

Zacks Small-Cap Research

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Arcimoto, Inc.

(FUV-NASDAQ)

View Non-Refundable Deposit Pre-Orders Positively

Urban congestion is a growing problem globally. According to DOT, the increase in drivers has outpaced the increase in households and population dramatically over the past four decades. An all-electric mini-vehicle could provide a partial solution, in our view. Having identified a need, Arcimoto is executing a strategy to deliver a solution.

OUTLOOK

Rising congestion might spur demand for mini-vehicles. Arcimoto has received 100 non-refundable deposits of \$5,000 each from customers who have pre-ordered the \$19,900 FUV Evergreen Edition, according to the Portland Business Journal.

Current Price (4/11/19) \$4.49
Valuation \$5.50

SUMMARY DATA

52-Week High \$7.35
52-Week Low \$1.55
One-Year Return (%) 49.67
Beta NA
Average Daily Volume (sh) 373,229

Shares Outstanding (mil) 16
Market Capitalization (\$mil) \$78
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 2019 Estimate N/A
P/E using 2020 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	0.0A	0.1A
2019	1.0E	1.0E	1.0E	3.4E	6.4E
2020					25.2E

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	-0.24A	-0.70A
2019					-0.64E
2020					-0.45E

*2019 & 2020 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 strives to reduce construction time and increase production efficiency as it moves towards mass production for commercial sale of its compact green vehicles.
- Urban congestion is a growing problem around the world. According to the U.S. Department of Transportation, the increase in workers and drivers has outpaced the growth in households and population dramatically over the past four decades, which contributes to road congestion and pollution.
- An all-electric mini-vehicle could provide a partial solution, in our view. Having identified a need, Arcimoto is executing a strategy to deliver a solution. At this early stage there likely is skepticism about potential traction and timelines.
- Arcimoto has received 100 non-refundable deposits of \$5,000 each from customers who have pre-ordered the \$19,900 FUV Evergreen Edition, according to the Portland Business Journal.
- The company had \$4.9 million in cash and equivalents at December 31, 2018. Management expects this to provide liquidity through 4Q19.

2018 MILESTONES

Arcimoto reported fourth quarter and full year 2018 results recently. At this early stage, financial results are not a meaningful indicator of the potential opportunity, in our view. The company's products – the FUV (Fun Utility Vehicle), the Deliverator and the Rapid Responder vehicles – have not yet been produced at mass scale for commercial launch. Thus, Arcimoto is still largely pre-revenue. With only \$94,996 in annual revenue, the company's operating and net losses came in at (\$11,021,772) and (\$11,051,015), respectively. Arcimoto reported a loss per share of (\$0.70) compared to (\$0.24) in 2017. Given the company's revised production and launch timelines, we are revising our revenue forecasts.

The company targets achieving a build rate of at least 5,000 units per annum by the end of 2020. The company had \$4.9 million in cash and equivalents at December 31, 2018 to support its plan. Management expects this to provide liquidity through 4Q19, although we would not be surprised if the company raised funds in advance depending on market conditions. At the same time, management also strives to drive down production costs, while simultaneously reducing construction time and increasing production efficiency as the company moves towards mass scale production for retail sales. Moreover, a positive metric is that Arcimoto has received non-refundable deposits of \$5,000 each from 100 customers who have pre-ordered the \$19,900 FUV Evergreen Edition, according to the Portland Business Journal. As noted, the initial Evergreens will be allocated to customers on the west coast.

Recent achievements as the company moves closer to commercial launch include:

- Arcimoto introduced the Evergreen edition flagship FUV, which it hopes to have available this summer to satisfy west coast-based pre-orders
- The company recently introduced the Rapid Responder, which targets the emergency services and law enforcement markets
- Arcimoto announced the Deliverator
- The company's preorders reached 3,883 by the end of 1Q19 from 3,217 at 4Q18
- Arcimoto completed its pilot assembly line at its Eugene, Oregon manufacturing facility

COMPACT VEHICLES COMBAT GROWING URBAN CONGESTION

Urban congestion is a growing problem for many U.S. cities. According to the U.S. Department of Transportation, the increase in workers and drivers has outpaced the increase in households and population dramatically over the past four decades, which has contributed to greater highway and road congestion, as well as pollution.

Vehicle occupancy rates have been on the decline, which is one factor behind the growing congestion. According to the 2009 National Household Travel Survey conducted by the Federal Highway Administration of the US Department of Transportation, the average vehicle occupancy across all types of trips was 1.67, down from 1.90 in 1977. The average vehicle occupancy in the commute to work segment was lowest at 1.13. This statistic is supported by findings from a 2013 American Community Survey that 76.4% of Americans drive to work alone. Overall, the number of vehicles on the road has increased dramatically, as illustrated below.

NUMBER OF VEHICLES ON THE ROAD

In millions:

Age 16-24 years



25 years or older



1 – Based on first-quarter snapshot for new and used buyers

SOURCE: IHS Automotive

At the same time, 91% of [commuters](#) rely on personal vehicles instead of public transportation, according to the US Department of Transportation. Moreover, e-commerce is also driving an increase in the number of delivery vehicles on the road, as vendors deliver products directly to consumer homes. 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 increasing number of cars, 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...”

INRIX Research, a leading transportation-focused analytics firm, recently released its 2018 [annual rankings](#) of the nation’s most congested cities based on delays. Among the many urban centers experiencing growing congestion, Los Angeles and New York rank at the top.

Nation's 15 Most Congested Cities

	<u>Hours in Traffic*</u>	<u>Cost of Congestion</u>	
		<u>Per Driver</u>	<u>Per City (\$B)</u>
Boston, MA	164	\$2,291	\$4.10
Washington, DC	155	\$2,161	\$4.60
Seattle, WA	138	\$1,932	\$2.90
Chicago, IL	138	\$1,920	\$6.20
New York City, NY	133	\$1,859	\$9.50
Los Angeles, CA	128	\$1,788	\$9.30
Pittsburgh, PA	127	\$1,776	\$1.20
Portland, OR	116	\$1,625	\$1.40
San Francisco, CA	116	\$1,624	\$3.40
Philadelphia, PA	112	\$1,568	\$3.30
Atlanta, GA	108	\$1,505	\$3.50
Miami, FL	105	\$1,470	\$4.00
Austin, TX	104	\$1,452	\$1.20
Houston, TX	98	\$1,365	\$3.80
Baltimore, MD	94	\$1,315	\$1.30

Source: INRIX Research

*Per capita

The factors noted above contribute to both congestion and pollution, as noted. An all-electric mini-vehicle could provide a partial solution, in our view. Arcimoto 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.

Arcimoto's Deliverator, with more storage space than the standard FUV, might prove an economic and efficient alternative to delivery vans and trucks that is easier to maneuver and park. The Rapid Responder might also prove useful in the fleet, as law enforcement and emergency services analyze ways to improve their response times and mobility solutions, we believe.

Having identified a need, Arcimoto is executing a strategy to deliver a solution. At this early stage, however, there likely is skepticism about potential traction and timelines. Nevertheless, we believe Arcimoto shares represent an option on management's ability to execute in a cost effective way and capitalize on the potential adoption of compact green vehicles. For investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon until the outlook becomes clearer, the risk / reward ratio could be attractive, in our view.

On our revised 2019 forecasts, the shares appear expensive at over 6x revenue. However, if the company can attain production of 5,000 vehicles and revenue of roughly \$100 million in 2020, per the Portland Business Journal, the shares represent a multiple of only 0.8x and our \$5.50 price target would equate to 1.0x revenue. On our more conservative 2020 forecasts, our \$5.50 price target represents a multiple of 2.2x to 3.8x.

RISKS

We believe risks include those outlined below, among others.

- Among the biggest risks, in our view, is that the FUV achieves traction more slowly than the company expects, which leads to lower than anticipated sales.
- New models such as the Deliverator and the Rapid Responder 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. It likely will need to raise funds, which might not be easy.
- 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.

PROJECTED INCOME STATEMENT

Arcimoto Income Statement & Projections (\$)

	2017A	1Q18A	2Q18A	3Q18A	4Q18	2018A	2019E Range estimated		2020E Range estimated	
Grant revenue	40,580									
Product sales - related party	42,000	625	282	-	-					
Product sales	44,436	31	85,050	5,793		84,000	5,200,000	9,950,000	24,000,000	40,000,000
Rentail revenue	-	-	-	-	-	10,996	1,237,500	2,400,000	1,237,500	2,400,000
Total revenues	127,016	656	85,332	5,793	3,215	94,996	6,437,500	12,350,000	25,237,500	42,400,000
Cost of goods sold	78,439	-	95,815	31,625	91	127,531	4,420,000	7,960,000	19,200,000	31,200,000
Gross profit	48,577	656	(10,483)	(25,832)	3,124	(32,535)	2,017,500	4,390,000	6,037,500	11,200,000
Research and development	1,451,394	1,047,799	363,652	779,367	1,624,026	3,814,844	4,005,586	4,005,586	4,205,866	4,205,866
Sales and marketing	827,941	355,515	418,162	385,738	410,473	1,569,888	1,805,371	1,805,371	2,076,177	2,076,177
General and administrative	1,063,635	642,147	1,400,018	2,054,062	1,508,278	5,604,505	6,244,967	6,244,967	6,958,618	6,958,618
Total operating expenses	3,342,970	2,045,461	2,181,832	3,219,167	3,542,777	10,989,237	12,055,924	12,055,924	13,240,660	13,240,660
Income /(loss) from operations:	(3,294,393)	(2,044,805)	(2,192,315)	(3,244,999)	(3,539,653)	(11,021,772)	(10,038,424)	(7,665,924)	(7,203,160)	(2,040,660)
Interest expense	(34,143)	(3,601)	(16,921)	(36,984)	(43,440)	(100,946)	(116,088)	(116,088)	(133,501)	(133,501)
Other	13,209	334	40,137	35,857	(4,625)	71,703	72,420	72,420	73,144	73,144
Net income /(loss)	(3,315,327)	(2,048,072)	(2,169,099)	(3,246,126)	(3,587,718)	(11,051,015)	(10,082,092)	(7,709,592)	(7,263,517)	(2,101,017)
<i>Per share data</i>										
EPS/(LPS)	(\$0.24)	(\$0.13)	(\$0.14)	(\$0.20)	(\$0.23)	(\$0.70)	(\$0.64)	(\$0.49)	(\$0.45)	(\$0.13)
Avg shares out	13,554,282	15,896,575	15,919,215	15,973,816	15,864,267	15,754,718	15,774,718	15,774,718	15,974,718	15,974,718
<i>Metrics</i>										
Vehicle sales				22	1	27	400	500	1,200	2,000
ARPU				13,400	5,000	17,146	13,000	19,900	20,000	20,000

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	Dec-18
Cash & equivalents	\$25,609	\$1,000,665	\$414,405	\$7,824,109	\$1,425,288	\$2,136,934	\$2,371,903	\$4,903,019
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	1,703,573
Other current assets	-	26,612	28,207	401,160	666,201	1,034,668	1,617,990	1,626,644
Total current assets	40,337	1,035,449	470,020	14,667,144	12,455,133	9,710,014	6,648,296	8,233,236
Property and equipment, net	2,019	16,755	8,805	2,434,026	3,407,427	4,555,628	5,128,263	5,809,774
Other	-	-	40,000	-	-	38,844	38,844	41,988
Total assets	\$42,356	\$1,052,204	\$518,825	\$17,101,170	\$15,862,560	\$14,304,486	\$11,815,403	\$14,084,998
Accounts payable	-	9,229	81,045	663,773	375,404	29,764	98,494	717,151
Accrued liabilities	71,751	61,219	102,776	255,758	254,628	470,949	627,240	246,418
Customer deposits	186,124	204,628	386,035	399,967	431,864	370,824	395,224	454,624
Note payable	-	-	-	-	-	-	-	2,677,076
Other current debt	138,203	-	250,000	-	149,956	297,315	376,375	383,800
Total current liabilities	396,078	275,076	819,856	1,319,498	1,211,852	1,168,852	1,497,333	4,479,069
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	1,513,595
Other	-	-	-	-	-	-	16,800	25,200
Total liabilities	\$421,078	\$275,076	\$1,144,856	\$1,319,498	\$1,986,106	\$2,545,330	\$3,086,453	\$6,017,864
Total stockholders' equity (deficit)	(\$378,722)	\$777,128	\$626,031	\$15,781,672	\$13,876,454	\$11,759,156	\$8,728,950	\$8,067,134
Total liabilities & stockholder equity (deficit)	\$42,356	\$1,052,204	\$518,825	\$17,101,170	\$15,862,560	\$14,304,486	\$11,815,403	\$14,084,998

Arcimoto Statement of Cash Flows (\$)

	2014	2015	2016	2017	3-Mos Mar-18	6-Mos Jun-18	9-Mos Sep-18	2018
Net loss	(680,933)	(1,349,292)	(1,919,479)	(3,315,327)	(2,048,072)	(4,217,171)	(7,463,296)	(11,051,015)
D&A	27,575	5,756	7,951	20,107	73,524	160,255	281,600	454,494
Gain / (loss) on asset sale	(400)	(16,000)	-	-	19,000	24,438	24,486	39,020
Stock-based compensation	-	57,177	48,375	203,734	113,596	165,397	381,316	495,605
Changes in working capital	(7,799)	166	243,948	(252,951)	(945,685)	(2,023,346)	(3,131,053)	(2,610,137)
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)	(\$12,672,033)
Purchases of CDs	-	-	-	(6,246,850)	(5,000,000)	(5,250,000)	(5,250,000)	(5,250,000)
Redemption of CDs	-	-	-	-	1,500,000	6,250,000	10,750,000	11,496,850
Proceeds from asset sales	400	16,000	-	-	250	250	250	(1,717,038)
Purchases of property & equipment	(21,091)	(20,491)	-	(1,960,438)	(65,271)	(709,243)	(878,109)	250
Other	-	-	-	-	-	(38,844)	(38,844)	(41,988)
Net cash used in investing activities	(\$20,691)	(\$4,491)	\$0	(\$8,207,288)	(\$3,565,021)	\$252,163	\$4,583,297	\$4,488,074
Proceeds from sale of stock	265,011	2,419,943	467,945	20,372,271	-	-	-	3,014,700
Proceeds from stock options exercise	-	-	-	-	29,259	29,259	29,259	29,259
Payment of offering costs	-	-	(10,000)	(1,285,842)	-	-	-	(526,011)
Proceeds convertible notes related parties	50,000	-	50,000	175,000	-	-	-	-
Proceeds from convertible notes payable	-	-	525,000	100,000	-	-	-	3,000,000
Payment of capital lease obligations	-	-	-	-	(75,422)	(78,170)	(157,815)	(255,079)
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)	\$5,262,869
Net cash increase (decrease)	(\$367,237)	\$975,056	(\$586,260)	\$7,409,704	(\$6,398,821)	(\$5,687,175)	(\$5,452,206)	(\$2,921,090)

Source: Company reports

HISTORICAL STOCK PRICE



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