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Zacks Small-Cap Research

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M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Arcimoto, Inc. (FUV-NASDAQ)

Potential of Rental, First Responder and Delivery Markets

Reflecting the versatility of the basic FUV, Arcimoto recently has announced new models targeting the rental, first responder and delivery markets. The Deliverator and Rapid Responder, slated for 2020 production, could improve Arcimoto's medium-term revenue outlook, we believe. We are raising our price target to $5.50.

Current Price (3/20/19)	$4.30
Valuation	**$5.50**

OUTLOOK

E-commerce has led to an increase in the number of delivery vehicles on roads. In turn, this might spur demand for mini-vehicles such as the recently unveiled Deliverator, which is easier to maneuver and park than alternative delivery options. Factors potentially driving demand for an all-electric mini-vehicle for delivery might also drive demand for Arcimoto's Rapid Responder, we believe, as local governments evaluate ways to meet the challenges of shifting trends in mobility and optimize emergency fleets.

SUMMARY DATA

52-Week High	**$7.35**
52-Week Low	**$1.55**
One-Year Return (%)	**36.33**
Beta	**NA**
Average Daily Volume (sh)	**162,340**
Shares Outstanding (mil)	**16**
Market Capitalization ($mil)	**$69**
Short Interest Ratio (days)	**0.6**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**57**
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/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-cap**
Industry	**Automotive**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	0.0A	0.0A	NA	NA	0.1A
2018	0.0A	0.1A	0.0A	0.0E	0.1E
2019*					28.5E

Per Share Earnings

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-0.04A	-0.05A	NA	NA	-0.24A
2018	-0.13A	-0.14A	-0.20A	-0.22E	-0.70E
2019					-0.41E

*2019 revenue and per share represent low end of forecast range
Quarters might not sum to annual reflecting rounding.
Disclosures begin on page 9.

KEY POINTS

- Arcimoto believes that the modular configuration of its green three-wheeled mini-vehicle makes it extremely versatile and has announced models targeting the rental, first responder and delivery markets.

- The rental channel, which has proven successful for other three-wheeled mini-vehicles, is expected to be a source of positive cash flow in the near-term.

- E-commerce has led to an increase in the number of delivery vehicles on roads, which might spur demand for mini-vehicles. Management expects that the recently unveiled Deliverator, which has more storage space than the standard FUV, can provide an economic and efficient option that is easier to maneuver and park than other delivery vehicles.

- We believe local governments might find the Rapid Responder attractive to include in the product mix, as they evaluate strategies to optimize emergency fleets and meet the challenges of the rising number of vehicles on roads and increase in driver distraction, combined with high speeds at which emergency vehicles generally operate. The Rapid Responder is “designed for first responders to efficiently and more quickly reach emergencies, as well as for security and law enforcement applications.”

- While the Deliverator and Rapid Responder are not slated for production until 2020, we believe they could improve Arcimoto’s medium-term revenue outlook and are raising our price target to the $5.50 level.

TARGETING MULTIPLE SALES CHANNELS

Arcimoto, which manufactures green three-wheeled mini-vehicles, is preparing for the commercial launch of its efficient and economical product, the *Fun Utility Vehicle* (FUV). The company targets achieving a build rate of at least 10,000 units per annum by the end of 2019. At the same time, management strives to reduce construction time and increase production efficiency as the company moves towards mass scale production for retail sales.

- Moreover, management believes that the modular configuration of the FUV makes it extremely versatile. At this early point in its development, Arcimoto is still largely pre-revenue. However, in addition to direct-to-consumer retail sales, the company has also identified other channels to drive sales and revenue. Reflecting the above-noted versatility of the basic FUV, the company has announced additional models, including those targeting the rental, first responder and delivery markets. While the Deliverator and Rapid Responder are not slated for production until 2020, we believe they could improve Arcimoto’s medium-term revenue outlook and are raising our price target to the $5.50 level.

FUVS FOR RENTALS

Historically, the company has displayed prototypes of the FUV or hosted test drive events in several states and at several trade and consumer shows and has increased the number of events over time. In addition to showing the FUV at major venues and to enable prospective customers to test drive FUVs, the company intends to open in-market experience centers so that people can test drive the vehicle. These centers are also expected to facilitate the company’s rental model, which would enable customers in certain markets to rent the FUV from the in-market experience centers. This model is expected to be cash flow positive for Arcimoto and management anticipates forging partnerships with other companies to facilitate rentals.

Similar rental concepts have proven successful with other three-wheeled mini-vehicles such as the Renault Twizy, Panther ScootCoupe and Polaris Slingshot, as illustrated below. For the most part, the rental concept appears to be best suited to tourism and resort destination markets. For example, Panther Motors notes that it "originally built the ScootCoupes for the tourism rental market," although over time, the vehicles have also been adopted "for local and recreational use."

3-Wheeled Vehicle Rentals

Vehicle	Market	Daily Rental Rate
Renault Twizy	Bermuda	$99
Renault Twizy	Barcelona	€60
Scoot Coupe	Hawaii	$149
Scoot Coupe	Fort Lauderdale, Fl	$109
Scoot Coupe	Captiva & Sanibel, Fl	$199
Polaris Slingshot	Houston	$190
Polaris Slingshot	Las Vegas	$349

Sources: www.slingshot.rent, TripAdvisor & company reports, among others

As indicated, Arcimoto expects to expand its rental concept with various partners and franchisees, and anticipates that this will be done via a revenue-share model. Given the daily or weekly rental fees and fleet utilization rates – which management estimates exceed 60% -- the company believes this channel could prove to be an attractive source of cash flow that could also help drive sales. The company believes that vacation markets such as the Hamptons in New York and many Florida, Hawaii and California cities, among other places, could eventually be good places for rental centers. In addition to these and other resort destinations, future franchise partners potentially could also include next-generation vehicle sharing companies, according to management.

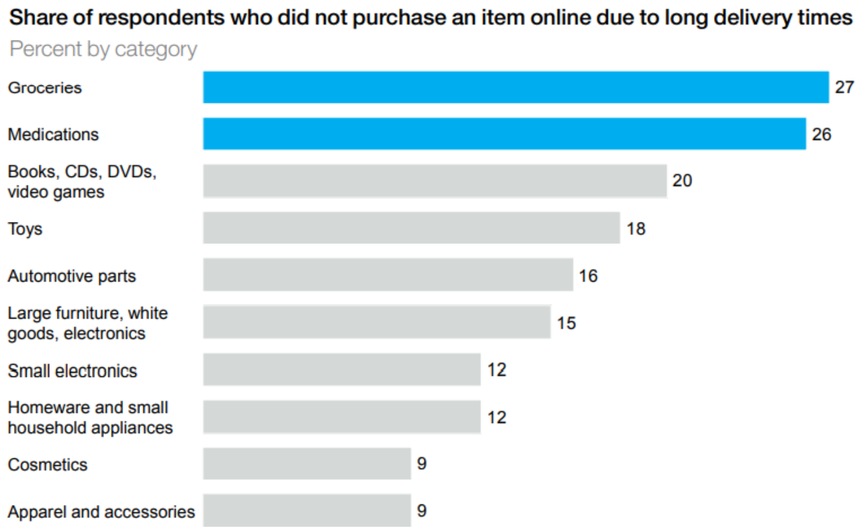
Arcimoto completed its first rental operation test in Eugene, Oregon and views this pilot as successful in helping it fine-tune its rental outlet strategy. The company is optimistic that the rental centers can generate revenue as customers pay for the opportunity to test drive the FUV.

In fact, the rental model is expected to accomplish several important goals for the company, including marketing the FUV and boosting revenue and cash flow. Management believes that rentals can help increase brand awareness in well-trafficked destination markets, as people note the rental vehicles on the road. As the company expects to expand its rental footprint over time through franchises, it believes it can minimize its own capital expenditures while broadening its network.

FUVS FOR DELIVERIES

Arcimoto has designed a three-wheeled mini-vehicle for delivery fleets. This vehicle, which the company calls the Deliverator, has more storage space than the standard FUV and targets the delivery market for local drop-offs. The Deliverator will include a 350-pound carrying capacity and more than 20 cubic feet of cargo space. According to the company, the Deliverator will target "100 city miles of range, [and] 75-mph top speed." The cargo space can be customized to transport most products that require local delivery, including parcels, pizza, groceries, pharmaceuticals and dry cleaning, among other items. Management expects that the Deliverator can provide an economic – it will retail at a base price of $19,900 -- and efficient alternative to delivery vans and trucks and that it will have a competitive advantage, in that will be easier to maneuver and park. The company expects to launch production of the Deliverator in 2020.

While much of the target market involves delivery of locally purchased items – pizza, take-out food, groceries or pharmacy items from local vendors, for example – the market potentially could also encompass the "last mile" delivery of online orders. This segment of the delivery market continues to grow, as e-commerce grows. Consumer demand for same-day and instant delivery is increasing, according to McKinsey, despite the hesitation of some consumers to wait for next-day or longer delivery times (see figure below).



Source: McKinsey & Company

Thus, e-commerce is driving an increase in the number of delivery vehicles on city streets. For example, the US Postal service delivered more than 5.1 billion packages nationwide in 2016, up from 3.1 billion in 2010, according to online magazine Citylab.

The increase in last-mile delivery might be a factor that could drive demand for mini-vehicles for pure local drop-offs, as the increasing number of trucks and vans, in turn, makes it more difficult to navigate crowded roadways and find parking. According to Citylab, "a siege of delivery trucks is threatening to choke cities with traffic…. The traffic congestion and lack of available parking has become so unworkable." The magazine notes:

> "While truck traffic currently represents about 7 percent of urban traffic in American cities, it bears a disproportionate congestion cost of $28 billion, or about 17 percent of the total U.S. congestion costs, in wasted hours and gas. Cities, struggling to keep up with the deluge of delivery drivers, are seeing their curb space and streets overtaken by double-parked vehicles, to say nothing of the bonus pollution and roadwear produced…"

An all-electric three-wheeled mini-vehicle such as the Deliverator could be one solution, in our view. The company stresses the FUV's suitability for daily use such as commuting to work, shopping or making local deliveries. The FUV weighs roughly 25% what a standard car weighs and has only about 33% of the footprint. Its smaller size also means it can maneuver into parking spaces more easily than most other vehicles.

FUVS FOR FIRST RESPONDERS

The factors potentially driving demand for an all-electric three-wheeled mini-vehicle for delivery solutions might also drive demand for such a vehicle for first responders, we believe. Last month, Arcimoto announced the Rapid Responder, a “three-wheeled vehicle designed for first responders to efficiently and more quickly reach emergencies, as well as for security and law enforcement applications.“

At the same time, the company also announced that it intends to test the Rapid Responder Fleet in pilot programs within its home market of Eugene, Oregon, specifically with the Eugene Springfield Fire Department, and with the city of Eastvale, California. The company expects to deliver the first production Rapid Responders in 2020.

There are over 800,000 police officers, 325,000 professional firefighters, and more than 240,000 emergency medical service (EMS) professionals in the U.S., according to 2016 Bureau of Labor statistics. These figures are also expected to increase. When traffic trends, growing urban congestion and the impact of their respective fleets on air quality are considered, this likely argues for improved mobility solutions, we believe. In fact, the company notes that “the pure-electric Rapid Responder aims to provide specialized emergency, security and law enforcement services at a fraction of the economical and ecological cost of traditional ICE vehicles.”

Moreover, the rising number of vehicles on roadways and increase in driver distraction, combined with high speeds at which first responder and other emergency vehicles generally operate pose serious challenges. “Motor vehicle crashes involving emergency vehicles, such as police cars, fire trucks, and ambulances, have been recognized as a serious problem nationwide,” according to research conducted at Perdue University.

Statistics from the National Highway Traffic Safety Administration (NHTSA) indicate that vehicle fatality rates for emergency responders are estimated to be up to 4.8 times higher than the national average. There are roughly 60,000 emergency vehicle collisions annually, according to online magazine Government Technology. Local governments are considering alternative ways to optimize their emergency fleets. In our view, the smaller and easier-to-maneuver Rapid Responder might be an attractive option to include, as new strategies develop.

RISKS

We believe risks include those outlined below, among others.

- Among the biggest risks, in our view, is that the FUV fails to achieve traction more slowly than the company expects, which leads to lower than anticipated sales.
- The new models noted above might not be successful.
- The company is under-capitalized and expects to incur costs associated with marketing, R&D and sales for new products and services it expects to launch.
- Arcimoto could fall behind schedule on its current production and go-to-market plan.
- The company faces potential regulatory risk. NHTSA is reviewing new safety regulations pertaining to three wheeled motor vehicles.
- The company faces litigation risk. Arcimoto was served with a class action lawsuit in March of 2018 with regard to the completion of its Reg A offering.

PROJECTED INCOME STATEMENT

Arcimoto Income Statement & Projections ($)

	1Q17	2Q17	3Q17E	4Q17E	2017A	1Q18A	2Q18A	3Q18A	4Q18E	2018E	2019E Range estimated	
Grant revenue	40,580				40,580							
Product sales - related party	-			42,000	42,000	625	282	-	-	907		
Product sales	-	-	-	44,436	44,436	31	85,050	5,793	7,000	97,874	27,300,000	75,000,000
Rentail revenue	-	-	-	-	-	-	-	-	-	-	1,237,500	2,400,000
Total revenues	40,580	-	-	86,436	127,016	656	85,332	5,793	7,000	98,781	28,537,500	77,400,000
Cost of goods sold	-	-	-	78,439	78,439	-	95,815	31,625	206,860	334,300	23,205,000	60,000,000
Gross profit	40,580	-	-	7,997	48,577	656	(10,483)	(25,832)	(199,860)	(235,519)	5,332,500	17,400,000
Research and development	268,104	263,797	469,493	450,000	1,451,394	1,047,799	363,652	779,367	806,645	2,997,463	3,147,336	3,147,336
Sales and marketing	84,995	150,358	292,588	300,000	827,941	355,515	418,162	385,738	439,741	1,599,156	1,839,030	1,839,030
General and administrative	186,961	160,158	416,516	300,000	1,063,635	642,147	1,400,018	2,054,062	2,111,155	6,207,382	6,916,738	6,916,738
Total operating expenses	540,060	574,313	1,178,597	1,050,000	3,342,970	2,045,461	2,181,832	3,219,167	3,357,541	10,804,001	11,903,103	11,903,103
Income /(loss) from operations	(499,480)	(574,313)	(1,178,597)	(1,042,003)	(3,294,393)	(2,044,805)	(2,192,315)	(3,244,999)	(3,557,401)	(11,039,520)	(6,570,603)	5,496,897
Interest expense	(10,493)	(10,857)	(7,883)	(7,883)	(34,143)	(3,601)	(16,921)	(36,984)	(37,724)	(95,230)	(109,514)	(109,514)
Other	12	48	4,399	4,399	13,209	334	40,137	35,857	36,574	112,902	114,031	114,031
Net income /(loss)	(509,961)	(585,122)	(1,182,081)	(1,045,487)	(3,315,327)	(2,048,072)	(2,169,099)	(3,246,126)	(3,558,550)	(11,021,847)	(6,566,086)	5,501,414
Per share data												
EPS/(LPS)	($0.04)	($0.05)	($0.08)	($0.07)	($0.24)	($0.13)	($0.14)	($0.20)	($0.22)	($0.70)	($0.41)	$0.35
Avg shares out	12,369,017	12,761,712	12,762,212	13,158,247	13,554,282	15,896,575	15,919,215	15,973,816	15,973,916	15,940,881	15,942,881	15,942,881

Source: Company reports and Zacks estimates

BALANCE SHEET AND CASH FLOW STATEMENT

Arcimoto Balance Sheet ($)

	2014	2015	2016	2017	Mar-18	Jun-18	Sep-18
Cash & equivalents	$25,609	$1,000,665	$414,405	$7,824,109	$1,425,288	$2,136,934	$2,371,903
Certificates of deposit			-	6,246,850	9,746,490	5,247,523	749,815
Accounts receivable	14,728	8,172	583	500	595	341	1,035
Inventory			26,825	194,525	616,559	1,290,548	1,907,553
Other current assets	-	26,612	28,207	401,160	666,201	1,034,668	1,617,990
Total current assets	40,337	1,035,449	470,020	14,667,144	12,455,133	9,710,014	6,648,296
Property and equipment, net	2,019	16,755	8,805	2,434,026	3,407,427	4,555,628	5,128,263
Other	-	-	40,000	-	-	38,844	38,844
Total assets	**$42,356**	**$1,052,204**	**$518,825**	**$17,101,170**	**$15,862,560**	**$14,304,486**	**$11,815,403**
Accounts payable		9,229	81,045	663,773	375,404	29,764	98,494
Accrued liabilities	71,751	61,219	102,776	255,758	254,628	470,949	627,240
Customer deposits	186,124	204,628	386,035	399,967	431,864	370,824	395,224
Other current debt	138,203	-	250,000	-	149,956	297,315	376,375
Total current liabilities	396,078	275,076	819,856	1,319,498	1,211,852	1,168,852	1,497,333
Long-term convertible notes payable			275,000	-			
Long-term convertible notes payable related party	25,000		50,000	-			
Capital lease obligations	-	-	-	-	774,254	1,376,478	1,572,320
Other	-	-	-	-	-	-	16,800
Total liabilities	**$421,078**	**$275,076**	**$1,144,856**	**$1,319,498**	**$1,986,106**	**$2,545,330**	**$3,086,453**
Total stockholders' equity (deficit)	**($378,722)**	**$777,128**	**$626,031**	**$15,781,672**	**$13,876,454**	**$11,759,156**	**$8,728,950**
Total liabilities & stockholder equity (deficit)	**$42,356**	**$1,052,204**	**$518,825**	**$17,101,170**	**$15,862,560**	**$14,304,486**	**$11,815,403**

Arcimoto Statement of Cash Flows ($)

	2014	2015	2016	2017	3-Mos Mar-18	6-Mos Jun-18	9-Mos Sep-18
Net loss	(680,933)	(1,349,292)	(1,919,479)	(3,315,327)	(2,048,072)	(4,217,171)	(7,463,296)
D&A	27,575	5,756	7,951	20,107	73,524	160,255	281,600
Gain / (loss) on asset sale	(400)	(16,000)	-		19,000	24,438	24,486
Stock-based compensation		57,177	48,375	203,734	113,596	165,397	381,316
Changes in working capital	(7,799)	166	243,948	(252,951)	(945,685)	(2,023,346)	(3,131,053)
Net cash used in operating activities	**($661,557)**	**($1,302,193)**	**($1,619,205)**	**($3,344,437)**	**($2,787,637)**	**($5,890,427)**	**($9,906,947)**
Purchases of CDs				(6,246,850)	(5,000,000)	(5,250,000)	(5,250,000)
Redemption of CDs					1,500,000	6,250,000	10,750,000
Proceeds from asset sales	400	16,000			250	250	250
Purchases of property & equipment	(21,091)	(20,491)	-	(1,960,438)	(65,271)	(709,243)	(878,109)
Other	-	-	-	-	-	(38,844)	(38,844)
Net cash used in investing activities	**($20,691)**	**($4,491)**	**$0**	**($8,207,288)**	**($3,565,021)**	**$252,163**	**$4,583,297**
Proceeds from sale of stock	265,011	2,419,943	467,945	20,372,271			
Proceeds from stock options exercise					29,259	29,259	29,259
Payment of offering costs			(10,000)	(1,285,842)			
Proceeds convertible notes related parties	50,000		50,000	175,000			
Proceeds from convertible notes payable			525,000	100,000			
Payment of capital lease obligations				-	(75,422)	(78,170)	(157,815)
Repayment of notes payable	-	(138,203)	-	(400,000)	-	-	
Net cash from financing activities	**$315,011**	**$2,281,740**	**$1,032,945**	**$18,961,429**	**($46,163)**	**($48,911)**	**($128,556)**
Net cash increase (decrease)	**($367,237)**	**$975,056**	**($586,260)**	**$7,409,704**	**($6,398,821)**	**($5,687,175)**	**($5,452,206)**

Source: Company reports

HISTORICAL STOCK PRICE

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