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Ayro Inc (AYRO-NASDAQ)

AYRO: Positive operating news clashes with market realities.

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 new price target of $9.00. If early indications of interest convert to sales, AYRO has significant upside to this target.

Current Price (09/15/23)	$3.88
Valuation	**$9.00**

OUTLOOK

AYRO has confirmed initial orders for the Vanish and has entered initial production of the vehicle in Texas as we had anticipated.

A recently completed $22 million preferred stock offering strengthens the company's financial position however, the 1-for-8 reverse split to maintain the NASDAQ listing is likely to impact trading in the near term.

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	**$7.20**
52-Week Low	**$2.96**
One-Year Return (%)	**-40.06**
Beta	**3.55**
Average Daily Volume (sh)	**24,285**
Shares Outstanding (mil)	**7.5**
Market Capitalization ($mil)	**$29.1**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**17**
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	-$1.44 A	-$1.76 A	-$2.64 A	-$1.68 A	-$7.52 A
2022	-$0.96 A	-$1.28 A	-$1.20 A	-$1.28 A	-$4.72 A
2023	-$1.17 A	-$1.28 A	-$0.84 E	-$0.80 E	-$3.95 E
2024	-$0.79 E	-$0.73 E	-$0.75 E	-$0.73 E	-$2.99 E

Quarterly EPS may not sum due to equity issuance and 2023 1-for-8 reverse split.

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WHAT'S NEW

Business Update

There have been several recent events at AYRO that are likely to impact both the near-term outlook for the company and the share price.

1-for-8 Reverse Split: On September 14, the company's board of directors approved a resolution to effect a reverse split of the company's share at a ratio of 1-to-8 and it was filed to become effective at 4:00 pm on September 15th. While we were aware of the reverse split probability the exact ratio of the exchange was unknown until last week (previously, the company had indicated that the ratio could be between 1-to-2 and 1-to-10). The reverse will have the desired effect of helping the company's shares regain compliance with the NASDAQ $1.00 minimum bid requirement. While a reverse split does not implicitly indicate anything negative about a business, it is clear that stocks instituting reverse splits have typically seen the market react negatively to the news. In August, for example, there were 38 reverse splits and 92% of those companies' shares were trading lower a month later. While this isn't a scientific study it does seem to reflect the market realities in 2023 where most reverse splits continue to underperform the broader market. We would also note that some EV-related companies, Mullen Automotive (NASDAQ: MULN), Faraday Future Intelligent Electric (NASDAQ: FFIE), and Ideanomics, Inc. (NASDAQ: IDEX) all had reverse splits in August, and the shares of all three have continued to underperform. We continue to believe that AYRO is in a significantly better position than most of these other companies as it is launching a completely revamped product into a market ripe for disruption but the realities of the market when it comes to companies enacting reverse splits cannot be ignored.

As a result of this split the new outstanding share count will be roughly 4.7 million shares before accounting for conversion shares from the convertible preferred stock issued in August (we estimate that the fully diluted share count will be 7.45 million with the conversion shares).

Convertible Preferred Stock Financing: As we noted in our last report on AYRO, 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 (now 2.75 million shares after the reverse split) along with warrants to buy another 22,000,000 shares (now 2.75 million shares) with an exercise price of $1.00 ($8.00 after the split). The terms of this transaction are complex and we believe the terms were very favorable to the new investors which may create a further overhang for the stock.

As we noted in August, this appears to be fairly expensive financing (given the warrants and interest to be paid) but the conversion and warrant exercise prices are well above the current trading price (now $8/share after the reverse split). We estimate that the company has roughly $48-$50 million in cash and equivalents on the balance sheet after this financing or between $6.45/share and $6.70/share after the reverse split. With the stock trading significantly below these levels, we feel comfortable that the risk/reward ratio remains favorable.

In early September, the company also filed an S-3 with the SEC to register roughly 7.5 million conversion shares (938 thousand after the reverse split) that may be sold by investors in the August convertible preferred financing. While these shares are unlikely to be sold at the current prices (again, the conversion price of $8.00 per share is well above the current market price). While this was mostly just a formality associated with the August financing, the registration of roughly 20% of the current float could be another cap on the share price in the near term.

AYRO is an interesting study of the tug-of-war between fundamentals and stock-related price action. The shares are encountering some technical challenges from the new financing and the reverse split while the operations of the company are just about to enter an exciting new phase.

In mid-August, Ayro announced that their first channel partners had placed orders for the Vanish with shipments to commence in September. This is a major milestone for the company and we think that putting the Vanish in front of distributors and end-customers will be a catalyst for significant additional interest in the Vanish.

The company also announced in September that it had entered Low Rate Initial Production ("LRIP"). This initial manufacturing period during which we expect 50-60 vehicles to be produced will be used to test all of the company's systems (tools, assembly, etc.) to minimize quality issues that could emerge when full-scale production begins. Entering LRIP in September fits with our original expectations and is a very good sign that the company can move to full production by Q1 2024.

In summary, there are some very good signs coming out of Ayro on the operational side of the business and we think investors should be encouraged by the milestones achieved to date. However, we recognize that the capital markets have not been kind to stocks that undergo reverse splits as those companies usually have limited access to capital and poor outlooks (neither of which is the case with Ayro). We think opportunistic investors may be able to capitalize on the lack of understanding around the Ayro story to establish long-term positions if the stock is volatile in the near term.

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.

We estimate that the company has roughly $50 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, we estimate that AYRO has roughly $48-50 million in cash and equivalents on its balance sheet today which is roughly $6.45-$6.75/share after the reverse split. The strength of the balance sheet should help to provide a floor in the stock with the shares currently trading at a little over half of this value.

AYRO is on the cusp of relaunching a truly unique vehicle in a crowded market characterized by vehicles that have not seen a major overhaul in years.

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 significant changes at AYRO, and the pre-revenue status of the Vanish, continue to weigh on the stock. The recent convertible financing and reverse split are also likely to hamper the near-term outlook for the shares.

We are still 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 have a 2024 delivery estimate of 310 units but 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.

We believe it is prudent at this point to reset our price target in light of the decline of small-cap EV valuations during the past six months. We believe that the valuation of Club Car during the 2021 acquisition by Platinum Equity likely marked a high water mark for valuations in this space. Platinum Equity paid 2.3 revenues for Club Car which deserved a premium as the market leader. If we apply a 2.0 times revenue multiple to our 2025 revenue estimate and discount it at 15% back to 2024, we get a valuation for AYRO of roughly $7/share. We feel the company’s very strong balance sheet adds at least another $2.00/share of value and thus, we arrive at a 2024 target of $9.00.

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. Our forecast for 2024 deliveries stands 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 85% of 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 1.75 times 2025 sales discounted back to 2024, we arrive at a valuation of $7/share based on the new prospective share count.

3) After the convertible preferred stock sale, the company's cash balances will be roughly $50 million or $6.75/share (assuming a new fully diluted share count of 7.4 million shares). We are conservatively adding $2/share to our valuation based on the strength of the balance sheet (for a total target valuation of $9/share).

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 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.

9/18/23											
		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	**(4.95)**	**(1.17)**	**(1.28)**	**(0.84)**	**(0.80)**	**(3.95)**	**(0.79)**	**(0.73)**	**(0.75)**	**(0.74)**	**(2.99)**
% 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)	**4631.1**	4665.0	4684.6	7444.0	7458.9	**6063.1**	7473.8	7488.7	7488.7	7503.7	**7488.7**
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

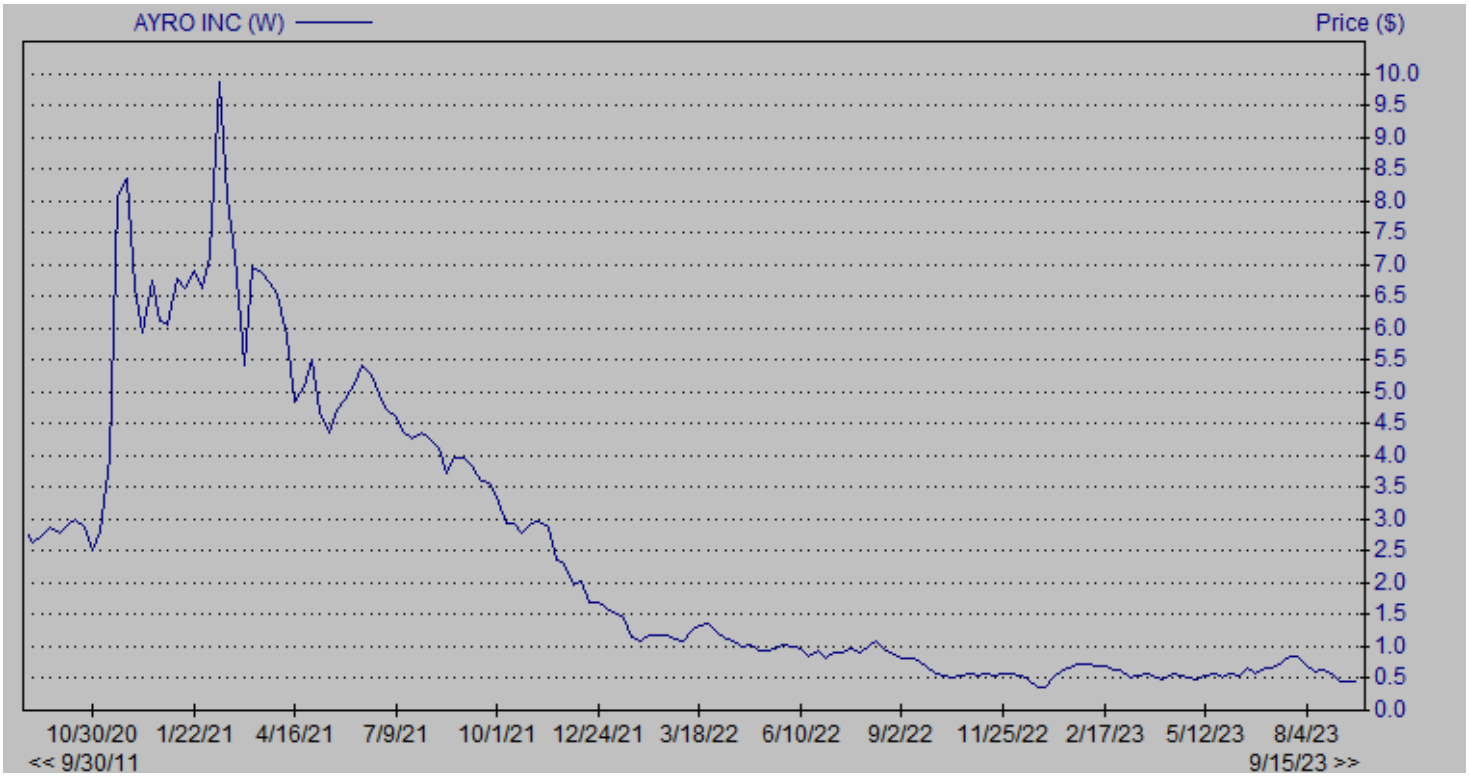
BALANCE SHEET

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



**Price chart does not reflect the 1-for-8 reverse stock split that was effective 9/15/23*

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