

Action Summary – 1 June 2024

Analyst Theodore R. O'Neill – Updating estimates using recently restated results - reiterate our Buy rating and an \$8 price target.

- **Solid growth remains in our forecast.** On April 13, ECDA announced that its auditors would prefer it if it took a more conservative view of revenue accounting, deferring revenue recognition until title is transferred to its customers. This would make sense if ECDA didn't receive substantial progress payments or was dealing with undercapitalized customers or both, but it isn't the way the business works. The new process impacts the timing of revenue, obviously, as well as AR, COGS, and inventory. Adjusting to the new methodology still results in 40% to 50%+ revenue growth, closely matching our previous estimates. Profitability stretches out a couple of quarters due to later recognition of revenue.
- **Holding Mustang Drive Event and gaining market share.** On April 3, ECDA entered into an Asset Purchase Agreement with Brand New Muscle Cars, BNMC Continuation Cars LLC, a builder of restomod Mustangs. It has added this new product line to its existing manufacturing space. It is holding a kickoff event for this new product line June 10-14 at its plant in Kissimmee. We understand this weeklong event is maxed out.
- **Updating estimates.** Due to the change in accounting, our new estimates are not directly comparable to our old estimates, but the growth rates and margins are very similar.
- **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.

5/31 Closing price: \$1.13 USD	Market cap: \$36 million	2025E Market Cap/Sales: 1.10x	EV/2025E Sales: 0.60x
Diluted shares outstanding: 32 million	Insider ownership: 92%	3-mo avg. daily trading volume: >100,000	Dividend 2024 /Yield: 0/0%

(Revenue in USD millions and GAAP EPS in dollars)

Period	Revenue	EPS	Gross Profit
2022A	\$12.34	(\$0.02)	14%
2023A	\$15.12	(\$0.06)	28%
2024E	\$23.24	\$0.02	30%
2025E	\$33.35	\$0.20	35%

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
• 2023A	• \$8.1
• 2024E	• \$8.3
• 2025E	• \$16.2

Convertible debt (in USD millions)

• 2022A	• \$0.5
• 2023A	• \$10.7
• 2024E	• \$10.0
• 2025E	• \$10.0

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, home to >100 talented craftsmen and technicians.

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



Source: FactSet

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 reaches GAAP EPS profitable in 2025 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 \$8.15, which we round to \$8.00.

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

Discounted Future Earnings: \$8.15		
Year	EPS	Discounted EPS
2024	(0.02)	(0.02)
2025	0.20	0.19
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 ECDs customers. Comparing ECD's 2025 multiples to the averages shows the shares sell at an 72% discount to 2025 market cap/sales and an 84% 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	\$178.79	570,196	614,456	4.79	5.09
RACE-IT	Ferrari N.V. (IT Listing)	\$408.49	105,093	74,947	13.80	9.89
P911-DE	Porsche AG	\$81.37	73,763	81,341	1.58	1.64
MBG-DE	Mercedes-Benz Group AG (DE Listing)	\$71.47	76,466	151,512	0.45	0.99
BMW-DE	Bayerische Motoren Werke AG (BMW) (Ordinary)	\$100.39	63,851	124,192	0.37	0.87
AML-GB	Aston Martin Lagonda Global Holdings plc	\$1.77	1,457	2,546	<u>0.60</u>	<u>0.93</u>
	AVERAGE				3.60	3.24
MC-FR	LVMH Moet Hennessy Louis Vuitton SE (Ordinary)	\$796.16	398,194	410,744	3.80	4.10
RMS-FR	Hermes International SCA (FR Listing)	\$2,353.58	248,466	235,769	13.50	12.90
CFR-CH	Compagnie Financiere Richemont SA (CH Listing)	\$157.95	93,404	87,224	3.74	
KER-FR	Kering (FR Listing)	\$347.56	42,896	51,121	1.95	2.66
MONC-IT	Moncler	\$66.33	18,227	17,110	4.73	4.61
BRBY-GB	Burberry Group Plc (GB Listing)	\$13.43	4,815	4,770	1.24	1.64
SFER-IT	Salvatore Ferragamo S.p.A.	\$10.16	1,715	1,423	1.37	1.02
LANV-US	Lanvin Group Holdings Limited	\$1.60	232	292		
	AVERAGE				4.33	4.49
	COMBINED AVERAGE				<u>3.97</u>	<u>3.86</u>
ECDA-US	ECD Automotive Design, Inc.	\$1.15	37	20	1.10	0.60
ECDA-US Premium/(Discount) to peers:					-72%	-84%

Source: Litchfield Hills Research LLC and FactSet

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

December ending year	2022A Year	2023A Year	2024E Year	2025E Year
Total Revenue	\$12,344	\$15,124	\$23,235	\$33,349
YoY growth	NA	23%	54%	44%
Total cost of revenue	10,649	10,874	16,264	21,677
Gross profit	1,695	4,249	6,970	11,672
Gross profit %	14%	28%	30%	35%
Operating expenses:				
Sales and marketing	299	488	1,000	1,100
G&A	3,285	5,240	6,000	6,400
Depreciation and amortization	72	157	400	500
Total Operating Expenses	3,657	5,885	7,400	8,000
Operating income	(1,962)	(1,636)	(430)	3,672
Operating income %	-16%	-11%	-2%	11%
EBITDA	(1,890)	(1,479)	(30)	4,172
Total other income/(expense)	503	(482)	(400)	3,672
Earnings before taxes	(1,459)	(2,117)	(830)	7,344
Tax expense/(benefit)	0	(515)	(149)	589
Net income	(\$1,459)	(\$1,602)	(\$680)	\$6,755
GAAP EPS	(\$0.06)	(\$0.06)	(\$0.02)	\$0.20
Diluted Shares Outstanding	24,000	24,876	32,300	33,100

Source: Company reports and Litchfield Hills Research LLC

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

December ending year	FY2025E	FY2024E	FY2023A	FY2022A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$16,155	\$8,300	\$8,134	\$3,515
Accounts receivable	100	100	0	210
Inventories	20,000	15,000	11,799	6,066
Other assets	<u>100</u>	<u>100</u>	<u>34</u>	<u>68</u>
Total Current Assets	36,355	23,500	19,968	9,859
Net PP&E	1,400	1,200	969	571
Right-to-use asset	4,000	4,000	3,763	3,897
Other non-current	<u>700</u>	<u>600</u>	<u>593</u>	<u>76</u>
Total Assets	<u>\$42,455</u>	<u>\$29,300</u>	<u>\$25,293</u>	<u>\$14,402</u>
Current Liabilities				
Accounts payable	\$1,200	\$1,000	\$769	\$487
Accrued expenses	1,200	1,000	687	193
Deferred revenue	28,000	22,000	17,597	14,166
Other current liabilities	<u>2,000</u>	<u>2,000</u>	<u>1,849</u>	<u>565</u>
Total current liabilities	32,400	26,000	20,901	15,412
Convertible note and Credit Line	10,000	10,000	10,683	500
Lease liability - non-current	<u>4,000</u>	<u>4,000</u>	<u>3,727</u>	<u>3,890</u>
Total Liabilities	46,400	40,000	35,312	19,801
Stockholders' Equity				
Preferred stock	0	0	0	0
Common stock	0	0	3	2
Additional paid-in-capital	2	2	0	2
Retained earnings	(3,947)	(10,702)	(10,022)	(5,404)
Cum. trans. adj. and treasury stock	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total stockholders' equity	<u>(3,945)</u>	<u>(10,700)</u>	<u>(10,019)</u>	<u>(5,399)</u>
Total Liabilities and equity	<u>\$42,455</u>	<u>\$29,300</u>	<u>\$25,293</u>	<u>\$14,402</u>

Source: Company reports and Litchfield Hills Research LLC

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

	FY25E	FY24E	FY23A
Net Income	\$6,755	(\$680)	(\$1,602)
Receivables	\$0	(\$100)	\$210
Inventories	(\$5,000)	(\$3,201)	(\$5,734)
Other assets	\$0	(\$66)	\$34
Net PP&E	(\$200)	(\$231)	(\$398)
Right-to-use asset	\$0	(\$237)	\$133
Other non-current	(\$100)	(\$7)	(\$517)
Accounts payable	\$200	\$231	\$282
Accrued expenses	\$200	\$313	\$494
Deferred revenue	\$6,000	\$4,403	\$3,430
Lease obligations and other	\$0	\$151	\$1,283
Convertible note and Credit Line	\$0	(\$683)	\$10,183
Lease liability - non-current	\$0	\$273	(\$162)
Preferred stock	\$0	(\$0)	\$0
Common stock	\$0	(\$3)	\$1
Additional paid-in-capital	\$0	\$2	(\$2)
Accum. Other Comprehensive loss	\$0	\$0	\$0
Dividends and transition adjustments			(\$3,016)
Total Cash Flow	\$7,855	\$166	\$4,619

Source: Litchfield Hills Research LLC

Disclosures:

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ECD Automotive Design, Inc.

ECDA-US - Buy \$8 PT

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