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Ayro Inc (AYRO-NASDAQ)

AYRO: The Vanish is just entering the back straight away.

We use a blended average multiple of successful EV companies, the acquisition multiple used for industry leader Club Car and the company's strong balance sheet to arrive at our price target of $1.30. If early indications of interest convert to sales, AYRO has significant upside to this target.

Current Price (08/14/23)	$0.61
Valuation	**$1.30**

OUTLOOK

AYRO continues to make progress toward the commercial launch of its premium, low-speed electric vehicle, the Vanish, with initial production beginning this fall.

A recently completed $22 million preferred stock offering strengthens the company's financial position however, investors should be aware that a reverse split remains a possibility.

We have adjusted our model boosting our 2024 revenue target to $12.4 million. We believe our estimates still have significant upside if initial customer enthusiasm converts to orders in 2024.

SUMMARY DATA

52-Week High	**$1.13**
52-Week Low	**$0.37**
One-Year Return (%)	**-45.85**
Beta	**3.45**
Average Daily Volume (sh)	**159,999**
Shares Outstanding (mil)	**38**
Market Capitalization ($mil)	**$23**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**9.7**
Insider Ownership (%)	**4.3**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-33.9**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2023 Estimate	**N/A**
P/E using 2024 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Speculative**
Industry	**Specialty EVs**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	1 A	1 A	1 A	1 A	3 A
2022	1.0 A	1.0 A	0.4 A	0.6 A	3.0 A
2023	0.1 A	0.1 A	0.1 E	0.5 E	0.9 E
2024	1.2 E	2.3 E	3.2 E	5.7 E	12.4 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	-$0.18 A	-$0.22 A	-$0.33 A	-$0.21 A	-$0.94 A
2022	-$0.12 A	-$0.16 A	-$0.15 A	-$0.16 A	-$0.62 A
2023	-$0.15 A	-$0.16 A	-$0.17 E	-$0.16 E	-$0.64 E
2024	-$0.16 E	-$0.14 E	-$0.15 E	-$0.15 E	-$0.60 E

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WHAT'S NEW

Business Update

AYRO, Inc, (NASDAQ: AYRO) reported second quarter 2023 results last night and provided an update on the commercial launch of its new low-speed electric vehicle (LSEV), the Vanish.

As we have discussed in our previous reports, 2023 is a year for AYRO to reset expectations, establish supply chains, build its inventory, rebuild its sales channels, and design, test, and launch the Vanish. The process of going from an existing product to starting over at square one would be challenging for any business but it is particularly difficult to perform this kind of transformation inside of a publicly traded company.

As we have discussed previously, the company was expected to have virtually no sales in Q2 2023 as it had no products available for sale (other than the runoff of some old Clubcar Current inventory). The company was focused on completing the necessary testing to get the Vanish ready for production during the quarter. Second quarter revenues were $0.14 million but investors in Ayro should begin to focus on the opportunity presented by the Vanish as the company moves beyond its past product offerings. The company continued to invest in inventory (up 100% or $1.5 million from 3/31/23 to $3.05 million) which we believe is indicative of the type of demand that the company anticipates for the Vanish.

The company continues to invest in the components and people that will be required to successfully launch the Vanish. The company has completed 12 units to date which have been used for track testing, the homologation process, and marketing. The company continues to fine-tune the braking and drive train as they near commercial launch.

The company anticipates entering Low Rate Initial Production in the fall during which time it is anticipated that they will produce 60 vehicles to deliver to distributors, partners, and key customers. We think this will be a very important step for the company because the potentially disruptive nature of the Vanish in the LSEV space is only apparent when you can sit behind the wheel of the vehicle.

This remains a challenging period for AYRO to navigate as it has to report results as a public company but their operations are much more akin to a pre-launch startup company. We think investors that can look past these near-term results and appreciate the opportunity in front of AYRO to bring a highly engineered, premium product to a commoditized market could be rewarded for that patience.

AYRO reported cash and equivalents of $33 million as of 6/30/23 which is still roughly $0.88 per share based on the current share count. The company's quarterly burn rate has increased a bit in anticipation of the launch of the vanish and we estimate that at mid-August cash and equivalents stood at around $30 million. Last week the company announced that it had completed a placement of convertible preferred stock raising gross proceeds of $22 million for the company. Thus, cash and equivalents today stand at roughly $52 million or $0.87/share based on a new forecasted share count of 59.5 million which we believe is sufficient to get the company through to cash flow positive operations.

The company's stock has underperformed the broader market over the past month but it has traded in line with many leading EV manufacturers that have fallen 15-20% during the same period.

We have made some minor adjustments to our model for the balance of 2023 as we think there will be 15 deliveries of the Vanish in Q4 however, we have boosted our delivery estimates for 2024 significantly to 310 units (up 16% versus our old estimate) and we are raising our revenue estimates for 2024 as a result. It is worth noting that while it is a bit of an unknown what demand will look like in 2024, the company has indicated that it expects to have the capacity to produce 2,000 vehicles per year with a single shift, has explored the idea of adding a second production shift and has secured a manufacturing partner that could help the company meet surge demand if it exceeds its current capacity.

Outlook

AYRO's CEO, Tom Wittenschlaeger, indicated that the Vanish has completed all of the homologation testing and safety requirements with certification to be received "shortly". The company now expects to enter Low Rate Initial Production ("LRIP") this fall which is slightly behind our original expectation but it still allows the Vanish to be in front of customers and in dealers' showrooms by Q4 2023.

We expect that the company will enter full production in Q1 2024 which means that they will be capable of producing 9 units per day.

The company has launched two innovative experiences to demonstrate how the Vanish differentiates itself – a roadshow across Texas at various campuses and medical facilities and a new webinar that will highlight applications of the Vanish.

The company also briefly mentioned the Valet (the company's planned people mover for resorts, etc.) and the Vapor (a planned luxury golf cart) on the conference call and we believe that many of the lessons learned in bringing the Vanish to market will prove valuable in 2024 as they launch two new products.

RECENT NEWS

- On August 8, 2023, the company announced a private placement of 22,000 shares of convertible preferred stock convertible into 22,000,000 shares of common stock along with warrants to buy another 22,000,000 shares with an exercise price of $1.00.

  The terms of the sale are complex but to summarize:
  - The company is required to redeem the preferred shares in twelve monthly installments starting at some point between February 2024 and August 2025 at the investors' election.
  - The company can elect to meet these payments in cash (at 105% of the redemption amount) or common shares.

  On the surface, this seems like fairly expensive financing but the conversion and warrant exercise prices are above the current trading price. With $30 million in cash and equivalents on the balance sheet before this placement, the timing may seem early but it appears that the goal was to provide enough financing to get the company to cash flow positive operations without having to pause in the middle of a production ramp to secure financing. As the adage says, the best time to get a loan is when you don't need it.

- On August 8, 2023, the company filed a preliminary proxy for a special shareholder meeting to be held on September 14, 2023. The two biggest agenda items are approving the preferred stock sale mentioned above and approval of a reverse split (ranging from 1 for 2 to 1 for 10) to regain compliance with the NASDAQ minimum bid rule. It is difficult to forecast what the market reaction will be to this news and we will provide an update after the shareholder meeting.

OVERVIEW



Source: AYRO.com

AYRO Inc., (NASDAQ: AYRO) is a manufacturer of low-speed electric vehicles (LSEVs) that has undergone a meaningful transformation in the last 18 months. It is important to remember that as of today, AYRO is effectively a startup, launching a completely new product into the market despite its legacy operations.

Today AYRO, Inc., designs, assembles, and markets a new LSEV (branded as the Vanish) targeting last-mile delivery, campus mobility, arenas, and other specialty markets where branding, appearance, reliability, user experience, and payload capacity matter more than speed or vehicle range. The company has already announced plans to utilize the core of the Vanish platform to develop additional products - a 6-seat shuttle-style vehicle (the Valet) and an ultra-premium golf cart (the Vapor).

The company's CEO has extensive engineering, production, and automotive-related experience but is new to the EV market. Mr. Wittenschlaeger has spearheaded the company's shift to offering a high-quality, well-engineered product at a premium price point in a commoditized market which parallels his experience in other industries.

Today, the company has roughly $52 million in cash and marketable securities on its balance sheet after the latest convertible offering which should be sufficient to get the company to cash flow positive operations if the Vanish is successful in the marketplace.

Given the fact that the company is effectively "starting over" with a new product, we continue to forecast that sales for the balance of 2023 are likely to be minimal. We believe that cost controls, distribution agreements, completion of the initial production run, and the successful delivery of early orders of the Vanish will be key metrics driving the stock in the near term.

VALUATION

As previously noted, as of mid-August 2023, AYRO has $52 million in cash and equivalents on its balance sheet which based on the new projected share count is roughly $0.87/share. We believe that the strength of the balance sheet provides investors with a level of protection at the current share price since the stock is trading at just $0.61/share.

AYRO is bringing what we believe to be a premium product to a market flooded with commoditized vehicles and the company is well-positioned to capitalize on trends toward fleet electrification. The company will be competing with large, well-established brands but recent ownership changes at Club Car and GEM/Taylor-Dunn may allow AYRO to capitalize while the focus of these companies will be on boosting profitability.

Investors continue to lump AYRO in with many of the weaker EV companies that have struggled with product quality, market fit, and securing adequate financing. The combination of weak outlooks for many EV startups, a lack of understanding of the changes at AYRO, and the pre-revenue status of the Vanish, continue to weigh on the stock. However, we think that as the Vanish begins to be delivered to

showrooms, customers and investors will take note that this has the potential to significantly change the market landscape for low-speed EVs.

We are forecasting limited sales for the balance of 2023 (just 15 Vanish deliveries at the end of Q4) with the first orders for the Vanish beginning in earnest in 2024. We are boosting our 2024 delivery estimate to 310 units (up from 265) but as the company has noted they expect to be able to produce up to 2,000 units in 2024. If end demand approaches anything close to this level of production, our estimates will prove to be very conservative and the company's revenues in 2024 could significantly exceed its current market capitalization.

Most of the company’s competitors have long operating histories and/or are part of larger industrial conglomerates, which makes it difficult to value the company based on a traditional blended value of comparable companies. We believe that the valuation of Club Car during the 2021 acquisition by Platinum Equity provides a clear measure of valuation in this industry. Platinum Equity paid 2.3 revenues for Club Car which deserved a premium as the market leader. If we apply a 10% discount to this revenue multiple to our 2025 revenue estimate and discount it back to 2024, we get a valuation for AYRO of roughly $1.10/share. We feel the company’s very strong balance sheet adds at least another $0.20/share of value and thus, we arrive at a 2024 target of $1.30.

However, if the company can capitalize on early demand indications and sales materially exceed our current forecast, we believe our target could prove to be too low and we will look to refine that valuation in late 2023/early 2024.

Key valuation considerations:

1) We expect limited revenues in the second half of 2023 as the company focuses on completing its initial production run. We have projected just 15 deliveries of the Vanish in 2023 (though total production will be closer to 60-70) which we think is a very attainable goal. We have increased our forecast for 2024 deliveries to 310 units but this estimate will be subject to revision in 2024 as the Vanish officially enters full production. Since management is already planning for the prospect of adding a second production shift (which could increase capacity to 70-75 units per week), we believe we have been conservative with our estimates and think that there is upside to this revenue forecast.

2) The industry leader – Club Car – was acquired at roughly 2.3 times 2021 revenues and 12 times 2021 EBITDA and they deserve a premium valuation relative to AYRO which is effectively starting over from scratch as a manufacturer of LSEVs. While new startups often receive a premium to established players given their higher anticipated growth rates, we feel that the fact that AYRO has been operating since 2017 means the market will likely not give them a startup premium initially despite the complete overhaul of their business. However, with AYRO trading at 1.0 times our 2025 revenue estimate, we believe that if the company hits these targets a valuation premium will be assigned to AYRO as well. At roughly 2.0 times 2025 sales discounted back to 2024, we arrive at a valuation of $1.10 based on the new prospective share count.

3) After the convertible preferred stock sale, the company's cash balances will be roughly $52 million or roughly $0.87/share (assuming a new fully diluted share count of 59.5 million shares). We are conservatively adding $0.20/share to our valuation based on the strength of the balance sheet (for a total target valuation of $1.30).

4) Finally, several intangible items are difficult to quantify but add value to the company. Principally, the deep commitment from management to engineering and manufacturing premium, high-quality vehicles in a market dominated by commoditized products. Coupled with the fact that two industry leaders – Club Car and Gem – recently changed ownership (which likely means they will be focused on controlling costs and increasing profitability), we believe there will be an opportunity for AYRO to surprise investors and competitors. This cannot be easily quantified in our model but adds to the value of AYRO's shares.

RISKS

- The company received a notice on 9/30/22 that the company was not in compliance with the NASDAQ minimum bid requirement of $1. To regain compliance, the company's stock would have to trade over $1 for 10 consecutive days. The company received a 180-day extension but remains out of compliance currently. As we noted in our initiation report, a reverse split is a possibility and the company is seeking authorization for a reverse split ranging from "1 for 2" to "1 for 10" from shareholders at a September proxy vote.
- The company has been in the market with three previous vehicles – the 311, the 411, and the 411x – and thus, the AYRO brand is associated with these vehicles. If the company cannot distance itself from the quality issues associated with those models it may be difficult for the company to sell its new model.
- As with most companies in this space, the company has a history of losses and has never been profitable. There can be no assurance that they will be profitable.
- The company may not be able to execute its growth and sales strategy which would impact the financial condition of the company.
- Most of the company's sales to date have been to one customer, Club Car, and that relationship has ended. Replacing this sole customer with new buyers will be a key and represents a significant risk.
- The company noted that there were some prior accounting deficiencies and the company has been engaged with its accounting firm to address these issues.

PROJECTED INCOME STATEMENT

AYRO, Inc.

8/15/23											
		Mar	June	Sept	Dec		Mar	June	Sept	Dec	
	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
(USD in 000's; December Year-End)											
Revenues:											
Old Product Revenue	2,716.6		-	-	-	-	-	-	-	-	-
New Product Revenue	-	-	-	-	480.0	480.0	1,225.0	2,275.0	3,150.0	5,700.0	12,350.0
Shipping Revenue	229.0	-	-	-	-	-					
Other Revenue	44.9		-	-	-	-					
Sales	**2,990.5**	113.1	139.5	125.6	480.0	**858.2**	1,225.0	2,275.0	3,150.0	5,700.0	**12,350.0**
% change (yoy)	**11%**			-66%	-21%	**-71%**			2408%	1088%	**1339%**
Cost of Revenues	6,044	220	332	299	437	1,287	1,078	1,979	2,741	4,959	10,757
Gross Profit	(3,053)	(107)	(192)	(173)	43	(429)	147	296	410	741	1,593
% change (yoy)									-336%	1615%	-471%
Gross Profit Margin	**-102.1%**	**-94.4%**	**-137.9%**	**-137.9%**	**9.0%**	**-50.0%**	**12.0%**	**13.0%**	**13.0%**	**13.0%**	**12.9%**
Operating Expenses:											
Research and Development	6,845.5	2,130.0	2,405.4	2,477.6	2,353.7	9,366.6	2,118.3	1,694.7	1,779.4	1,815.0	7,407.3
Sales and marketing	1,874.7	718.1	420.9	462.9	532.4	2,134.3	606.9	698.0	802.7	923.1	3,030.6
General and Administrative	11,504	2,843	3,248	3,280	3,313	12,684	3,346	3,380	3,481	3,568	13,775
	20,224	5,691	6,074	6,221	6,199	24,185	6,071	5,772	6,063	6,306	24,213
% of Sales	384.7%	NM	NM	NM	NM	NM	495.6%	253.7%	192.5%	110.6%	196.1%
Operating Income (Loss)	**(23,277)**	**(5,798)**	**(6,266)**	**(6,394)**	**(6,156)**	**(24,614)**	**(5,924)**	**(5,476)**	**(5,653)**	**(5,565)**	**(22,619)**
Other Income, net	182	322	(9)	170	170	654	44	44	19	22	128
Net Interest Expense/(Income)	0	0	(117)	0	0	(117)	0	0	0	0	(235)
Unrealized gain/(loss) on marketable securities	(2)	0	147	0	0	147	0	0	0	0	294
Realized gain	161	0	8	0	0	8	0	0	0	0	16
Income before Taxes	**(22,935)**	**(5,476)**	**(6,003)**	**(6,224)**	**(5,986)**	**(23,923)**	**(5,881)**	**(5,433)**	**(5,635)**	**(5,543)**	**(22,416)**
Income Taxes or Benefit	-	0	0	0	0	-	0	0	0	0	-
Deemed Dividend											
Net Income (Loss) reported	**(22,935)**	**(5,476)**	**(6,003)**	**(6,224)**	**(5,986)**	**(23,923)**	**(5,881)**	**(5,433)**	**(5,635)**	**(5,543)**	**(22,416)**
EPS reported	**(0.62)**	**(0.15)**	**(0.16)**	**(0.17)**	**(0.16)**	**(0.64)**	**(0.16)**	**(0.14)**	**(0.15)**	**(0.15)**	**(0.60)**
% change (yoy)	**N/A**	N/A	N/A	N/A	N/A	**N/A**	N/A	N/A	N/A	N/A	**N/A**
EBITDA reported	**(22,515)**	**(5,604)**	**(6,008)**	**(6,097)**	**(5,820)**	**(23,528)**	**(5,555)**	**(5,088)**	**(5,227)**	**(5,125)**	**(21,424)**
Depreciation & Amortization	762	194	259	297	336	1,086	370	388	427	440	1,195
Share-based Compensation Expense	1,240	267	242	249	257	1,015	259	263	274	283	1,763
EBITDA Adjusted (excl stock comp)	**(21,275)**	(5,337)	(5,766)	(5,847)	(5,563)	**(22,513)**	(5,295)	(4,825)	(4,952)	(4,843)	**(19,661)**
Diluted Shares (weighted average)	**37049.0**	37319.9	37476.8	37551.8	37626.9	**37493.8**	37702.1	37568.8	37777.5	37644.0	**37673.1**
Margins:											
Gross Margin	**-102.1%**	-94.4%	-137.9%	-137.9%	9.0%	**-50.0%**	12.0%	13.0%	13.0%	13.0%	**12.9%**

Source: Zacks SCR, Brian Lantier, Company Filings

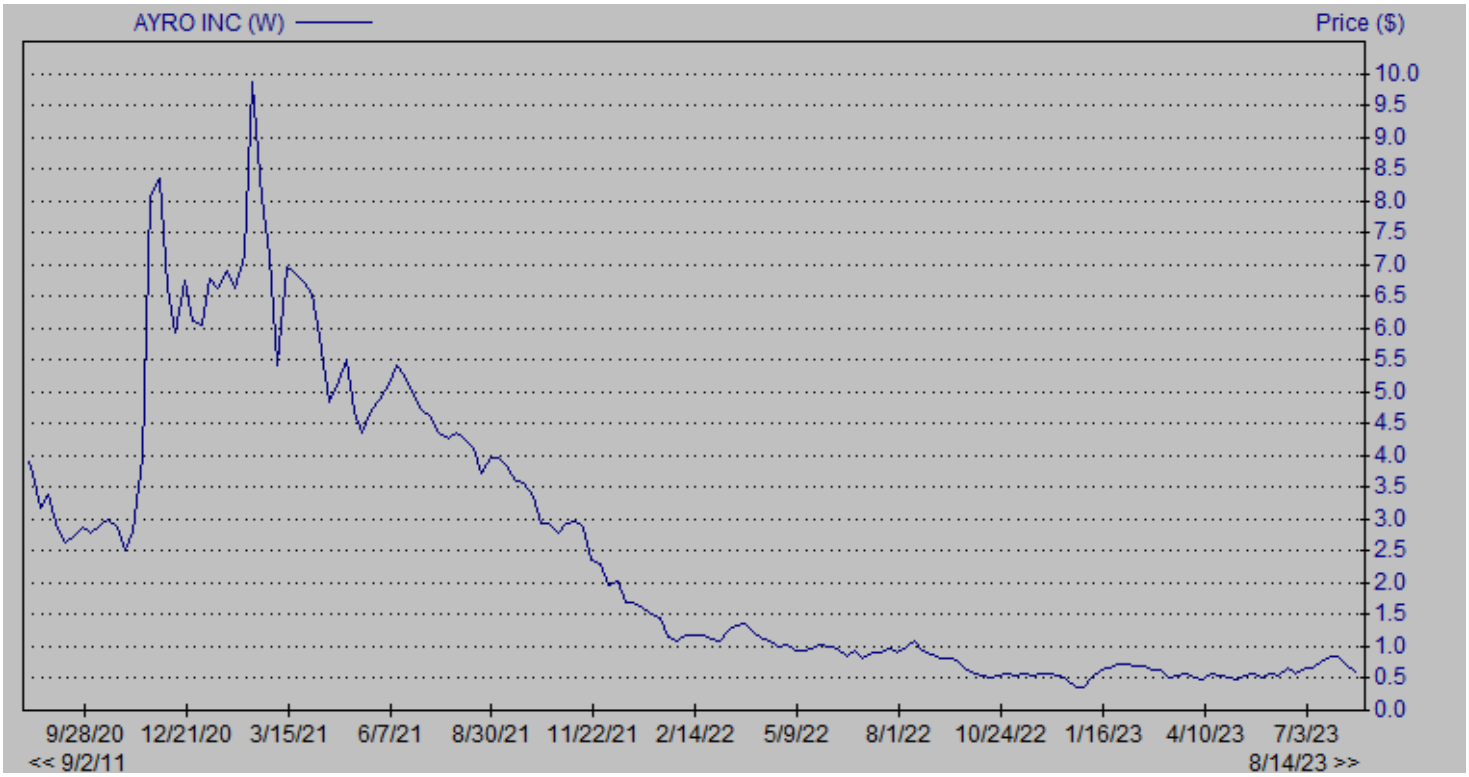
BALANCE SHEET

AYRO, Inc.
Balance Sheet in USD
6/30/23

Assets	
Current Assets	
Cash	13,569
Marketable Securities	19,464
Accounts Receivable (net)	104
Inventory	3,050
Prepaid expenses and other current assets	3,270
Total current assets	39,457
Non-Current Assets	
Property & Equipment (net)	3,201
Operating leases	751
Deposits	85
Total non-current assets	4,037
Total Assets	**43,494**
Liabilities	
Current Liabilities	
Accounts payable	716
Accrued expenses	910
Current portion of operating lease liability	178
Total current liabilities	1,804
Non-Current Liabilities	
Operating lease liability, net of current portion	601
Total Liabilities	**2,406**
Shareholder's Equity	
Common Stock	4
Additional Paid-in Capital	133,733
Accumulated deficit	(92,649)
Shareholder's Equity (Deficiency)	**41,088**
Total Liabilities & Shareholder's Equity	**43,494**

Source: Company filing

HISTORICAL STOCK PRICE



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