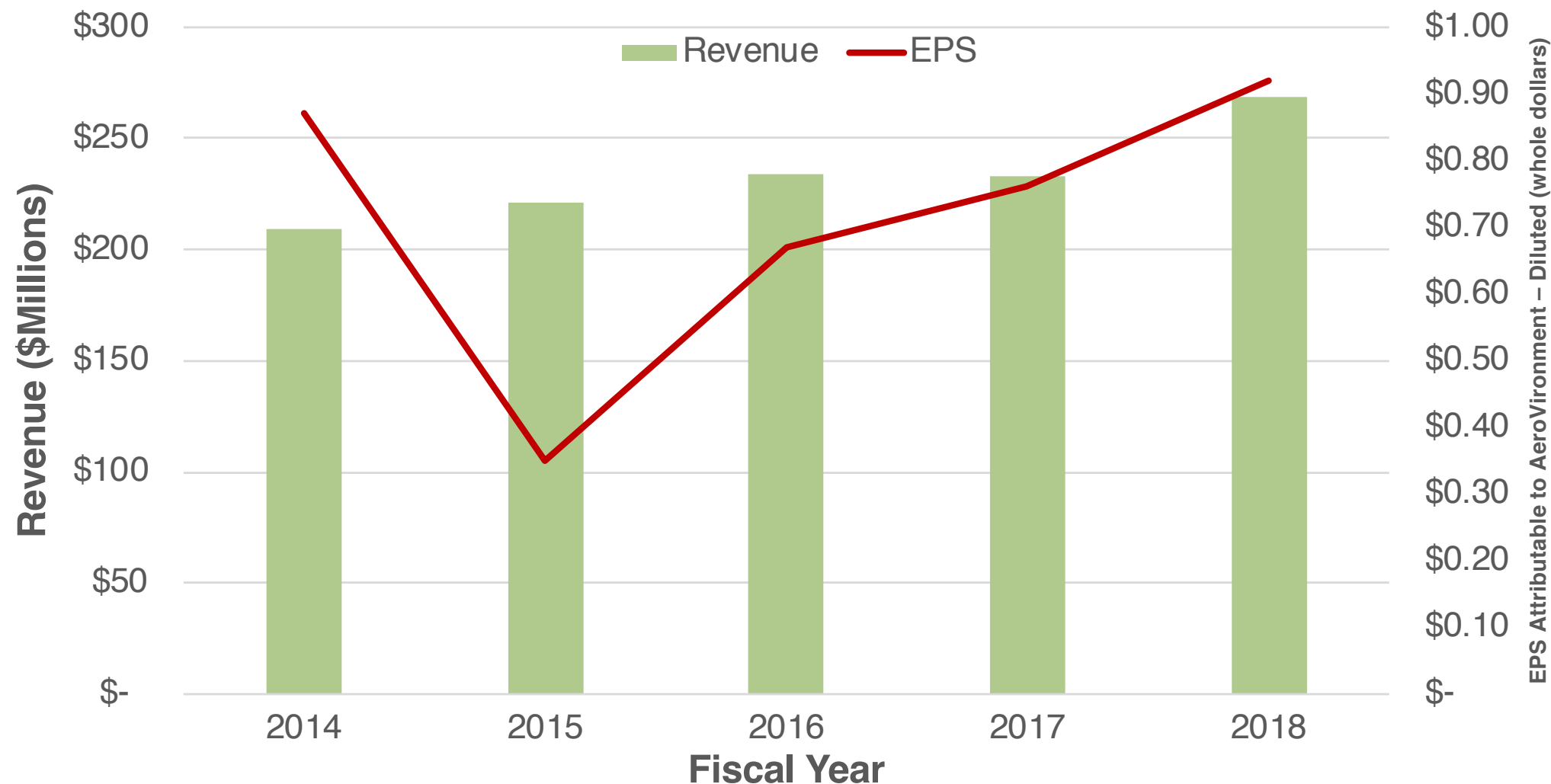
Revenue by Source  
FY 2018



**Note:** FY14 – FY16 figures have not been adjusted for ASC-606.

<sup>1</sup> CR&D: Customer Funded Research and Development

# Profitability Driven by Innovation and Strategic Investments



# Fiscal Year 2019 Quarterly Results (Continuing Operations)

| In \$ Millions (except EPS)                                              | Qtr. 1 | Qtr. 2 | Qtr. 3 | Qtr. 4 | YTD    |
|--------------------------------------------------------------------------|--------|--------|--------|--------|--------|
| Revenue                                                                  | \$78.0 | -      | -      | -      | \$78.0 |
| Gross Margin                                                             | \$32.6 | -      | -      | -      | \$32.6 |
| Gross Margin %                                                           | 42%    | -      | -      | -      | 42%    |
| Profit (Loss)                                                            | \$23.5 | -      | -      | -      | \$23.5 |
| Profit (Loss) Margin %                                                   | 30%    | -      | -      | -      | 30%    |
| Net Income (Loss) Attributable to AeroVironment                          | \$27.3 | -      | -      | -      | \$27.3 |
| Net Income (Loss) Attributable to AeroVironment Margin %                 | 35%    | -      | -      | -      | 35%    |
| Diluted Earnings (Loss) Per Share (EPS)<br>Attributable to AeroVironment | \$0.85 | -      | -      | -      | \$0.85 |

# A Strong Balance Sheet is Essential to our Growth Strategy: Confidence, Speed, Conviction

| AeroVironment, Inc.<br>Consolidated Balance Sheets<br>(In thousands except share and per share data)                                            |                                 |                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------------|
|                                                                                                                                                 | July 28,<br>2018<br>(Unaudited) | April 30,<br>2018 |
| <b>Assets</b>                                                                                                                                   |                                 |                   |
| Current assets:                                                                                                                                 |                                 |                   |
| Cash and cash equivalents                                                                                                                       | \$ 170,788                      | \$ 143,517        |
| Short-term investments                                                                                                                          | 118,303                         | 113,649           |
| Accounts receivable, net of allowance for doubtful accounts of \$1,033 at July 28, 2018 and \$1,080 at April 30, 2018                           | 13,802                          | 56,813            |
| Unbilled receivables and retentions (inclusive of related party unbilled receivables of \$9,504 at July 28, 2018 and \$3,145 at April 30, 2018) | 59,870                          | 16,872            |
| Inventories, net                                                                                                                                | 42,244                          | 37,425            |
| Prepaid expenses and other current assets                                                                                                       | 5,196                           | 5,103             |
| Current assets of discontinued operations                                                                                                       | —                               | 25,668            |
| Total current assets                                                                                                                            | 410,203                         | 399,047           |
| Long-term investments                                                                                                                           | 36,712                          | 40,656            |
| Property and equipment, net                                                                                                                     | 19,347                          | 19,219            |
| Deferred income taxes                                                                                                                           | 11,800                          | 11,494            |
| Other assets                                                                                                                                    | 2,299                           | 3,002             |
| Total assets                                                                                                                                    | \$ 480,361                      | \$ 473,418        |
| <b>Liabilities and stockholders' equity</b>                                                                                                     |                                 |                   |
| Current liabilities:                                                                                                                            |                                 |                   |
| Accounts payable                                                                                                                                | \$ 12,939                       | \$ 21,340         |
| Wages and related accruals                                                                                                                      | 10,624                          | 16,851            |
| Income taxes payable                                                                                                                            | 8,898                           | 4,085             |
| Customer advances                                                                                                                               | 1,627                           | 3,564             |
| Other current liabilities                                                                                                                       | 6,664                           | 6,954             |
| Current liabilities of discontinued operations                                                                                                  | —                               | 9,294             |
| Total current liabilities                                                                                                                       | 40,752                          | 62,088            |
| Deferred rent                                                                                                                                   | 1,476                           | 1,536             |
| Other non-current liabilities                                                                                                                   | 958                             | 622               |
| Deferred tax liability                                                                                                                          | 67                              | 67                |
| Liability for uncertain tax positions                                                                                                           | 49                              | 49                |
| Commitments and contingencies                                                                                                                   |                                 |                   |
| Stockholders' equity:                                                                                                                           |                                 |                   |
| Preferred stock, \$0.0001 par value:                                                                                                            |                                 |                   |
| Authorized shares—10,000,000; none issued or outstanding at July 28, 2018 and April 30, 2018                                                    | —                               | —                 |
| Common stock, \$0.0001 par value:                                                                                                               |                                 |                   |
| Authorized shares—100,000,000                                                                                                                   |                                 |                   |
| Issued and outstanding shares—23,923,342 shares at July 28, 2018 and 23,908,736 at April 30, 2018                                               | 2                               | 2                 |
| Additional paid-in capital                                                                                                                      | 170,789                         | 170,139           |
| Accumulated other comprehensive income (loss)                                                                                                   | 16                              | (21)              |
| Retained earnings                                                                                                                               | 266,243                         | 238,913           |
| Total AeroVironment stockholders' equity                                                                                                        | 437,050                         | 409,033           |
| Noncontrolling interest                                                                                                                         | 9                               | 23                |
| Total equity                                                                                                                                    | 437,059                         | 409,056           |
| Total liabilities and stockholders' equity                                                                                                      | \$ 480,361                      | \$ 473,418        |

See accompanying notes to consolidated financial statements (unaudited).

\$326 million in cash, short and long term investments

No debt (other than \$0.2 million IT capital leases)



# Fiscal 2019 Plan to Drive Long-Term Value

- Continued strength in Small UAS and Tactical Missile Systems businesses
- Continue to execute on new growth opportunities: HAPS and Commercial Information Solutions
- Identify strategic inorganic growth opportunities



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