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Arcimoto, Inc. (NASDAQ: FUV)

September 30, 2022

Sell: Cost Cutting Measures Initiated

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Arcimoto announced a 32% reduction in force to preserve cash. We believe this is a necessary measure but does not eliminate the company's exigent cash needs. We maintain our Sell recommendation and \$0.45 price target.

Citing "macroeconomic environment conditions and supply chain issues," Arcimoto announced a 32% reduction in payroll expenses. We estimate the cost savings between \$5 and \$10 million annually, a significant reduction but we project EBITDA losses will remain elevated and cash needs exigent.

The company's latest financing, a \$10 million senior secured convertible note at a 6% original issue discount, raised \$9.4 million before expenses. The notes and warrants issued as part of the transaction, each have price protection in case the company issues additional equity or equity-linked securities (excluding certain issuances including the company's existing ATM). We believe additional equity raises are highly likely given the cash needs faced by Arcimoto. If this comes to pass, the conversion price of the notes and strike price of the warrants will be adjusted downward to reflect those additional equity issuances.

The notes amortize monthly and principal and interest payments can be made in cash or stock. Since the company is short on cash, we expect payments will be made in stock. The shares issued as payment will be valued at an 8% discount to the average VWAP of the lowest 5 days in the preceding 10 trading days. Using the current price of the stock, we estimate the interest and principal payments will result in an additional 5.8 million shares over the term of the note. However, with the cash needs of the company, we expect further pressure on the shares and a significantly greater share issuance to meet principal and interest payments.

Annualized operating cash flow losses exceeded \$50 million, using the average of the first half. The cost-cutting will reduce the company's needs, but it is not enough and is an acknowledgment that sales are not ramping as anticipated. We believe consensus estimates will decline over the coming months. Our revenue estimate for this year is 50% lower than consensus and our estimate for next year is about 90% lower than the consensus revenue estimate.

Our Sell recommendation is based on the significant mismatch between the company's cash needs and cash resources. We expect the company will have to confront painful choices over the coming months as its cash needs are exigent and options are dwindling. We believe the company will be forced to cut costs and scale back its plans for manufacturing capacity. This will result in reduction in consensus estimates. Our \$0.45 price target is an enterprise value of \$20 million, which is the exercise floor price of the recently issued warrant until stockholder approval is received for the second tranche of notes. Risks to achieving our stock price including financing at terms better than we expect, government subsidies or a takeover.

Current Price	\$1.39		
Price Target	\$0.45		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 4,386	\$ 4,550 E	\$ 5,700
1Q March	\$ 1,394	650 A	1,425
2Q June	\$ 717	1,499 A	1,425
3Q September	\$ 1,498	1,200 E	1,425
4Q December	\$ 777	1,200 E	1,425
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ (38,842)	\$ (44,957)E	\$ (35,345)
1Q March	\$ (6,553)	(10,811)A	(8,814)
2Q June	\$ (8,086)	(12,345)A	(8,851)
3Q September	\$ (9,645)	(11,821)E	(8,821)
4Q December	\$ (14,557)	(9,981)E	(8,859)
EV/Sales	NM	13.4 x	10.7 x
EV/EBITDA	NM	(1.4) x	(1.7) x
Stock Data			
52-Week Range	\$1.35	-	\$13.26
Shares Outstanding (mil.)	44.9		
Market Capitalization (mil.)	\$62		
Enterprise Value (mil.)	\$61		
Debt to Capital	22%		
Cash & Equivalents (mil.)	\$23.4		
Cash/Sh.	\$0.52		
Average Three Months Trading Volume (K)	2,212		
Insider Ownership	17.5%		
Institutional Ownership	18.1%		
Short interest (mil.)	22.1%		
Dividend / Yield	\$0.00/0.0%		



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Outlook

We project revenue in 2022 of \$4.6 million and \$5.7 million in 2023. These projections are significantly lower than consensus and reflect our belief the company will need to implement cash conservation measures that will impact its ability to grow production and expand sales and marketing. Even so, we project EBITDA losses of \$47 million this year and \$39 million in 2023. And this is before the \$35 million to \$40 million the company has identified it will need for capital expenditures in 2022 and a like amount in both 2023 and 2024. Unless the company is able to find capital to fund these plans, we expect consensus estimates will have to decline sharply.

We estimate current cash balances are not adequate to fund the company's plans. We have assumed capital raises in 2022 and 2023 to fund the company's operations and growth. We believe the need to raise capital will pressure the shares until that uncertainty is mitigated.

Valuation

Ayro and ElectraMeccanica, like Arcimoto, are producing electric vehicles, Ayro for the delivery market and ElectraMeccanica for the consumer market. Both trade close to enterprise value.

		Price	FTM EPS	P/E	TEV (M)	FTM Sales (M)	EV/ Sales	FTM EBITDA	EV/ EBITDA
AYRO	AYRO, Inc.	\$ 0.61	\$ (0.45)	(1.4)	\$ (35.2)	\$ 2.8	(12.8)	\$ (8.9)	3.9
SOLO	ElectraMeccanica Vehicles Corp.	1.22	(0.52)	(2.3)	(13.9)	29.7	(0.5)	(57.1)	0.2
GPV-CA	GreenPower Motor Company Inc.	2.27	(0.30)	(7.6)	57.2	50.3	1.1	(3.4)	(17.0)
WKHS	Workhorse Group Inc.	2.68	(0.52)	(5.2)	296.3	62.1	4.8	(82.1)	(3.6)
	Average						(1.8)		
FUV	Arcimoto, Inc.	\$ 1.39	\$ (1.04)	(1.3)	\$ 61.1	\$ 5.4	11.3	\$ (38.4)	(1.6)

Source: FactSet and Dawson James Securities estimates

Our price target of \$0.45 is an enterprise value above both AYRO and ElectraMeccanica. It is also the exercise floor price of the warrant until stockholder approval is received for the second tranche of notes.

The risk of the share price falling below our price target includes the company avoiding actions to cut costs, which would increase cash burn, raising funds at increasingly onerous terms resulting in a spiral of ever-increasing share issuances at lower prices or inability to raise capital altogether. Risks that the share price moves opposite the trajectory predicted in our price target include a takeover, a rally in equity markets that includes Arcimoto, funding from federal, state or local governments, or changes in government policies that drive demand for Arcimoto's products.

Exhibit 1. Income Statement

(\$ in 000's) (except per share data)	FY2019	FY2020	FY2021	Q1 22A	Q2 22A	Q3 22E	Q4 22E	FY2022E	FY2023E
Revenue	\$ 988	\$ 2,176	\$ 4,386	\$ 650	\$ 1,499	\$ 1,200	\$ 1,200	\$ 4,550	\$ 5,700
COGS	2,911	8,251	17,149	4,047	6,104	5,865	5,390	21,406	22,279
Gross Profit	(1,924)	(6,075)	(12,763)	(3,397)	(4,605)	(4,665)	(4,190)	(16,857)	(16,579)
R&D	6,032	3,011	12,106	3,907	3,716	3,754	3,316	14,693	10,151
Sales & Marketing	1,005	2,239	7,000	2,927	3,070	3,101	2,657	11,755	10,788
G&A	5,494	6,091	12,948	2,699	3,786	3,200	2,757	12,442	10,395
Impairment			6,824					0	0
Opex	12,532	11,341	38,879	9,532	10,572	10,055	8,730	38,889	31,334
Operating Income	(14,455)	(17,416)	(51,642)	(12,929)	(15,177)	(14,719)	(12,920)	(55,746)	(47,914)
Interest Income	0	0	0	0	0	0	0	0	0
Interest Expense	(892)	(721)	(216)	(50)	(124)	(124)	(265)	(563)	(872)
Other	5	17	1,360	25	(2,100)	(2,100)	(2,100)	(6,274)	(8,398)
Pretax Income	(15,342)	(18,120)	(50,498)	(12,954)	(17,401)	(16,943)	(15,284)	(62,582)	(57,184)
Taxes	0	0	(2,934)	0	3	0	0	3	0
Net Income	\$ (15,342)	\$ (18,120)	\$ (47,564)	\$ (12,954)	\$ (17,404)	\$ (16,943)	\$ (15,284)	\$ (62,586)	\$ (57,184)
Basic Shares	18,130	28,575	36,704	37,967	39,573	43,321	54,408	43,817	72,135
Basic EPS	\$ (0.85)	\$ (0.63)	\$ (1.30)	\$ (0.34)	\$ (0.44)	\$ (0.39)	\$ (0.28)	\$ (1.43)	\$ (0.79)
Operating Income	(14,455)	(17,416)	(51,642)	(12,929)	(15,177)	(14,719)	(12,920)	(55,746)	(47,914)
Depreciation	710	930	2,348	707	1,020	1,087	1,127	3,942	5,321
Stock Comp	635	1,917	3,628	1,411	1,812	1,812	1,812	6,847	7,248
Other			6,824						
EBITDA	\$ (13,109)	\$ (14,569)	\$ (38,842)	\$ (10,811)	\$ (12,345)	\$ (11,821)	\$ (9,981)	\$ (44,957)	\$ (35,345)

Source: Arcimoto, Inc. and Dawson James Securities estimates

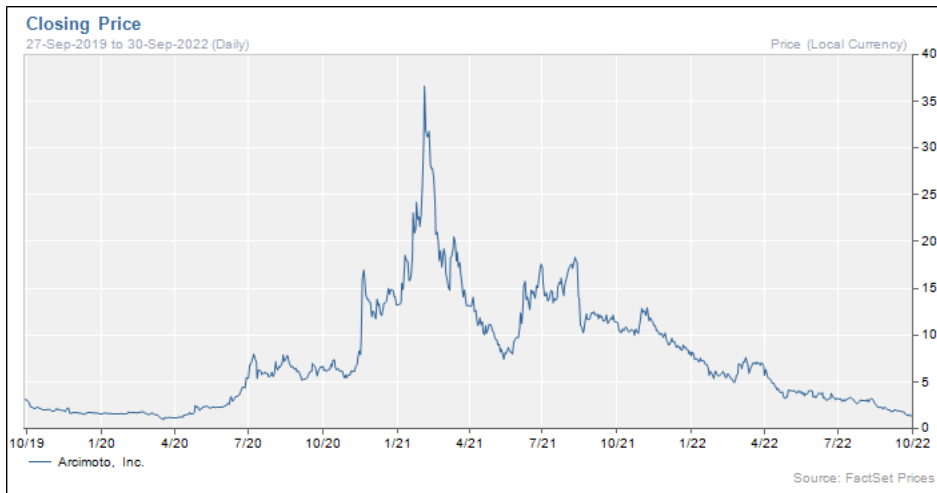
Exhibit 2. Balance Sheet and Cash Flow Statement

(\$ in 000's)	FY2019	FY2020	FY2021	FY2022E	FY2023E
Cash	5,832	39,451	16,971	18,886	27,451
A/R	244	17	128	274	456
Inventory	3,734	5,104	7,856	9,582	6,855
Prepaid Inventory	1,195	1,030	2,638	2,749	2,749
Other	665	901	2,440	3,661	4,347
Current Assets	11,671	46,503	30,033	35,153	41,858
PP&E	4,733	6,645	24,339	31,120	37,641
Intangible Assets	0	0	9,886	9,044	8,202
Operating lease right of use	0	0	0	1,636	1,636
Other	42	102	141	117	117
Total Assets	\$ 16,446	\$ 53,250	\$ 64,399	\$ 77,070	\$ 89,455
A/P	340	205	2,016	2,207	2,621
Accrued Liabilities	816	431	2,352	2,170	2,577
Customer Deposits	794	606	817	1,079	1,079
NP (net of discount)	3,032	479	2,533	1,706	1,706
Leases (finance and capital)	434	247	352	1,064	1,064
Convertible NP-related Parties	1,151	0	0	0	0
Convertible NP (net of discount)	838	0	0	5,000	3,750
Other	121	289	544	520	520
Note Payable-Other	0	658	0	0	0
Current Liabilities	7,525	2,914	8,614	13,746	13,317
Finance Lease	1,180	535	713	547	547
Equipment notes/LTD	0	2,001	1,185	1,042	1,042
Convertible note	0	0	0	10,477	6,727
Warranty Reserve	45	67	330	353	353
Operating lease	0	0	0	1,043	1,043
Deferred Revenue	86	50	9	5	5
Equity	7,610	47,684	53,548	49,858	66,422
Total Liabilities & Equity	\$ 16,446	\$ 53,250	\$ 64,399	\$ 77,070	\$ 89,455
	FY2019	FY2020	FY2021	FY2022E	FY2023E
Net Income	(15,342)	(18,120)	(47,564)	(62,586)	(57,184)
Depreciation	710	930	2,348	3,942	5,321
Stock Comp	635	1,917	3,628	6,847	7,248
Other	1,186	310	2,807	2,802	0
Working Capital	(1,481)	(1,330)	(511)	(1,770)	2,679
Operating CF	\$ (14,291)	\$ (16,294)	\$ (39,291)	\$ (50,765)	\$ (41,936)
Capx	(255)	(2,843)	(17,356)	(11,108)	(11,000)
Other	0	(60)	(16)	0	0
Investing Activities	\$ (255)	\$ (2,903)	\$ (19,126)	\$ (11,108)	\$ (11,000)
Equity	14,213	54,677	36,540	50,453	61,500
Debt	1,262	(1,862)	(603)	13,336	0
Financing	\$ 15,475	\$ 52,815	\$ 35,937	\$ 63,788	\$ 61,500
Change in Cash	\$ (256)	\$ 33,619	\$ (22,480)	\$ 1,915	\$ 8,564

Source: Arcimoto, Inc. and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Neutral – March 15, 2022 – Price Target NA
 Update – Neutral – April 4, 2022 – Price Target NA
 Update – Neutral – April 27, 2022 – Price Target NA
 Update – Neutral – May 3, 2022 – Price Target NA
 Update – Neutral – May 17, 2022 – Price Target NA
 Update – Neutral – June 21, 2022 – Price Target NA
 Update – Neutral – July 7, 2022 – Price Target NA
 Update – Neutral – August 16, 2022 – Price Target NA
 Rating Change – Sell – September 6, 2022 – Price Target \$0.45
 Update – Sell – September 30, 2022 – Price Target \$0.45

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Ratings Definitions:

- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 20-Sep-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	83%	3	12%
Market Perform (Neutral)	4	13%	1	25%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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