Zacks Small-Cap Research

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Elio Motors, Inc. (ELIO-OTCQX)

ELIO sets base price at $7,300; 2Q results

Calculating the net present value of a future target price (which is based on the valuation metric of price-to-sales) at a point when mass production is expected to be achieved indicates a share price target of $51.

Current Price (10/18/16)	$19.61
Valuation	**$51.00**

OUTLOOK

Elio Motors is in the process of designing, developing and soon-to-be manufacturing an ultra-efficient, low-cost, **three-wheeled, two-person vehicle**. With attractive performance, safety, fuel economy and aerodynamic styling characteristics, the *Elio* has the potential to become a game-changer leading to broad market acceptance of economical, three-wheel vehicles. Strong current demand is reflected by **over 60,000 customer reservations**. E-Series vehicles have been shipped for testing of the ABS and HVAC systems. Management anticipates assembling the 100 S1 prototypes for real-world evaluation in late 2016 or 2017 with commercial mass production to follow.

SUMMARY DATA

52-Week High	**$40.00**
52-Week Low	**$13.01**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (shrs.)	**2,390**
Shares Outstanding (million)	**26.5**
Market Capitalization ($mil.)	**$525.7**
Short Interest Ratio (days)	**1.96**
Institutional Ownership (%)	**0.0**
Insider Ownership (%)	**88.0**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2016 Estimate	**N/M**
P/E using 2017 Estimate	**N/M**

Risk Level	**Above Average**
Type of Stock	**Small-Value**
Industry	**Motor Vehicles**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2015	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2016	0.0 A	0.0 A	0.0 E	0.0 E	0.0 E
2017	0.0 E	0.4 E	0.4 E	0.0 E	0.8 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2014	-$0.25 A	-$0.25 A	-$0.24 A	-$0.24 A	-$0.98 A
2015	-$0.17 A	-$0.20 A	-$0.23 A	-$0.25 A	-$0.85 A
2016	-$0.34 A	-$0.54 A	-$0.41 E	-$0.40 E	-$1.58 E
2017	-$0.35 E	-$0.35 E	-$0.34 E	-$0.34 E	-$1.20 E

Zacks Projected EPS Growth Rate - Next 5 Years % **25**

Quarterly EPS may not equal annual EPS total due to rounding.

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KEY POINTS

- Elio Motors is a development stage company that is in the process of designing, developing and soon-to-be manufacturing an ultra-efficient, low-cost, three-wheeled, two-person vehicle.
- Vehicle has attractive characteristics.
  - Performance (84 MPG - highway), 0-60 under 10 seconds, max. speed over 100 MPH
  - Price: $7,300 with a manual transmission
  - Safety: 3 air bags, 2 seat belts, side intrusion beams, ABS
  - Stylish, aerodynamic design
- Management has targeted several mass target markets:
  - The second and third vehicle segments
  - Clunker replacement segment
  - First-time buyer segment
  - Strong current demand reflected by over **60,000 customer reservations**, which represents potential sales of $411 million
- Recent major milestones:
  - November 2015: completed prototype phase (P2-P5)
  - February 2016: closed **Regulation A+ stock offering** in February 2016 raising $**16.92 million**
    - Simultaneously **listed on the OTCQX**
  - June 30, 2016: unveiled hand-built initial engineering prototype (E1-A)
    - being used by Continental Automotive to program ABS software
  - mid-September 2016: shipped an E-Series testing and engineering vehicle
    - RedDOT is testing HVAC system
  - Management currently plans to produce 23 E-Series vehicles in order to calibrate certain important systems.
  - **On track to assemble 100 pre-production engineering vehicles (S1) in late 2016 or 2017**.
- Strong business model:
  - Community of 35 notable suppliers/partners
  - Sales model for a sales/distribution network of company-owned retail centers
  - Service model utilizes Pep Boys as the company's official service provider
  - Assembly plant located in Shreveport, Louisiana
- Financing
  - Initially, funding delayed the progress in developing the *Elio* up until 2012
  - Regulation A+ equity offering mitigates short-term funding risk
- The *Elio* has the **potential to become a game-changer** with its performance and styling characteristics leading to broad market acceptance of economical, three-wheel vehicles.

RECENT NEWS

Base Price Set At $7,300

On August 12, 2016, Elio Motors announced that the **base price of the *Elio* is $7,300** for non-refundable reservation holders until the number of total reservations reaches 65,000. The base price excludes options, delivery charges, destination charges, taxes, title and registration. Until total reservations reach 65,000, non-refundable reservation holders are being offered a special incentive. If a non-refundable reservation holder makes a **binding purchase commitment**, the base model vehicle price will be locked in a reduced price of **$7,000**.

Advanced Technology Vehicles Manufacturing (ATVM) Loan Program

Elio Motors has submitted a **loan application for approximately $185 million** in order to help the ramp up of production at the Shreveport facility. On January 15, 2015, the Department of Energy confirmed

that Elio Motors has achieved the technical criteria for the loan. However, certain other criteria were being evaluated prior to the DOE would commit to awarding a loan.

As part of the evaluation of the loan application, the DOE requires that Elio Motors **demonstrate market acceptance** for the *Elio* project. Under revised guidelines that clarify the approval process (which became effective June 24, 2016), the evaluation of market acceptance for start-up companies must "establish to a high level of confidence that adequate future sales will occur." Specifically, "in all but the most extraordinary circumstances, market studies and non-binding customer reservations to purchase vehicles will not be sufficient to establish adequate future sales." Though management believes that the company's crowdfunding and Regulation A+ offering qualify as "most extraordinary circumstances," to further strengthen the case for the ATVM loan program, the company embarked on an effort to seek **binding commitments** to purchase the *Elio* at a locked-in price to further validate market acceptance of the vehicle. Hence, the motivation to set a base price of $7,300 and the incentive of **offering a lower $7,000 price for those who make a binding commitment.**

Management has stated that an ATVM loan "is not a breaking point for Elio Motors." Rather the company would then rely on funding from customer reservations and the issuance of debt and/or equity securities (and possibly CAFE credits). However, obviously, an ATVM loan would facilitate the company's path toward commercial production.

State Legislative Update

On July 27, 2016**,** Elio Motors provided an update on the legislative status of autocycles (enclosed three-wheel vehicles) in the United States. **Rhode Island** and **New Jersey** recently passed autocycle legislation.

Elio Motors began contributing to the autocycle legislative change process in 2012 when only 11 states provided for the operation of an enclosed three-wheel vehicle without the requirement of a motorcycle license. **Now, 41 states either provide exemptions** for motorcycle licenses **or have legally defined the autocycle** vehicle class. . Currently, there are an additional eight states in the process of legally defining the autocycle class.

2Q Results

On September 22, 2016, Elio Motors filed Form 1-SA, which provided financial results for the period ending June 30, 2016. Continuing to be in the developmental phase, the company reported no revenue. Since Elio is ramping up its engineering effort on a path towards production, we are analyzing the income statement lines on a sequential quarter-to-quarter rather that year-over-year (YOY) basis. Operating expenses increased by 82.8% sequentially to $12.2 million, driven primarily by a 125% increase in engineering, research and development costs as expenses for soft tooling related to building prototypes for testing & validation purposes were incurred. General and administrative expenses increased 33.8% to $2.06 million and sales & marketing expenses increased 34.9%, primarily due to increased social media, television and print advertisements. Interest expense increased 52.8% sequentially.

The company reported a net loss of $14.3 million ($0.54 per diluted share) compared to $9.1 million ($0.34 per diluted share) in the preceding quarter. As of June 30, 2016, the company's capital deficit was $18,478,961 as compared to $9,141,992 on March 31, 2016.

ePlus Personalization Program

On March 24, 2016, Elio Motors unveiled its **ePlus** mass **Personalization Program**.

On August 11, 2016, Elio Motors added several **new options to the configurator** (aka ePlus mass personalization system or ePlus: My Elio). The new options include a custom **car cover**, roof-top **bike rack** and **Heads-Up Display** (HUD). Elio Motors is providing customers the ability to choose each

individual option desired as opposed to other vehicle manufacturers that offer standardized bundled option packages.



Vehicle Testing and Production Timetable

On June 30, 2016, Elio Motors **unveiled the first E-Series** (engineering prototype) **testing vehicle**, the **E1-A**, achieving another milestone toward commercial production. The ceremony took place at the company's Pilot Operations Center in Livonia, Michigan in front of more than 200 automotive supplier executives and engineers. The E1-A (in Marshmallow white) was unveiled in front of its predecessors, the P2 (Sour Apple green), P3 (Rocket Silver), the P4 (Creamsicle orange) and P5 (Red Hot) prototypes (see photo below).



Management is planning to build a total of **23 E-Series vehicles** to test the safety, aerodynamics and durability characteristics of the *Elio's* design. With each successive engineering prototype, the design of each of the systems will be tested, and if necessary, re-calibrated, adjusted and/or refined.

The company plans to **sell 100 pre-production E Series vehicles** to one or more fleet customers, rather than test and evaluate them internally. The vehicles are to be built at the Shreveport production facility **during fourth quarter of 2016**. Under the revised plan, the vehicles will be evaluated under real-world driving conditions while generating revenue for the company.

At the SEC ACSEC meeting on July 19, 2016, Paul Elio stated that Elio Motors is **about one year from commercial production**.

Partners Announced During 2016

On March 9, 2016, Elio Motors named **Roush** as its lead engineering partner. Roush will aid in streamlining the **manufacturing process** and by providing engineering, testing, prototyping and

assembly support that will help in developing a quieter, smoother vehicle with refined driving characteristics.

On May 17, 2016, the company announced the signing of a **Letter of Intent** (LOI) with **Linamar Corp**., a leading **powertrain** development and production company that generated sales of $5.2 billion during 2015. The partnership will help Elio's engineers prepare its newly-developed 0.9-liter, 3-cylinder engine for mass production as well as aid in identifying additional opportunities and potentially selling the Elio engine with its unique blend of power and fuel efficiency in international automotive, marine and industrial markets. Also, Linamar will collaborate with Elio Motors in creating the engine's manufacturing process at the Shreveport assembly plant and supply components and sub-systems for the *Elio's* driveline and chassis systems in North America.

On September 14, 2016, Elio Motors announced that **RedDOT** Corporation will be the company's **HVAC** (heating, ventilation and air conditioning) supplier. Since 1965, RedDOT has a history of developing custom-designed HVAC systems for unique vehicle configurations, including construction equipment (dozers, graders, backhoes, excavators, off-highway trucks, etc.), agricultural equipment (tractors, balers, combines, harvesters, etc.), military vehicles (HMMWV aka Humvee, FMTV, MRAP, MATV, LSAC, etc.), among others. Within days, Elio Motors **shipped an E-Series testing and engineering vehicle** to **RedDOT** in Seattle for HVAC testing (namely for air-flow, defrost, refrigerant charge, air conditioning and heater performance).

Financing News

On September 21, 2016, Stuart Lichter **extended the maturity** of $1,900,500 in 10% promissory notes **to September 30, 2017**. Also, the company received funding by issuing a **$2,450,000 5% convertible note** due September 30, 2022 to Stuart Lichter. The notes are convertible at $15 per share.

In September 2016, Elio Motors reached an agreement with CH Capital **extending the maturity** of the senior promissory note **to July 29, 2017** in consideration for a 5-year warrant to purchase 25,000 shares of common stock at $20 per share.

In September 2016, Elio Motors reached an agreement that would convert $4.9 million of accrued rent, common area maintenance charges, taxes and insurance, along with $4.8 million of these project costs, through December 31, 2017 into **430,380 shares of preferred stock** (issuance value of $19.75 per share).

Management anticipates that between $275 million and $300 million is needed to start production.

OVERVIEW

Based in Phoenix, Arizona, Elio Motors, Inc. (ELIO) is a development stage company that is in the process of designing, developing and soon-to-be manufacturing an ultra-efficient, low-cost, **three-wheeled**, two-person **autocycle**. Though currently classified as a motorcycle (a motor vehicle with three or less wheels)[i], a new classification of autocycle is being sought in Congress[ii] for three-wheeled, enclosed-compartment vehicles with a steering wheel and hard-top and/or roll bar. The vehicle's aerodynamic design and custom engine are engineered to attain up to 84 MPG while providing a high level of safety to the vehicle's driver and passenger.

Since the company's incorporation in October 2009, management, led by CEO Paul Elio, has been pursuing a vision to engineer and manufacture a high quality, American-made, efficient, safe and affordable vehicle dubbed the *Elio*. Five major tenets guide the company's strategy:

- Base price of $7,300 excluding options, delivery charge, taxes, title and registration
- American made - targeting 90% North American content
- Outstanding fuel economy - designed to attain up to 84 MPG
- Engineered to a high level of vehicle safety (3 airbags, ABS, etc.)
- High quality level of quality with AC, stereo and power lock & windows as standard equipment



Between January 2013 and November 2015, Elio Motors has developed, built and validated **three successively progressive prototypes** of the *Elio* autocycle (P3-P5) and is currently working on the process manufacturing the first E Series engineering prototype (E1-A). All five engineering component designs for E Series have been completed, and the pilot-build of vehicles for real-world vehicle and destructive safety validations is proceeding.

Corporate Timeline

• October 26, 2009	Elio Motors, Inc. incorporated
• December 2012	Initial design for the *Elio* completed
• January 2013	Began accepting reservations for the *Elio*
• February 28, 2013	Purchased manufacturing facility & equipment in Shreveport, Louisiana
• Through 2013	Worked on removing technical legal requirements for autocycles
• Throughout 2014	Sourced multiple suppliers/partners
• August 2014	Applied for ATVM loan
• July 14, 2015	Effected a 500-for-1 forward stock split
• January 20, 2016	Launched first national advertising campaign
• February 19, 2016	Closed Regulation A+ stock offering raising $16.92 million
• February 24, 2016	Elio Motors began trading on OTCQX
• March 11, 2016	Announced that 100 pre-production S1 prototypes are to be manufactured
• March 24, 2016	Announced ePlus customization program
• August 12, 2016	Announced base price of $7,300

Building Brand Awareness

In order to build awareness, a prototype *Elio* has been at **over 125 events** across the United States since May 2013. At certain occasions, the company has made important announcements concerning milestones being achieved or programs being pursued, specifically,

- January 2015 — Consumer Electronics Show in Las Vegas
  - o Voted product most want to take home in online poll by CNET.com
- November 2015 — Los Angeles Auto Show
  - o unveiled the P5 with custom Elio engine
- January 2016 — North American International Auto Show in Detroit
  - o announced start of E Series development process
- March 2016 — New York International Auto Show
  - o unveiled plans for ePlus
- June 2016 — Barrett-Jackson Car Auctions in Uncasville, Connecticut
  - o displayed P5 prototype
- September 2016 — 5th Annual Liolios Gateway Conference in San Francisco

In January 2016, the company **launched** its first **national television advertising campaign** with two commercials entitled “Own the Future.” The spots will air on national cable networks, including Fox Business Network, Fox News, ESPN News, ESPNU, Fox Sports, Animal Planet, National Geographic and Velocity.

30 second commercial
https://berline.app.box.com/s/zwkh40wkl4bshz917vxw1in2adhgxq38/1/6221709541/50896887801/1

60 second commercial
https://berline.app.box.com/s/u40pzhmt2n8h6n1qt8v4xczyh81h0ra4/1/6173481966/50894567365/1

Brand surveys indicate that awareness of the *Elio* is only 6.5% nationally compared to 70.2% for Tesla, demonstrating that enormous growth potential is obtainable through advertising.

Financing

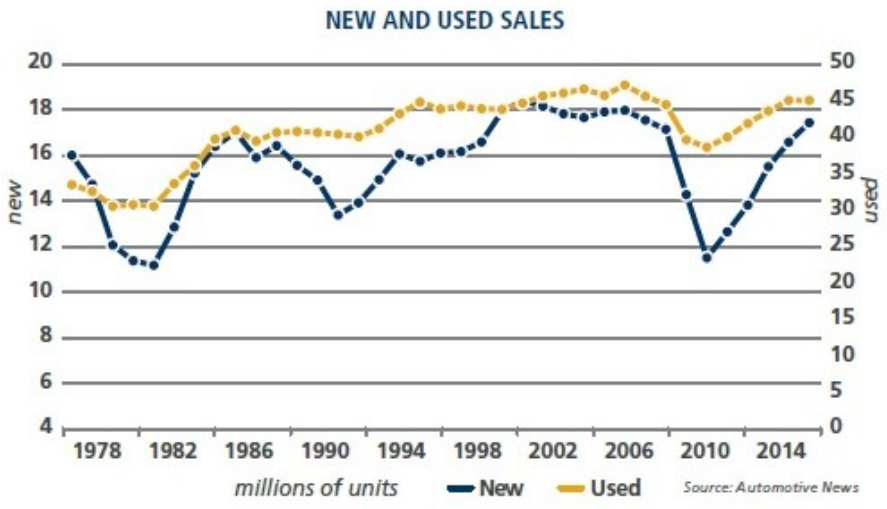
The business of developing, manufacturing and selling vehicles is capital-intensive. The development, marketing and production of five prototypes have been financed through loans, senior promissory notes, subordinated promissory notes, convertible subordinated secured notes, the sale of excess machinery & equipment, deposits from customer reservations and crowdfunding. The current vehicles in development are the E Series, which is being funded by the recent Regulation A+ equity offering. The offering closed in February 2016 and **raised almost $17 million**. Raising capital is a critical component of achieving the company’s ultimate goal of production.

Equity Developments

On February 24, 2016, shares in Elio Motors (ELIO) began being traded on the **OTCQX**.

AUTOCYCLE MARKET

The **mass target market** is composed of those individuals that seek an affordable and safe mode of transportation to commute to work. Along with an unprecedented low base price of $7,300, the *Elio* provides ultra-high fuel economy (estimated 84 MPG) and is designed to exceed safety standards. In addition, the autocycle has a sleek design and nimble handling. **Management is targeting the several segments of the domestic automobile market**: the second/third vehicle, clunker replacement and first-time buyer segments.



The *Elio*, due to its modest price point and high MPG, has the potential to be a viable **second or third vehicle** as an economical addition to a household's current vehicle(s). Management believes that the *Elio* will be an attractive alternative to purchasing a used car for a second vehicle. In 2014, just over 42 million used were sold at an average transaction price of $17,700.[iii] The average price of a ten-year old vehicle was approximately $8,000.

According to the 2009 National Household Travel Survey, over 77.6 million households had one or two vehicles, accounting for 68.6% of all US households. If these households plan on purchasing a used vehicle as a second or third vehicle, the option to buy a new, ultra-economical, two-seat vehicle (with guarantees and warranties) for under $7,000 for commuting to work, running errands or recreation appears to be more attractive than purchasing a used vehicle with over 100,000 miles for around $8,000. The need of the occasional functionality of a pick-up truck, sport utility vehicle or minivan can be served by the first or second vehicle, while an *Elio* is more economical for solo trips.

Number (Thousands) and Percent of Households by Availability of Household Vehicles

Households with –	1969	1977	1983	1990	1995	2001	2009	95% CI
No Vehicle	12,876	11,538	11,548	8,573	7,989	8,716	9,828	49
Percent	*20.6%*	*15.3%*	*13.5%*	*9.2%*	*8.1%*	*8.1%*	*8.7%*	
One Vehicle	30,252	26,092	28,780	30,654	32,064	33,757	36,509	302
Percent	*48.4%*	*34.6%*	*33.7%*	*32.8%*	*32.4%*	*31.4%*	*32.3%*	
Two Vehicles	16,501	25,942	28,632	35,872	40,024	39,938	41,077	274
Percent	*26.4%*	*34.4%*	*33.5%*	*38.4%*	*40.4%*	*37.2%*	*36.3%*	
Three or More Vehicles	2,875	11,840	16,411	18,248	18,914	24,955	25,688	270
Percent	*4.6%*	*15.7%*	*19.2%*	*19.6%*	*19.1%*	*23.2%*	*22.7%*	
ALL	**62,504**	**75,412**	**85,371**	**93,347**	**98,990**	**107,365**	**113,101**	**0**
Percent	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	
Vehicles Per Household	**1.16**	**1.59**	**1.68**	**1.77**	**1.78**	**1.89**	**1.86**	**0.01**

Summary of Travel Trends: 2009 National Household Travel Survey

Another target market for the Elio is the **clunker segment**, approximately 100 million vehicles on American roads that are six years old or older. Many of these vehicles are unreliable and unsafe with low MPG and have high maintenances costs. The *Elio* with its low upfront cost and low operating costs is a low-cost alternative for clunker drivers. The **affordability of the *Elio*** is demonstrated both by a **mathematical example** that over six years, the fuel savings from operating a new *Elio* would totally pay for the vehicle and by the company's proposed **"Let Your Gas Savings Make Your Payments" program**. Under the program, a consumer buys an Elio for no money down and Elio Motors provides the buyer with a credit card with a $300 limit. The customer is required to buy all fuel for the *Elio* on that credit card, for which the company charges triple, which should be less than the customer's current cost of gas for his/her clunker. The extra funds are the payments, which over time, pay for the vehicle.

Another target market is the first-time buyer sub-segment composed of **individuals with low or moderate income** who lack transportation to get or hold employment. A study in New Jersey[iv] indicates that roughly 60% of the chronically unemployed had to turn down jobs due to lack of a means of transportation to commute to and from a job. The lack of transportation is a significant barrier to employment, more especially in rural communities and small towns where public transportation is less developed. Also, the logistics of transportation are challenging for the urban poor and the economically disenfranchised. The lack of suitable public transportation, non-ownership of a vehicle and the ownership of an unreliable vehicle are known issues for the chronically unemployed and the poor. In addition, a continuing study at Harvard University[v] shows that the relationship between transportation and social mobility is stronger than several other factors, including crime, elementary-school test scores or the percentage of two-parent families in a community. In other words, the lack of reliable transportation appears to be a greater barrier to gainful employment than insufficient education, criminal environment or the absence of affordable childcare.

Though there are skeptics, management has carefully assessed the **potential market for a two-passenger vehicle**. According to the **2009 National Household Travel Survey** conducted by the Federal Highway Administration of the US Department of Transportation, the **average vehicle occupancy** across all types of trips (work, shopping, family errands and social/recreational) was **1.67**. The average vehicle occupancy in the commuting to **work segment** was **1.13**, while the social/recreational trip segment averaged 2.2. According to the 2013 American Community Survey, 76.4% of Americans drive alone to work.

Through multiple consumer surveys, management believes that initial purchasers of the *Elio* will be **early adopters** with a different demographic profile than the anticipated target market. These auto-enthusiasts, which tend to be wealthier and older than the anticipated target markets, are attracted to the Elio's unique aerodynamic design and uniqueness. In addition, the scarcity value of *Elio* anticipated during the first months of production has added incremental demand for reservation deposits.

RESERVATIONS

Elio Motors began accepting reservations in January 2013. **Reservation deposits**, which secure vehicle production slots, range from $100 to $1,000 at four levels ($100, $250, $500 or $1,000). Reservations are offered on a non-refundable or refundable basis with non-refundable reservations have priority over refundable reservations. The reservation deposits have provided significant short-term liquidity for the company.

Reservation Distribution



A sales discount equal to 50% of the nonrefundable deposit up to $500 per deposit was offered by Elio Motors until May 31, 2016. Thereafter, the discount has been and continues to be 25%. The discount will be applied at the time of the customer's purchase of a vehicle.

Elio Motors, Inc.

	Customer Reservations			Approximate
Date	Non-refundable	Refundable	Total	# of vehicles
12/31/2013	$2,616,200	$200,250	$2,816,450	6,406
12/31/2014	$14,852,183	$913,700	$15,765,883	38,000
9/30/2015	$18,375,034	$1,060,950	$19,435,984	46,000
12/31/2015	$19,587,800	$1,092,750	$20,680,550	47,961
3/31/2016	$20,961,900	$1,114,900	$22,076,800	50,238
4/23/2016	$22,319,000	$1,142,000	$23,461,000	52,404
6/30/2016	$22,941,055	$1,203,550	$24,144,605	55,529
10/18/2016	N/A	N/A	N/A	60,851

BUSINESS PLAN

Management's mission is to design, develop, mass manufacture, distribute, sell and service the *Elio* and its components. The goal of initial business plan is to sell the vehicle in the United States market.

Business Plan Milestones

- January 2013 Purchased all the existing equipment in the Shreveport facility
- November 2013 Eastern Catalytic is named supplier of exhaust systems & catalytic converters
- April 8, 2014 Flame-Spray to provide PTWA technology for engine cylinder
- April 29, 2014 **PEP Boys** named **official service provider** (over 800 service locations with more than 7,500 service bays in 35 states)
- September 17, 2014 Announced sale of surplus equipment at Shreveport facility
- November 4, 2014 Announced partnerships with DES Group and Infinite Skyz as suppliers for several interior and exterior options
- March 6, 2015 **Unveiled new** 0.9 liter, 3-cylinder **engine prototype** developed by IAV
- November 3, 2015 Announced tire selection: Continental Tire's ProContact GX
- November 5, 2015 MTX Audio to supply audio system
- March 9, 2016 Named Roush as Lead Engineering Partner
- April 20, 2016 Created Pilot Operations Center to assemble E1-A
- May 17, 2016 Linamar Corp. chosen as powertrain partner
- September 14, 2015 RedDOT to supply HVAC system

Production Model

The P3-P5 prototypes were hand-built in Livonia, Michigan with the help of Technosports Creative, as the initial engineering prototype (E1-A) of the E Series is expected to be in mid-2016. After the E Series has been tested for safety and performance, the design of the vehicle will be adjusted to improve vehicle design and better optimize production procedures. Once the final tooling requirements are determined, the production drawing will be finalized and any additional required long lead time equipment will be ordered.

During the **fourth quarter of 2016**, **management plans to manufacture 100 pre-production, S Series (S1) vehicles** at the company's production facility in Shreveport, Louisiana, which Elio Motors purchased, along with all the in-place manufacturing equipment, in early 2013. The S1s will be delivered to one or more fleet customers to be tested and evaluated under real-world driving conditions. Though the company has not divulged the planned recipients of the vehicles, in the past, it has been disclosed that reservations for fleet vehicles have been made by Griffin Beverage Company (in Michigan), SOS Alarm (Oregon), Peoria Car Rental (Arizona), Treasure Coast Car Wash (Florida) and Edge Auto Rental (New York).

Thereafter, after any necessary refinements, management expects to mass produce the *Elio* at the Shreveport production facility. During in the first quarter of production, management anticipates production to be 19,000 vehicles and potentially 62,500 a quarter thereafter. Once production has ramped up, management estimates that approximately 1,500 employees will be working at the facility.

Suppliers

Elio Motors has partnered with **notable auto suppliers** to collaborate on both engineering the *Elio* and supplying the parts needed for production, maintenance and repairs. The company is striving to utilize off-the-shelf components (parts used in the vehicles of other automakers) in order to accelerate the pace of development, to lower manufacturing/repair costs and to benefit from the durability of parts that were designed for larger vehicles. Suppliers were chosen to be consistent with the company's goal to maintain **high U.S. content** in its vehicles.



Aisin (Japan) - multi-mode manual transmission
Continental (SC) – tire supplier
Continental Automotive (SC) – supplier of the Anti-Lock Braking Systems (ABS)
Comau (Italy) – manufacturing production processes (to build assembly process at Shreveport facility)
DES Group (UK) - several interior & exterior options (interior plastic trim pieces and exterior fascias)
Eastern Catalytic (PA) - catalytic converters and related components
Flame-Spray Industries (NY) - plasma-transferred wire arc (PTWA) technology for engine cylinder bore
Genesee Group (TX) - stamping and fabrication services
IAV Automotive Engineering – engineering co. that developed *Elio*'s unique internal combustion engine
Infinite SKYZ (TX) - in-vehicle services (VoIP, Wi-Fi, vehicle alarms, remote start, navigation, etc.)
Kiekert USA (MI) - door and compartment latch closing systems
Lear Corp. (TX) - seating manufacturer
MTX Audio (AZ) - customizable plug-and play audio system
Paslin Company (MI) - welding systems and fixtures for constructing the E Series prototypes
RedDOT Corporation (WA) **HVAC** (heating, ventilation and air conditioning) system
Roush (MI) - lead engineering partner
Schwab Industries (MI) - soft tool prototype development and body framing
Technosports Creative (MI) - product and project development

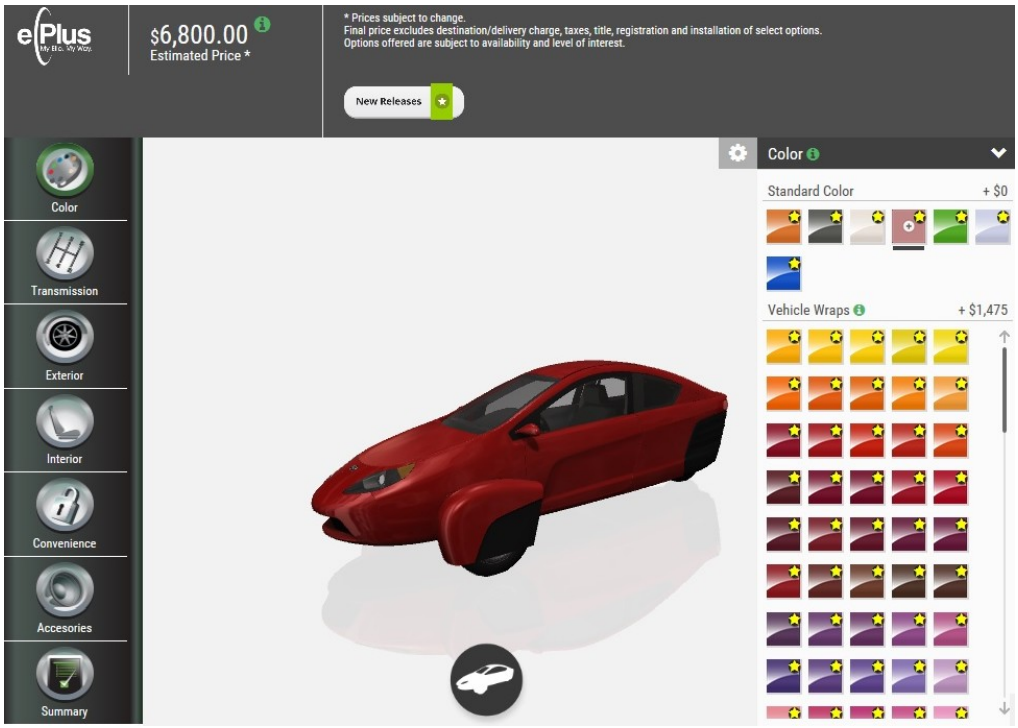
In June and November 2015, Elio Motors conducted **Supplier Summits**. In a unique supply chain management technique, Elio's 34 suppliers came together to collaborate on the development of the *Elio* and to further refine its driving characteristics. The suppliers are expected meet on a regular basis to discuss each and every aspect of the vehicle's design and manufacturability.

Elio Motors emphasizes the use of off-the-shelf components for the manufacture the *Elio*, such as the chassis, transmission, body and interior. However, when off-the-shelf components cannot satisfy the *Elio*'s unique requirements, the parts will be fabricated specifically for Elio Motors. One example is the engine that was specifically designed for the *Elio* by IAV Automotive Engineering in order to achieve certain performance characteristics. In this case, the engine block will be specifically manufactured for Elio Motors.

Sales Model

Instead of utilizing a conventional system of factory-authorized dealer franchises, Elio Motors plans to create a **sales/distribution network** of **company-owned retail centers**, somewhat similar to the direct sales model employed by Tesla (TSLA). These small (approximately 4,000 square feet), stand-alone retail stores would be located in highly-visible community shopping centers in major cities, where three *Elio* vehicles are displayed (one on display inside the store and two outside to provide test drives. The initial roll-out of stores is planned to be comprised of locations in the top 60 markets in the United States.

The retail stores will be staffed by Elio-trained certified specialists to answer questions and arrange test drives. Several interactive kiosks in the store will act as the point-of-sale interface, guiding a customer in the selection process of a vehicle and options choices. Through menus on the **Configurator** (**ePlus**), the customer can select one of seven color choices, be informed of warranty information and service locations and choose the method of payment/financing. The customer will also be able to upgrade and personalize the *Elio* with certain options (e.g. automatic transmission, additional color choices, etc.), add-ons and/or accessories through various other menus that all contain pricing information. Options will not be bundled in pre-set option packages, allowing customers to choose just the specific options and features desired. With pre-set prices for the vehicle and options, customers will encounter a no-haggle, low-pressure sales experience.



Once a vehicle order has been finalized, the custom order information will be transmitted to one of seven Elio marshaling/configuration centers optimally positioned to be within 9 hour of the sales center. The marshaling centers (to be managed by **ADESA** at their auction sites) will maintain a stock of base vehicles in the seven standard colors, which will be customized according to the customer's accessory choices and add-on specifications. In most cases, the vehicle will be delivered to the retail center early the next day by **CarsArrive**.

Service Model

Rather than having direct authorized service centers, Elio Motors named **Pep Boys** as the company's **official service provider**. As a major automotive retailer of aftermarket parts and provider of services, Pep Boys can provide convenient and professional maintenance and repair services at over convenient 800 locations with over 7,500 service bays in 35 states across the U.S. and Puerto Rico. Pep Boys

operates in approximately 90% of the areas where the Elio is expected to be owned. In the remaining markets, Elio Motors plans to have its company-owned stores be its factory authorized service provider. The relationship with Pep Boys was announced in April 2014. Subsequently, Pep Boys was acquired by Carl Icahn in February 2016.



DESCRIPTION OF THE *ELIO*

The *Elio* is a front-wheel drive, two-seat, three-wheeled autocycle with a custom inline 0.9 liter (900cc) three-cylinder engine designed to produce 55 horsepower and 55 lb-ft of torque. With a weight of approximately 1,350 pounds (612 kg) and a unique aerodynamic design, it is expected to attain its estimated highway fuel economy of 84 MPG on the highway and other performance objectives. The *Elio* is configured with two wheels in the front and one wheel in the rear, tandem seating for two passengers, one door and 1.68 square-foot trunk (27" x 14" x 10"). Management's base price point is $7,300 for the base model with standard features and a 3-year, 36,000 mile warranty.

Performance:

- 84 MPG (highway), 49 MPG (city)
- 0-60 under 10 seconds
- maximum speed over 100 MPH (160 km/h)

Price:

- $7,300 with a manual transmission plus destination fee of $500-$800

Safety:

- three air bags (one front and two side)
- 2 seat belts
- unibody construction or reinforced-steel full roll cage frame
- side intrusion beams
- Anti-lock Brake System (ABS)
- electronic stability control

Standard Equipment:

- air conditioning/heat
- AM/FM stereo radio
- power windows
- power door lock
- manual 5-speed transmission
- mechanically adjustable cloth seats
- fold-down rear seat for additional space contiguous with trunk creating a 2.44 square-foot trunk
- parking brake
- cruise control

The Elio is available in seven standard colors: True Blue, Sour Apple, Rocket Silver, Red Hot, Mellow Yellow, Licorice, Creamsicle and Marshmallow. There will be the option of personalizing with other



Add-on Options:

- automatic transmission (approximately $800)
- personalized colors (approximately $1,600)
- leather seats
- power seats
- blind spot detecting mirrors
- back-up camera
- cruise control
- GPS-mapping & navigational aids
- radio upgrades (stereo, web radio)
- keyless entry
- remote engine ignition
- tire pressure monitoring (approximately $400)
- exterior body aesthetic options
    - retro fenders (approximately $875)
    - front chin spoiler (approximately $175)
    - rear spoiler (approximately $305)

ENGINEERING AND DEVELOPMENT PROCESS

Since the initial design for the *Elio* was completed in December 2012, a series of four prototypes (**P2 through P5**) have been built with the help of Michigan-based Technosports Creative, a firm that provides support in the design, development and management of vehicle programs to the likes of Ford, GM, NASCAR, Chrysler, etc. Each consecutive hand-built prototype not only advanced the **proof of concept**, but also added **incremental engineering improvements**, first concentrating on **safety** (air bags, anti-lock braking system, side intrusion beams) and later improving engine **performance** and **aerodynamics**. Each successive prototype helped validate the *Elio*'s design and concept. In addition, the vehicles toured the United States increasing awareness of the brand and stimulating demand through advanced reservations. The photo composite below helps illustrate the changes in the *Elio* during the growth process as management strived to perfect the vehicle.



Engineering and Development Milestones

- December 2012 Initial design for the *Elio* completed
- January 2013 Unveiled second prototype (**P2**)
- May 2013 Revealed **P3**
- January 2014 Launched **P4**
- June 8, 2015 Announced development of 5th prototype (P5)
- November 19, 2015 Unveiled **P5** with ***Elio* engine** designed by IAV
- January 12, 2016 Announced development of E Series
- February 2016 Released **body framing** and **engine cradle** design to suppliers
- March 2016 Completed final **body panel** design for E1-A
- April 28, 2016 Completed **chassis** design for E1-A
- June 30, 2016 Unveiled **E1-A** with unibody construction

Prototype 5 (P5)

The fifth and last prototype in the P Series, the **P5**, was built with the intention of moving quickly towards mass production. Begun in June 2015, the development of the P5 was initially funded by a 506 (c) offering to accredited investors. Since no engine currently on the market met the company's requirements, a custom **engine** was developed by IAV specifically for the *Elio*. The 55 HP, 3 cylinder, 0.9 liter (900cc), liquid-cooled, fuel-injected engine was designed to deliver the optimal blend of power and efficiency to attain the projected specifications for fuel economy (84 MPG), speed (over 100 MPH) and acceleration (goes 0-60 speed in 9.6 seconds). A **multi-mode manual transmission** was provided by Aisin, the world's largest transmission manufacturer, to better achieve additionally-desired driving characteristics.

The **front end** of the P5 was engineered to be slightly longer than the P4, increasing fuel efficiency. This improvement to the vehicle's aerodynamics simultaneously enhanced its futuristic appearance and stylish look, which should bolster its appeal to potential customers.

The **interior** and **instrument panel** were upgraded to improve the driver's and passenger's experience. For example, the arm rest was raised, the rear seat lowered and more foam was added to the rear seat. Also, brushed metal was added to the dashboard, and the iPad holder was improved to eliminate the need for any vertical adjustment.

Importantly, during the implementation of the improvements to the P5, every effort was made to ensure that all sub-components would 1) fit flawlessly into the vehicle, 2) perform as required for the life of the vehicle and 3) be able to be sourced efficiently during mass production phase.

E Series Engineering/Testing and S Series Soft Tooling Prototypes

The next phase of engineering and development process is the vehicle **test and engineering validation stage** through the E Series, E for Engineering. The goal of the process is to move the *Elio* from the prototype phase to commercial production. First, the **E1-A** has been hand-built at the Pilot Operations Center in Michigan, incorporating all the advancements announced by the eight Product Development teams for the purpose of confirming the vehicle's safety characteristics, gasoline efficiency and cost of manufacturing through a variety of tests. Management plans to produce 23 E-Series vehicles in order to calibrate the vehicle's systems. Soon thereafter, currently anticipated to be in December 2016 or early 2017, **100 pre-production S1s** (S for Soft tooling) will be assembled in the Shreveport facility for real-world safety, system-performance and durability tests by one or more of Elio Motors' fleet customers. This phase has been initially funded the Regulation A+ equity offering to accredited and non-accredited investors which closed in February 2016.

Over the last five months, a whirlwind of announcements have revealed the fast-track advancements achieved by the eight Product Development Teams of Elio Motors. Each of these specialized Product Development Teams is responsible for engineering a major module of the *Elio*.

- Power Train (Engine and Transmission) Development Team
- Chassis Development Team
- Body Frame and Engine Cradle Development Team
- Underhood Product Development Team
- Electrical System Development Team
- Exterior Design Development Team
- Body Panel Design Development Team
- Restraint System Development Team

In quick succession during early 2016, the body frame, engine cradle, interior and chassis designs were finalized for the commencement of the initial E Series build. The first E1-As will be used to evaluate and validate the design, specific systems and attributes, namely:

- Safety (crash test)
- Anti-Lock Braking System (test and calibrate)
- Performance (engine/transmission shift validation, 0-60 mph and maximum speed)
- Ride & handling (vehicle turning, NHTSA Fish Hook and tire wear)
- Aerodynamics (wind tunnel testing)
- Powertrain (emission certification and engine/transmission calibration)
- General vehicle durability
- Manufacturability validation

As the various tests are completed, the engineering teams of Elio Motors and its suppliers will make final adjustments to enhance the vehicle's performance and safety profiles prior to assembling the 100 S1s. In addition, the test results and the resulting alterations will aid in determining the final tooling needs for the production line.

Anticipated Milestones

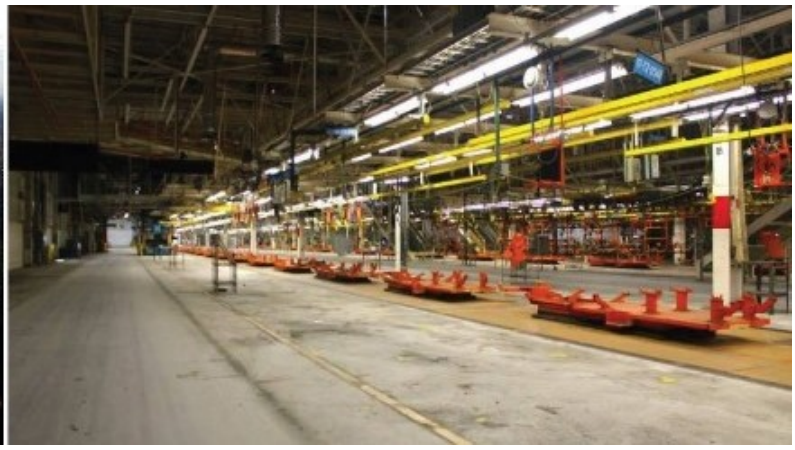
- Mid/late 2016 — Manufacture/assemble 23 E-Series vehicles for calibration purposes
  - Evaluate and validate design at supplier locations
  - Complete engineering simulations at Pilot Operations Center
- Late 2016-2017 — Manufacture/assemble and sell 100 engineering prototypes (S Series)
- 2017 — Conduct real-world safety, system-performance and durability tests
  - Confirmation of mileage
  - Production validation
  - EPA/CARB certification
- 2017 — Finalize full production-intent prototype
- 2017 — Secure additional funding
- 2017 — Build-out manufacturing facility and hone manufacturing processes
  - Order long lead time equipment
  - Plant integration
  - Hard tool production line
  - Build inventories of parts and components
  - Hire production workers at the Shreveport manufacturing facility
- 2017 — Validate vehicle production costs and guarantee initial sales price
- 2017 — Consumer production launch of the *Elio*
- Future — Establish sales centers and bolster support (G&A) functions

MANUFACTURING FACILITY

Management plans to manufacture the *Elio* at an assembly plant located in Shreveport, Louisiana. This former General Motors Assembly and Stamping Plant was constructed in 1981 and was most recently modernized and expanded by GM in 2002 with a $1.5 billion capital expenditure program. As a result, the facility has modern vehicle manufacturing capabilities, including fully-integrated chassis conveyors and moving workstations for engine, interior, body and glass installations. General Motors utilized the 3.2 million square foot facility as a light truck assembly plant making vehicles, such as the Hummer H3 and Chevrolet Colorado, until August 28, 2012.

In March 2011, the property and plant were transferred to the Revitalizing Auto Communities Environmental Response (RACER) Trust, which was established to redevelop and sell 89 former GM facilities as part of GM's 2009 Chapter 11 bankruptcy reorganization. The 437-acre property is located approximately 12 miles southwest from downtown Shreveport and is serviced by seven active rail spurs. Three main structures (the general assembly building, a metal stamping and body manufacturing building and the original manufacturing building/paint shop) are on the property, providing 3.2 million square feet of manufacturing and warehouse space. In addition, there is an on-site powerhouse and a wastewater treatment facility.





The real property was purchased by Shreveport Business Park, LLC (an affiliate of Industrial Realty Group, LLC), for $7.5 million. Stuart Lichter, one of Elio's Directors and shareholder, owns and controls both entities. Subsequently, in December 2013, Shreveport Industrial Park LLC entered into a lease agreement with the Industrial Development Board of Caddo Parish for the use of the buildings. In the same month, **Elio Motors sub-leased 997,375 square feet of manufacturing and warehouse space** (composed of the general assembly building and part of the original manufacturing building/paint shop) from Shreveport Industrial Park LLC for a 25-year term.

In March 2013, **Elio Motors purchased the machinery and equipment** located in the former General Motors Assembly and Stamping Plant from the RACER Trust for a **$23 million promissory note** to the RACER Trust and **$3 million in cash**. The $3 million was funded by a $9,850,000 secured promissory note from GemCap Lending I, LLC, subsequently purchased by CH Capital Lending in August 2014. CH Capital Lending, LLC is an affiliate of Stuart Lichter.

Plans for the facility layout and the inception of production have been developed for the Shreveport facility, including 24 weeks of pre-production activities and 10 weeks of manufacturing validation and training for the first 100 S1 vehicles to be produced.

THE THREE-WHEEL AND SPORTS CAR MARKETS

Three-wheel vehicles have been sold in the U.S. and abroad both in the past and today. In addition, two-seat sports cars have been and are popular. Considering these precedents, a three-wheeled vehicle with seating for two should have an avenue for successful market acceptance. A few examples follow.

Designed in 1952, the **Isetta** is an Italian-designed, three-wheel vehicle that became the first mass produced vehicle to achieve 78 MPG. BMW acquired a license to the Isetta and began mass production began in April 1955. Initially powered by 236 cc split-single, two-stroke motorcycle engine, later models were improved with a 298 cc engine. As the vehicle evolved, a fourth wheel was added and the engine was upgraded with a 582 cc twin motorcycle engine. Production continued until 1961 when it succumbed to the competition from the entry-level VW Beetle. With 161,728 units sold, the Isetta became the best-selling single-cylinder car in the world.

The three-wheel **Messerschmitt KR200** is a German-designed, light-weight, fully enclosed, tandem passenger vehicle. Usually called a microcar, the cabin tapered towards the back where the vehicle was propelled by a single rear-wheel drive. Between 1955 and 1960, approximately 40,000 KR200s were manufactured and sold.



Isetta



Messerschmitt KR200

A new three-wheel vehicle in the start-up phase is the electric-powered, three-wheel **Arcimoto SRK.** With a base price of $11,900 and up to $20,000 with upgrades, the vehicle is still in the prototype phase and not yet in production. The targeted performance criteria are 0-to-60 in 7.5 seconds and a top speed of 80 MPH. The Arcimoto SRK has been under development for 10 years, and as of January 2016, about 350 customers have pre-ordered one.

Currently, Polaris is advancing a three wheeled motorcycle, the **Slingshot®**. With four models being offered at price points between $21,499 and $26,999, the open-air cockpit vehicle without airbags is popular among Millennials due to its unique styling and ride experience. The standard Slingshot® is available with a 2.4 L engine and a five-speed manual transmission.



Arcimoto SRK



Slingshot

In the two-seat sports car category, two successful brands were the **Triumph Spitfire** and the **MG**. These light-weight two-seaters were and remain very popular. The MG was introduced in 1924, and over time, over 25 models were produced. Between 1962 and 1980, production of the MGB Roadster alone was 513,272 vehicles. The company has had many owners (Morris Motor Company, British Motor Corporation, British Leyland Motor Corporation, Rover Group, BMW, among others), but became and remains a marque brand. Much of the vehicle's success was derived from being an affordable stylish vehicle that was a pleasure to drive. The Triumph Spitfire was successful but did not achieve the same popularity as the MG. Between 1964 and 1980, approximately 314,332 Spitfires were manufactured and sold.





The *Elio* has styling and performance characteristics to be an iconic vehicle, like the MG, and potentially take the lead in broad market acceptance of economical, three-wheel vehicles.

FINANCING

Raising capital to fund the development and ultimately the initial production of the *Elio* is critical to the success of Elio Motors. Until the company can generate positive cash flow, Elio Motors will continue to need to raise additional funds through the issuance of equity, equity-related securities, debt, loans and/or credit from governmental or financial institutions in order to fund ongoing operations, develop and manufacture the *Elio*. The approval for a low-interest $185 million loan by the U.S. Department of Energy from the Advanced Technology Vehicle Manufacturing Program would be a highly significant milestone for the company.

Financing Events

- February 28, 2013 — Issued **$9,850,000** 15% promissory note due February 28, 2014
- March 3, 2013 — **$23,000,000** non-interest bearing promissory note with RACER Trust
- March 6, 2014 — Issued **$1,000,500** 10% promissory note due July 31, 2015
- May 30, 2014 — Issued **$300,000** 10% promissory note due July 31, 2015
- June 19, 2014 — Issued **$600,000** 10% promissory note due July 31, 2015
- March 2015 — Maturity date of RACER Trust note extended to July 1, 2017
- March-Dec. 2015 — Issued **$5,341,560** in 5% convertible subordinated secured notes due Sept. 30, 2022 under 501 (c) exemption of Regulation D
- July 31, 2015 — Maturity of $9,850,000 of promissory notes extended until July 31, 2016
- November 20, 2015 — Launched $25 million stock offering under Regulation A+
- December 10, 2015 — IAV loan paid off
- February 16, 2016 — Closed Regulation A+ equity offering raising **$16.92 million**
- April 2016 — Maturity of $1,900,500 of 10% promissory notes extended to Jan. 31, 2017
- September 2016 — Maturity of $1,900,500 of promissory notes extended until Sept. 30, 2017
- September 2016 — Maturity of CH Capital senior promissory notes extended until July 29, 2017
- September 2016 — Issued **$2,450,000** 5% convertible note due September 30, 2022

On February 28, 2013, Elio Motors entered into a **$9,850,000** 15% promissory note due February 28, 2014 with GemCap Lending I, LLC in connection with the **acquisition of the machinery and equipment** located at the Shreveport assembly facility. On February 27, 2014, the promissory note was amended extending the maturity date to May 31, 2014 and reducing the interest rate to 12%. On May 31, 2014, note was again amended extending the maturity date to July 31, 2014. On August 1, 2014, **CH Capital Lending**, LLC purchased the $9,850,000 promissory note from GemCap Lending and the maturity date was extended to July 31, 2015 and the interest rate was reduced to 10%. On July 31, 2015, a forbearance agreement with CH Capital deferred the enforcement of the collection of the promissory note to July 31, 2016. In September 2016, Elio Motors reached an agreement with CH Capital **extending the maturity** of the senior promissory note to **July 29, 2017** in consideration for a 5-year warrant to purchase 25,000 shares of common stock at $20 per share. The promissory note is secured by a first lien on the equipment and equipment.

As of December 31, 2014, management identified $14,875,319 of machinery and equipment that is not required to manufacture the *Elio*. With approval of its secured creditors, Elio began selling this excess machinery and equipment at the Shreveport facility. Through December 31, 2015, $3,594,019 has been generated, of which $1,684,275 was utilized to pay down the principal of the CH Capital Lending loan, reducing the unpaid principal balance to $8,165,725 as of December 31, 2015. The Form 1-SA filed with information as of June 30, 2016 did not provide incremental information on the unpaid principal balance.

Subordinated Promissory Notes ($23 million)

On March 3, 2013, Elio Motors entered into a **$23,000,000** non-interest bearing promissory note due September 1, 2016 with the Revitalizing Auto Communities Environmental Response (**RACER**) Trust in connection with the **purchase of the machinery and equipment** located at the Shreveport facility. On November 1, 2013, Elio Motors missed a required monthly minimum payment triggering default interest of 18%. On March 17, 2015, the subordinated promissory note was amended delaying the monthly minimum payments until January 1, 2016 and **extending the maturity date** to **July 1, 2017**. On occasions, the principal balance outstanding bore the default interest of 18% until the monthly payments were made current. As of September 22, 2016, the RACER note was current. The promissory note is secured by a subordinated lien on the machinery and equipment.

Convertible Subordinated Secured Notes (approximately $2.5 million net of discount)

Between March 2, 2015 and December 17, 2015, the company issued **$5,341,560** in 5% convertible subordinated secured notes **due of September 30, 2022** to accredited investors utilizing the exemption allowed by Rule 501 (c) of Regulation D. The conversion price of the Tier 1 notes (first $5,000,000 issued) is $5.98 per share and $9.64 for the remaining Tier 2 notes. The net proceeds helped fund the P5. As of September 22, 2016, $ $4,728,100 Tier 1 convertible subordinated secured notes were outstanding and $341,000 of the Tier 2 notes. The convertible notes are secured, but subordinated to the obligations to CH Capital and the RACER Trust.

Unsecured Notes and Convertible Note Issued to Stuart Lichter

Stuart Lichter, one of Elio's Directors and a significant shareholder, exerts control over the Shreveport Business Park, LLC and CH Capital Lending. In addition, Mr. Lichter personally has helped fund Elio Motors by investing in three 10% unsecured promissory notes (dated March 6, 2014, May 30, 2014 and June 19, 2014) totaling **$1,900,500**. The maturity of these notes has been extended to September 30, 2017. In addition during September 2016, Mr. Lichter helped fund Elio Motors by purchasing a **$2,450,000** 5% convertible note due September 30, 2022. The notes are convertible at $15 per share.

Lease with Shreveport Business Park, LLC

In December 2013, Shreveport Industrial Park LLC entered into a lease agreement with the Industrial Development Board of Caddo Parish for the use of the buildings. In the same month, **Elio Motors sub-leased 997,375 square feet of manufacturing and warehouse space** from Shreveport Industrial Park LLC for a 25-year term. Through a subsequent amendment, the payment of the base rent of $249,344 for the period February 1, 2016 through July 31, 2016 has been deferred until August 1, 2016.

Regulation A+ Equity Offering

On March 25, 2015, under Title IV of the 2012 JumpStart Our Business Start-up (JOBS) Act, the Securities and Exchange Commission finalized the rules on Regulation A+, facilitating the access to capital for small companies. In August 2015, Elio Motors filed an offering statement pursuant to Regulation A for up to 2,090,000 common shares at a price of $12 per share.

Between November 20, 2015 and February 16, 2016, Elio Motors has become the first company to utilize **Regulation A+** (which also allowed non-accredited individuals to invest in Elio) to complete an equity crowdfunded capital raise. The StartEngine.com crowdfunding platform was utilized to raise **$16,920,576** selling 1,410,048 shares at $12.00 per share to approximately 6,600 investors. The **net proceeds** of **approximately $16 million** are helping fund the development of the **E1-A engineering prototypes**. The process also allowed the company to list on the OTCQX market under the symbol ELIO.

Additional Sources of Funding

In 2007, Congress established the Advanced Technology Vehicles Manufacturing (ATVM) Program to support the production of fuel-efficient vehicles in the United States. As a result, the U.S. Department of Energy's Loan Programs Office has made low-interest loans to Ford ($5.9 billion), Nissan ($1.45 billion) and Tesla ($465 million). Elio Motors has submitted a **loan application for approximately $185 million** in order to help the ramp up of production at the Shreveport facility. On January 15, 2015, the Department of Energy confirmed that Elio Motors has achieved the technical criteria for the loan, but is awaiting the confirmation of the company meeting certain financing milestones before committing to the loan under the ATVM program.

VALUATION

Due to cyclical characteristics of the automobile and motorcycle manufacturing industries, the valuation methodology that consistently has been applicable over time utilizes the **Price-to-Sales (P/S) metric**. During the up-cycle, profitability (P/E) and cash flow (EV-to-EBITDA and P/CF) approaches tend to overstate the potential of these personal transportation vehicle companies. Conversely, during the down-cycle, negative profitability and, on occasions, negative cash flow causes methodologies based on P/E, EV-to-EBITDA and P/CF to become meaningless.

The mature automobile companies (General Motors, Ford, Honda, Toyota, BMW and Daimler) tend to trade at low P/S ratios, in the 0.1 to 0.6 range with a mean valuation of 0.3 times sales.

A new entrant in the early phases of its life cycles, like Tesla (TSLA), trade at a much higher multiple reflecting the company's potential. As Tesla ramped up sales to the $204 million level in 2011, its stock traded at 13.9 times sales. Subsequently in 2013, when sales reached slightly over $2.0 billion, the P/S valuation of TSLA was 10.3. **Elio Motors with its high growth opportunity is similar to the new entrant comparable**.

Industry Comparables	Pr Chg YTD	P/E CFY	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	EV/ EBITDA
ELIO MOTORS INC.	40.1	N/M	25.0	N/M	N/M	N/M	N/M
Industry Mean	-16.1	7.9	10.9	1.0	0.4	3.8	7.6
Industry Median	-9.4	7.9	8.8	1.0	0.4	3.5	8.1
S&P 500	4.0	18.2	10.8	2.8	1.9	10.6	N/A
Majors							
FORD MOTOR COMPANY	-15.7	6.5	0.2	1.5	0.3	3.0	9.3
GENERAL MOTORS	-7.2	5.4	8.9	1.1	0.3	3.0	6.0
BMW AG	-19.8	7.8	1.0	1.0	0.5	4.1	9.6
DAIMLER AG	-15.9	8.6	-1.4	1.3	0.4	4.8	6.4
FIAT CHRYSLER NV	-55.1	4.3	28.9	0.4	0.1	1.0	1.7
HONDA MOTOR	-8.7	11.0	19.8	0.8	0.4	6.2	9.5
NISSAN ADR	-9.4	7.9	8.8	0.9	0.3	3.5	8.1
TOYOTA MOTOR CORP.	-6.2	11.7	7.0	1.1	0.6	5.9	6.7
VOLKSWAGEN ADR	-7.1	8.1	24.6	0.7	0.3	2.9	11.2
Motorcycles							
HARLEY-DAVIDSON	9.5	12.9	9.4	4.5	1.6	9.0	12.0
New Entrant							
TESLA MOTORS	-19.2	N/M	30.0	11.3	6.5	N/M	N/M

Since Elio Motors is on the cusp of generating revenues through the sale of the S1, and more importantly will then be on the threshold of mass commercial production (with over 60,000 reservations in hand), we estimate that in a few years, the annual run rate of the company's Shreveport plant could approximate 200,000 vehicles with an estimated average sales price of $8,500. Utilizing annual sales of $1.6 billion and with the expectation that Elio Motors can attain a P/S ratio of 5.0 at that time, the share price target would be $152 in 2021. However, to translate that value to a current target price, we employ a net present value (NPV) calculation with the following conservative assumptions:

- a 20% discount rate to reflect the risks associated with this development project
- the capital requirements will cause the number of shares outstanding to double
- it will require five years to attain the 200,000 annual production rate

This valuation methodology indicates **a price target of $51 for ELIO.**

RISKS

- Formed in October 2009, Elio Motors has not yet produced its first commercial vehicle. As a result the company has not yet generated revenues. The *Elio* is still under development, though engineering test vehicles are currently expected to start being delivered to customers in the fourth quarter of 2016.
- In order for the *Elio* to be commercially successful, the vehicle not only must be successfully developed and sold, but also must achieve market acceptance in order to attain corporate profitability.
- Progress developing the *Elio* up until 2012 was delayed, primarily due to the inability to raise sufficient capital to advance the engineering of the vehicle quickly.
- The *Elio* is required to comply with many regulatory governmental standards and regulations relating to vehicle safety, fuel economy, emissions control, etc.
- The executive officers and directors continue to beneficially own a vast majority of the outstanding shares (88.8% as of March 31, 2016).
- Paul Elio is a critical person towards developing the *Elio* and advancing the company. The loss of his services would have a material adverse effect on the company.

INSIDER OWNERSHIP

As of September 23, 2016, insiders controlled 88.0% of fully diluted shares. Paul Elio (CEO) beneficially owned 17,995,000 shares (61.6% of the fully diluted shares), including the 12,750,000 shares held by Elio Engineering Inc., and Stuart Lichter beneficially owned 7,436,634 shares (25.4%).

BALANCE SHEET

ELIO MOTORS, INC.

Balance Sheet

(For The Years Ending)	2013 12/31/2013	2014 12/31/2014	2015 12/31/2015	1Q 2016 3/31/2016
ASSETS				
Cash and cash equivalents	869,107	374,652	6,870,044	2,909,373
Restricted cash held in escrow	876,229	476,055	3,806,378	2,626,334
Prepaid expenses and other current assets	360,693	104,383	471,170	2,104,154
Other current assets		74,966	336,733	429,022
Assets held for sale	-	-	2,100,000	1,474,071
Total current assets	**2,106,029**	**1,030,056**	**13,584,325**	**9,542,954**
Restricted cash held for customer deposits	1,095,529	4,855,499	5,816,407	5,956,937
Machinery and equipment, net	20,340,169	20,124,788	14,499,340	14,502,418
Facility under capital sublease, net	7,500,000	7,200,000	5,448,964	5,389,736
Other assets	-	-	-	-
Deferred offering costs	-	-	-	-
TOTAL ASSETS	**31,041,727**	**33,210,343**	**39,349,036**	**35,392,045**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable and accrued liabilities	889,451	4,420,104	3,618,403	3,816,562
Refundable customer deposits	200,250	913,700	1,092,750	1,114,900
Advances due to related party	386,427	164,827	-	-
Interest payable, current portion	57,563	2,122,942	4,959,444	2,306,080
Derivative liabilities - fair value of warrants	-	-	655,244	1,555,766
Convertible notes payable	285,000	-	-	-
Note payable, net of discount	26,454	1,600,000	-	-
Notes payable due to related party, net of discount	-	-	9,701,983	9,891,638
Total current liabilities	**1,845,145**	**9,221,573**	**20,027,824**	**18,684,946**
Customer deposits, net of current portion	2,616,200	14,852,183	19,587,800	20,961,900
Interest payable, net of current portion	-	2,241,134	6,757,983	9,785,994
Convertible notes payable, net of discount	-	-	2,504,346	2,463,928
Notes payable, net of current portion and discount	26,262,674	18,546,911	19,565,099	19,736,020
Notes payable due to related party, net of discount	-	10,549,348	-	-
Private Funds	-	-	-	-
Capital sublease obligation	7,500,000	7,500,000	6,022,677	6,022,677
Total Liabilities	**38,224,019**	**62,911,149**	**74,465,729**	**77,655,465**
Stockholders' Equity				
Preferred stock	-	-	-	-
Common stock	13,112,506	15,075,433	31,135,932	33,039,884
Convertible share options	-	-	-	-
Accumulated deficit	(20,294,798)	(44,776,239)	(66,252,625)	(75,303,304)
Total shareholder's equity	**(7,182,292)**	**(29,700,806)**	**(35,116,693)**	**(42,263,420)**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**31,041,727**	**33,210,343**	**39,349,036**	**35,392,045**
Shares outstanding	25,077,500	25,077,500	26,320,322	26,512,893

PROJECTED INCOME STATEMENT

ELIO MOTORS, INC.

Income Statement

(For The Years Ending)	2013 12/31/2013	2014 12/31/2014	2015 12/31/2015	2016 E 12/31/2016	2017 E 12/31/2017
Net Revenues	**0**	**0**	**0**	**0**	**840,000**
Cost of goods sold	0	0	0	0	673,680
Gross profit	**0**	**0**	**0**	**0**	**166,320**
Costs and expenses					
Engineering, research and development costs	6,903,023	5,715,716	2,058,566	20,000,000	11,000,000
General and administrative expenses	1,777,971	5,148,108	5,371,464	7,200,000	7,776,000
Sales and marketing expenses	1,269,987	3,800,353	3,701,493	7,300,000	7,884,000
Total costs and expenses	**9,950,981**	**14,664,177**	**11,131,523**	**34,500,000**	**26,660,000**
Other income					
Gain on forgiveness of debt	-	-	68,399	-	-
Other income	69,083	213,382	35,441	0	0
Interest income (expense)	(3,465,980)	(9,998,630)	(10,448,703)	(7,700,000)	(8,316,000)
Gain (loss) change in fair value of derivative liability		-	-	(525,720)	0
Other (expense)	(17,350)	(32,016)	-	-	-
Total Other Income (Expense)	**(3,414,247)**	**(9,817,264)**	**(10,344,863)**	**(8,225,720)**	**(8,316,000)**
Loss before income tax	**(13,365,228)**	**(24,481,441)**	**(21,476,386)**	**(42,725,720)**	**(34,976,000)**
Provision for income tax (expense)	0	0	0	0	0
Net (loss)	**(13,365,228)**	**(24,481,441)**	**(21,476,386)**	**(42,725,720)**	**(34,976,000)**
Net loss per share (basic and diluted)	N/A	**($0.98)**	**($0.85)**	**($1.58)**	**($1.21)**
Wgtd. avg. shares outstanding	N/A	25,040,164	25,127,495	27,000,000	29,012,044

HISTORICAL STOCK PRICE



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[i] A motorcycle is defined by The National Highway Traffic Safety Administration (NHTSA) as "a motor vehicle with motive power having a seat or saddle for the use of the rider and designed to travel on not more than three wheels in contact with the ground."
[ii] HR 2892 (The Autocycle Safety Act) was introduced in the House of Representatives in June 2015, and S685 (The Autocycle Safety Act) was introduced in the Senate in March 2015. Both Bills have been referred to Committee. Over 26 states have enacted or are developing classifications for autocycles at the state level.
[iii] 2015 Used Vehicle Market Report from Edmunds.com
[iv] Regional Job Access and Reverse Commute Planning: North Jersey Transportation Planning Authority and New Jersey Workfirst Program, http://www.fhwa.dot.gov/environment/environmental_justice/case_studies/case2.cfm
[v] Chetty, Raj and Hendren, Nathaniel, The Impacts of Neighborhoods on Intergenerational Mobility, April 2015