



August 14, 2023

**Key Metrics**

VLCN - NASDAQ	\$0.50
Pricing Date	August 14 2023
Price Target	\$3.00
52-Week Range	\$3.45 - \$0.45
Shares Outstanding (mm)	30.6
Market Capitalization (mm)	\$15.3
3-Mo Average Daily Volume	172,670
Debt/Total Capital	67.6%
Book Value/Share	\$0.20
Price/Book	2.5x

**Revenue (M)**

	2022A	Prior 2023A	Curr. 2023E	Prior 2024E	Curr. 2024E
1Q-mar	1.2	1.1A	1.2A	--	--
2Q-jun	2.4	1.9A	0.5A	--	--
3Q-sep	0.2	2.4A	0.7A	--	--
4Q-dec	0.8	3.0A	1.7A	--	--
FY	4.5	8.3E	4.1E	--	14.0E

**EPSFY: December**

	2022A	Prior 2023A	Curr. 2023E	Prior 2024E	Curr. 2024E
1Q-mar	(0.40)	0.33A	(0.30)A	--	--
2Q-jun	(0.41)	0.34A	(0.85)A	--	--
3Q-sep	(0.32)	0.30A	(0.27)A	--	--
4Q-dec	(0.32)	0.30A	(0.27)A	--	--
FY	(1.45)	(1.27)E	(1.66)E	--	(1.06)E
P/E					

**Company Description:**

Volcon Inc. is an early-stage developer and producer of electric battery-powered motorcycles and side-by-side vehicles intended for recreational off-road use. Aegis Capital lead managed financings for the company in February 2022, August 2022, and May 2023.

**Volcon Inc.****Rating: Buy****Delay in Initial Shipments of Major New Product****Introduction****Investment Highlights:**

**2Q results falls short of estimates.** Volcon reported 2Q revenue of \$0.5 million and EPS of \$(0.85), falling short of our estimates of \$1.9 million and \$(0.34), respectively. Management did demonstrate considerable progress in recent quarters in controlling operating expenses, having recently reduced corporate headcount in product development and administration as it outsources the design and development of vehicle development to third parties. However, 2Q results reflected an unusual \$22 million loss on extinguishment of convertible notes.

**Delay in initial shipments of the long-awaited Stag UTV.** We continue to believe that the introduction of major new product models should drive a significant acceleration in top line growth for Volcon over the next few years. Volcon recently began shipping the Brat e-bike model in December 2022, and began selling the model on a direct-to-consumer basis in February 2023.

Volcon also recently unveiled its revolutionary new Stag four-wheel utility terrain vehicle (UTV), and pre-orders from dealers and customers have initially been strong. The company even received a pre-order for the Stag from the U.S. Army. Delivery for the Stag had originally been expected to commence in 2Q, but management pushed this expected time frame to 4Q, citing developmental delays to re-engineer certain parts on the vehicle. Volcon also recently signed an agreement with General Motors to utilize GM's electric propulsion system to power all Volcon's upcoming UTVs, including the Stag, thus providing the company a proven and highly developed electric propulsion platform. Finally, management noted that production of its Grunt EVO has just begun, and expects delivery to customers to begin this month.

**Reiterate BUY rating.** Volcon represents an important new entrant in the burgeoning electric vehicle (EV) sector, and is rapidly expanding its distribution footprint and product line. Therefore, we believe shares of VLCN should trade at an Enterprise Value/2024E Revenue multiple of 6x, which generates our 12-month price target of \$3.

**Potential disruptor in untapped segments for EVs.** We believe the off-road powersports segment, which has historically been entirely dominated by traditional internal combustion engines (ICE), is a category ripe for expansion of electric battery propulsion. Offering zero tailpipe emissions, quieter operation, reduced maintenance, and instant torque and superior acceleration compared to ICE-powered vehicles, electric vehicles (EVs) appear well positioned to generate significant market share penetration in the off-road recreational category, similar to what they have accomplished in the on-road passenger automobile market. A pure play EV brand such as Volcon is poised to establish early-mover advantage, rapidly gain market share, and potentially become the Tesla of the off-road motorsports segment.

**Investment risks.** Risks to attainment of our price target include competition from well-established and large global powersports manufacturers, already emerging first-movers in recreational EVs, ongoing global supply chain issues, uncertain consumer adoption of EVs in the off-road sector, and potential dilution from future capital raises.

## Figure 1. Historical and Projected Income Statement

### VOLCON INC. INCOME STATEMENT (in \$000)

FY Ending Dec	2020	2021	2022	1Q23	2Q23	3Q23E	4Q23E	2023E	2024E
<b>Net Revenue</b>	<b>\$0</b>	<b>\$449</b>	<b>\$4,547</b>	<b>\$1,170</b>	<b>\$519</b>	<b>\$700</b>	<b>\$1,710</b>	<b>\$4,100</b>	<b>\$14,040</b>
% Change yr-yr			913.0%	-1.2%	-78.1%	188.4%	127.5%	-9.8%	242.5%
Cost of goods sold	0	10,507	13,413	1,230	335	700	1,539	3,804	11,591
% of revenue		2341.1%	295.0%	105.1%	64.4%	100.0%	90.0%	92.8%	82.6%
<b>Gross Profit</b>	<b>0</b>	<b>(10,059)</b>	<b>(8,866)</b>	<b>(60)</b>	<b>185</b>	<b>0</b>	<b>171</b>	<b>296</b>	<b>2,449</b>
Gross Margin		-2241.1%	-195.0%	-5.1%	35.6%	0.0%	10.0%	7.2%	17.4%
Sales & marketing	126	2,873	5,695	1,789	2,381	2,400	2,500	9,070	11,500
% of revenue		640.0%	125.2%	152.9%	458.4%	342.9%	146.2%	221.2%	81.9%
Research & development	408	10,465	8,456	1,786	1,167	1,900	1,900	6,753	8,400
% of revenue		2331.7%	186.0%	152.6%	224.7%	271.4%	111.1%	164.7%	59.8%
General & administrative	833	15,783	9,047	1,890	1,569	2,200	2,200	7,859	9,200
% of revenue		3516.7%	199.0%	161.5%	302.1%	314.3%	128.7%	191.7%	65.5%
<b>Operating Income (Loss)</b>	<b>(\$1,367)</b>	<b>(\$39,180)</b>	<b>(\$32,064)</b>	<b>(\$5,525)</b>	<b>(\$4,931)</b>	<b>(\$6,500)</b>	<b>(\$6,429)</b>	<b>(\$23,386)</b>	<b>(\$26,651)</b>
Operating Margin		-8729.5%	-705.2%	-472.1%	-949.6%	-928.6%	-376.0%	-570.4%	-189.8%
Other expense		854	(88)	(6)	16,494	5	5	16,498	20
Interest expense	8	91	2,260	1,780	1,603	1,800	1,800	6,983	7,200
<b>Pretax income</b>	<b>(1,374)</b>	<b>(40,125)</b>	<b>(34,235)</b>	<b>(7,299)</b>	<b>(23,028)</b>	<b>(8,305)</b>	<b>(8,256)</b>	<b>(46,889)</b>	<b>(33,893)</b>
Taxes	0	0	0	0	0	0	0	0	0
<b>Net income</b>	<b>(1,374)</b>	<b>(40,125)</b>	<b>(34,235)</b>	<b>(7,299)</b>	<b>(23,028)</b>	<b>(8,305)</b>	<b>(8,256)</b>	<b>(46,889)</b>	<b>(33,893)</b>
Net margin		-8940.2%	-753.0%	-623.6%	-4434.5%	-1186.4%	-482.8%	-1143.7%	-241.4%
<b>GAAP Diluted earnings per share:</b>	<b>(\$2.28)</b>	<b>(\$8.79)</b>	<b>(\$1.45)</b>	<b>(\$0.30)</b>	<b>(\$0.85)</b>	<b>(\$0.27)</b>	<b>(\$0.27)</b>	<b>(\$1.66)</b>	<b>(\$1.06)</b>
Avg. diluted shares outstanding	604	4,567	23,687	24,535	27,121	30,615	30,615	28,221	32,000
Depreciation & Amortization	3	218	763	90	17	100	100	307	400
<b>EBITDA</b>	<b>(\$1,364)</b>	<b>(\$38,961)</b>	<b>(\$31,301)</b>	<b>(\$5,435)</b>	<b>(\$4,915)</b>	<b>(\$6,400)</b>	<b>(\$6,329)</b>	<b>(\$23,079)</b>	<b>(\$26,251)</b>
EBITDA Margin		-8680.9%	-688.4%	-464.4%	-946.4%	-914.3%	-370.1%	-562.9%	-187.0%

Source: Aegis Capital Corporation and Company Reports

**Figure 2. Historical Annual Cash Flow Statement****VOLCON INC.****STATEMENT OF CASH FLOWS (in \$000)**

	<b>2020</b>	<b>2021</b>	<b>2022</b>
Net loss	(\$1,374)	(\$40,125)	(\$34,235)
Depreciation and amortization	3	218	\$763
Stock based compensation	222	14,627	3,259
Loss on disposal of tooling		145	250
Loss on write-downs or repayment of notes		6,291	2,077
Amortization of right of use assets		367	431
Noncash interest expense		55	2,231
Accounts receivable		(26)	(839)
Inventory		(4,156)	(5,129)
Inventory deposits		(3,978)	1,554
Prepaid assets	(103)	(990)	(740)
Other assets	(51)	(682)	(37)
Right of use assets	12		
Accounts payable	179	1,373	(417)
Accrued liabilities		738	(205)
Right of use liabilities	(98)	(240)	(354)
Customer deposits		2,222	(2,254)
Deferred revenue	56		
<b>Net Cash From Operations</b>	<b>(\$1,155)</b>	<b>(\$24,161)</b>	<b>(\$33,647)</b>
Purchases of property, plant, & equipment	(232)	(825)	(799)
Purchases of intangible assets	(17)	(13)	
<b>Net Cash from Investing Activities</b>	<b>(249)</b>	<b>(838)</b>	<b>(799)</b>
Proceeds from SAFE liability	2,000		
Proceeds from WeFunder offering		2,205	
Repayment of notes payable	(8)	(13)	(17)
Repayment of related party note	(143)		
Proceeds from issuance of Series A preferred stock		2,465	
Proceeds from issuance of Series B preferred stock		9,615	
Proceeds from issuance of promissory notes	80	1,104	
Proceeds from issuance of common stock	11	15,917	18,089
Proceeds from issuance of common stock with promissory notes		735	
Proceeds from exercise of common stock warrants		6	40
Proceeds from issuance of convertible notes and warrants			22,300
Repayment of promissory notes		(2,000)	
<b>Net Cash from Financing Activities</b>	<b>1,940</b>	<b>30,035</b>	<b>40,412</b>
Effect of foreign currency translation changes			
<b>Net Increase (Decrease) in Cash</b>	<b>536</b>	<b>5,036</b>	<b>5,966</b>
<b>Cash, Beginning of the Period</b>	<b>-</b>	<b>536</b>	<b>5,572</b>
<b>Cash, End of the Period</b>	<b>536</b>	<b>5,572</b>	<b>11,538</b>

Source: Aegis Capital Corporation and Company Reports

**Figure 3. Historical Annual Balance Sheet****VOLCON INC.****CONSOLIDATED BALANCE SHEET (in \$000)**

<u>ASSETS</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Current Assets			
Cash	536	5,572	10,987
Restricted cash			551
Accounts receivable		26	865
Inventory		2,209	5,646
Inventory deposits		1,981	428
Prepaid expenses and other	103	1,093	1,851
Total Current Assets	<u>639</u>	<u>10,881</u>	<u>20,327</u>
Non-Current Assets			
Property, plant, & equipment	305	810	602
Intangible assets	17	18	6
Other long-term assets	51	733	285
Right of use asset- operating lease	842	2,183	1,506
Total Assets	<u>1,854</u>	<u>14,624</u>	<u>22,726</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current Liabilities			
Accounts payable	81	1,454	1,037
Accrued liabilities	34	772	2,045
Current portion of note payable	9	17	19
Right of use operating lease liability	142	456	391
Customer deposits	56	2,278	23
Convertible notes			17,354
Accrued purchase commitments		1,507	29
SAFE liability	2,000		
Total Current Liabilities	<u>2,322</u>	<u>6,484</u>	<u>20,897</u>
Notes payable	59	69	50
Right of use operating lease liability	614	1,768	1,143
Total Liabilities	<u>2,996</u>	<u>8,320</u>	<u>22,091</u>
Stockholders' Equity			
Common stock	0	0	0
Additional paid-in capital	233	47,804	76,370
Accumulated deficit	(1,374)	(41,500)	(75,735)
Total Stockholders' Equity	<u>(1,142)</u>	<u>6,304</u>	<u>635</u>
Total Liabilities & Stockholders' Equity	<u>1,854</u>	<u>14,624</u>	<u>22,726</u>

Source: Aegis Capital Corporation and Company Reports

## Required Disclosures

### Price Target

Our 12-month price target on shares of VLCN is \$3.

### Valuation Methodology

Our price target is derived by applying an Enterprise Value/2024E Revenue multiple of 6x.

### Risk Factors

- Well-entrenched and sizable global manufacturers dominate the recreational off-road vehicle sector.
- Already emerging first-movers in electric powered motorcycles and side-by-sides.
- Ongoing global supply chain challenges.
- Uncertain level of future consumer adoption of EVs in the recreational off-road vehicle market.
- Potential dilution to existing shareholders from future capital raising activity.

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Aegis Capital Corp. makes a market in Volcon Inc..

Aegis Capital Corp. has performed investment banking services for and received fees from Volcon Inc. within the past 12 months.



**Investment Banking  
Services/Past 12 Mos.**

Rating	Percent	Percent
<b>BUY [BUY]</b>	<b>93.48</b>	<b>50.00</b>
<b>HOLD [HOLD]</b>	<b>6.52</b>	<b>16.67</b>
<b>SELL [SELL]</b>	<b>0.00</b>	<b>0.00</b>

### Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

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