Intro-act

Ideanomics, Inc.(NASDAQ: IDEX)

MEG Drives Record Quarterly Sales

Tuesday, November 10, 2020

VALUATION (Based on NASDAQ: IDEX)

Current Price	**$0.89 (USD)**
52 Week Range	$0.28– 3.98
Market Cap ($-Mn)	231
Ent. Value ($-Mn)	213
Shares Out. (Mn)	237
Short Int (% Flt)	10.5%
Daily Vol	7.1M
P/Book	3.1x
EV/ Sales	19.5
EV/EBITDA	NM
P/E (CY19)	NM

FUNDAMENTALS

Sales (CY20)	USD $30 Mn
Sales (CY21)	USD $60 Mn
Sales (CY22)	USD $100 Mn
Insider Owner	20%
Employees	60
EPS (CY20)	($0.25)
ROIC	-
Net Cash	USD $18 Mn

RELATIVE PERFORMANCE

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MEG's Strong Performance Leads to ~225% Y/Y Revenue Growth in 3Q20; Outlook Even Better for 4Q20

- **Key takeaways:** MEG's outstanding performance helped IDEX deliver record quarterly sales in 3Q20 and fourth quarter outlook is even better when Medici Motor Works is also expected to contribute to topline.
  - MEG delivered 626 units of EVs in 3Q20, generating $8.9 million in sales. A large order with favorable product mix will boost topline further in 4Q20. While the company has not issued official guidance, we expect that IDEX will comfortably achieve $30 million in sales in CY20.
  - High margin heavy electric vehicle business will not only boost topline but also aid margin growth in 4Q20. Focus on financing solutions could result in large-ticket sales and high margin business for the company in the near future.
  - Well positioned to benefit from its experience in the Chinese market as it starts to fulfill incoming orders coming from outside of China
- **IDEX's MEG business unit continues to remain the key growth driver with strong sales and a growing order book with favorable product mix.** The MEG business continued to demonstrate its dominance as IDEX reported its best-ever quarterly sales since it entered the fast-growing EV market. IDEX clocked $10.6 million sales in 3Q20, and MEG contributed $10.1 million to this, which was ~2.3x its 2Q20 revenue and ~3.4x its 2Q19 revenue.
  - IDEX generated $8.9 million revenue from sale of electric vehicles as it delivered 626 units in 3Q20 compared to just 97 units in previous quarter. The internal combustion engine (ICE) business contributed another $1.3 million to consolidated sales.
  - The company also generated $0.48 million in revenue from its digital advertising business – all of which came from the US market.
- **Gross profit margin remained strong in 3Q20 and will expand further in 4Q20.** The company reported a gross margin of 6.7% in 3Q20 which will further expand in 4Q20 due to a favorable product mix, as deliveries of high margin heavy vehicle are expected to dominate group sales in the fourth quarter.
- **Investment in building a strong sales team in South China has started delivering results as new orders have started flowing in.** MEG is in the process of developing its sales team to facilitate sales of new and used electric vehicles to individual customers as well as fleet operators within and outside China. To achieve this objective, IDEX, in 4Q20, has made significant investment and built a strong South China sales team in Qingdao and Hangzhou. The company's strategy of attracting talented salespeople, with experience in commercial fleet sales, has started delivering results as these new hires have already sourced significant deals for delivery in 4Q, which will aid topline growth in the last quarter.
- **High margin heavy electric vehicle business will not only boost topline but also aid margin growth in 4Q20.** MEG has started fulfilling an order for conversion of diesel buses to electric buses for a fleet operator. The MEG division won a contract to convert several diesel buses for a fleet operator, however, since the fleet operator intends to execute this transitioning on a rolling basis, MEG will be engaged in converting between 10 to 20 diesel buses at a time to electric buses. It is presently working on conversion of 13 of these diesel buses for this client. MEG is also expecting to receive a similar order in December.

- **IDEX continues to build its financing solution to enable large-ticket sales which is high margin business for the company.** IDEX is committed to supporting Chinese fleet operators transition from internal combustion engine (ICE) vehicles to electric vehicles and by solving the financing bottleneck in the process. Financing of the finished product (vehicle+battery) continues to remain a key hurdle in growth of Chinese EV market with financing players reluctant to offer bundled financing. As such the industry is now looking for options to arrange for separate financing for the vehicle and battery. <u>IDEX is demonstrating its leadership in this space and is renegotiating with its financing partners and battery partners to ensure that the consumers are able to avail financing facilities which will help them migrate to EVs at the earliest. IDEX is in discussion with two funds for EV financing deals, focused on vehicle leasing and battery-as-a-service, and one of them will be closed in November followed by the second one immediately after that. This is critical for IDEX as it will help it unlock its pipeline of big-ticket deals which involve sales of trucks and buses</u>.
- **Well positioned to benefit from its experience in the Chinese market as it starts to fulfill incoming orders coming from outside of China.** Medici Motor Works has made encouraging progress this quarter and is on track to establish IDEX as a preferred partner for commercial fleet operators who are looking to migrate from ICE vehicles to EVs. The business has been receiving inbound sales inquiries from the international market, including North America, and MEG will be there to support Medici in building the IDEX brand outside China.
    - Medici Motor Works is also looking at external investments to boost its market presence and made a strategic investment by acquiring a 15% stake in a California-based e-Tractor company Solectrac for $1.3 million. Solectrac develops, assembles and distributes 100% battery-powered electric tractors—an alternative to diesel tractors—for agriculture and utility operations. This will give IDEX an entry into the North American agricultural tractor market which is expected to grow to USD 20 billion by 2023.
    - Additionally, Treeletrik (Malaysia) has recently placed an order with its manufacturing partners for the first tranche of 1,000 units order (of buses) to fulfil its order pipeline in fast-growing market of Thailand and Indonesia.
- **Operations remains strong with tight expense control; operating loss of $12 million was largely on account of impairment.** The operating profit of the company was hit partially due to an impairment charge related to Fintech Village and higher litigation cost due to class action lawsuits. IDEX, however, managed to keep its SG&A expenses in control, driven by reduced travel and entertainment expense, partially offset by increase in salary costs as IDEX expanded its MEG sales team and increased headcount at the New York head office.
- **Strong cash balance lend strength to liquidity position and will allow the company to close acquisitions and make strategic investment.** IDEX ended the quarter with a cash balance of $27.6 million which gives it the headroom for pursuing inorganic growth. IDEX has raised $39.1 million through issuance of common stock and exercise of warrants in first nine months of CY20.
- **Valuation is attractive given strong revenue growth, expected increase in profit margins and strong balance sheet. IDEX is trading at a steep discount to its intrinsic value.** We expect IDEX's topline to climb from $30 million in CY20 to $100 million in CY22. Its EBITDA margin is likely to expand to 33% in CY22 as the company benefits from economies of scale. More importantly, balance sheet is strengthening, IDEX will generate positive FCF next year, and RoE will reach 22% by CY22. We model CY22 EPS of $0.12 and apply a conservative 20x PE multiple to arrive at an intrinsic value of $2.44/share, implying a 151% upside to the current market price of $0.97/share. Overall, given the large addressable market, IDEX's strong competitive position and its expansion into markets outside China, we believe that the Street is undervaluing the stock and expect it to re-rate as business goals are achieved.

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