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# IPO Update: Red Cat Holdings Seeks \$20 Million Uplisting IPO

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Apr. 27, 2021 1:01 PM ET [Red Cat Holdings Inc. \(RCAT\)](#) 1 Like

## Summary

- Red Cat Holdings has filed proposed terms for a \$20 million uplisting IPO to Nasdaq.
- The firm sells drones and related software and services to enterprises.
- While the industry is growing quickly, RCAT has grown only due to acquisition, not organic. I'll watch the IPO from the sidelines.
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Photo by aerogondo/iStock via Getty Images

## Quick Take

Red Cat Holdings ([OTCQB:RCAT](#)) has filed to raise \$20 million from the sale of its common stock in an uplisting IPO, according to an amended [registration statement](#).

The company sells drone products and related software and services.

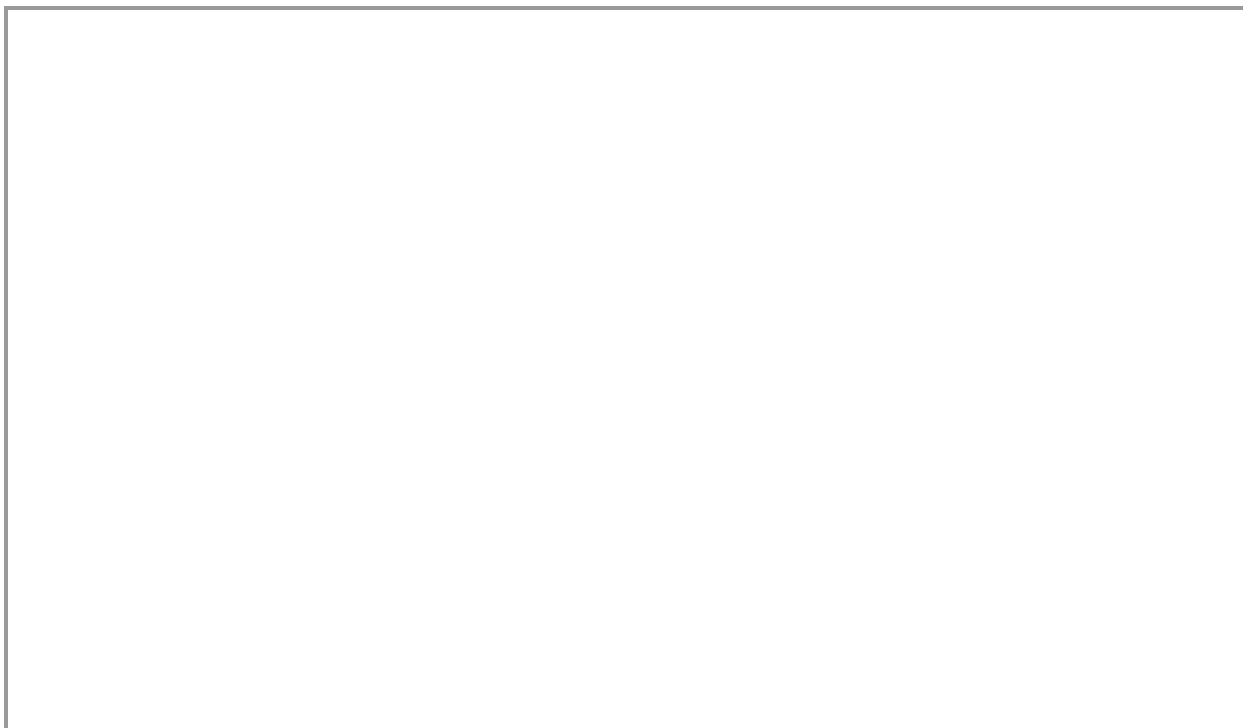
RCAT is pursuing an acquisition approach to expanding its offerings but management has yet to prove it can grow the business organically, so I'll pass on the IPO, but will watch list the stock for future potential.

## Company & Technology

Humacao, Puerto Rico-based Red Cat was founded to provide high performance viewing and related products for drone racing and other drone use cases.

Management is headed by president, Chairman and CEO Jeffrey Thompson, who has been with the firm since May 2019 and was previously founder and CEO of Towerstream ([OTCPK:TWER](#)), a fixed wireless internet service provider.

Below is a brief overview video of the company's recent acquisition of Fat Shark:



Source: RedChip Companies

The company's primary offerings include:

- Race and freestyle products
- SMB / Drone service providers
- Platform / enterprise

Red Cat has received at least \$4.8 million from investors.

## Customer Acquisition

The company sells products to different sectors of the drone market, including first person view products sold to racers and freestyle drone enthusiasts as well as other drone products to industry and government.

Red Cat also offers a data acquisition and storage platform for compliant operations for business and related drone operators.

The firm seeks other acquisition opportunities to expand its offerings to various industry targets.

Sales and Marketing expenses as a percentage of total revenue dropped to 3.1%% for the nine months ended Jan. 31, 2021.

The company's Sales and Marketing efficiency rate, defined as how many dollars of

additional new revenue are generated by each dollar of Sales and Marketing spend, was a very high 31.7x in the most recent reporting period.

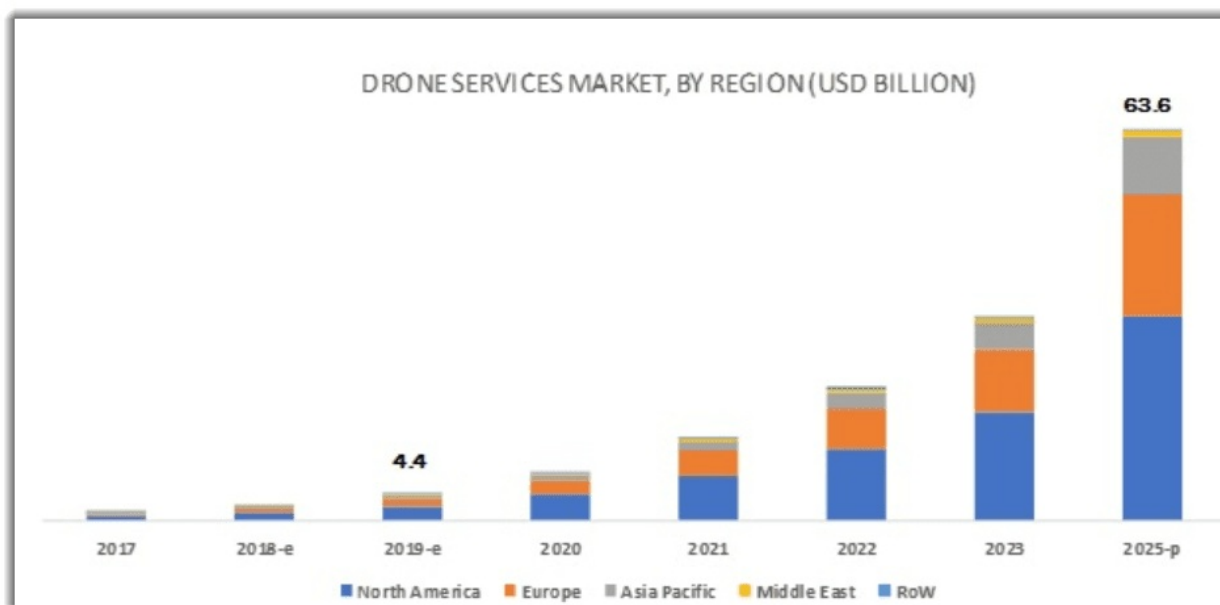
## Market & Competition

According to a 2020 market [research report](#) by MarketsAndMarkets, the global market for drone services of all types is projected to exceed \$63 billion by 2025, up from \$4.4 billion in 2019.

This represents an extremely strong forecast CAGR of 55.4% from 2019 to 2025.

The main drivers for this expected growth are a growing use of drone services for industry-specific applications, increased need for data about and from operations and an improved regulatory framework.

Also, the North America region will likely account for the greatest demand through 2025, followed by Europe and the Asia Pacific region, as the chart shows below:



Major competitive or other industry participants, whether via products or service offerings, include:

- DJI ([DJII](#))
- Parrot SA ([OTCPK:PAOTF](#))
- Yuneec
- Lumenier
- DroneDeploy
- Identified Technologies

- Measure
- Phoenix Drone Services
- Prioria Robotics
- Sharper Shape
- Unmanned Experts

## Financial Performance

Red Cat's recent financial results can be summarized as follows:

- Increasing topline revenue from a small base
- Growing gross profit and gross margin
- Increased operating losses
- Growing cash used in operations

Below are relevant financial results derived from the firm's registration statement:

### Total Revenue

Period	Total Revenue
Nine Mos. Ended Jan. 31, 2021	\$ 3,122,077
FYE April 30, 2020	\$ 403,940

### Gross Profit (Loss)

Period	Gross Profit (Loss)
Nine Mos. Ended Jan. 31, 2021	\$ 770,924
FYE April 30, 2020	\$ 78,561

## **Gross Margin**

Period	Gross Margin
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Nine Mos. Ended Jan. 31, 2021	24.69%
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FYE April 30, 2020	19.45%
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## **Operating Profit (Loss)**

Period	Operating Profit (Loss)	Operating Margin
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Nine Mos. Ended Jan. 31, 2021	\$ (2,019,988)	-64.7%
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FYE April 30, 2020	\$ (1,659,146)	-410.7%
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FYE April 30, 2019	\$ (751,332)	--%
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## **Net Income (Loss)**

Period	Net Income (Loss)
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Nine Mos. Ended Jan. 31, 2021	\$ (10,089,785)
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FYE April 30, 2020	\$ (1,601,931)
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FYE April 30, 2019	\$ (751,332)
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## **Cash Flow From Operations**

Period	Cash Flow From Operations
Nine Mos. Ended Jan. 31, 2021	\$ (917,016)
FYE April 30, 2020	\$ (811,584)
FYE April 30, 2019	\$ (753,388)

[\(Glossary Of Terms\)](#)

As of January 31, 2021, Red Cat had \$471,652 in cash and \$12.7 million in total liabilities.

Free cash flow during the twelve months ended January 31, 2021, was negative (\$1 million).

## IPO Details

RCAT intends to sell 4.9 million shares of common stock at a potential price of \$4.10 per share for gross proceeds of approximately \$20 million, not including the sale of customary underwriter options.

No existing shareholders have indicated an interest to purchase shares at the IPO Price.

Assuming a successful IPO at the midpoint of the proposed price range, the company's enterprise value at IPO (ex- underwriter options) would approximate \$142 million.

Excluding effects of underwriter options and private placement shares or restricted stock, if any, the float to outstanding shares ratio will be approximately 14.39%.

Per the firm's most recent regulatory filing, the firm plans to use the net proceeds as follows:

### USE OF NET PROCEEDS<sup>1</sup>

Service, Sales, and Marketing Efforts for Red Cat Drone Services<sup>2</sup>

Strategic Acquisitions and Related Costs<sup>3</sup>

Working Capital<sup>4</sup>

### TOTAL APPLICATION OF NET PROCEEDS

Management's presentation of the company roadshow is not available.

The sole listed underwriter of the IPO is ThinkEquity.

## Valuation Metrics

Below is a table of the firm's relevant capitalization and valuation metrics at IPO, excluding the effects of underwriter options:

Measure [TTM]	Amount
Market Capitalization at IPO	\$138,948,898
Enterprise Value	\$141,835,524
Price / Sales	39.80
EV / Revenue	40.62
EV / EBITDA	-52.48
Earnings Per Share	-\$0.31
Float To Outstanding Shares Ratio	14.39%
Proposed IPO Midpoint Price per Share	\$4.10
Net Free Cash Flow	-\$1,023,949
Free Cash Flow Yield Per Share	-0.74%

[\(Glossary Of Terms\)](#)

Source: Company Prospectus



## Commentary

Red Cat is seeking to uplist its stock to Nasdaq likely for greater visibility and to take advantage of its recent acquisition of Fat Shark, which promises to sharply increase the firm's revenue base with its around \$7 million in annual revenue.

The firm's financials are starting to show revenue increases as a result of the acquisition.

Free cash flow for the last twelve months was a negative \$1 million.

Sales and Marketing expenses as a percentage of total revenue dropped to 3.1% and its Sales and Marketing efficiency rate was

The market opportunity for providing case-specific drone technologies is large and expected to grow at a very high rate of growth over the coming years, so the firm enjoys positive industry dynamics in its favor.

ThinkEquity is the sole underwriter and IPOs led by the firm over the last 12-month period have generated an average return of negative (11.3%) since their IPO. This is a bottom-tier performance for all major underwriters during the period.

As for valuation, management is asking IPO investors to pay an enterprise value / revenue multiple of nearly 41x. Even if forward revenues grow to \$7 million, it's still a 20x EV/Revenue multiple.

RCAT is pursuing an acquisition approach to expanding its offerings but management has yet to prove it can grow the business organically, so I'll watch the IPO from the sidelines.

Expected IPO Pricing Date: *April 28, 2021.*



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