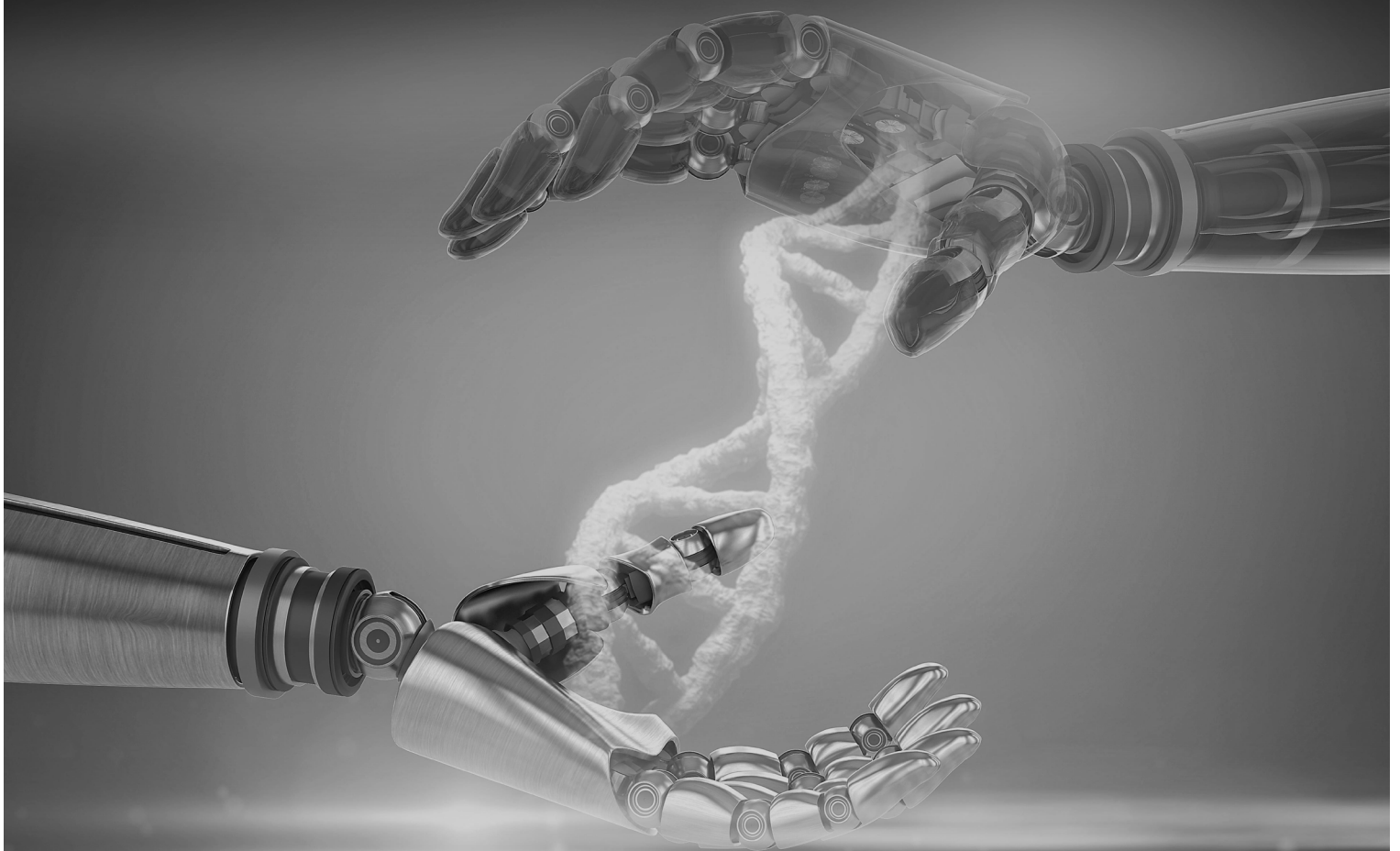




Emerging Stocks Down Under

🗨️ *Millions saw the apple fall, but [Isaac] Newton was the one who asked why.* 🗨️

- Bernard Baruch (1870-1965), Politician adviser and financier



ELSGHT

Good potential, but too early to invest

ELSIGHT

Good potential, but too early to invest

Stocks Down Under rating: ★★

ASX: ELS
Market cap: A\$52.6M

52-week range: A\$0.30 / A\$0.54
Share price: A\$0.35

It has been over 2 years since we looked at Elsieht (ASX: ELS), an Israeli company that specialises in secured communications. It has been listed for over five years and has commercialised its technology at a very slow pace. In the 6 months to 30 June 2022, revenues were a paltry US\$360,029 and it made a net loss of US\$2.2m. But the former figure was 45% higher than 12 months ago. So, after half a decade, is it finally headed in the right direction, and will shareholders give it the recognition?

Share price chart



Source: Tradingview

Meet Halo BVLOS

Elsight's flagship technology is the Halo BVLOS (Beyond Visual Line of Sight). Halo is essentially a credit card-sized receiver that sends data over cellular networks. It is applicable in a wide range of markets and technologies. These include military, law enforcement, Homeland Security (HLS), medical, transportation and even drone delivery.

Halo is secure because it can split up the data, video and audio feeds from an autonomous or remotely operated border patrol vehicle, armoured truck or drone into four separate streams that get sent back to headquarters through separate mobile connections, or even separate cellular networks. This reduces the likelihood of 'data interceptions' causing damage, for if one stream is intercepted, it will be useless without the other three. HALO has received all the required certifications, including FCC certification in the US.

Good signs for the future

The company is pursuing a 'Design Win' strategy, with Halo embedded as a critical component in a drone design by manufacturers. This will see Halo embedded as a critical component in drone design by manufacturers right from the start of the life of a product using Halo. This will allow Halo to remain part of the product as the manufacturers' sales grow.

Elsight purports to have a total of 60 companies working with the solution. There are a handful of commercial agreements, such as one with Brazilian company Speedbird Aero to use Halo in BVLOS drone parcel delivery in Brazil.

There are also encouraging signs in the broader industry, as larger companies look towards drone delivery services. In particular, US supermarket giant Walmart is working towards offering drone delivery as an option. And Elsieht is exposed to this as it is partnered with DroneUp - Walmart's sole drone partner – to provide its Halo platform to DroneUp.

Is it actually doing anything? As much as it can without the FAA

Your Stocks Down Under Tech analyst visited Elsieht in Israel in 2018 and saw a big opportunity in Military applications, e.g. for secure data transmissions from the conflict zone back to HQ. But as we noted above, almost 5 years on, the company made just US\$360,029 in revenue with a \$2.2m loss in 1HY22. During CY21, it made just US\$574,014 in revenue and lost US\$5.9m. Will this company ever get anywhere?

Elsight will tell you that it is going places. It completed the latest capital raise just 6 weeks ago, adding \$8m to the balance sheet. It is one of 10 companies participating in Israel's National Drone Initiative. And, of course, there is the excitement of the future potential of the DroneUp deal.

However, the reality is that the DroneUp deal is not going too far until it gets certification from the FAA. Investors perceive that if the FAA does not certify the technology, it is going nowhere. At the moment, it is only offered on the basis of local waivers. This may work on a smaller scale, but it is difficult to see the company making substantial progress (at least in the US) without FAA approval. And even waivers come with limitations on the delivery radius (typically one to two miles from the store).

Elsight tried to spin the wait as a good thing in its half-yearly report, arguing that it is a sign that the FAA is giving this process significant attention and that it helps service providers focus on inside-the-store operational challenges rather than on the long-distance flight control logistics. Be that as it may, you do have to address the simple fact that FAA approval is taking a very long time. Elsieht is not going anywhere in the US without the FAA's green light. It has pointed to the approval of another unmanned aircraft, the OPTIMUS1-EX, that is embedded with Elsieht's Halo technology. This approval could be seen as a signal that the FAA may give the green light to DroneUp, but as far as investing in Elsieht goes ... seeing is believing. We note that it took 2 and a half years from application to approval of OPTIMUS1-EX. And 6 months on, it is not as if the company is suddenly making millions of dollars from this product.

Too risky

It is always risky to invest in companies that are reliant on a regulator giving the green light to a product for long-term success. We think Elsieht is one of them. Furthermore, even if the FAA does approve the technology for the DroneUp solution, we think it'll be a long time before we see large scale drone delivery of groceries. Even then, if and when this happens, there will be substantial competition in this space.

We think it is likelier that it will be an existing big player, like Amazon or maybe even Walmart itself, that can make the change and pivot at the right time. Determining the affirmative answer to the question as to who that will be is up for debate, but for now, we think it is sufficient to say it will not be a microcap company such as Elsieht. Two stars from us.



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