

Vicinity Motor Corp.

VEV|\$3.27

Buy|Target:\$25.00

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Dealers of Lightning - Initiate at Buy/\$25 Target

- We initiate coverage of shares of Vicinity Motor Corp. at Buy with a \$25 price target. We recognize that this target is considerably above the current market price, but as we outline in this report, we think it is justified.
- Vicinity is a British Columbia manufacturer of electric, diesel and CNG transit buses and electric commercial vehicles and recently entered into a partnership to sell electric shuttle buses for the paratransit, and hotel/car rental shuttle market.
- It has sold the Vicinity Classic mid-sized transit bus since 2013 shipping over 800 units and passing the Federal Transit Administration's (FTA) "bus breaker" test. We view this as a major distinction versus other electric vehicle comps since many are having problems developing their first vehicles and then getting to volume production levels. The classic was designed to be a mid-sized bus and thus compares well to the down-sized full-sized buses of competitors which are too tall and wide and have over-sized engines and transmissions.
- Its new Lightning electric mid-sized bus is the star of the show and was very well received by many of the transit executives we spoke to at the American Public Transportation Association (APTA) conference in Orlando last month. It is a purpose-built electric bus with a low floor for easy entry and a solid monocoque frame. The vehicle has a quiet ride without the many rattles associated with transit buses. Most importantly, it is priced at around \$400k, well below the \$600k price point of competing products.
- Its new VMC 1200 class 3 commercial cab and chassis vehicle is well suited for the commercial and municipal markets with Mitsubishi Fuso recently exiting the market. There is no other competing electric class 3 cabover vehicle on the market. Vicinity has partnered with JB Poindexter which makes a wide variety of truck bodies and has strong customer loyalty to make payload bodies for the VMC 1200.
- Finally, through a new partnership with Optimal Electric Vehicles it sells electric shuttle buses and cab/chassis vehicles for other shuttle bus manufacturers. This vehicle is based on the highly popular Ford E-450 chassis, which provides comfort to customers as Ford dealers provide parts and mechanics know how to work on them.
- One of Vicinity's strengths is its ability to partner well with others including ABC Companies, which is one of the largest national bus dealerships in the U.S., JB Poindexter for truck bodies and Optimal in the shuttle market. By partnering, this relatively small Canadian bus manufacturer is able to punch well above its weight.
- The company is completing a new plant in Washington, allowing it to meet Buy America requirements. Production should start in 2Q 2022 then ramp rapidly in 2023.
- Another major advantage versus other EV stocks is the large number and sizable dollar amount of approved government funding programs for clean energy transit and commercial vehicles which we detail in this report. Compared to consumer-focused EV makers, which trade at much higher valuations, Vicinity's customers should have less problems finding funding to buy its products.
- The shares trade at just 0.7x our 2023 revenue estimate, versus 5.9x for comps, representing an 88% discount. Our estimates are conservatively below management guidance.



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Rating	Buy	Financials Converted to USD at 0.8 CAD/USD				
Target	\$25.00	Earnings Per Share				
Ticker Symbol	VEV-US	FYE - December	2020	2021E	2022E	2023E
Market	NASD	1Q - March	(\$0.06)	\$0.05 A	(\$0.09)	\$0.11
Stock Price	\$3.37	2Q - June	(\$0.02)	(\$0.01) A	(\$0.07)	\$0.09
52 wk High	\$10.92	3Q - September	(\$0.04)	(\$0.13) A	\$0.02	\$0.10
52 wk Low	\$3.21	4Q - December	(\$0.02)	(\$0.09)	\$0.24	\$0.22
Shares Outstanding:	34.9 M	Year	(\$0.14)	(\$0.17)	\$0.10	\$0.53
Public Market Float:	25.2 M	P/E		27.4x		5.1x
Avg. Daily Volume	109,983	Revenue (\$mm)	\$20.9	\$43.1	\$103.2	\$158.9
Market Capitalization:	\$113.9 M	EV/Rev	5.3x	2.6x	1.1x	0.7x
Institutional Holdings:	0.3%	EBITDA (\$mm)	(\$1.9)	(\$2.1)	\$6.8	\$20.0
		EV/EBITDA			16.3x	5.5x

Senior Executives		Common Ownership Profile		
		Shareholder	Shares ('000)	% of Total
William Trainer	President and CEO	JPMorgan Securities LLC (Investment M	45,713	1.3%
Dan Buckle	Chief Financial Officer	Inspire Advisors LLC	24,429	0.7%
John LaGourge	VP - Corporate Development	1832 Asset Management LP	20,522	0.6%
Manual Achadihna	Chief Operating Officer	RBC Dominion Securities, Inc. (Investmer	8,131	0.2%
Marion McGrath	Corporate Secretary	BofA Securities, Inc.	700	0.0%
		Directors and Officers	4,505	12.9%

Capitalization			
Market Value Basis ('000)	11/30/2021	%	
Long-Term Debt	\$0.3	0.3%	
Market Value of Equity	\$113.9	103.3%	
Less: cash	-\$3.9	-3.5%	
Enterprise Value	\$110.2	100.0%	
Book Value Basis ('000)	12/1/2021	%	
Long-Term Debt	\$0.3	0.9%	
Other Liabilities	\$6.5	21.3%	
Book Value of Equity	\$23.8	77.8%	
Total Capital	\$30.6	100.0%	

Source: Company reports and Spartan Capital Securities estimates

Company Description

Vicinity Motors is a Canadian commercial electric vehicle manufacturer with a large U.S. plant under construction. Its core product is its mid-size electric transit bus. It also makes conventional fuel mid-sized buses and recently launched a commercial cab and chassis and a converted electric shuttle product.

Significantly Undervalued Electric Bus and Truck Manufacturer

We initiate coverage of Vicinity Motors with a Buy rating and a \$25 price target. Vicinity is a British Columbia, Canada based manufacturer of mid-size electric buses for transit authorities, class 3 commercial trucks and, through a partnership with Optimal Electric Vehicles, electric shuttle buses.

We value VEV shares as an electric vehicle manufacturer with a correspondingly high valuation multiple. Comps trade at 6x 2023 estimated revenue which is the multiple we use for valuing Vicinity shares. We believe that Vicinity two key advantages versus comps:

1. Vicinity is currently manufacturing and shipping vehicles. It has shipped about 800 units to date and its classic transit buses have passed the Federal Transit Administration's (FTA) "bus-breaker" test in Altoona, Pennsylvania. Comps such as Arcimoto, Lordstown, AYRO, WorkHorse, Nikola and ElectraMeccanica have not yet been able to ship vehicles in volume.
2. Vicinity's transit, and some commercial customers, receive significant funding from state and federal programs headlined by the recently passed \$1.2 trillion infrastructure bill. Lucid, Rivian, Arcimoto and even industry-leader Tesla must rely on the purchasing power of consumers. To a large extent, Vicinity's customers are required to buy electric vehicles and have access to sizable funding sources to pay for them.

For both reasons, one could argue that VEV shares deserve a premium valuation but they currently trade at a lowly 0.7x 2023 estimated revenue so we think they are significantly undervalued. When we come across a company that appears to have such a significant valuation disparity, our first reaction is to question our work and do more due diligence. On Vicinity, we have had numerous conversations with management, competitors, prospective customers (transit agency executives) and suppliers including attending the 8,000 attendee American Public Transportation Association (APTA) conference in Orlando in November.

Vicinity operates a 20,000 square foot manufacturing plant at its British Columbia headquarters and is building a much larger new plant nearby over the border in Washington state to meet Buy America requirements. Its product line includes conventional fuel and electric transit buses, commercial vehicles and shuttle buses. A key strength is its ability to work well with partner companies and it has relationships with ABC Companies, JB Poindexter and Optimal EV. We visited an ABC dealership in the Los Angeles area and met with Poindexter and Optimal representatives at the APTA conference. Many times, we see partnership announcements from companies that are nothing more than press releases, with nothing coming from them. For Vicinity, we consider these to be meaningful partnerships with strong partner companies.

The key risks we see for Vicinity is that same as for other electric vehicle manufacturers. First, it needs to be able to successfully design vehicles. All announced vehicles are designed and on the road at least in early production form. It then needs to be able to make vehicles in quantity. It has made 800 buses to date; its Washington plant can make up to 1,000 annually and Optimal can make 1,000 shuttle buses or chassis. Next it needs to find customers but there are so many state and federal mandates that this should not be an issue. In the electric transit bus market, by our count U.S. demand exceeds supply and transit agency executives told us that they are having to wait a year or longer and are having to pay full list prices or higher. Lastly, their customers need funding, but, as we detail in this report, there are numerous state and federal funding sources already approved.

Dealers of Lightning

Vicinity was founded in 2008 by current CEO William Trainer who identified an unmet market need. Trainer had a long history as a successful construction equipment dealer in British Columbia, Canada. In 2008, the transit agency in Ottawa issued a request for proposals for mid-sized transit buses (roughly 30 feet in length). None of the major manufacturers responded as they were focused on the large (roughly 40-foot length) bus market which most large transit agencies, such as those in New York and Chicago, operate. Seeing an opportunity, Trainer and team designed a mid-sized bus that was designed from the ground up as a smaller bus with correspondingly smaller and lighter frame, engine and transmission. The first unit was shipped in 2013 and to date over 800 units have been shipped, mainly to Canadian transit agencies but also for the U.S. commercial and transit markets. These vehicles are still sold and market as the Classic with both diesel and compressed natural gas (CNG) powerplants available.

Vicinity is headquartered in Aldergrove, British Columbia with its headquarters co-located with its original 20,000-foot factory. All buses are finished here but the company does rely on contract manufacturers to meet demand for large orders.

Vicinity is building a new plant in the United States to be able to ship to transit agencies and other entities who must buy American built vehicles to take advantage of the Buy America provisions of the recent infrastructure legislation. The plant is located at 3435 LaBounty Road in Ferndale, Washington. Ferndale is a rural community located just 18 miles south of the Canadian border management can easily access it from their British Columbia headquarters which is just north of the US border. It is also located near ports, rails and highways for easy shipping. The plant will comprise 70,000 square feet for manufacturing with some second-floor office space.

Fig 1: Washington State Factory is Presently Under Construction







Source: Company reports and Spartan Capital Securities estimates

The plant is currently under construction with the foundation slab poured and the walls and roof being erected. Management expects the shell to finish this year with outfitting in 1Q. The company already has key pieces of manufacturing equipment on order such as the paint booth and overhead crane. Production should start in 2Q at low levels and gradually ramp up. This is consistent with our model which shows no U.S. production in 1Q, and very modest levels in 2Q, ramping up in 2H. Vicinity plans to manufacture its Lightning bus and VMC 1200 commercial trucks. With future expansions, capacity can go up to 1,000 vehicles annually.

Robust Product Line-Up

Vicinity sells four basic models of vehicles. Its Classic mid-sized diesel and compressed natural gas (CNG) buses have driven all revenue to date. It just introduced an all-new mid-sized electric bus called the Lightning, a mid-sized commercial truck platform called the VMC 1200 and, in conjunction with Optimal Electric Vehicles, two conversion platforms based on the Ford E-450, the S1 and E1.

Fig 2: Vicinity Offers Four Basic Models of Vehicles

		Price	Class	GVWR lbs.	Payload lbs.	Length inches	Width inches	Height inches	Seating	Range miles		
Vicinity Classic		Vi30		\$325k	class 6	30,200	8,100	360"	98"	118"	27	375
		Vi35		\$375k	class 6	37,478	7,278	420"	98"	118"	33	375
Vicinity Lightning		\$400k	class 5	22,000	5,500	336"	97"	118"	25	185		
VMC 1200		\$150k	class 3	12,000	6,000	240"	132"	112"	NA	180		
VMC Optimal E1 Ford E450 conversion		\$200k	class 4	14,500	7,000	158"	96"	84"	NA	120		

Source: Company reports and Spartan Capital Securities estimates

Vicinity Lightning –is the company’s all-new electric bus, also designed for transit agencies. It sells for roughly \$400k. It will be made in large numbers at the company’s new plant in Ferndale, Washington. Importantly, this bus is designed from the ground up to be electric with optimal placement of the batteries and elimination of the significant weight needed to accommodate a gas or diesel engine.

The Vicinity Lightning is clearly the star of the show and the key reason to own Vicinity shares. The first prototype was just shown at the American Public Transportation Association (APTA) conference in Orlando last month and it appears to be a game changer, especially with a price point starting around \$400,000. A similar looking bus from the Arboc unit of New Flyer carried a list price of \$600k, although their sales reps noted that their base unit has a larger battery and more range. Vicinity management responded that they could equip their product with a larger battery, matching the range for less than \$100,000 more still maintaining a significant price differential.

It is purpose built as an electric vehicle allowing for a lower floor and easier entry and exit by transit passengers, especially handicapped passengers. It has a compact footprint at just 28 feet for easy maneuverability and applications that do require as many passengers as full-size buses as it seats 24. Many competitive buses are just full sized 40-foot buses cut down to a shorter size. The problem with this is that these vehicles are oversized and are too tall, wide and heavy, especially compared to the Lightning. They also sport larger engines and transmissions, designed for larger buses.

Fig 3: Vicinity Lightning on Display at the APTA Conference in Orlando

Source: Company reports and Spartan Capital Securities estimates

The Lightning is built on a lightweight monocoque frame with standard hydraulic brakes and a BMW battery. Many other buses have air brakes which require the operator to obtain a special air brake driver's license. The problem with this is that this license then opens up far more lucrative job opportunities so after transit authorities train and sponsor drivers for air brake certification, they often leave for greener pastures. The company is also looking to sell the chassis to commercial vehicle manufacturers such as those owned by its new partner EB Poindexter.

Classic diesel and natural gas buses – the company originally started making buses in 2013 and has traditionally sold mid-sized buses for transit agencies powered by either diesel or compressed natural gas (CNG). It offers two models, either the smaller Vi30 selling for \$325k or the larger Vi35 selling for \$375k. These vehicles are made at the company's 20,000 square foot manufacturing plant in British Columbia or by U.S. contract manufacturers when needed for sale to U.S. transit agencies to meet Buy America standards. Many clean energy programs allow for the purchase of CNG buses, so the classic still has a long life ahead of it with an estimated 95 units sales in 2022 and 125 in 2023. Even diesel buses are still selling well in the industry as some transit agencies cannot justify the premium for electric buses, or as we heard from some transit agency heads at APTA, obtain enough electricity from their local power grid to go all electric at once.

Fig 4: Its Classic Diesel and Compressed Natural Gas Buses Continue to Sell Well

Source: Company reports and Spartan Capital Securities estimates

VMC 1200 – in 2021 Vicinity decided to dedicate its electric vehicle resources to a mid-range class 3 cabover commercial vehicle. Vicinity sees tremendous opportunity in this market as Mitsubishi Fuso recently exited the North American market, where it had enjoyed relatively strong demand, leaving the market to Isuzu and Toyota’s Hino subsidiary. Vehicle prices range from \$40,000 to \$60,000. No other manufacturer offers an electric cabover class 3 vehicle in the United States as both Hino and Isuzu only offer CNG or diesel. For short haul, local delivery and contractor trucks electric vehicles are ideal. First, for governments, there are the mandates and subsidies. Second, for practical reasons, electric vehicles make sense since fleet vehicles generally do not travel that far each day, and they return to the same depot each night where they can be recharged. Vicinity’s recently announced partnership with JB Poindexter is a major selling point for the VMC 1200. They own several well-known truck body companies such as Reading and Morgan which can add specialized flatbed or van bodies to this vehicle and then market them to their customers.

Fig 5: VMC 1200 With an JB Poindexter/Reading Dump Truck Body on Display at APTA

Source: Company reports and Spartan Capital Securities estimates

Optimal E1 and S1 – through a recently announced partnership with Optimal, vicinity sells their converted electric shuttles, the E1 and the S1. These vehicles are based on converted Ford chassis vans – which are vans with the body cut off after the driver cabin so a third-party manufacturer such as Optimal can add a payload such as a shuttle bus cabin. There are two basic methods used to manufacture commercial electric vehicles: convert a gas or diesel-powered vehicle or build an electric vehicle from scratch. Conversions are popular in the shuttle market as they are based on the popular Ford E-450 van and chassis with the engine and transmission removed. A key advantage of this method is that the buyer can still access local Ford dealers or traditional auto parts retailers such as NAPA or Advanced Auto Parts for many common maintenance parts such as for the brake system, electrical system, lights and windshield wiper motors. A purpose-built electric vehicle typically has a lower floor with the benefit being greater ease of entry and passenger comfort and more practical wheelchair ramps.

E1 has a high floor using the full Ford E450 frame while the S1 features a low floor with cut off frame. This is the only conversion van on the market which also has a low floor which makes passenger loading much easier. Optimal cuts off the Ford frame behind the chassis and welds on its own low-floor rear frame reusing the Dana-manufactured rear axle but turning it to face backward and connect to an electric motor. With the driveshaft removed, the battery fits in between the frame rails. As part of the conversion process, the Ford engine and transmission are removed and sold off. Removing these components removes considerable mass and reduces the strength of the vehicle to withstand front-end impacts. Optimal adds back structural supports to overcome this and management believes their technique may offer superior crash protection versus other products on the market.

With So Many Government Funding Programs, Demand Looks to be Exceeding Supply for Clean Energy Buses

It's rare that we see an industry with such strong government funding for its products. The transit bus market is not that large with buses lasting 15 years or more. One industry executive we spoke to at APTA told us he calculated that with the infrastructure bill, the industry's entire production would be sold out for years. Discussions with transit agency heads confirmed this strong imbalance in favor of demand over supply.

One of the best, integrated sources for the vast array of government subsidy programs is the investor relations site of Vicinity competitor New Flyer (NFI). Their analysis suggests \$148 billion in subsidies through six major funding programs. Three of these are in Canada and total \$34 billion

1. Canadian Green Recovery Funding = \$17.6 billion
2. Canadian Transit Funding Program = \$14.9 billion
3. Canadian Infrastructure Bank = \$1.5 billion

In the United States, they list the Infrastructure and Investment and Jobs Act at \$107 billion, factoring a variety of categories beyond just transit buses. They also factor in U.K. and New Zealand programs where they operate but we exclude them since Vicinity does not current sell in those markets.

Fig 6: Infrastructure Bill Funds \$39.2 Billion for Transit Trains and Buses

Roads and bridges	\$110.0
Passenger and freight rail	66.0
Pedestrian safety	11.0
Public transit	39.2
Broadband	65.0
Ports and waterways	17.3
Airports	25.0
Water	55.0
Power grid	73.0
Resiliency	46.0
School buses and ferries	7.5
Charging	7.5
Other	27.5

\$550.0

Source: Company reports and Spartan Capital Securities estimates

The \$1.2 trillion infrastructure bill was signed into law by the President on November 15th. At the APTA conference, many transit executives said that this was the most momentous event of their careers. Chicago Transit Authority (CTA) president Dorval Carter quoted the gospel of Luke saying "To whom much is given, much will be required". Of the \$1.2 trillion, about half provides continuing funding for existing programs and

roughly \$550 billion is for new infrastructure funding. Of this \$39.2 billion is set aside for transit agencies for both buses and rail.

Given the political uncertainties surrounding the \$2 trillion Build Back Better bill, we don't factor this into our forecast. Although as presently proposed, it would offer significant additional funding for clean energy buses.

In addition to this program, there are a number of other programs mentioned to us by executives at APTA. We don't represent this list as comprehensive so the list is probably much longer.

- **Low or No Emission Vehicle Program – LONO.** This is a program announced by the Federal Transit Administration providing \$182 million in funding for low or no emission buses and support facilities, including charging stations.
- **The California Association for Coordinated Transportation or CALACT** is a purchasing cooperative of roughly 300 smaller transit agencies in the state with plans to buy over 8,000 units over the next five years. Vicinity is approved to sell buses under this program.
- **California's Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP)** provides point-of-sale discounts for various clean energy commercial and transit vehicles. For 2022, the program includes \$70 million for transit buses and \$25 million for small commercial fleets.
- **New York's Truck Voucher Incentive Program (VIP)** is similar to California's HVIP program in that it provides vouchers to municipal and commercial fleet operators for clean energy vehicles including CNG. It receives funding from the Volkswagen Trust (see below) and the federal government that varies from year to year at around \$20 million annually. The fund covers class 3 through 8 commercial vehicles and repowers.
- **New Jersey Zero Emission Incentive Program (ZIP)** – like the NY and California programs, the Garden State operates a \$44 million program subsidizing medium duty (class 2b through 8) trucks and buses for governments and businesses to buy clean energy vehicles. It is available in the Camden, Newark, New Brunswick and Jersey Shore areas of the state.
- **Volkswagen Settlement - Mitigation Trust - \$2.925 billion.** As part of the settlement with the U.S. government for installing emissions testing defeat devices in diesel cars sold in the U.S. the company agreed to a series of actions totaling \$16 billion. Among these is a trust fund, administered by Wilmington Trust, in which each state receives a portion of the \$2.925 billion based on the number of affected Volkswagen vehicles which were registered in its states. The funds can be used for a variety of purposes to mitigate the excess emissions that resulted from VW's actions, including the clean energy shuttles, transit buses and commercial vehicles sold by Vicinity. California has already spent 80% of its trust funds, while some states have not yet tapped the fund. States receive one-third of their funding every three years and must spend it all within a decade.

New Flyer estimates that there will be public bids for around 20,000 buses over the next five years in North America, with much of this being for clean energy vehicles.

Most of these programs are subject to Buy America provisions in various laws. "Buy America" refers to a section of the Surface Transportation Act which signed into law by President Reagan in 1982. It requires minimum U.S. content levels for federally funded transit and highway programs, which includes nearly all transit programs. The specific rules for transit programs, such as the percentage of U.S. content, are set by the Federal Transit Administration (FTA) and can be modified.

Plays Well with Others

One of Vicinity's competitive advantage is that it has entered into strong partnerships with other companies that are mutually advantageous. Beyond just the three below, we view management's ability to engage and work well with other companies to be a core strength.

- ABC Companies
- JB Poindexter
- Optimal Electric Vehicles

In February 2021 Vicinity announced a dealer agreement with ABC Companies. ABC is a major bus dealer in the coach and transit markets in the United States providing sales, parts and repairs. ABC is one of the largest chains of bus dealerships in the U.S. It is also the largest independent bus parts dealer. Having readily available service parts makes Vicinity's products more attractive. ABC has nine dealership locations serving the entire continental United States.



In October 2021 Vicinity announced an agreement with the EAVX business unit of JB Poindexter. They own nine truck body brands such as Morgan and Reading that make payloads such as commercial truck bodies, step-vans, service utility truck and van bodies, funeral coaches, limousines, mid-sized buses, vehicle cargo management systems and pick-up truck bed covers and accessories. JB Poindexter is a privately held company with about \$2 billion in revenue. We met with EAVX representatives at the APTA conference and they explained that while Poindexter has a strong business providing bodies for conventional gas- and diesel-powered vehicles, it did not have a clean energy strategy focused on future needs, thus it founded EAVX. EAVX works with other business units and outside partners such as Vicinity to fill this strategic gap. At APTA, they showed a Reading dump box on a Vicinity VMC 1200 platform. We expect them to provide bodies that are optimized for the carrying capacity of electric vehicles. This should be highly attractive to municipalities which operate a large number of work trucks, have clean energy mandates and federal funding to fund purchases. Vicinity also plans to sell its Lightning vehicle as a chassis only, which would be ideal for adding a step van body. With the lower frame height of the Lightning, since it is an electric vehicle, Poindexter could design a lower floor height step van, making for easier deliveries.



In October 2021 Vicinity also announced an agreement with Optimal Electric Vehicles, which makes electric shuttle buses. We had the opportunity to speak with Optimal representatives and see the two vehicle platforms the companies will cooperate on. As part of the deal, Vicinity agreed to pay a \$20 million fee for a 10-year licensing and marketing agreement with \$15 million paid upfront and the rest paid at sales of 250 units, which we expect by year end 2022. We discuss the two vehicles, the E1 and S1 on page 8 of this report. In announcing the partnership, the two companies threw out some enormous numbers, which are significantly higher than what we have assumed in our model, although the phrasing was that Vicinity will have access to these, not firm orders:



- Over \$30 million in firm orders for 2022.
- Letters of intent with existing Optimal dealers for sales of \$194 million in 2023.
- Potential sales pipeline of over \$600 million, with no timeframe specified.

Our forecast is for sales of \$60 million Optimal vehicles in 2022 and \$65 million in 2023, so the language in the press release suggests upside to our numbers. Optimal has a factory in Elkhart, Indiana which can make 6,000 vehicles annually and is considering adding a second factory.

Optimal has a battery vendor relationship with Proterra, which also manufactures large transit buses. They have no plans to enter the mid-sized market that Vicinity serves. The S1 and E1 models Vicinity sells are equipped with Proterra batteries, and we see the possibility of Vicinity expanding its relationship further. For the Lightning, it has announced BMW as a battery supplier, but that company is having issues producing enough batteries in the U.S., which are needed to meet Build America standards. So, Vicinity could transition to them for the Lightning and VMC 1200, gaining purchasing efficiencies by buying larger quantities from a single vendor. We also see Proterra as a potential sales outlet for the Lightning. As a much larger transit bus supplier, it has strong relationships with numerous transit agencies and could help win orders. The heads of two transit agencies at APTA told us that their boards, who need to approve purchase contracts, often prefer known brands, of which Vicinity is not yet one. Down the road, we also see Proterra as a potential acquirer of Vicinity.

Announced Orders Provide Visibility to Our C\$130 Million 2022 Revenue Estimate

Our forecast is consistent with management guidance for 2022 revenue of C\$140 million in revenue and C\$10 million in EBITDA. Vicinity reports results in Canadian dollars and utilizes IFRS accounting standards. Prior to the pandemic, Vicinity revenues hit a high-water mark of C\$70 million in 2018. With the pandemic, and its transit agency customers facing a crisis due to a severe drop in ridership and thus revenue, Vicinity's revenue plunged to just C\$25 million in 2019 and C\$26 million in 2020. Through the end of this year, we expect all revenue to come from the classic CNG and diesel buses. In 2019 it shipped just 45 vehicles rebounding to 55 last year. With 119 vehicles already sold through the first three quarters of 2021, we forecast unit sales of 129 buses. We forecast that this should translate into a 107% increase in revenue to C\$54 million. This includes C\$49 million in bus sales and C\$5 million in parts sales.

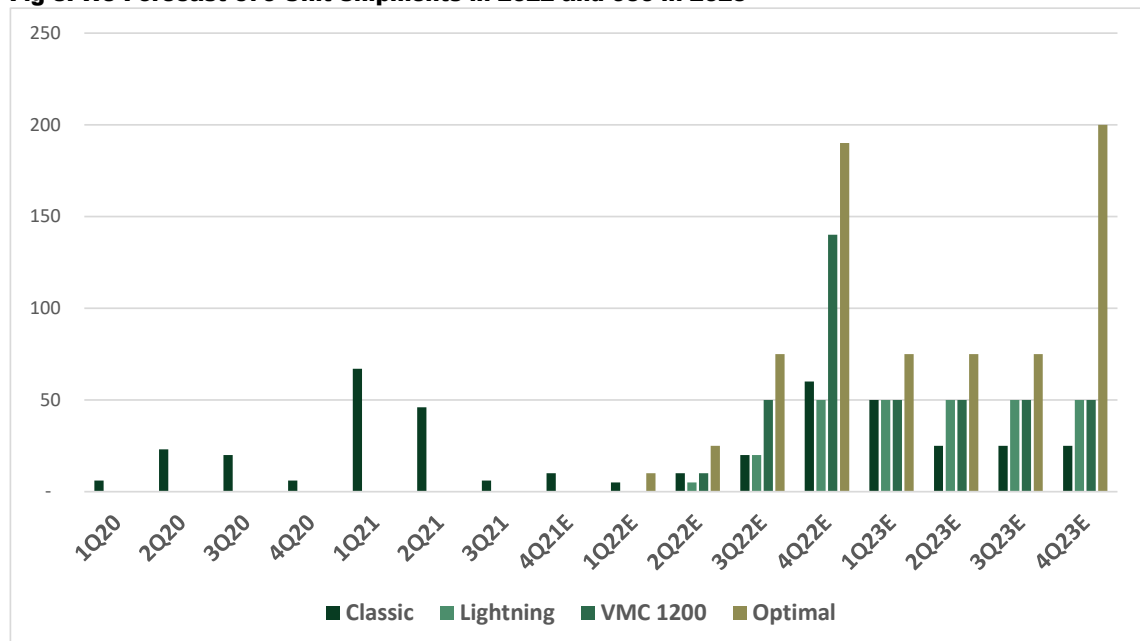
Looking ahead, our unit forecast is in figure 10 at the end of this report and summarized in the figure 8 on page 13. As we noted, the new Washington factory is only expected to begin producing on a limited basis in 2Q, with a sharp ramp thereafter.

Fig 7: Announced Orders Provide Good Revenue Visibility

Date	Units	Est. Value 000s		Customer
3/25/21	17	\$5,000	Vicinity Classic buses	not disclosed
3/29/21	10	\$4,000	Vicinity Lightning	ABC Companies
4/19/21	15	\$6,000	Vicinity Classic buses	Canadian transit operator
4/29/21	4	\$1,400	Vicinity Classic buses	Simcoe County, Ontario
6/14/21	14	\$6,000	Vicinity Lightning	Calgary Transit
6/21/21	3	\$1,050	Vicinity Classic buses	Le Groupe Transbus
7/1/21	10	\$1,500	VMC 1200	private operator
9/23/21	38	\$15,500	Vicinity Classic buses	Quebec transit operators
11/1/21	100	\$15,000	VMC 1200	Pioneer Auto Group

Source: Company reports and Spartan Capital Securities estimates

Fig 8: We Forecast 670 Unit Shipments in 2022 and 950 in 2023



Source: Company reports and Spartan Capital Securities estimates

Our unit forecast and revenue forecast result in our expectations for revenue of C\$129 million in 2022 (conservatively below guidance of C\$140 million) and C\$199 million 2023. Profitability varies by product as follows:

- Classic LNG 20-30%
- Classic Diesel 15-20%
- Lightning 30%
- VMC 1200 30%
- Parts 40%

We assume a blend of 16% gross margin in 2022 and 19% in 2023. With the higher margins of the new electric vehicles, there should be an upward bias. For the Optimal, the companies have not disclosed the full terms or how Vicinity will account for sales, but it sounds like it will be some type of EBITDA split with Vicinity's margins below that of its own vehicles due to the need to split profits.

In terms of EBITDA, our C\$8.5 million 2022 forecast is also below guidance of C\$10 million, again out of conservatism but back-end loaded into the second half. Our assumptions on revenue and gross margin lead to EBITDA surging to C\$25 million in 2023. If Vicinity can turn a profit, it would be a rare electric vehicle manufacturer and we believe the shares should shake off the sizable discount at which they now trade.

Current Valuation Reflects a Massive 88% Discount to EV Comps

We are initiating coverage with a USD \$25 price target. Given that VEV shares currently trade below USD \$4.00 on the NASDAQ, this is bound to raise some eyebrows. Vicinity has roughly a \$114 million market cap, with roughly zero net debt so the enterprise value is also \$114 million. FY 2022 guidance is C\$140 million or \$112 million in USD. So, the present EV/revenue multiple is only about 1.0x or 0.7x our 2023 revenue estimate. Electric vehicle comps trade at roughly 6x consensus and we therefore value VEV shares at 6x our 2023 revenue estimates. Many of these companies are having significant issues shipping their initial products or getting to even minimal volume levels.

By contrast, Vicinity has already sold over 800 of its classic diesel and CNG buses. Moreover, consumer-focused companies such as Rivian, Arcimoto, Tesla or Lucid have to rely on the financial health and spending power of consumers. By contrast, the transit market Vicinity targets just received a massive funding dose on the form of the just-signed Infrastructure bill and these customers must abide by laws that require them to buy clean energy buses. In our experience, it's rare to see an industry where customers have to buy your product category, and are provided with funding to do so. The remaining risk is whether customers choose Vicinity products, or those of competitors. Our research shows that there is a demand/supply imbalance in favor of demand. This understanding is confirmed by conversations with the heads of several large US urban transit authorities who said they were having to wait over a year for electric buses, and having to pay above list prices. So, we argue that VEV shares should trade at a premium to EV comps, not the current massive 85% discount. Applying an 6x multiple to our 2023 revenue estimate yields a \$25 price target.

Fig 9: VEV Trades at an 88% Discount to EV Comps

Company Name	Ticker	Price	Shares Outstanding	Market Value	Enterprise Value	2021E Sales USD	2022E Sales USD	2023E Sales USD	Enterprise Value/2021 Sales	Enterprise Value/2022 Sales	Enterprise Value/2023 Sales
Vicinity Motor	VEV	\$3.27	34.9	118	118	43	103	159	2.7x	1.1x	0.7x
VEV @ \$25 target	VEV	\$25.00	34.9	872	872	43	103	159	20.2x	8.5x	5.5x
AYRO, Inc.	AYRO	\$2.07	36.9	76	83	5	23	57	18.3x	3.6x	1.5x
Arcimoto, Inc.	FUV	\$9.46	37.6	356	384	5	26	148	73.4x	14.6x	2.6x
Lucid Group, Inc.	LCID	\$51.14	1,646.4	84,195	87,225	84	2,081	4,375	1041.1x	41.9x	19.9x
Lion Electric Company	LEV	\$10.00	189.5	1,895	2,065	50	283	899	41.4x	7.3x	2.3x
Nikola Corporation	NKLA	\$9.50	406.9	3,865	4,158	3	155	775	1230.3x	26.9x	5.4x
Lordstown Motors Corp. Clas	RIDE	\$4.18	192.2	804	900	-	190	511	NA	4.7x	1.8x
ElectraMeccanica Vehicles Cx	SOLO	\$2.75	114.9	316	340	1	15	89	236.7x	22.7x	3.8x
Tesla Inc	TSLA	\$1,095.00	1,004.3	1,099,670	1,149,642	51,590	72,503	88,452	22.3x	15.9x	13.0x
Workhorse Group Inc.	WKHS	\$5.31	156.0	828	911	1	17	173	646.6x	52.5x	5.3x
XL Fleet Corp. Class A	XL	\$4.09	139.4	570	633	13	22	164	49.6x	28.3x	3.9x
Average									373.3x	21.8x	5.9x

Source: Company reports and Spartan Capital Securities estimates

Fig 10: Vicinity Motor Corp. – Vehicle Shipment and Revenue Forecast

Fiscal years ended December 31 In millions	1QA	2QA	2021E 3Q	4Q	YEAR	1Q	2Q	2022E 3Q	4Q	YEAR	1Q	2Q	2023E 3Q	4Q	YEAR
Deliveries															
Vicinity classic	67	46	6	10	129	5	10	20	60	95	50	25	25	25	125
Estimated ASP = \$350,000															
Revenue				3,500		1,750	3,500	7,000	21,000	33,250	17,500	8,750	8,750	8,750	43,750
Vicinity Lightning						-	5	20	50	75	50	50	50	50	200
Estimated ASP = \$400,000															
Revenue						-	2,000	8,000	20,000	30,000	20,000	20,000	20,000	20,000	80,000
VMC 1200						-	10	50	140	200	50	50	50	50	200
Estimated ASP = \$150,000															
Revenue						-	1,500	7,500	21,000	30,000	7,500	7,500	7,500	7,500	30,000
Vicinity Optimal						10	25	75	190	300	75	75	75	200	425
Estimated ASP = \$200,000															
Revenue						2,000	5,000	15,000	38,000	60,000	15,000	15,000	15,000	40,000	85,000
Total Vehicles Shipped	67	46	6	10	129	15	50	165	440	670	225	200	200	325	950
Total Vehicles Revenue USD	\$32,418	\$22,160	\$2,636	\$3,500	\$60,714	\$3,750	\$12,000	\$37,500	\$100,000	\$153,250	\$60,000	\$51,250	\$51,250	\$76,250	\$238,750
CAD/USD	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Total Vehicles Revenue CAD	C\$25,934	C\$17,728	C\$2,109	C\$2,800	C\$48,571	C\$3,000	C\$9,600	C\$30,000	C\$80,000	C\$122,600	C\$48,000	C\$41,000	C\$41,000	C\$61,000	C\$191,000

Source: Company reports and Spartan Capital Securities estimates

Fig 11: Vicinity Motor Corp. – Income Forecast

Fiscal years ended December 31 Canadian dollars in millions	2021E					2022E					2023E				
	1QA	2QA	3QA	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
Bus sales	25,934	17,728	2,109	2,808	48,579	3,000	9,600	30,000	80,000	122,600	48,000	41,000	41,000	61,000	191,000
YoY growth	855.6%	122.9%	-73.6%	-6.8%	124.2%	-88.4%	-45.8%	1322.5%	2749.0%	152.4%	1500.0%	327.1%	36.7%	-23.8%	55.8%
Sequential growth	760.5%	-31.6%	-88.1%	33.1%		6.8%	220.0%	212.5%	166.7%		-40.0%	-14.6%	0.0%	48.8%	
Other	1,440	1,371	812	1,683	5,306	1,728	1,645	974	2,020	6,368	2,074	1,974	1,169	2,424	7,641
YoY growth	14.8%	83.0%	-13.3%	15.0%	20.5%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Sequential growth	-1.6%	-4.8%	-40.8%	107.3%		2.6%	-4.8%	-40.8%	107.3%		2.6%	-4.8%	-40.8%	107.3%	
Revenue	27,374	19,099	2,921	4,491	53,885	4,728	11,245	30,974	82,020	128,968	50,074	42,974	42,169	63,424	198,641
YoY growth	589.9%	119.5%	-67.3%	0.3%	106.7%	-82.7%	-41.1%	960.4%	1726.1%	139.3%	959.1%	282.2%	36.1%	-22.7%	54.0%
Sequential growth	511.3%	-30.2%	-84.7%	53.8%		5.3%	137.8%	175.4%	164.8%		-38.9%	-14.2%	-1.9%	50.4%	
COGS	22,967	16,878	3,483	3,818	47,146	4,019	9,558	26,018	68,897	108,493	41,561	35,239	34,157	50,739	161,696
Gross margin	4,407	2,221	(562)	674	6,740	709	1,687	4,956	13,123	20,475	8,513	7,735	8,012	12,685	36,945
Gross percentage	16.1%	11.6%	-19.2%	15.0%	12.5%	15.0%	15.0%	16.0%	16.0%	15.9%	17.0%	18.0%	19.0%	20.0%	18.6%
Sales and administration As a percent of revenue	1,784	1,925	2,900	2,700	9,309	3,000	3,000	3,000	3,000	12,000	3,000	3,000	3,000	3,000	12,000
	6.5%	10.1%	99.3%	60.1%	17.3%	63.5%	26.7%	9.7%	3.7%	9.3%	6.0%	7.0%	7.1%	4.7%	6.0%
EBITDA	2,623	296	(3,462)	(2,026)	(2,569)	(2,291)	(1,313)	1,956	10,123	8,475	5,513	4,735	5,012	9,685	24,945
EBITDA margin	9.6%	1.5%	-118.5%	-45.1%	-4.8%	-48.5%	-11.7%	6.3%	12.3%	6.6%	11.0%	11.0%	11.9%	15.3%	12.6%
Stock-based compensation	158	321	838	800	2,117	800	800	800	800	3,200	800	800	800	800	3,200
Amortization	248	248	343	350	1,189	350	350	350	350	1,400	350	350	350	350	1,400
Operating income	2,217	(273)	(4,643)	(3,176)	(5,875)	(3,441)	(2,463)	806	8,973	3,875	4,363	3,585	3,862	8,535	20,345
Operating margin	8.1%	-1.4%	-159.0%	-70.7%	-10.9%	-72.8%	-21.9%	2.6%	10.9%	3.0%	8.7%	8.3%	9.2%	13.5%	10.2%
Interest and finance costs	(160)	(62)	(39)	(40)	(301)	(40)	(40)	(40)	(40)	(160)	(40)	(40)	(40)	(40)	(160)
Loss on disposal	-	-	(69)	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gain	(20)	(53)	(16)	-	(89)	-	-	-	-	-	-	-	-	-	-
Income taxes	-	-	29	-	59	-	-	-	-	-	-	-	-	-	59
Net Loss	2,037	(388)	(4,796)	(3,216)	(6,324)	(3,481)	(2,503)	766	8,933	3,715	4,323	3,545	3,822	8,495	20,126
Earnings per share	\$0.06	-\$0.01	-\$0.16	-\$0.11	-\$0.21	-\$0.12	-\$0.08	\$0.03	\$0.29	\$0.12	\$0.14	\$0.12	\$0.12	\$0.28	\$0.66
Shares outstanding	33,026	29,534	29,826	29,926	30,578	30,026	30,126	30,226	30,326	30,176	30,426	30,526	30,626	30,726	30,576
Seq. change	8,570	(3,493)	293	100		100	100	100	100	100	100	100	100	100	100

Source: Company reports and Spartan Capital Securities estimates

Important Disclosures

Rating distribution by percentage (as of September 30, 2021):

All companies under coverage: Buy Hold Sell Not Rated (NR)	84 8 8 0	All companies under coverage to which it has provided investment banking services in the previous 12 months: Buy	100
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Equity Research Disclosures as of December 2, 2021

Company	Disclosure
Vicinity Motor Corp.	4

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Investment Risks

The key risk factor we see is achieving volume production levels at its new Washington state factory now under construction.

Valuation Methodology

We value VEV shares at 6x our 2023 revenue estimate, in line with comps.

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