

Action Summary – 18 June 2024

Analyst Theodore R. O'Neill – Mustang launch and upward revision to estimates - reiterate our Buy rating and an \$8 price target.

- **Bullish outlook following plant tour to integrate the new Mustang product line.** The company hosted investors to see its new Mustang product line and update us on how the line will offer improvements over its legacy business. First, the popularity of the 1960s era Mustangs is unrivaled in the U.S. According to Hagerty, the #1 and #2 most popular cars are the 1965 and 1967 Ford Mustangs. On the manufacturing front, unlike the legacy Land Rover business, where the vehicles are sourced in the U.K. and shipped here, the Mustangs are sourced in the US, and that means the time from order to revenue is much shorter. Second, the bodies are made by license in the U.S. and this means that for most orders, there won't be any added time to restore a 25+ year old car body and frame. While we expect the remainder of 2024 to be used to get the Mustang assembly line, it should add significantly to 2025 revenue.
- **Also added a new product the FJ.** The Toyota FJ has been added to the product line through a licensing agreement, which will also add meaningfully to 2025 revenue.
- **Updating estimates.** We spent time with the CFO going over the previously announced financial restatement and our first pass at the estimates overstated the impact. While the restatement cut 2022 reported revenues by ~30%, our assumption on cutting all our estimates similarly into the future was wrong. If the company didn't change the way it manages to achieve revenue, then 30% would be about right, but that isn't what is happening. The company will now manage the business to make sure that what it needs to record revenue, title transfer to the owner, will be a top priority. In either case, none of this changes the fact that demand continues to grow. Our 2024 revenue and EPS estimates are now \$32.2MM and \$0.05, up from \$23.4MM and \$0.02, respectively. For 2025, our revenue and EPS estimates are now \$48.8MM and \$0.22, up from \$33.5MM and \$0.20, respectively.
- **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.

6/17 Closing price: \$1.00 USD	Market cap: \$31 million	2025E Market Cap/Sales: 0.63x	EV/2025E Sales: 0.41x
Diluted shares outstanding: 32 million	Insider ownership: 91%	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	\$32.20	\$0.05	30%
2025E	\$48.81	\$0.22	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	• \$10.5
• 2025E	• \$18.7

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 12%. We assume the company reaches 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 \$8.33, which we round to \$8.00.

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

Discounted Future Earnings: \$8.33		
Year	EPS	Discounted EPS
2024	0.05	0.05
2025	0.22	0.19
2026	0.35	0.28
2027	0.50	0.36
2028	0.65	0.41
2029	0.75	0.43
2030	1.00	0.51
2031	1.05	0.47
2032	1.13	0.46
2033	1.16	0.42
2034	1.20	0.39
Terminal Value:		4.76

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 84% discount to 2025 market cap/sales and an 89% 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	\$178.01	567,709	611,615	5.12	5.46
RACE-IT	Ferrari N.V. (IT Listing)	\$405.80	104,402	74,446	14.13	10.12
MBG-DE	Mercedes-Benz Group AG (DE Listing)	\$67.55	72,262	146,245	0.44	0.98
P911-DE	Porsche AG	\$75.48	68,417	75,887	1.46	1.52
BMW-DE	Bayerische Motoren Werke AG (BMW) (Ordinary)	\$92.87	58,974	118,461	0.35	0.85
AML-GB	Aston Martin Lagonda Global Holdings plc	\$1.86	1,531	2,616	<u>0.57</u>	<u>0.91</u>
	AVERAGE				3.68	3.31
MC-FR	LVMH Moet Hennessy Louis Vuitton SE (Ordinary)	\$760.31	380,262	392,645	3.73	4.03
RMS-FR	Hermes International SCA (FR Listing)	\$2,257.20	238,291	225,806	13.27	12.67
CFR-CH	Compagnie Financiere Richemont SA (CH Listing)	\$161.55	95,530	89,278	3.82	
KER-FR	Kering (FR Listing)	\$323.30	39,902	48,013	1.87	2.58
MONC-IT	Moncler	\$62.67	17,223	16,127	4.57	4.45
BRBY-GB	Burberry Group Plc (GB Listing)	\$12.42	4,452	4,387	1.18	1.59
SFER-IT	Salvatore Ferragamo S.p.A.	\$9.29	1,569	1,281	1.29	0.92
LANV-US	Lanvin Group Holdings Limited	\$1.88	273	333		
	AVERAGE				4.25	4.37
	COMBINED AVERAGE				<u>3.96</u>	<u>3.84</u>
ECDA-US	ECD Automotive Design, Inc.	\$0.97	31	20	0.63	0.41
ECDA-US Premium/(Discount) to peers:					-84%	-89%

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	\$32,201	\$48,805
YoY growth	NA	23%	113%	52%
Total cost of revenue	<u>10,649</u>	<u>10,874</u>	<u>22,541</u>	<u>31,724</u>
Gross profit	1,695	4,249	9,660	17,082
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	<u>3,657</u>	<u>5,885</u>	<u>7,400</u>	<u>8,000</u>
Operating income	<u>(1,962)</u>	<u>(1,636)</u>	<u>2,260</u>	<u>9,082</u>
Operating income %	-16%	-11%	7%	19%
EBITDA	<u>(1,890)</u>	<u>(1,479)</u>	<u>2,660</u>	<u>9,582</u>
Total other income/(expense)	503	(482)	(400)	(400)
Earnings before taxes	<u>(1,459)</u>	<u>(2,117)</u>	<u>1,860</u>	<u>8,682</u>
Tax expense/(benefit)	0	(515)	335	1,563
Net income	<u>(\$1,459)</u>	<u>(\$1,602)</u>	<u>\$1,526</u>	<u>\$7,119</u>
GAAP EPS	<u>(\$0.06)</u>	<u>(\$0.06)</u>	<u>\$0.05</u>	<u>\$0.22</u>
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.	\$18,725	\$10,506	\$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	38,925	25,706	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>\$45,025</u>	<u>\$31,506</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	(1,378)	(8,497)	(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>(1,375)</u>	<u>(8,494)</u>	<u>(10,019)</u>	<u>(5,399)</u>
Total Liabilities and equity	<u>\$45,025</u>	<u>\$31,506</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)

	<u>FY25E</u>	<u>FY24E</u>	<u>FY23A</u>	<u>FY22A</u>
Net Income	\$7,119	\$1,526	(\$1,602)	(\$1,459)
Receivables	\$0	(\$100)	\$210	\$271
Inventories	(\$5,000)	(\$3,201)	(\$5,734)	(\$6,066)
Other assets	\$0	(\$66)	\$34	\$373
Net PP&E	(\$200)	(\$231)	(\$398)	(\$396)
Right-to-use asset	\$0	(\$237)	\$133	(\$3,252)
Other non-current	(\$100)	(\$7)	(\$517)	\$421
Accounts payable	\$200	\$231	\$282	(\$331)
Accrued expenses	\$200	\$313	\$494	(\$57)
Deferred revenue	\$6,000	\$4,403	\$3,430	\$14,122
Lease obligations and other	\$0	\$151	\$1,283	\$558
Convertible note and Credit Line	\$0	(\$683)	\$10,183	\$192
Lease liability - non-current	\$0	\$273	(\$162)	\$3,890
Preferred stock	\$0	(\$0)	\$0	\$0
Common stock	\$0	(\$3)	\$1	\$2
Additional paid-in-capital	\$0	\$2	(\$2)	(\$9,956)
Accum. Other Comprehensive loss	\$0	\$0	\$0	\$0
Dividends and transition adjustments			(\$3,016)	\$9
Total Cash Flow	<u>\$8,219</u>	<u>\$2,372</u>	<u>\$4,619</u>	<u>(\$1,678)</u>

Source: Litchfield Hills Research LLC

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ECD Automotive Design, Inc.

ECDA-US - Buy \$8 PT

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