AeroVironment, Inc. Announces Fiscal 2017 Fourth Quarter and Full Year Results

MONROVIA, Calif.--(BUSINESS WIRE)-- AeroVironment, Inc. (NASDAQ: AVAV) today reported financial results for its fourth quarter ended April 30, 2017.

"Through the successful execution of our strategic plan, AeroVironment achieved record performance in our fourth quarter, with revenue of $125 million and fully diluted earnings per share of $1.30," said Wahid Nawabi, AeroVironment president and chief executive officer. "International demand for our Family of small unmanned aircraft systems and domestic demand for our Family of Tactical Missile Systems drove full year revenue to $264.9 million, within our guidance range, and fully diluted earnings per share to $0.54, significantly above guidance and 38 percent higher than last year. Our team executed our fiscal 2017 plan effectively, growing year-end funded backlog by 19 percent over the previous year to $78 million, while creating value for our customers, employees and stockholders and positioning AeroVironment for long-term growth."

FISCAL 2017 FOURTH QUARTER RESULTS

Revenue for the fourth quarter of fiscal 2017 was $125.4 million, an increase of 48% from fourth quarter fiscal 2016 revenue of $84.8 million. The increase in revenue resulted from an increase in sales in our Unmanned Aircraft Systems (UAS) segment of $39.8 million and an increase in sales in our Efficient Energy Systems (EES) segment of $0.8 million.

Gross margin for the fourth quarter of fiscal 2017 was $58.7 million, an increase from fourth quarter fiscal 2016 gross margin of $37.9 million. The increase in gross margin was primarily due to an increase in product margin of $26.5 million, partially offset by a decrease in service margin of $5.8 million. As a percentage of revenue, gross margin increased to 47% from 45%. The increase in gross margin percentage was primarily due to an increase in the proportion of product sales to total revenue.

Income from operations for the fourth quarter of fiscal 2017 was $34.0 million compared to fourth quarter fiscal 2016 income from operations of $6.8 million. The increase in the year over year income from operations was primarily a result of an increase in gross margin of $20.7 million and a decrease in research and development (R&D) expense of $6.4 million.

Other income, net, for the fourth quarter of fiscal 2017 was $1.0 million compared to other income, net of $0.5 million for the fourth quarter of fiscal 2016.

Provision for income taxes for the fourth quarter of fiscal 2017 was $4.6 million compared to provision for income taxes of $1.9 million for the fourth quarter of fiscal 2016. The increase in provision for income taxes was primarily due to an increase in income before taxes.

Net income attributable to AeroVironment for the fourth quarter of fiscal 2017 was $30.5 million compared to net income for the fourth quarter of fiscal 2016 of $5.4 million.

Earnings per diluted share for the fourth quarter of fiscal 2017 was $1.30 compared to earnings per diluted share for the fourth quarter of fiscal 2016 of $0.23.

FISCAL 2017 FULL-YEAR RESULTS

Revenue for fiscal 2017 was $264.9 million, an increase from fiscal 2016 revenue of $264.1 million. The increase in revenue resulted from an increase in sales in our EES segment of $5.6 million, partially offset by a decrease in sales in our UAS segment of $4.8 million.

Gross margin for fiscal 2017 was $102.1 million, a decrease of 9% from fiscal 2016 gross margin of $112.1 million. The decrease in gross margin was due to a decrease in product margin of $5.7 million and a decrease in service margin of $4.3 million. As a percentage of revenue, gross margin decreased to 39% from 42%. The decrease in gross margin percentage was primarily due to the reserve reversal of $3.6 million for the settlement of prior year government incurred cost audits recorded in fiscal 2016 and an increase in sustaining engineering activities in support of our existing products.
Income from operations for fiscal 2017 was $12.5 million compared to income from operations for fiscal 2016 of $9.7 million. The increase in income from operations was a result of a decrease in R&D expense of $9.2 million and a decrease in selling, general and administrative (SGA) expense of $3.5 million, partially offset by a decrease in gross margin of $10.0 million.

Other income, net, for fiscal 2017 was $1.7 million compared to other expense, net, for fiscal 2016 of $1.7 million. The increase in other income, net was primarily due to the recording of an other-than-temporary impairment loss of $2.2 million on our CybAero equity securities during fiscal 2016. The CybAero equity securities were sold during the second quarter of fiscal 2016.

Provision for income taxes for fiscal 2017 was $1.8 million compared to benefit for income taxes of $0.9 million for fiscal 2016. The increase in provision for income taxes was primarily a result of an increase in income before taxes and a decrease in tax credits as a result of federal legislation permanently reinstating the federal research and development tax credit retroactive to January 2015 during fiscal year 2016, partially offset by a reversal of a reserve for uncertain tax positions of $1.0 million due to the settlement of prior fiscal year audits recorded in the first quarter of fiscal 2017.

Net income attributable to AeroVironment for fiscal 2017 was $12.5 million compared to net income for fiscal 2016 of $9.0 million.

Earnings per diluted share for fiscal 2017 was $0.54 compared to earnings per diluted share for fiscal 2016 of $0.39. Net income per diluted share for fiscal 2016 increased by $0.10 due to the reserve reversal for the settlement and resolution of prior year government incurred cost audits, increased by $0.05 due to R&D tax credits related to prior fiscal years, primarily as a result of the reenactment of the federal R&D tax credit, and decreased by $0.06 due to both the impairment loss and loss on sale of our CybAero equity securities during the first quarter of fiscal year 2016.

BACKLOG

As of April 30, 2017, funded backlog (unfilled firm orders for which funding is currently appropriated to us under a customer contract) was $78.0 million compared to $65.8 million as of April 30, 2016.

FISCAL 2018 — OUTLOOK FOR THE FULL YEAR AND FIRST QUARTER

For fiscal 2018, the company expects to generate revenue of between $280 million and $300 million, and earnings per diluted share of between $0.45 and $0.65.

For the first quarter of fiscal 2018, the company expects to generate revenue of between $40 million and $44 million, and loss per diluted share of between $0.32 and $0.40.

The foregoing estimates are forward looking and reflect management's view of current and future market conditions, including certain assumptions with respect to our ability to obtain and retain government contracts, changes in the timing and/or amount of government spending, changes in the demand for our products and services, activities of competitors, changes in the regulatory environment, and general economic and business conditions in the United States and elsewhere in the world. Investors are reminded that actual results may differ materially from these estimates.

CONFERENCE CALL

In conjunction with this release, AeroVironment, Inc. will host a conference call today, Tuesday, June 27, 2017, at 1:30 pm Pacific Time that will be broadcast live over the Internet. Wahid Nawabi, president and chief executive officer, Teresa P. Covington, chief financial officer and Steven A. Gitlin, vice president of investor relations, will host the call.

4:30 PM ET
3:30 PM CT
2:30 PM MT
1:30 PM PT

Investors may dial into the call at (877) 561-2749 (U.S.) or (678) 809-1029 (international) five to ten minutes prior to the start time to allow for registration.

Investors with Internet access may listen to the live audio webcast via the Investor Relations page of the AeroVironment, Inc. website, http://investor.avinc.com. Please allow 15 minutes prior to the call to download and install any necessary audio software.
Audio Replay Options

An audio replay of the event will be archived on the Investor Relations page of the company's website, at http://investor.avinc.com. The audio replay will also be available via telephone from Tuesday, June 27, 2017, at approximately 4:30 p.m. Pacific Time through Tuesday, July 4, 2017, at 9:00 p.m. Pacific Time. Dial (855) 859-2056 and enter the passcode 33623290. International callers should dial (404) 537-3406 and enter the same passcode number to access the audio replay.

ABOUT AEROVIRONMENT, INC.

AeroVironment (NASDAQ: AVAV) provides customers with more actionable intelligence so they can proceed with certainty. Based in California, AeroVironment is a global leader in unmanned aircraft systems, tactical missile systems and electric vehicle charging and test systems, and serves militaries, government agencies, businesses and consumers. For more information visit www.avinc.com.

FORWARD-LOOKING STATEMENTS

This press release contains "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; 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 and electric vehicles; 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. 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.

AeroVironment, Inc.
Consolidated Statements of Operations
(In thousands except share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Twelve Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td>$111,505</td>
<td>$60,040</td>
</tr>
<tr>
<td>Contract services</td>
<td>13,871</td>
<td>24,717</td>
</tr>
<tr>
<td></td>
<td>125,376</td>
<td>84,757</td>
</tr>
<tr>
<td>Cost of sales:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td>57,453</td>
<td>32,510</td>
</tr>
<tr>
<td>Contract services</td>
<td>9,264</td>
<td>14,325</td>
</tr>
<tr>
<td></td>
<td>66,717</td>
<td>46,835</td>
</tr>
<tr>
<td>Gross margin:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td>54,052</td>
<td>27,530</td>
</tr>
<tr>
<td>Contract services</td>
<td>4,607</td>
<td>10,392</td>
</tr>
<tr>
<td></td>
<td>58,659</td>
<td>37,922</td>
</tr>
<tr>
<td></td>
<td>Three Months Ended</td>
<td>Twelve Months Ended</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>--------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Earnings per diluted share as adjusted</td>
<td>$ 1.30</td>
<td>$ 0.23</td>
</tr>
<tr>
<td>Other-than-temporary impairment loss and loss on sale of stock</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reserve reversal for the settlement and resolution of prior year government incurred cost audits</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>R&amp;D tax credits related to prior fiscal years, related to the reenactment of the federal R&amp;D tax credit</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Earnings per diluted share as reported</td>
<td>$ 1.30</td>
<td>$ 0.23</td>
</tr>
</tbody>
</table>

**AeroVironment, Inc.**

**Consolidated Balance Sheets**

(In thousands except share data)

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2017</th>
<th>April 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 79,904</td>
<td>$124,287</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>119,971</td>
<td>103,404</td>
</tr>
<tr>
<td>Accounts receivable, net of allowance for doubtful accounts of $291 at April 30, 2017 and $262 at April 30, 2016</td>
<td>74,361</td>
<td>56,045</td>
</tr>
<tr>
<td>Unbilled receivables and retentions</td>
<td>14,120</td>
<td>18,899</td>
</tr>
<tr>
<td>Inventories, net</td>
<td>60,076</td>
<td>37,486</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>5,653</td>
<td>4,150</td>
</tr>
<tr>
<td>Total current assets</td>
<td>354,085</td>
<td>344,271</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>42,096</td>
<td>33,859</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>19,220</td>
<td>16,762</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>15,089</td>
<td>15,016</td>
</tr>
</tbody>
</table>
### Balance Sheet

**AeroVironment, Inc.**

**Consolidated Balance Sheets** (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other assets</td>
<td>2,010</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$432,500</td>
<td>$410,658</td>
<td></td>
</tr>
</tbody>
</table>

**Liabilities and stockholders’ equity**

**Current liabilities:**
- Accounts payable $20,283 $17,712
- Wages and related accruals $12,966 $13,973
- Income taxes payable 1,418 943
- Customer advances 3,317 2,544
- Other current liabilities 10,079 11,173

**Total current liabilities** 48,063 46,345

- Deferred rent 1,719 1,714
- Capital lease obligations - net of current portion 161 449
- Other non-current liabilities 184 184
- Deferred tax liability 116 —
- Liability for uncertain tax positions 64 441

**Liabilities and stockholders’ equity:**

**Current liabilities:**
- Accounts payable $20,283 $17,712
- Wages and related accruals $12,966 $13,973
- Income taxes payable 1,418 943
- Customer advances 3,317 2,544
- Other current liabilities 10,079 11,173

**Total current liabilities** 48,063 46,345

- Deferred rent 1,719 1,714
- Capital lease obligations - net of current portion 161 449
- Other non-current liabilities 184 184
- Deferred tax liability 116 —
- Liability for uncertain tax positions 64 441

**Stockholders’ equity:**

- Preferred stock, $0.0001 par value:
  - Authorized shares—10,000,000; none issued or outstanding at April 30, 2017 and April 30, 2016 — —

- Common stock, $0.0001 par value:
  - Authorized shares—100,000,000
  - Issued and outstanding shares—23,630,419 shares at April 30, 2017 and 23,359,925 at April 30, 2016 2 2

- Additional paid-in capital 162,150 154,274
- Accumulated other comprehensive loss (127) (201)
- Retained earnings 219,929 207,450
- Total AeroVironment stockholders’ equity 381,954 361,525

- Noncontrolling interest 239 —

**Total equity** 382,193 361,525

**Total liabilities and stockholders’ equity** $432,500 $410,658

---

### Income Statement

**AeroVironment, Inc.**

**Consolidated Statements of Cash Flows** (In thousands)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 12,457</td>
<td>$ 8,966</td>
<td>$ 2,895</td>
</tr>
</tbody>
</table>

*Adjustments to reconcile net income to cash used in operating activities:*

- Depreciation and amortization 7,054 6,074 8,366
- Loss from equity method investments 119 138 240
- Impairment of available-for-sale securities — 2,186 —
- Impairment of long-lived assets 46 — 438
- Provision for doubtful accounts 56 (178) (106)
- Losses on foreign currency transactions 284 63 580
- Loss on sale of equity securities — 219 209
- Deferred income taxes (52) (2,912) (3,382)
- Gain on business acquisition (584) — —
- Change in fair value of conversion feature of convertible bonds — — (73)
- Stock-based compensation 3,709 4,562 3,768
- Tax benefit from exercise of stock options — 161 52
- Excess tax benefit from stock-based compensation — (39) (162)
- Loss (gain) on disposition of property and equipment 37 (22) 3,661
- Amortization of held-to-maturity investments 2,382 3,875 4,532

---

### Notes

- The company’s business is the design, manufacture, and support of small unmanned aircraft systems and associated systems and sensor technologies.

- The company’s principal markets are the United States and foreign countries.

- The company’s financial results are affected by changes in the value of the U.S. dollar and other foreign currencies relative to the U.S. dollar.

- The company’s operating results are affected by changes in the number of aircraft systems sold and the mix of aircraft systems sold.

- The company’s financial results are affected by changes in the number of aircraft systems sold and the mix of aircraft systems sold.

- The company’s financial results are affected by changes in the number of aircraft systems sold and the mix of aircraft systems sold.

- The company’s financial results are affected by changes in the number of aircraft systems sold and the mix of aircraft systems sold.

---

**Note:** The above information is a summary of the company’s financial statements and should be read in conjunction with the complete financial statements and notes thereto.
Changes in operating assets and liabilities:

Accounts receivable
\[ (18,627) \quad (22,260) \quad (1,762) \]
Unbilled receivables and retentions
\[ 4,779 \quad (1,543) \quad 6,427 \]
Inventories
\[ (22,590) \quad 1,928 \quad 11,285 \]
Income tax receivable
\[ — \quad — \quad 6,584 \]
Prepaid expenses and other assets
\[ (1,466) \quad 517 \quad (339) \]
Accounts payable
\[ 2,843 \quad (2,705) \quad 5,337 \]
Other liabilities
\[ (946) \quad 1,521 \quad 3,717 \]

Net cash (used in) provided by operating activities
\[ (10,499) \quad 551 \quad 39,413 \]

Investing activities

Acquisition of property and equipment
\[ (9,862) \quad (6,829) \quad (5,279) \]
Equity method investment
\[ — \quad — \quad (295) \]
Business acquisition, net of cash acquired
\[ (430) \quad — \quad — \]
Redemptions of held-to-maturity investments
\[ 121,522 \quad 84,433 \quad 69,387 \]
Purchases of held-to-maturity investments
\[ (148,991) \quad (94,954) \quad (97,464) \]
Acquisition of intangible assets
\[ — \quad — \quad (150) \]
Proceeds from the sale of property and equipment
\[ 7 \quad 80 \quad — \]
Sales and redemptions of available-for-sale investments
\[ 400 \quad 987 \quad 10,081 \]

Net cash used in investing activities
\[ (37,354) \quad (16,578) \quad (23,820) \]

Financing activities

Purchase and retirement of common stock
\[ — \quad (3,756) \quad — \]
Principal payments of capital lease obligations
\[ (390) \quad (472) \quad — \]
Excess tax benefit from stock-based compensation
\[ — \quad — \quad 162 \]
Tax withholding payment related to net settlement of equity awards
\[ (5) \quad (29) \quad (36) \]
Exercise of stock options
\[ 3,865 \quad 1,122 \quad 722 \]

Net cash provided by (used in) financing activities
\[ 3,470 \quad (3,096) \quad 848 \]

Net (decrease) increase in cash and cash equivalents
\[ (44,383) \quad (19,123) \quad 16,441 \]
Cash and cash equivalents at beginning of period
\[ 124,287 \quad 143,410 \quad 126,969 \]
Cash and cash equivalents at end of period
\[ 79,904 \quad 124,287 \quad 143,410 \]

Supplemental disclosures of cash flow information

Cash paid during the period for:
Income taxes
\[ $1,804 \quad $1,576 \quad $700 \]

Non-cash activities

Unrealized gain (loss) on investments, net of deferred tax expense (benefit) of $43, $18 and $(730) for the fiscal years ended April 30, 2017, April 30, 2016 and April 30, 2015 respectively
\[ $74 \quad $27 \quad (1,095) \]
Reclassification from share-based liability compensation to equity
\[ $307 \quad $228 \quad — \]
Forfeiture of vested stock-based compensation
\[ $— \quad $86 \quad 23 \]
Acquisitions of property and equipment financed with capital lease obligations
\[ $— \quad $932 \quad — \]
Accrued acquisition of intangible assets
\[ $— \quad $250 \quad — \]
Acquisitions of property and equipment included in accounts payable
\[ $729 \quad 1,174 \quad — \]

AeroVironment, Inc.

Reportable Segment Results are as Follows
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Twelve Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2017</td>
<td>April 30, 2016</td>
</tr>
<tr>
<td></td>
<td>(Unaudited)</td>
<td></td>
</tr>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UAS</td>
<td>$115,720</td>
<td>$75,896</td>
</tr>
<tr>
<td>EES</td>
<td>9,656</td>
<td>8,861</td>
</tr>
<tr>
<td>Total</td>
<td>$125,376</td>
<td>$84,757</td>
</tr>
<tr>
<td>Cost of sales:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$264,873</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$264,098</td>
</tr>
</tbody>
</table>
UAS  59,388  40,941  135,937  132,209
EES   7,329   5,894   26,826   19,786
Total 66,717  46,835  162,763  151,995

Gross margin:
UAS  56,332  34,955  93,003  101,529
EES   2,327   2,967   9,107   10,574
Total 58,659  37,922 102,110 112,103

Selling, general and administrative
16,699  16,775  56,537  60,077
Research and development
7,937   14,316  33,042  42,291
Income from operations
34,023  6,831  12,531  9,735

Other income (expense):
Interest income, net
456   359  1,618  1,032
Other income (expense), net
536   97   60 (2,699)
Income before income taxes
$ 35,015 $ 7,287 $14,209  $ 8,068

For additional media and information, please follow us at:

Facebook: http://www.facebook.com/aerovironmentInc
Twitter: http://www.twitter.com/aerovironment
LinkedIn: https://www.linkedin.com/company/aerovironment
YouTube: http://www.youtube.com/user/AeroVironmentInc
Google+: https://plus.google.com/100557642515390130818/posts


AeroVironment, Inc.
Steven Gitlin
+1 (626) 357-9983
ir@avinc.com

Source: AeroVironment, Inc.

News Provided by Acquire Media