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ELECTRIC VEHICLES MARKET IS POWERING UP

An Industry Snapshot

Featured Companies:

Tesla (NASDAQ - TSLA); Nikola (NASDAQ – NKLA); Workhorse Group (NASDAQ – WKHS); Altnet Systems (OTC – ALYI)

OUR THESIS:

As of this writing, shares of Tesla (NASDAQ – TSLA), the undisputed bellwether stock for the electric vehicle market trades at \$1121 per share. At current prices, the market cap is over \$207 billion, representing over 5 estimated 2021 sales and a whopping 98x next year's EPS. In many investors' minds, where Tesla goes, so goes the industry segment, especially as it relates to the capital markets. While TSLA is the industry's most important company, it is the exact mid-point of 2020, not 2016, and therefore is not the only pubco in the space. In fact, some under the radar firms with exposure to the space offer major upside that may rival TSLA, with varying risk profiles and share prices. Instead of making the case for the industry and its constituents in the lithium, fuel cell, and other segments, we have elected to focus on the vehicle producers, where we believe the greatest attention and upside exist.

THE EV MARKET: A BRIEF HISTORY

We began writing about the EV market in 2015/2016 and while going over our old reports and blogs, we came across some striking information. In 2016, Bloomberg New Energy Finance (now billed as Bloomberg NEF) projected that by 2040, EV passenger sales will reach 41 million units. Typically, these forecasts are shaved as we get closer to the target year. Given the broad-based popularity amid the varying types of vehicles available, these estimates have been dramatically raised to 54 million. To put this in perspective, the new forecast is 34% higher than the earlier figure. In 2020, the sales figure is projected to reach 1.7 million, jumping to 8.5 million in 2025, post-the current COVID-19 pandemic. If reached, the 8.5 million number is 4x the 2020 estimated figure and a whopping 17.9x the roughly 450,000 sold in 2015.

Early Drivers

Many of the early drivers of the market are valid today and much like early prognostications have proven demand and pricing are in investors' favor. Early on, the utilization of lithium-ion batteries helped spark the nascent industry, even with limited supply and even more limited production facilities which prompted high prices, ahead of expected demand. With economics not yet in favor, subsidies to procure hybrid electric and full electric vehicles aided the growth of the industry and caught the attention of early adopters who were seeking eco-friendly vehicles over form and comfort.

Over time, battery density and performance improved as did production, pricing, and style. A proliferation of charging stations helped the cause as did the introduction of eco-friendly fleets and international policy pronouncements to dramatically reduce carbon emissions.

Today's Drivers

While early drivers often looked to the future for critical mass of lithium-ion supply, mass market pricing, and the broad introduction of electric passenger and multi-passenger vehicles around the world, these drivers are in force today. A 2020 report by the aforementioned Bloomberg NEF offers key statistics and insights that identify key factors poised to advance substantial EV penetration across markets and vehicle types.

Technological capabilities combined with a substantial decrease in lithium-ion battery costs could not come at a better time for the segment, as the price tag for EVs will approach that of their internal combustion brethren in the next 3-5 years---even without government subsidies. In anticipation of this pricing parity, 31 nations in the Eastern Hemisphere and 13 in the Western Hemisphere have plans to discontinue sales of new internal combustion vehicles during this decade.

Most investors tend to be focused on passenger EVs or commercial vehicles such as buses. However, perhaps the greatest opportunity lies in the two and three wheeled vehicles such as motorcycles, scooters, and mopeds. Emerging market countries' major cities have significant population density which makes the proliferation of these smaller electric vehicles a godsend as they lower emissions (pollution) and can operate more nimbly in traffic than passenger or larger, commercial passenger EVs. Perhaps this is why expectations are for two wheeled EVs could represent 40% of the total two wheeled market in 2030, versus 28% for passenger vehicles. While China is a leader in the production and utilization of these non-traditional electric vehicles, major market penetration by multiple players appears to lie ahead. According to the Bloomberg NEF report:

“Looking beyond passenger cars, several ‘killer apps’ are emerging for electrification in the 2020s. Two- and three-wheeled vehicles (scooters, mopeds, motorcycles, tuktuks and rickshaws) and municipal buses are already going electric quickly and accelerate further in the next five years, spreading beyond China.

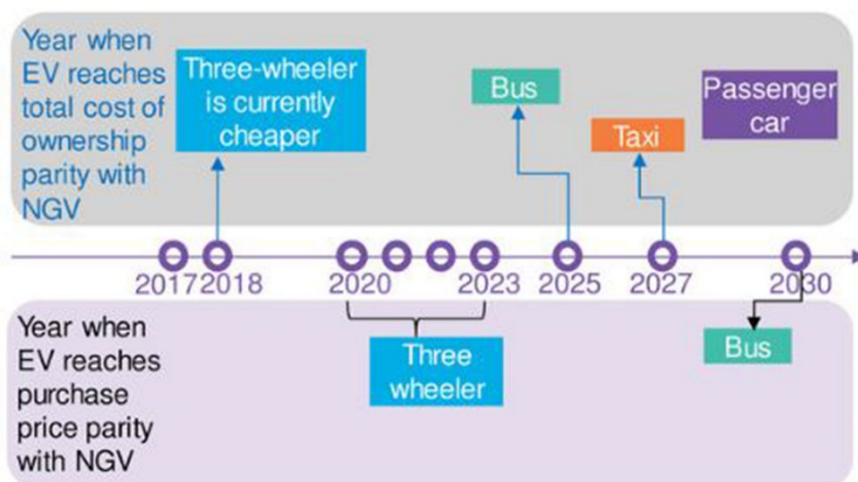
Delivery vans and ride-hailing vehicles are the next segments to cross the tipping point.

Some 30% of global two- and three-wheeler sales and 20% of the existing fleet are already electric. China accounts for the bulk of two-wheeler electrification to date, but sales are growing rapidly in markets like Taiwan, Vietnam, and India. Supportive policies, rising manufacturer interest and rapidly improving economics will soon push two- and three-wheeler electrification significantly higher.

In 2040, the electric two-wheeler sales share reaches 77%, and the electric fleet share reaches 47%.”

Even three wheeled vehicles are projected to reach cost parity in the next few years, as evidenced by this graph regarding the market in India.

One interesting by-product of EV production is the concept of carbon credits. The State of California and ten others mandate that a portion of automakers’ annual sales produce no tailpipe exhaust, creating an opportunity for EV producers such as Tesla to sell credits it does not need to big carmakers who come up short. It also sells credits to



Source: Bloomberg NEF
 Note: NGV includes two-wheelers, three-wheelers, passenger cars, taxis and municipal buses that run on compressed natural gas (CNG). Trucks are not modelled in this note.

manufacturers who do not meet federal Corporate Average Fuel Economy requirements.

This is a concept used globally in large scale eco-friendly power projects. According to Forbes: “Tesla booked \$2.3 billion of ZEV (Zero Emissions Vehicles) and U.S. emissions credits from 2008 through 2019, with more than half of that coming just in the past three years, based on company data compiled by Forbes.” Since this maneuver does not have an associated cost, it generates 100% operating profit and is a model that can be replicated by savvy EV producers in markets around the world.

TESLA: KING OF THE HILL

Tesla Inc. (NASDAQ – TSLA - \$1119.63- NR) is the undisputed 800-pound gorilla in the EV market and its most favored and controversial son. The Company seeks to dominate the passenger market with high end, mid-range and now truck style vehicles, leveraging its unparalleled battery production capabilities as well. According to the website, Tesla, Inc. designs, develops, manufactures, leases, and sells electric vehicles, and energy generation and storage systems in the United States, China, Netherlands, Norway, and internationally. The Company operates in two segments: Automotive and Energy Generation/Storage.

The Automotive segment offers sedans and sport utility vehicles. It also provides electric powertrain components and systems; and services for electric vehicles through its Company-owned service locations, and Tesla mobile service technicians, as well as sells used vehicles. This segment markets and sells its products through a network of company-owned stores and galleries, as well as through its own Website. The Energy Generation and Storage segment offers energy storage products, such as rechargeable lithium-ion battery systems for use in homes, industrial, commercial facilities, and utility grids; and designs, manufactures, installs, maintains, leases, and sells solar energy generation and energy storage products to residential and commercial customers.

The stock is up over 160% this year and now boasts the largest market cap of any auto maker. With recent deliveries data slated to be released soon, investors are monitoring sales and indications of future interest closely, along with progress on the self-driving side which will help boost potential value even higher. Still, how much more upside exists based on its 2020 YTD rise?

NIKOLA: FRESH AND BOLD AND TESLA JR.?

Nikola Corporation (NASDAQ – NKLA - \$65.90 - NR), which makes battery-electric and hydrogen-powered trucks, began trading on June 4th after a reverse merger with VectoIQ, which is a publicly-traded special purpose acquisition company headed by former vice chairman of General Motors Stephen Girsky. Nikola said that its electric pickup truck pre-orders represent more than \$10 billion in revenue, but it remains to be seen if these orders will come to fruition. Upstarts including Tesla have had their own issues with delivery so risk abounds here. Plus, Tesla, General Motors and Ford are among the other companies that have announced plans to produce all-electric pickups, potentially saturating the market.

This presently non-revenue generating company has a market cap exceeding \$23 billion and has become the latest EV darling. While stock higher prices could be in the cards, it seems that even a small slip-up could curtail current enthusiasm, as evidenced by the recent extreme volatility.

WORKHORSE: ATTRACTIVE MODEL WITH BIG UPSIDE

Like Nikola, **Workhorse Group Inc. (NASDAQ – WKHS - \$19.18 - NR)** has become a darling of late and is up nearly 200% year-to-date. With a \$19 share price and \$1.3 billion market cap, WKHS seems to have more going for it revenue-wise in the short term. Wall Street expects revenue to grow from \$23M in 2020 to \$147M in 2021. The Company designs, manufactures, builds, sells, and leases battery-electric vehicles and aircraft in the United States. It operates through two divisions, Automotive and Aviation. WKHS also develops cloud-based and real-time telematics performance monitoring systems that enable fleet operators to optimize energy and route efficiency. Its products include electric cargo vans, and medium and light-duty pickup trucks, as well as HorseFly delivery drones systems.

The Company's stock has benefitted from news that its EV delivery vans passed government safety tests. And, EV start-up Lordstown Motor is slated to introduce its new electric light-duty pickup truck. Workhorse owns a 10% stake in Lordstown Motor, so there may be hidden value here. The kicker is that Workhorse will be producing its safety certified delivery vans for Ryder UPS and is bidding on the U.S. Postal Service's business. Based on this pipeline and hit list, WKHS appears to offer better value and risk/reward than both Tesla and Nikola.

ALTERNET: UNTAPPED MARKET, INNOVATIVE APPROACH

Big Opportunity, Limited Competition

Alternet Systems Inc. (OTC – ALYI - \$0.0092 – Spec Buy) is one of the more intriguing companies in the space and certainly is positioned as the low-cost alternative to the \$1120/share Tesla for investors seeking a high reward, albeit greater risk opportunity. The Company is focused on electric transportation solutions for the shared-ride market, namely its \$300 million electric mobility initiative in Africa.

Alternet's CEO, Dr. Randell Torno, has stated publicly that he believes the immediate opportunity for electric powered transportation growth in Africa by far exceeds the electric powered transportation opportunity anywhere else in the world and that the electric mobility technology innovations that will be developed for Africa will ultimately form the foundation of commercial electric powered transportation everywhere.

The Company's first project is to produce the *ReVolt Electric Motorcycle* for the shared-ride market in Africa, along with the organization and promotion of the first African electric mobility technology conference and symposium targeted for the first quarter of 2021. Alternet emphasizes that the subject of electric transportation is far greater than the mere replacement of fossil fueled cars with electric powered cars. For instance, Volvo, Hyundai, Aston Martin, and Porsche, have electric powered vertical take-off and landing (VTOL) initiatives in the works.

In addition to product sales, ALYI intends to generate additional annual revenue via this annual electric mobility conference and symposium that includes a major brand name anchor event. The developing ALYI annual African electric mobility technology conference and symposium in Nairobi, Kenya is designed to advance the deployment of electric powered transportation solutions specific to Africa. The focus includes environmental sustainability and overall transportation efficiency applicable to the African transportation infrastructure, economy, and consumers.

Innovative Funding, Increased Valuation

Earlier this week, Alternet announced that it will receive up to \$2.5 million in advance of a \$25 million first tranche investment agreement currently committed under a letter of intent (LOI). This [letter of intent \(LOI\) for a \\$25 million first tranche investment](#) is itself in advance of a planned initial coin offering (ICO) to fund the aforementioned \$300 million initiative. The pre-funding is intended to support the initiation of immediate efforts necessary to prepare for the inaugural electric mobility event next year. The funds will be provided as a loan convertible into the \$25 million first tranche investment. The total first tranche investment agreement is anticipated to be completed within the next 90 days and is structured at a \$50 million pre-money valuation of ALYI in consideration of the company's \$300 million electric mobility initiative. The \$25 million first tranche investment represents a valuation of ALYI common stock at approximately \$0.05 per share, a roughly 5x increase from current prices. Clearly, with the ability to raise substantial, alternative, non-dilutive financing to proceed with an enviable EV shared ride initiative, upside in the Company's overall valuation dwarfs the other companies mentioned in this snapshot.



SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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