

Action Summary – 14 March 2024

Analyst Theodore R. O'Neill reiterate our Buy rating and an \$8 price target.

- **First Plant Tour and Investor Day.** On Thursday, March 7, the company held its first Investor Day event kicked off with a presentation about the history of the business and where it is headed by Scott Wallace, CEO. It was followed by lunch and a tour of the 100,000- ft² manufacturing and assembly plant. It ended with drives in the vehicles. The event was well attended, and investors met with all of senior management.
- **Barriers to entry.** We learned that establishing and maintaining the supply chain for all the parts needed to complete these vehicles in a timely manner is critical to success and scale. Without that, you are unable to give your customer a completion date with any certainty.
- **Path to doubling revenue every two-to-three years.** We learned that there are other classic cars, and they gave examples of intense demand, which they could serve and lead to doubling the business every two-to-three years. They operate three assembly lines but there is no limit to duplicating them and producing more vehicles.
- ECD is the only public pureplay in a fast-growing, profitable market that rebuilds older classic cars with the latest technology, known as *restomods*. It's a highly fragmented market with dozens of builders, is ripe for consolidation and ECDA is the only one with the equity to make that happen.
- This is a highly fragmented market ripe for consolidation. Amongst a dozen or more profitable peers, ECD is the only public company.
- **Operating at scale, profitable and sold out.**
- **Attractive valuation.** The shares currently sell at a discount to our earnings-based price target and at a discount to peers as a multiple of sales.

3/13 Closing price: \$1.07 USD	Market cap: \$37 million	2025E Market Cap/Sales: 0.89x	EV/2025E Sales: 0.43x
Diluted shares outstanding: 34 million	Insider ownership: 86%	3-mo avg. daily trading volume: >100,000	Dividend 2023 /Yield: 0/0%

(Revenue in USD millions and Adjusted EPS in dollars)

Period	Revenue	EPS	Build Gross Profit
2022A	\$14.99	\$0.02	25%
2023E	\$21.50	\$0.04	34%
2024E	\$32.73	\$0.04	37%
2025E	\$46.97	\$0.16	38%

Note: Numbers may not be added due to rounding or change in share count. See our full model at the back of this report.

Cash balance (in USD millions)

• 2022A	• \$3.5
• 2023E	• \$7.5
• 2024E	• \$9.1
• 2025E	• \$12.6

Convertible debt (in USD millions)

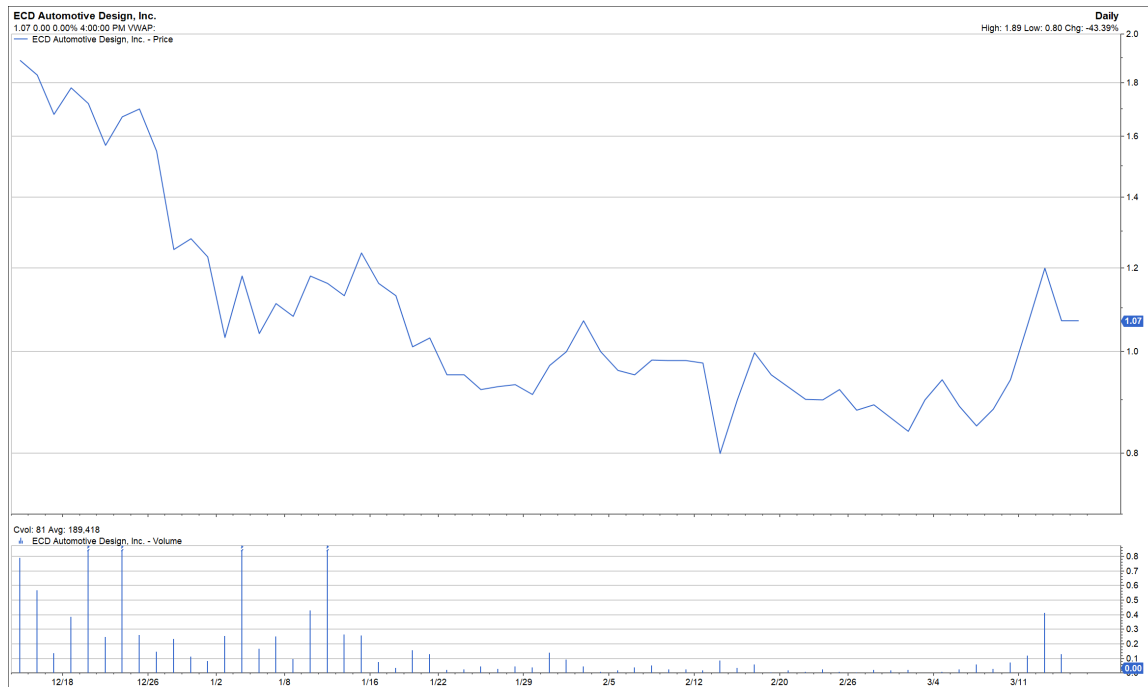
• 2022A	• \$0.5
• 2023E	• \$15.8
• 2024E	• \$15.8
• 2025E	• \$15.8

Risks/Valuation

- Risks: Competition in its markets, evolving regulatory environment, changes in demand and supply for classic vehicles
- Our \$8 price target is derived from our discounted future earnings model.

Company description: ECD is a creator of restored luxury vehicles that combine classic English beauty with modern performance. Each vehicle produced by ECD is fully bespoke, a one-off that is designed by the client through an immersive luxury design experience and hand-built from the ground up in 2,200 hours by master-certified ASE craftsmen. Global headquarters is a 100,000-ft² facility located in Kissimmee, Florida, that is home to 90 talented craftsmen and technicians.

Figure 1 – ECD Automotive Design, Inc. – Trading snapshot from inception Dec 13, 2023



Source: FactSet

ECDA Investor Day

On Thursday, March 7, 2024, ECDA held its first investor day at its plant in Kissimmee, Florida.

The investor day started with an overview of the business, which has a 12-year operating history and has generated \$83 million in revenue since inception. The business is resorting and modernizing 25+ year old Land Rover and e-type Jaguars, (but not limited to those) by adding modern electronics, improved suspensions, reliable new and in some cases, exotic engines, custom seating and the list of options is nearly endless. The demand for these types of conversion and upgrades, called “restomods” in the industry vernacular is robust to say the least. Its customers are not limited by money, but they are starved for ways to use their creative skills for personal satisfaction. Unlike buying a new car, there are nearly 2 million possible options. Would you like the seating to match your wife’s favorite Hermes scarf? Done. Would you like bullet proof glass? Done. Would you like a drop-down video screen and a Klipsch 360 Reality Audio sound system so you can enjoy a surround sound theater? Done. Would you like a hydraulic drop-down teak desk, with a mil-spec fanless hardened PC connected to StarLink™ Mobile Priority so you can run communicate and exchange data with your business from anywhere on the planet? They can do that too. There is effectively no limit to the options and that both inspires and delights customers, it guarantees no two vehicles will be the same. Indeed, ECDA will not make two cars the same unless they are both going to the same customer.

Here in Figure 2, some of the investors are looking at a Defender D110 being configured for a customer.

Figure 2 – ECD Automotive Design, Inc. – Customer Order partially assembled D110



Source: FNK IR

How the process works

It starts with a customer meeting with the company, which begins the process of designing the car. The company procures Land Rovers in the UK or US and has them shipped to its plant in Kissimmee. Here is a sample (Figure 3) of a used D90. It needs restoration inside (Figure 4) and out. The frame and other parts are rusty, and the engine leaks oil. The inside of these is utilitarian. It's a little more comfortable than my tractor.

Figure 3 – ECD Automotive Design, Inc. – Used D90 prior to disassembly



Source: ECD Automotive Design, Inc.

Figure 4 – ECD Automotive Design, Inc. – Inside a used D90 prior to disassembly



Source: ECD Automotive Design, Inc.

Figure 5 – ECD Automotive Design, Inc. – Vehicle dismantled down to the frame before being restored



Source: ECD Automotive Design, Inc.

Figure 6 – ECD Automotive Design, Inc. – Vehicle being custom restored for a customer



Source: ECD Automotive Design, Inc.

Figure 7 – ECD Automotive Design, Inc. – Custom Interior



Source: ECD Automotive Design, Inc.

Figure 8 – ECD Automotive Design, Inc. – Customer ready



Source: ECD Automotive Design, Inc.

Investment Thesis

- **Pureplay on a fast-growing automotive market.** ECD is the only public pureplay in a fast-growing, profitable car market, which rebuilds older classic cars with the latest technology, known as *restomods*. It's a highly fragmented market with dozens of builders, is ripe for consolidation and ECDA is the only one with the equity to make that happen.
- **\$500MM-\$1B addressable market.** We believe this is an annual market of at least \$500MM. With six-digit ASPs, it takes fewer than 2,000 units to make this a \$500MM market and based on the number of participants, the number could be much larger. For comparison, Porsche AG (P911-NR) will deliver ~52,000 911s this year and Ferrari (RACE-NR) will deliver ~8,000 cars.
- **Market share gains and industry consolidation are a likely outcome.** This is a highly fragmented market ripe for consolidation. Companies offering custom classic restomods include Arkonik, Classic Motors LLC, David Brown Automotive, Emory Motorsports, Himalaya, KAMM Manufaktur, Mil-Spec Automotive, RAUH-Welt BEGRIFF (RWB), Rover Trophy, Ruf Automobile, Sacrilege Motors, Singer Vehicle Design, Theon Design, and Twisted Automotive. ECD is the only public company.
- **Follow-on recurring revenue.** While its legacy business is in classic restomods, the whole automobile eco-system of financing, leasing, resale, trade-in, service, and storage presents recurring income streams that could add millions in revenue over time.
- **Operating at scale, profitable and sold out.** ECD Automotive Design is renowned for its expertise in fabricating and updating classic vehicles. Their Florida operation occupies more than 100,000 square feet of space. It has over 90 full-time professionals and operations spanning two continents. The company is profitable and its annual production, now sold out, is adding capacity and new products.
- **High-end automotive market is largely a custom-built product whether it is Porsche or ECD.** The market for new high-end cars is defined by high-net-worth buyers who want a customized vehicle. Vehicle ASPs are in the six-figures, and customization drives margins for the manufacturer. ECD's autos and customers are no different in those respects. The difference is that ECD's business is to convert 25-year-old classic cars to 2024 performance standards, electronics, and comfort. For those that like the classic look of 25-year-old Range Rover Classics, Defenders and Jaguars, but want a reliable daily driver with Apple Car Play and their initials stitched into the seats, for example, or in an EV version, there is no other maker in this sector that is as well capitalized.
- **Attractive valuation.** The shares currently sell at a discount to our earnings-based price target and at a discount to peers as a multiple of sales.

Valuation and Price Target

Valuation Methodology

We believe ECDA is undervalued, and we support that belief with two valuation techniques. To determine our price target, we use a discounted future earnings model, and we support that with a comparable valuation to peers.

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$8 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 10%. We assume the company remains GAAP EPS profitable in 2024 and earnings growth ramps up for another 10 years until growth eventually slows to GDP. Our valuation model is shown in Figure 9 below. Note, this model understates future new services and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$8.18, which we round to \$8.00.

Figure 9 – ECD Design Automotive, Inc. – Price Target Calculation

Discounted Future Earnings:		\$8.18
Year	EPS	Discounted EPS
2024	0.04	0.04
2025	0.16	0.15
2026	0.25	0.21
2027	0.35	0.26
2028	0.45	0.31
2029	0.60	0.37
2030	0.65	0.37
2031	0.72	0.37
2032	0.85	0.40
2033	0.88	0.37
2034	0.90	0.35
Terminal Value:		5.33

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 10 summarizes our ECDA peer comparison. We use a comparable group of high-end autos and finished goods catering to the same market as ECDs customers. Comparing ECD's 2025 multiples to the averages shows the shares sell at a 79% discount to 2025 market cap/sales and a 90% discount to EV/Sales. Were the shares to trade to our price target of \$8, they would be selling at a premium to the average, but nowhere near the high end of the range. We would argue that the shares should sell at a premium because the margins and sales growth will also be at the high end of comparables. This and our discounted future earnings model confirm our view that the shares are undervalued.

Figure 10 – ECD Automotive Design, Inc. – Valuation of Peers

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2025 Consensus Multiples	
					Market Cap / Sales	EV /Sales
TSLA-US	Tesla Inc	\$177.54	565,428	606,594	4.06	4.29
RACE-IT	Ferrari N.V. (IT Listing)	\$423.29	108,894	76,371	14.29	10.27
P911-DE	Porsche AG	\$98.04	88,876	86,909	1.78	1.84
MBG-DE	Mercedes-Benz Group AG (DE Listing)	\$80.05	85,641	165,044	0.50	1.07
BMW-DE	Bayerische Motoren Werke AG (BMW) (Ordinary)	\$119.86	76,125	128,732	0.44	0.94
AML-GB	Aston Martin Lagonda Global Holdings plc	\$2.14	1,765	2,852	<u>0.66</u>	<u>0.98</u>
AVERAGE					3.62	3.23
MC-FR	LVMH Moet Hennessy Louis Vuitton SE (Ordinary)	\$937.86	470,242	482,822	4.45	4.74
RMS-FR	Hermes International SCA (FR Listing)	\$2,545.53	268,730	252,526	14.88	14.34
CFR-CH	Compagnie Financiere Richemont SA (CH Listing)	\$166.52	98,213	94,342	3.95	
KER-FR	Kering (FR Listing)	\$465.27	57,424	64,875	2.43	2.87
MONC-IT	Moncler	\$75.75	20,816	20,243	5.42	5.43
BRBY-GB	Burberry Group Plc (GB Listing)	\$16.08	5,765	5,468	1.41	1.77
SFER-IT	Salvatore Ferragamo S.p.A.	\$12.77	2,156	1,856	1.59	1.33
LANV-US	Lanvin Group Holdings Limited	\$2.17	315	378		
AVERAGE					4.88	5.08
COMBINED AVERAGE					<u>4.25</u>	<u>4.16</u>
ECDA-US	ECD Automotive Design, Inc.	\$1.20	42	20	0.89	0.43
ECDA-US Premium/(Discount) to peers:					-79%	-90%

Source: Litchfield Hills Research LLC and FactSet

Figure 11 – ECD Automotive Design, Inc. – Income Statement (\$000)

December ending year	2022A Year	2023E Year	2024E Year	2025E Year
Total Revenue	\$14,990	\$21,500	\$32,725	\$46,970
YoY growth	NA	43%	52%	44%
Materials, shipping, warranty	8,994	11,073	16,320	23,485
Line labor	<u>2,223</u>	<u>3,100</u>	<u>4,200</u>	<u>5,800</u>
	3,773	7,328	12,205	17,685
Build gross profit	25%	34%	37%	38%
Operating expenses				
Professional fees	323	700	2,000	2,000
Other operating expense	<u>4,240</u>	<u>10,000</u>	<u>8,400</u>	<u>8,800</u>
Total Operating Expenses	<u>4,563</u>	<u>10,700</u>	<u>10,400</u>	<u>10,800</u>
Operating Income	(790)	(3,373)	1,805	6,885
Tax expense/(benefit)	\$206	\$563	\$325	\$1,239
Net income	<u>(\$996)</u>	<u>(\$3,936)</u>	<u>\$1,480</u>	<u>\$5,646</u>
Merger related accounting adjustments	<u>(\$1,737)</u>	<u>(\$5,370)</u>	\$0	\$0
ECD net income exl. transaction costs	<u>\$741</u>	<u>\$1,435</u>	<u>\$1,480</u>	<u>\$5,646</u>
EPS adjusted for merger related costs	\$0.02	\$0.04	\$0.04	\$0.16
GAAP EPS	(\$0.03)	(\$0.12)	\$0.04	\$0.16
Diluted Shares Outstanding	31,875	34,000	34,500	35,300

Source: Company reports and Litchfield Hills Research LLC

Figure 12 – ECD Automotive Design, Inc. – Balance Sheet (\$000)

December ending year	FY2025E	FY2024E	FY2023E	FY2022A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$12,584	\$9,088	\$7,478	\$3,515
Accounts receivable	7,000	4,000	2,900	503
Inventories	6,000	5,000	4,000	3,054
Other assets	<u>500</u>	<u>250</u>	<u>100</u>	<u>278</u>
Total Current Assets	26,084	18,338	14,478	7,351
Net PP&E	1,200	900	510	571
Right-to-use asset	4,400	4,400	4,400	4,444
Other non-current	<u>200</u>	<u>100</u>	<u>70</u>	<u>76</u>
Total Assets	<u>\$31,884</u>	<u>\$23,738</u>	<u>\$19,458</u>	<u>\$12,441</u>
Current Liabilities				
Credit line	\$0	\$0	\$0	\$0
Accounts payable and accrued exp.	2,500	2,000	1,300	605
Customer deposits	13,000	11,000	8,900	9,494
Other current liabilities	<u>2,400</u>	<u>2,400</u>	<u>2,400</u>	<u>610</u>
Total current liabilities	17,900	15,400	12,600	10,708
Convertible note and Credit Line	15,800	15,800	15,800	500
Lease liability - non-current	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,239</u>
Total Liabilities	37,700	35,200	32,400	15,447
Stockholders' Equity				
Preferred stock	0	0	0	0
Common stock	0	0	0	1
Additional paid-in-capital	2	2	2	2
Retained earnings	(5,818)	(11,464)	(12,944)	(3,009)
Cum. trans. adj. and treasury stock	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total stockholders' equity	<u>(5,816)</u>	<u>(11,462)</u>	<u>(12,942)</u>	<u>(3,005)</u>
Total Liabilities and equity	<u>\$31,884</u>	<u>\$23,738</u>	<u>\$19,458</u>	<u>\$12,441</u>

Source: Company reports and Litchfield Hills Research LLC

Figure 13 – ECD Automotive Design, Inc. – Cash Flow (\$000)



ECD Automotive Design, Inc.

ECDA-US - Buy \$8 PT

	<u>FY25E</u>	<u>FY24E</u>	<u>FY23E</u>
Net Income	\$5,646	\$1,480	(\$3,936)
Receivables	(\$3,000)	(\$1,100)	(\$2,397)
Inventories	(\$1,000)	(\$1,000)	(\$946)
Other assets	(\$250)	(\$150)	\$178
Net PP&E	(\$300)	(\$390)	\$61
Right-to-use asset	\$0	\$0	\$44
Other non-current	(\$100)	(\$30)	\$6
Credit line	\$0	\$0	\$0
Accounts payable and accrued exp.	\$500	\$700	\$695
Customer deposits	\$2,000	\$2,100	(\$594)
Lease obligations and other	\$0	\$0	\$1,790
Convertible note and Credit Line	\$0	\$0	\$15,300
Lease liability - non-current	\$0	\$0	(\$239)
Preferred stock	\$0	\$0	\$0
Common stock	\$0	\$0	(\$1)
Additional paid-in-capital	\$0	\$0	\$0
Accum. Other Comprehensive loss	\$0	\$0	\$0
Dividends and transition adjustments			(\$6,000)
Total Cash Flow	<u>\$3,496</u>	<u>\$1,610</u>	<u>\$3,963</u>

Source: Litchfield Hills Research LLC

Disclosures:

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ECD Automotive Design, Inc.

ECDA-US - Buy \$8 PT

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