

ELIO MOTORS IS BEING ATTACKED BY ELON MUSK AND HIS FAKE NEWS AGENTS

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Elio Motors ([ELIO](#)) 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 64,000 customer reservations**. Management anticipates assembling the 100 S1 prototypes for real-world evaluation during 2017 with commercial mass production to follow in 2018.

Since the beginning of November 2016, Elio's stock has been pressured by a variety of factors, specifically by the conversion of Convertible Subordinated Notes into common stock (and subsequent sale of some of that stock), the announcement that commercial production is now expected to commence in 2018 (rather than prior expectations of late 2017) and a series of articles in early January that highlighted the normal cautionary factors of a start-up company like Elio Motors, along with an inflammatory comment about a certain hearing date.

First, the Elio's stock has succumbed to a wave of selling pressure from the stock issued as a result of the conversion of Convertible Subordinated Notes into common stock. As of the latest filing (November 18, 2016), 109,505 shares have been issued at a conversion price of \$5.98. Since then, we estimate almost another 100,000 shares have been issued at the same cost. **These 200,000+ shares created a stock overhang**. Many of these

former bond holders obviously chose to lock in profits in \$19-to-\$12 range during November and December as average daily volume increased over 150% from 3,700 to over 10,000 shares, and increased again to over 20,000 shares daily in January 2017.

Second, on December 31, 2016, the company indicated that **consumer production was now being targeted to start in 2018.**

Previously, commercial production had been anticipated by the end of 2017. Though the push out is somewhat disappointing, it is not totally unexpected. The projected timetables relayed by managements of small cap stocks are almost always overly optimistic. Intensifying the issue, Elio Motors is in the process of developing and bringing to market a high-ticket consumer durable product that not only is fraught with complex design and development challenges, but also is required to meet stringent governmental operational and safety requirements. As long as progress is being made with the E-Series vehicles, minor delays in the timetable for commercial production are not overly concerning. Better to ultimately produce a safe and efficient vehicle than increase the risk of future potential recalls.

Third, during the first week of January, many news sources, including local media channels in Shreveport, reported that the company's accumulated deficit was over \$123 million (as of September 30, 2016), insinuating that it was debt and also cited that the going concern accounting language requirement in the 10-Q was fact rather than cautionary. Companies bringing an initial product to market always incur start-up costs and an initial accumulated deficit, which represents the accounting measurement of the costs incurred for engineering, research and development. In general, the greater the price of the product results in a larger the accumulated deficit. For example, Tesla (TSLA), the developer of fully electric vehicles, first started generating revenues in 2007. At that time, Tesla had incurred an accumulated deficit of \$122 million and was operating with a working capital deficit of almost \$29 million, and in the following year the deficits expanded to \$205 million and \$56 million, respectively. **Interestingly, Tesla's latest 10-Q implies that Tesla will have going concern accounting language in its 10-K for the year ending December 31, 2017.**

Further exacerbating the concerns, the media **falsely reported** that Elio Motors had missed attending a pre-hearing meeting with the Louisiana Motor Vehicle Commission on January 9, 2017. Elio Motors has put out numerous communications stating that the Louisiana DMV had not notified the company that its attendance was requested.

These news articles (along with the announcement that commercial production is now expected to begin in 2018) weighed heavily on the company's stock, pressuring it down to the \$6 range, after which it rebounded to \$10 before closing at \$8.50 on Friday.

On the other hand, do not under-estimate the importance of future financings to the ultimate success of Elio Motors. **Management anticipates that between \$275 million and \$300 million will be needed to start production.** Thus far, management has been able to successfully finance the start-up of Elio Motors. During the first nine-months of 2016, over \$17.2 million was raised through financing activities, including \$5.8 million released from restricted cash, almost \$5.3 million from customer deposits, \$3.7 million from the issuance of common stock and \$2.45 million through advances by related parties. In addition, the Regulation A+ offering closed providing \$16.92 million.

Elio Motors has submitted an application for an Advanced Technology Vehicles Manufacturing (ATVM) loan for approximately \$185 million. The first of four stages has been completed with the Department of Energy confirming that the technical criteria for the loan have been achieved. 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 crowd funding 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 a **25% discount** on their deposit amount toward the final purchase price for those who make a binding commitment.

To date, the ATVM loan program has provided loans to Ford (\$5.9 billion), Nissan (\$1.45 billion) and Tesla (\$465 million). However, if Elio Motors is unable to obtain an ATVM loan, management anticipates funding the company through customer reservations, debt and/or equity offerings and possibly CAFE credits. The company has also identified approximately \$1.1 in equipment at the Shreveport plant that it is authorized to sell to raise funds. It should be noted that the company’s reservations represents over \$500 million in revenues.

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. The number of current reservations is **64,008 customer reservations**.

A sales discount equal to 50% of the nonrefundable deposit up to \$500 per deposit was offered by Elio Motors through May 31, 2016. Thereafter, the discount was set at 25%. Then, on August 12, 2016, the base price of the Elio was set at \$7,300 for non-refundable reservation holders until the number of total reservations reaches 65,000 vehicles. The 25% discount of the deposit amount will be applied at the time of the customer’s purchase of a vehicle.

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 0.8 range with a mean valuation of 0.4 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.**

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 64,000 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 \$151 in 2022. However, to translate that value to a current target price, a net present value (NPV) calculation **indicates a share price target of \$49.**