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Zacks Small-Cap Research (NOTE)

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LOBO EV Technologies Ltd (LOBO-NASDAQ)

LOBO: Foreign Distribution Driving Accelerating Revenue Growth

Research Note

LOBO EV Technologies (LOBO) designs and manufactures e-Bicycles, e-Mopeds, motorcycles, e-Tricycles, and electric off-highway four-wheeled shuttles (golf carts and scooters for elderly and disabled persons) for distribution through a broad-based dealership network in China, Southeast Asia, Latin America, and Europe.

We highlight the following key takeaways from LOBO EV's Investor Group call on July 24, 2024:

1. **Accelerating momentum outside of China:** As background, LOBO employs a wholesale distribution model, selling electric vehicles through a robust network of 200+ dealerships, which then retail these products to end consumers. As of the end of 2023, the company maintained a network of 152 dealers across 10 provinces in China, in addition to 50 locations across Southeast Asia, Eastern Europe, Latin America, and the U.S. Going forward, management remains focused on increasingly penetrating foreign target markets either organically or through strategic partnerships to meet accelerating demand outside of China. To be sure, LOBO continues to win new (and larger) orders from distributors across Eastern Europe, Southeast Asia, and Latin America (particularly in Brazil and Ecuador). Furthermore, ongoing customer service initiatives focused on shared technology and marketing expertise to help improve distributor market share and profitability continue to drive building momentum across new and existing customers.

   More recent business updates include:

   - July 16, 2024 – LOBO opened a new office in Suriname in conjunction with a Memorandum of Understanding (MOU) with Zhongda International Engineering Company. The opening of the Suriname office supports LOBO's initiatives in high-growth Latin American markets, while the MOU leverages Zhongda's relationships and distribution capabilities across Suriname and neighboring countries, with the option for real estate to develop a manufacturing facility.

   - June 25, 2024 – LOBO strengthens the company's partnership with Well Power, Inc., a key distributor in Brazil. Following an onsite visit of LOBO's manufacturing facilities, the Well Power team expressed interest in forming a strategic partnership to consolidate the sourcing of electric vehicles with LOBO. For reference, Well Power generates of $8 million of annual EV sales across multiple OEMs.

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- June 17, 2024 – LOBO announced a purchase order from distributors in Ecuador for nine containers (~1,000 units). The order encompasses e-Bikes and three-wheeled electric vehicles – including newly-introduced solar-powered tricycles.

- April 2, 2024 – LOBO announced a strategic collaboration with CSM2017, a distributor in Serbia. Initially, CSM2017 will distribute LOBO's CSM-01 e-Bike, with plans to develop more vehicles that align with regional demand trends in Eastern Europe. Importantly, LOBO EV plans to manufacture most parts in China, with final assembly in Serbia along with ongoing maintenance services.

2. **Ongoing product development:** Management remains focused on product innovation, with meaningful financial resources dedicated to ongoing research and development efforts. At a high level, the team remains focused on incorporating dealer/customer feedback to optimize product design and development efforts, as well as partnering with academia to maximize the company's limited resources, while controlling related expenses. Another key differentiating factor in LOBO EV's product design approach is the company's user-centric process. Key steps include gathering data to better understand customer requirements and demands, testing prototypes to ensure safety and quality, and enhancing supply chain and manufacturing processes to maximize product economics.

   More recent product introductions include the launch of three new e-moped models featuring an innovative frame design offering enhanced structural stability. In addition, sales of three-wheeled electric vehicles have expanded following the introduction of new models equipped with solar panels to facilitate battery charging. Related revenue contribution has increased from ~20% of firmwide sales in the back half of 2023 to north of 30% thus far this year. Separately, LOBO is benefitting from accelerating sales of high-speed motorcycles, which carry average prices of approximately RMB10,000, or 3x the average price of low-speed e-Bikes and mopeds.

   Looking ahead, the team also continues to work on incorporating intelligent/multi-media/integrated instrument panels across the EV lineup leveraging LOBO EV's automotive infotainment software capabilities to further differentiate the company's vehicles.

3. **Rising manufacturing output:** A key differentiating factor for LOBO remains the company's in-house manufacturing capabilities. LOBO assembles most of the company's electric vehicles and accessories at three in-house factories in Beijing, Tianjin, and Wuxi. Proprietary manufacturing facilitates quality control, production flexibility, and capacity optimization. Approximately $2.5 million of the $5.5 million of gross proceeds from LOBO's IPO at the end of May 2024 have been earmarked for upgrading and expanding manufacturing capacity and increasing production. The company recently opened a new manufacturing facility that more than doubles LOBO EV's existing production capacity in Wuxi. Looking ahead, rising manufacturing output bodes well for stepped up production and accelerating revenue growth in 2H24 and beyond, particularly as production breadth continues to widen. Indeed, LOBO recently upgraded the company's Tianjin factory to enable full assembly of four-wheeled off-highway utility vehicles, thereby driving a step up in related export volumes.

4. **Upside bias to EPS estimates:** While we will formally update our model following the release of 1H24 financial results in late August/early September, we see an upward bias to our 2024 and 2025 EPS estimates of $0.17 and $0.26, respectively. Our thinking is based on a several key factors. First, we forecast strong revenue growth for 1H24 primarily reflecting accelerating sales to international distributors. To the point, at the recent 135th China Import and Export Fair in April, the team generated nearly $1 million in customer deposits from an estimated $5 million of new potential orders (including approximately $1.2 million from foreign distributors across Eastern Europe, Southeast Asia, North America, and Latin America). Moreover, order sizes continue to scale up, as LOBO's competitive advantages increasingly resonate with international distributors. Second, while e-Bikes account for a large majority of LOBO's sales and revenue, contributions

from higher-speed motorcycles continue to ramp up. Indeed, motorcycles currently represent 5%+ of total volumes (at higher price points and more favorable margins). Finally, we look for gross and operating margins to expand given a more potent sales mix and rising economies of scale. To be sure, international distribution sales carry higher profit margins. As such, we would expect overall profitability to trend higher assuming contributions from international distribution outlets continue to outpace domestic sales. From a geographic standpoint, international distributors currently account for ~40% of LOBO's overall sales. Stepping back, our model calls for operating margins to expand reflecting rising manufacturing output and an ongoing focus on expense management.

5. **Buying opportunity:** With the stock essentially trading sideways since our initiation on May 14, 2024, we continue to view LOBO's current price as an attractive entry point for the stock as awareness and appreciation of the company's business model, growth prospects, competitive positioning, and valuation disconnect increasingly take hold. Furthermore, we expect the release of 1H24 financial results to reinforce LOBO's accelerating growth story, thereby serving as a key upward revaluation catalyst for the stock. No change to our DCF-derived $5.00 price target implying meaningful upside potential from the stock's current price.

   As a crosscheck, most peer stocks continue to trade at meaningfully higher Price-to-Earnings multiples versus LOBO. Applying a peer group average forward P/E multiple of ~19x to our 2025 EPS estimate of $0.26 translates into a fair value of about $5.00 for the stock.

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