

Action Summary – 12 April 2024

Analyst Theodore R. O'Neill - ECDA makes acquisition of new product line - reiterate our Buy rating and an \$8 price target.

- **Execution of strategic plan of acquisition by adding Mustang production.** On April 3, ECDA entered into an Asset Purchase Agreement with Brand New Muscle Cars, BNMC Continuation Cars LLC in exchange for \$1.5 million in stock. The acquisition of the product line, the IP, inventory, and the supply chain details follows its already successful business model.
- **Adds meaningfully to revenue and fills up factory.** The acquisition of the business of building restomod Mustangs is something the CEO talked about on its first investor day, March 7. He was convinced that the Mustang was a no brainer for them given the enormous volume of Google searches looking for 1960s vintage Mustangs. It also fills up capacity at its main plant, which was already designated for new products.
- **Gives us added confidence in our 2024 and 2025 estimates.** The addition of a plug-and-play product line with similar ASPs in its existing factory will add to revenue and improve margins as it improves factory overhead absorption. The acquisition comes with several cars in various stages of build and the CEO of the acquired firm is incentivized to stay involved.
- **Attractive valuation.** The shares currently sell at a discount to our earnings-based price target and at a discount to peers as a multiple of sales.

4/11 Closing price: \$1.39 USD	Market cap: \$47 million	2025E Market Cap/Sales: 0.82x	EV/2025E Sales: 0.43x
Diluted shares outstanding: 34 million	Insider ownership: 86%	3-mo avg. daily trading volume: >100,000	Dividend 2024 /Yield: 0/0%

(Revenue in USD millions and Adjusted EPS in dollars)

Period	Revenue	EPS	Build Gross Profit
2022A	\$14.99	\$0.02	25%
2023E	\$21.50	\$0.04	34%
2024E	\$32.73	\$0.04	37%
2025E	\$46.97	\$0.16	38%

Note: Numbers may not be added due to rounding or change in share count. See our full model at the back of this report.

Cash balance (in USD millions)

• 2022A	• \$3.5
• 2023E	• \$7.5
• 2024E	• \$9.1
• 2025E	• \$12.6

Convertible debt (in USD millions)

• 2022A	• \$0.5
• 2023E	• \$15.8
• 2024E	• \$15.8
• 2025E	• \$15.8

Risks/Valuation

- Risks: Competition in its markets, evolving regulatory environment, changes in demand and supply for classic vehicles
- Our \$8 price target is derived from our discounted future earnings model.

Company description: ECD is a creator of restored luxury vehicles that combine classic English beauty with modern performance. Each vehicle produced by ECD is fully bespoke, a one-off that is designed by the client through an immersive luxury design experience and hand-built from the ground up in 2,200 hours by master-certified ASE craftsmen. Global headquarters is a 100,000-ft² facility located in Kissimmee, Florida, that is home to 90 talented craftsmen and technicians.

Figure 1 – ECD Automotive Design, Inc. – Trading snapshot from inception Dec 13, 2023



Source: FactSet

Acquisition Impact

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Fits perfectly with the existing business. The production of restomod cars involves taking classic cars and updating the drivetrain, electronics, interior and paint. It makes little difference what the car body or frame looks like. ECDA has

the technical background, knowledge, and supply chain in place to take on new product lines with only the manufacturing space the main constraint.

Valuation and Price Target

Valuation Methodology

We believe ECDA is undervalued, and we support that belief with two valuation techniques. To determine our price target, we use a discounted future earnings model, and we support that with a comparable valuation to peers.

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$8 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 10%. We assume the company remains GAAP EPS profitable in 2024 and earnings growth ramps up for another 10 years until growth eventually slows to GDP. Our valuation model is shown in Figure 2 below. Note, this model understates future new services and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$8.18, which we round to \$8.00.

Figure 2 – ECD Design Automotive, Inc. – Price Target Calculation

Discounted Future Earnings:		\$8.18
Year	EPS	Discounted EPS
2024	0.04	0.04
2025	0.16	0.15
2026	0.25	0.21
2027	0.35	0.26
2028	0.45	0.31
2029	0.60	0.37
2030	0.65	0.37
2031	0.72	0.37
2032	0.85	0.40
2033	0.88	0.37
2034	0.90	0.35
Terminal Value:		5.33

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 3 summarizes our ECDA peer comparison. We use a comparable group of high-end autos and finished goods catering to the same market as ECD's customers. Comparing ECD's 2025 multiples to the averages shows the shares sell at a 80% discount to 2025 market cap/sales and a 90% discount to EV/Sales. Were the shares to trade to our price target of \$8, they would be selling at a premium to the average, but nowhere near the high end of the range. We would argue that the shares should sell at a premium because the margins and sales growth will also be at the high end of comparables. This and our discounted future earnings model confirm our view that the shares are undervalued.

Figure 3 – ECD Automotive Design, Inc. – Valuation of Peers

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2025 Consensus Multiples	
					Market Cap / Sales	EV /Sales
TSLA-US	Tesla Inc	\$171.76	547,020	585,572	4.42	4.68
RACE-IT	Ferrari N.V. (IT Listing)	\$420.03	108,056	77,183	14.32	10.29
P911-DE	Porsche AG	\$102.09	92,547	98,281	1.98	2.04
MBG-DE	Mercedes-Benz Group AG (DE Listing)	\$81.73	87,434	165,297	0.52	1.09
BMW-DE	Bayerische Motoren Werke AG (BMW) (Ordinary)	\$119.90	75,994	134,818	0.44	0.91
AML-GB	Aston Martin Lagonda Global Holdings plc	\$2.07	1,702	2,694	<u>0.64</u>	<u>0.96</u>
AVERAGE					3.72	3.33
MC-FR	LVMH Moet Hennessy Louis Vuitton SE (Ordinary)	\$852.75	427,571	439,992	4.07	4.36
RMS-FR	Hermes International SCA (FR Listing)	\$2,452.87	258,948	246,295	14.48	13.87
CFR-CH	Compagnie Financiere Richemont SA (CH Listing)	\$146.34	86,310	82,302	3.43	
KER-FR	Kering (FR Listing)	\$383.85	47,375	55,528	2.10	2.78
MONC-IT	Moncler	\$69.45	19,084	18,528	5.03	5.04
BRBY-GB	Burberry Group Plc (GB Listing)	\$15.07	5,402	5,109	1.35	1.71
SFER-IT	Salvatore Ferragamo S.p.A.	\$10.97	1,851	1,556	1.38	1.12
LANV-US	Lanvin Group Holdings Limited	\$1.59	231	299		
AVERAGE					4.55	4.82
COMBINED AVERAGE					<u>4.13</u>	<u>4.07</u>
ECDA-US	ECD Automotive Design, Inc.	\$1.11	38	20	0.82	0.43
ECDA-US Premium/(Discount) to peers:					-80%	-90%

Source: Litchfield Hills Research LLC and FactSet

Figure 4 – ECD Automotive Design, Inc. – Income Statement (\$000)

December ending year	2022A Year	2023E Year	2024E Year	2025E Year
Total Revenue	\$14,990	\$21,500	\$32,725	\$46,970
YoY growth	NA	43%	52%	44%
Materials, shipping, warranty	8,994	11,073	16,320	23,485
Line labor	<u>2,223</u>	<u>3,100</u>	<u>4,200</u>	<u>5,800</u>
	3,773	7,328	12,205	17,685
Build gross profit	25%	34%	37%	38%
Operating expenses				
Professional fees	323	700	2,000	2,000
Other operating expense	<u>4,240</u>	<u>10,000</u>	<u>8,400</u>	<u>8,800</u>
Total Operating Expenses	<u>4,563</u>	<u>10,700</u>	<u>10,400</u>	<u>10,800</u>
Operating Income	(790)	(3,373)	1,805	6,885
Tax expense/(benefit)	\$206	\$563	\$325	\$1,239
Net income	<u>(\$996)</u>	<u>(\$3,936)</u>	<u>\$1,480</u>	<u>\$5,646</u>
Merger related accounting adjustments	<u>(\$1,737)</u>	<u>(\$5,370)</u>	\$0	\$0
ECD net income excl. transaction costs	<u>\$741</u>	<u>\$1,435</u>	<u>\$1,480</u>	<u>\$5,646</u>
EPS adjusted for merger related costs	\$0.02	\$0.04	\$0.04	\$0.16
GAAP EPS	(\$0.03)	(\$0.12)	\$0.04	\$0.16
Diluted Shares Outstanding	31,875	34,000	34,500	35,300

Source: Company reports and Litchfield Hills Research LLC

Figure 5 – ECD Automotive Design, Inc. – Balance Sheet (\$000)

December ending year	FY2025E	FY2024E	FY2023E	FY2022A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$12,584	\$9,088	\$7,478	\$3,515
Accounts receivable	7,000	4,000	2,900	503
Inventories	6,000	5,000	4,000	3,054
Other assets	<u>500</u>	<u>250</u>	<u>100</u>	<u>278</u>
Total Current Assets	26,084	18,338	14,478	7,351
Net PP&E	1,200	900	510	571
Right-to-use asset	4,400	4,400	4,400	4,444
Other non-current	<u>200</u>	<u>100</u>	<u>70</u>	<u>76</u>
Total Assets	<u>\$31,884</u>	<u>\$23,738</u>	<u>\$19,458</u>	<u>\$12,441</u>
Current Liabilities				
Credit line	\$0	\$0	\$0	\$0
Accounts payable and accrued exp.	2,500	2,000	1,300	605
Customer deposits	13,000	11,000	8,900	9,494
Other current liabilities	<u>2,400</u>	<u>2,400</u>	<u>2,400</u>	<u>610</u>
Total current liabilities	17,900	15,400	12,600	10,708
Convertible note and Credit Line	15,800	15,800	15,800	500
Lease liability - non-current	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,239</u>
Total Liabilities	37,700	35,200	32,400	15,447
Stockholders' Equity				
Preferred stock	0	0	0	0
Common stock	0	0	0	1
Additional paid-in-capital	2	2	2	2
Retained earnings	(5,818)	(11,464)	(12,944)	(3,009)
Cum. trans. adj. and treasury stock	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total stockholders' equity	<u>(5,816)</u>	<u>(11,462)</u>	<u>(12,942)</u>	<u>(3,005)</u>
Total Liabilities and equity	<u>\$31,884</u>	<u>\$23,738</u>	<u>\$19,458</u>	<u>\$12,441</u>

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – ECD Automotive Design, Inc. – Cash Flow (\$000)

	<u>FY25E</u>	<u>FY24E</u>	<u>FY23E</u>
Net Income	\$5,646	\$1,480	(\$3,936)
Receivables	(\$3,000)	(\$1,100)	(\$2,397)
Inventories	(\$1,000)	(\$1,000)	(\$946)
Other assets	(\$250)	(\$150)	\$178
Net PP&E	(\$300)	(\$390)	\$61
Right-to-use asset	\$0	\$0	\$44
Other non-current	(\$100)	(\$30)	\$6
Credit line	\$0	\$0	\$0
Accounts payable and accrued exp.	\$500	\$700	\$695
Customer deposits	\$2,000	\$2,100	(\$594)
Lease obligations and other	\$0	\$0	\$1,790
Convertible note and Credit Line	\$0	\$0	\$15,300
Lease liability - non-current	\$0	\$0	(\$239)
Preferred stock	\$0	\$0	\$0
Common stock	\$0	\$0	(\$1)
Additional paid-in-capital	\$0	\$0	\$0
Accum. Other Comprehensive loss	\$0	\$0	\$0
Dividends and transition adjustments			(\$6,000)
Total Cash Flow	<u>\$3,496</u>	<u>\$1,610</u>	<u>\$3,963</u>

Source: Litchfield Hills Research LLC

Disclosures:

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ECD Automotive Design, Inc.

ECDA-US - Buy \$8 PT

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