



CANADA

FLT CN Outperform

Price (at 22:24, 18 Jan 2018 GMT) C\$1.76

Valuation C\$ 2.52

- DCF (WACC 21.0%, beta 2.0, ERP 0.1%, RFR 0.0%)

12-month target C\$ 2.50

12-month TSR % +42.0

Volatility Index Very High

GICS sector Capital Goods

Market cap C\$m 299

Market cap US\$m 251

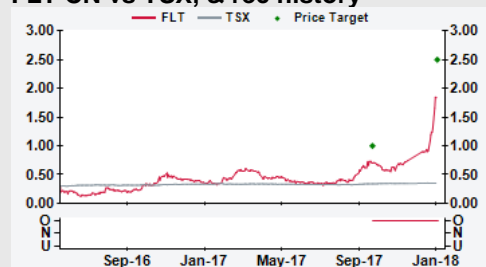
30-day avg turnover C\$m 1.3

Number shares on issue m 170.0

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
Revenue	m	0.0	0.0	2.9	16.1
EBITDA	m	-2.2	-5.0	-5.1	2.6
Recurring profit	m	-2.9	-5.2	-5.1	1.8
Reported profit	m	-2.9	-5.2	-5.1	1.8
Gross cashflow	m	-1.9	-5.2	-5.1	2.0
CFPS	C\$	-0.03	-0.05	-0.04	0.01
CFPS growth	%	nmf	-66.9	22.1	nmf
PGCFPS	x	nmf	nmf	nmf	130.6
EPS rec	C\$	-0.04	-0.05	-0.04	0.01
EPS rec growth	%	nmf	-9.8	22.1	nmf
PER rec	x	nmf	nmf	nmf	141.0
Total DPS	C\$	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-167.9	-46.4	-25.0	9.3
ROE	%	-213.7	-47.4	-25.2	7.0
EV/EBITDA	x	-68.3	-50.2	-48.7	94.8
Net debt/equity	%	-84.2	-95.8	-84.8	-80.2
P/BV	x	114.9	12.3	12.7	8.0

FLT CN vs TSX, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2018
(all figures in CAD unless noted)

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19 January 2018

Macquarie Capital Markets Canada Ltd.

Drone Delivery Canada

Fire Up The Rotors – Raise TP to \$2.50

Event

- **We are increasing our target price for FLT to \$2.50 from \$1.00** as we have become more comfortable with the company's revenue outlook. **We think the recent certification of its delivery drone by Transport Canada (LINK) and the testing of the larger Raven X1400 (25lb payload) illustrate the supportive regulatory environment that de-risks the binary outlook for the stock and give us greater confidence on an imminent approval.** Our recent meeting with management supports our more positive view. **Our bull case implies a \$3.50 valuation while our bear case implies \$0.80.** (Page 4)
- **We are raising our revenue forecast for 2019E and beyond** while lowering our 2018E, as we expect commercialization to commence in 2H18. Our 2028E terminal year revenue estimate of \$605m implies a 5.0% share in Canada's air logistics market (vs. prior 1.5%), which we believe is reasonable given the prospect of FLT utilizing larger drones and Canada's large landmass that calls for greater utilization of delivery automation to lower logistic costs.
- **Maintain OP rating as we continue to consider FLT to be well positioned for the growing trend of drone utilization across North America (link to thematic) as a pure-play in Canada (link to initiation).**

Impact

- **Bull Case implies \$3.50/share** assuming steady expansion in the number of drone sites and acceleration in delivery volume due to greater regulatory support and scaled deployment of larger drone fleet (ie. 4k lb payload) starting in 2025E. Our \$40k monthly run-rate per site implies two large drone deliveries per day, which we think is reasonable as drones transport gets greater traction..
- **Bear Case implies \$0.80/share** assuming no commercialization until 2019, unexpected delays in larger drone utilization, and bottleneck in both volume and site deployment due to slower than expected regulatory approval.
- **Finally, we grade FLT management a GPA of 3.7 out of 4.0** on their execution track record based on the average grade of three key criteria in commercial partnership, drone testing and regulatory approval (see page 5 for details).

Earnings and target price revision

- Raise target price to \$2.50 from \$1.00.

Price catalyst

- 12-month price target: C\$2.50 based on a DCF methodology.
- Catalyst: balance of regulatory approval, new customers, positive test results.

Action and recommendation

- Fundamental to our thesis is the prospect that FLT will be approved for commercialization. In the event that regulatory approval faces unexpected delays or is unobtainable, the stock would have questionable value in our view.

Please refer to page 8 for important disclosures and analyst certification, or on our website

www.macquarie.com/research/disclosures.

Fig 1 Drone Delivery Canada DCF Model

DCF Model (C\$'000)	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
+ NOPAT	(2,129)	(3,827)	(3,759)	1,817	12,898	32,524	54,287	76,796	106,338	137,630	167,388	200,437	236,893
+ Depreciation and amortization	18	23	27	144	694	2,232	4,826	7,283	9,210	11,144	12,981	14,743	16,391
+ (inc) / dec in OWC	(97)	(46)	2,448	7,543	5,531	4,693	4,763	6,252	6,694	7,270	6,583	6,824	7,130
- Acquisition of fixed assets	(36)	(3)	(143)	(803)	(2,535)	(5,337)	(7,768)	(9,590)	(11,525)	(13,343)	(15,091)	(16,716)	(18,167)
Free cash flow (DCF)	(2,244)	(3,853)	(1,427)	8,702	16,588	34,113	56,108	80,741	110,718	142,701	171,862	205,289	242,247
Discounting model													
Year	(0.0)	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	
Discount factor	100.9%	83.8%	69.5%	57.7%	47.8%	39.7%	32.9%	27.3%	22.7%	18.8%	15.6%	13.0%	
Present value of free cash flow s	(3,889)	(1,195)	6,049	9,563	16,321	22,277	26,604	30,259	32,365	32,348	32,066	31,386	
Implied EV	228,832	280,429	339,357	401,637	472,449	549,634	635,465	733,677	847,619	982,380	1,144,789	1,340,831	
Implied EV multiple	nmf	nmf	nmf	21.9x	10.1x	6.9x	5.6x	4.7x	4.2x	4.1x	4.0x	3.9x	
Discounted Cash Flow Valuation 2018E													
Sum of PV	238,043												
<u>PV Terminal Value (2028)</u>	<u>173,045</u>												
Gross Asset Value	411,088												
+ Cash	17,056												
- Debt	0												
Net Asset Value	428,143												
DCF value per share	\$2.52												
Target Price Sensitivity Analysis													
	WACC	19.5%	20.0%	20.5%	21.0%	21.5%							
Terminal Growth	1.00%	2.70	2.57	2.46	2.35	2.25							
	1.50%	2.73	2.61	2.49	2.38	2.27							
	2.00%	2.77	2.64	2.52	2.40	2.30							
	2.50%	2.81	2.68	2.55	2.44	2.33							
	3.00%	2.85	2.72	2.59	2.47	2.36							
WACC													
Marginal tax rate													26.8%
Risk free rate													2.50%
Market risk premium													9.0%
Beta													2.0
Cost of equity													20.5%
Credit spread over risk free rate													-2.5%
Cost of debt													0.0%
After tax cost of debt													0.0%
Debt													0
Equity													299,204
Debt / Capital													0.0%
Weighted average cost of equity													20.5%
Weighted average cost of debt													0.0%
WACC													20.5%
Terminal growth rate													2.00%
Terminal multiple (1/w acc-g)													5.4x

Source: Company Data, Bloomberg, Thomson, Macquarie Research, January 2018

Fig 2 Drone Service Plays and Transportation

18-Jan-18												EV/Revenue		PER	
Company	Ticker	Macquarie Analyst	Stock Rating	Price (FX Local)	% of 52-wk High	Target Price	Return to Target	Mkt Cap. (US'Mn)	Ent Value (US'Mn)	30-Day ADTV (US'Mn)	2018E	2019E	2018E	2019E	
CDA	Drone Delivery CA	FLT	Zhang	OP	\$1.76	80.0%	\$2.50	42.0%	210	205	1.1	35.4x	18.2x	nmf	229.2x
US	Alphabet	GOOGL	Schachter	OP	\$1,139	98.9%	\$1,175	3.2%	786,969	683,521	1,559.2	6.3x	5.1x	28.5x	25.0x
US	Amazon	AMZN	Schachter	OP	\$1,295	96.5%	\$1,300	0.4%	623,215	642,091	3,885.7	2.6x	2.0x	119.5x	64.2x
US	Facebook	FB	Schachter	OP	\$177.60	95.2%	\$205.00	15.4%	524,733	486,444	3,301.4	8.5x	6.3x	26.2x	23.2x
CH	Alibaba	BABA	Huang	OP	\$183.83	95.8%	\$259.00	40.9%	472,277	463,159	3,460.0	11.8x	8.1x	34.5x	25.0x
CH	JD.com	JD	Huang	OP	\$46.61	93.7%	\$51.00	9.4%	65,561	64,139	575.5	0.9x	0.7x	46.8x	31.8x
CH	Hikvision	002415	Chang	OP	CNY 40.60	92.7%	CNY 57.00	40.4%	58,385	57,397	206.3	6.3x	4.5x	25.1x	17.6x
JP	Rakuten	4755	Gibson	N	¥ 957	68.0%	¥ 1,165	21.8%	12,366	11,202	104.5	1.7x	1.5x	16.7x	12.3x
KR	CJ Logistics	000120	Cho	OP	Kw134000	67.0%	Kw200000	49.3%	2,856	4,896	5.6	0.6x	0.5x	23.3x	13.7x
UK	JustEat	JE	Liao	OP	£8.03	96.1%	£8.54	6.4%	7,501	7,289	23.0	8.4x	7.1x	32.1x	27.8x
CDA	Deveron UAS	DVR	NC	NR	\$0.37	66.1%	-	-	6	6	0.0	n/a	n/a	n/a	n/a
CDA	Kraken Sonar	PNG	NC	NR	\$0.17	71.7%	-	-	12	12	0.0	n/a	n/a	n/a	n/a
CDA	Global UAV	UAV	NC	NR	\$0.18	68.6%	-	-	13	12	0.3	n/a	n/a	n/a	n/a
FR	Groupe Gorge SA	GOE	NC	NR	€ 18.10	73.0%	-	-	299	378	0.5	nmf	1.0x	nmf	118.3x
DE	Deutsche Post AG	DPW	NC	NR	€ 40.11	97.0%	-	-	60,269	64,758	121.8	0.9x	0.8x	16.3x	16.4x
AU	Aquabotix	UUV	NC	NR	AUD 0.09	37.0%	-	-	9	5	0.0	n/a	n/a	n/a	n/a
Global Drone Services Average						81.1%		22.9%				4.8x	3.4x	36.9x	34.1x
CN	CN Rail	CNR	Gupta	N	\$99.96	92.0%	\$107.00	7.0%	59,930	68,300	158.8	6.1x	5.7x	18.4x	16.9x
CN	CP Rail	CP	Gupta	OP	\$225.30	96.7%	\$250.00	11.0%	26,477	32,929	92.4	5.7x	5.3x	17.0x	15.6x
US	Forward Air	FWRD	Clement	N	\$60.14	97.4%	\$48.00	(20.2%)	1,813	1,842	11.2	1.1x	1.0x	25.0x	21.1x
CN	CargoJet	CJT	NC	NR	\$62.60	99.1%	-	-	669	951	1.5	3.1x	3.1x	31.7x	25.9x
US	UPS	UPS	NC	NR	\$133.59	98.6%	-	-	115,119	129,598	405.5	1.9x	1.9x	19.3x	18.6x
US	FedEx	FDX	NC	NR	\$272.18	99.1%	-	-	72,914	85,587	469.0	1.3x	1.3x	17.3x	16.3x
US	Expeditors Intl.	EXPD	NC	NR	\$66.09	98.9%	-	-	11,744	10,714	61.5	1.5x	1.5x	24.8x	23.9x
EU	Deutsche Post	DPW	NC	NR	\$40.11	97.0%	-	-	60,269	64,758	121.8	0.9x	0.8x	16.3x	16.4x
JP	Yusen Logistic	9370	NC	NR	¥ 1,497	98.9%	-	-	570	922	2.5	nmf	0.2x	nmf	26.3x
JP	Yamoto Holdings	9064	NC	NR	¥ 2,530	97.9%	-	-	9,379	9,311	39.3	nmf	0.7x	nmf	28.1x
JP	Nippon Express	9062	NC	NR	¥ 7,690	96.4%	-	-	6,917	8,802	18.3	nmf	0.5x	nmf	16.2x
CH	Sinotrans Air	600270	NC	NR	CNY 17.28	83.8%	-	-	2,438	1,779	8.1	nmf	1.8x	13.0x	13.3x
Global Logistic Services Average						86.3%		5.2%				3.0x	2.1x	22.4x	26.4x

Source: Company Data, Bloomberg, Thomson, Macquarie Research, January 2018

Ready to take-off. We are becoming increasingly confident on the commercialization outlook for FLT post our recent discussion with the management. Notably, the recent drone certification by Transport Canada incrementally de-risks the binary nature of the stock (given that it is the most difficult portion of the regulatory approval process) and paves the way for FLT to test drones with larger payload and longer distance for commercialization in the near-to-medium term.

Our new base case scenario values FLT at \$2.50 per share

For the second half of 2018, we are forecasting \$2.8m in revenue assuming 20 drone sites operated by five customers that have signed commercial agreements with FLT. Each site is expected to generate roughly \$15k monthly recurring revenue while integration and setup fee of \$200k is at the lower-end of the management guidance (~\$50k - \$550k) as we think a small discount is necessary to drive adoption.

Worth highlighting, our \$15k monthly recurring revenue run-rate assumes \$2 per delivery revenue, which translates to roughly 250 deliveries per day, or ~10 deliveries per hour.

To put this in perspective, a typical Zipline drone site can conduct 500 deliveries per day in Rwanda. Given the comparable geographic dynamic that Rwanda and northern Canada shares as well as the comparable payload between FLT's Sparrow drone and Zipline's delivery drone, we think 250 daily deliveries is a reasonable starting point to address the impact on the high cost of living in northern Canada.

We expect FLT to generate \$16m in 2019 assuming 1) the company continues to sign larger enterprise clients to adopt its drone delivery technology in remote parts of the country, 2) Transport Canada grants new flight path that significantly increases the volume of delivery, and 3) larger drones with payload of 200-500lb are approved by TC and operational to justify the economics of drone delivery.

By 2020, we believe that much of FLT's operational capability, safety and effectiveness will all have been proven to both the regulators and enterprise customers. That said, we expect the company to undergo expansion, driving enterprise adoption to 18 customers with each having roughly 12 operational drone sites.

We think a dozen sites per customer assumption is reasonable given that for any scaled enterprise in retail delivery, courier, industrial park and medical sectors, a dozen drone sites is the minimum number to cover places such as the Greater Toronto Area with a population of ~6m. Naturally, more drone sites are needed if the enterprise is looking to cover a much larger area such as an entire province.

Our \$18k monthly revenue assumption includes the prospect of heavier drones commencing operation in the second half of the year. Assuming that the heavier drone can carry a payload of 200lbs per flight, 15 flights per day is required to hit the \$18,000 revenue target.

Fig 3 21 flights per day is required to hit \$25k monthly revenue assuming a heavier drone

Monthly revenue	\$18,000
Revenue per flight	\$2.0
Deliveries per month	9,000
Weight per package (lb)	10
Total monthly delivery weight	90,000
Payload per flight (lb)	200
Flights per month	450
Flights per day	15

Source: Macquarie Research, January 2018

Our terminal 2028E revenue forecast of \$605m assumes \$250k in new site integration fees, total drone sites reaching 1,856 among 58 customers, implying each customer has 32 sites deployed across the country with monthly drone-site revenue run-rate reaching \$27k.

Our terminal year revenue implies FLT to account for ~5% of the total Canadian air transport market, which we again think is reasonable given the pace of innovation in drones, AI and the growing need for Canada to leverage automation to maintain consistent economic growth. By then, we believe that drones will play a greater role in the nation's transport networks and given that FLT remains the dominant player a 5% market share is achievable, in our view.

Worth noting that by 2028E, we once again expect much heavier drones such as the Flyox ([LINK](#)) to hit commercialization. Recall that the Flyox has a payload of 4,000lb. Assuming no change in the package weight and economics, FLT could hit this target with 1 flight per day using the Flyox.

We have also assumed a slightly higher cost profile in its early years with negative margin for the initial year then gradually ramping up to 22% EBITDA margin for 2019E and long-term margin of 56% by 2028 compared with the management expectation of 60%.

We assume a cost of equity of 20.5% based on a risk-free rate of 2.5%, equity risk premium of 9% and beta of 2.0. This derives a valuation of \$2.50 per share.

Our bull case estimates a valuation of \$3.50/share

Given the advancement in drone hardware, artificial intelligence, growing support from the regulators and the establishment of drone traffic flight controls, we expect heavy-lifting drones to play a greater role in the air transport industry starting in 2025.

Our bull case assumption mirrors that of our base case assumption in terms of drone sites and integration fee but we assume a higher monthly volume pickup starting in 2025E with average revenue per site reaching \$40k/month. Fundamental to our bull-case outlook is the commercialization of the heavy-lifting drones that are capable of handling the Flyox payload at a much earlier time frame and greater frequency. The \$40k/month revenue run-rate implies 2 flights by the heavy-lifting drone per day assuming \$2/package with each package weighing 10lb.

As the Canadian government look to lower the cost of living for remote communities across Canada, 1,500 drone flights per day delivering food and supplies across the country to mitigate price inflation but also complement conventional means of transportation (ie. rails, ship, cargo jets) is not an unrealistic scenario in our view.

Fig 4 2 flights per day is required to hit \$50k monthly revenue assuming a heavier drone

Monthly revenue	\$40,000
Revenue per flight	\$2.0
Deliveries per month	20,000
Weight per package (lb)	10
Total monthly delivery weight	200,000
Payload per flight (lb)	4,000
Flights per month	50
Flights per day	2

Source: Macquarie Research, January 2018

Our bear case estimates a valuation of \$0.80/share

In an event that FLT faces delays in the regulatory approval process and does not hit commercialization until 2019E, we model flat \$150k integration fee throughout our forecast due to FLT's limited pricing power and a conservative 50 net adds for drone sites to a total of 470 in our terminal year.

Assuming light volume with \$15k monthly recurring fee per site, our 2028E terminal year revenue of \$92m implies that FLT would account for 0.8% of Canada's total air transport market.

Assuming the same margin profile as our base case scenario, we derive a valuation of \$0.80.

Grading the management – GPA 3.7/4.0

Given that FLT is still very much a start-up, we believe management execution and track record play a critical role in the future progression of this company.

We break down our assessment of management's track record using three criteria: business development, drone testing and regulatory approval, and we give the management a 3.7 out of 4.0 GPA. Full commentary below.

Fig 5 FLT Management Report Card

Criteria	Grade (1.0 – 4.0)	Analyst Comments
Business development	4.0	FLT certainly has first-mover advantage by forming partnerships with Staples, Wolseley, TECSYS, NAPA Auto Parts, Region of Peel and Moose Cree First Nations. Recent success at Moosonee could be replicated to other partners that further illustrate the feasibility of drone delivery.
Drone testing	4.0	FLT was able to validate the efficacy and the safety of its drone delivery platform in both Alberta and Ontario which we think paves the way for the company to obtain regulatory approval of larger delivery drones that are critical to justifying the economics of drone delivery.
Regulatory approval	3.0	Management previously communicated that regulatory approval was expected in 4Q17 but now it appears that 1Q18 is more realistic with commercialization expected in late Q2 or early Q3.
Average	3.7	Overall a solid track record but clearly there are areas where we believe management can improve.

Source: Company data, Macquarie Research, January 2018

Fig 6 Summary Financials

Financial Statements		1Q18E	2Q18E	3Q18E	4Q18E			2017E	2018E	2019E	2020E
Revenue	t	-	-	1,700	1,150	Revenue	t	-	2,850	16,050	50,706
EBITDA (adj)	t	(1,350)	(1,545)	(1,299)	(929)	EBITDA (adj)	t	(4,976)	(5,123)	2,634	18,363
EBIT	t	(1,353)	(1,548)	(1,304)	(944)	EBIT	t	(5,243)	(5,150)	2,489	17,668
Net income (rep)	t	(1,353)	(1,548)	(1,304)	(944)	Net income (rep)	t	(5,246)	(5,150)	1,817	12,898
EPS (adj)		(0.01)	(0.01)	(0.01)	(0.01)	EPS (adj)		(0.05)	(0.04)	0.01	0.09
Revenue Growth YoY	%	nmf	nmf	nmf	nmf	Revenue Growth YoY	%	nmf	nmf	nmf	nmf
EBITDA (adj) Growth	%	nmf	nmf	nmf	nmf	EBITDA (adj) Growth	%	nmf	nmf	nmf	nmf
Net income (adj) Growth	%	nmf	nmf	nmf	nmf	Net income (adj) Growth	%	nmf	nmf	nmf	nmf
EBITDA Margin	%	nmf	nmf	nmf	nmf	EBITDA Margin	%	nmf	nmf	nmf	nmf
Balance Sheet						Balance Sheet					
Total Assets	t	20,625	20,898	20,700	20,331	Total Assets	t	20,871	20,331	33,270	62,925
Total Liabilities	t	117	117	340	230	Total Liabilities	t	117	230	1,161	10,141
Total S/H Equity	t	20,508	20,781	20,360	20,101	Total S/H Equity	t	20,754	20,101	32,109	52,783
Book Value/Share		\$0.12	\$0.12	\$0.12	\$0.12	Book Value/Share		\$0.17	\$0.12	\$0.19	\$0.31
ROA		nmf	nmf	nmf	nmf	ROA		nmf	nmf	nmf	nmf
ROE		nmf	nmf	nmf	nmf	ROE		nmf	nmf	nmf	nmf
Net Debt	t	(19,009)	(17,950)	(17,529)	(17,056)	Net Debt	t	(19,873)	(17,056)	(25,758)	(42,346)
Net Debt/EBITDA		3.5x	2.9x	3.4x	4.6x	Net Debt/EBITDA		1.0x	0.8x	-2.4x	-0.6x
Cash Flow Statement						Cash Flow Statement					
Adj Op. Cash Flow	t	(864)	(1,059)	(336)	(416)	Adj Op. Cash Flow	t	(5,022)	(2,675)	10,177	23,894
Capex	t	-	-	(85)	(58)	Capex	t	(3)	(143)	(803)	(2,535)
Free Cash Flow	t	(864)	(1,059)	(421)	(473)	Free Cash Flow	t	(5,021)	(2,817)	9,374	21,358
FCF/Share		(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	FCF/Share		(\$0.04)	(\$0.02)	\$0.06	\$0.13
Valuation Analysis		1Q18E	2Q18E	3Q18E	4Q18E			2017E	2018E	2019E	2020E
Price		\$1.76	\$1.76	\$1.76	\$1.76	Price		\$1.76	\$1.76	\$1.76	\$1.76
Shares	t	170,002	170,002	170,002	170,002	Shares	t	121,635	170,002	170,002	170,002
Market Cap	t	299,204	299,204	299,204	299,204	Market Cap	t	214,077	299,204	299,204	299,204
Net Debt	t	(19,009)	(17,950)	(17,529)	(17,056)	Net Debt	t	(19,873)	(17,056)	(25,758)	(42,346)
EV	t	280,195	281,254	281,675	282,149	EV	t	194,204	282,149	273,446	256,859
EV/Revenue	%	nmf	nmf	nmf	nmf	EV/Revenue	%	nmf	99.0x	17.0x	5.1x
P/E	%	nmf	nmf	nmf	nmf	P/E	%	nmf	-49.7x	141.0x	19.9x

Source: Company report, Macquarie Research, January 2018

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions					
<p>Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell)– return >5% below Russell 3000 index return</p>	<p>Volatility index definition* This is calculated from the volatility of historical price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Asia/Australian/NZ/Canada stocks only</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / <i>efpowa</i>* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>					
Recommendation proportions – For quarter ending 31 December 2017							
	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.82%	55.57%	44.05%	45.06%	60.00%	42.51%	(for global coverage by Macquarie, 4.36% of stocks followed are investment banking clients)
Neutral	35.40%	28.60%	36.90%	47.59%	28.67%	40.42%	(for global coverage by Macquarie, 2.58% of stocks followed are investment banking clients)
Underperform	12.77%	15.83%	19.05%	7.34%	11.33%	17.07%	(for global coverage by Macquarie, 0.69% of stocks followed are investment banking clients)

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Date	Stock Code (BBG code)	Recommendation	Target Price
11-Oct-2017	FLT CN	Outperform	C\$1.00

Analyst certification:

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