



(Hi-LEE-on) Hybrid-Lithium-Ion

Hyliion Stock Pitch

NYSE: HYLN

As of Market Close February 26th, 2021

Jacob Koch-Gallup

Recommendation

I recommend **longing** Hyliion Holdings (NYSE:HYLN), an electrified powertrain manufacturer for the commercial transportation industry. HYLN is currently trading at \$15.12 which undervalues it by 32%. I predict that its stock price will significantly increase over the next 6-12 months.

Hyliion's stock price initially started at \$10 (NAV) because it merged with the blank-check company, Tortoise Acquisitions Corp. Due to the stock's popularity amongst retail investors and the popularity of EVs, the stock reached an all-time high of \$58.66 before completing the merger. Upon completion of merger (IPO), the stock was at \$29.46 and continued its descent to its current price of \$15.12. Due to profit-taking from early investors in Tortoise Acquisitions Corp., the redemption of warrants, the lack of news from Hyliion, and the recent correction of speculative stocks, the price fell over 74% from its ATH. Goldman Sachs also downgraded their forecast from a Neutral to Sell on February 3, 2021. The stock has also been heavily shorted with short volume ranging from 20-40% for the past 6 months (currently at 11.66% which is signaling bullish movement). The combination of these negative catalysts on the stock price presents a unique buying opportunity.

My price target and the company's intrinsic value is closer to \$20 per share.

Positive catalysts that will increase the price of Hyliion's shares over the next 6-12 months include the introduction of the Next Generation Battery Module, volume production of the Hypertruck ERX in early 2022, partnerships with additional companies, and President Biden's Made in America Executive Order.

Key investment risks include competition from multiple other fleet manufacturers including Tesla (NASDAQ:TSLA), Nikola (NASDAQ:NKLA), Workhouse (NASDAQ:WKHS), Arrival (NASDAQ:CIIC), and Lordstown Motors (NASDAQ:RIDE), and speculation over profits as there is a lack of strong revenues until 2022.

However, it should be noted that Hyliion's trucks have a longer range and lower total cost of ownership compared to competitors.

Company Background

Hyllion Holdings, founded in 2015, produces electrified powertrain systems that assist/replace traditional diesel powertrains. Currently, Hyllion is focusing on retrofitting, using its Hybrid Diesel and Hybrid CNG powertrains. These powertrains are fully compatible with most major Class 8 OEMs, allowing companies to replace the current powertrains in their fleets instead of buying entirely new vehicles.

Hyllion's upcoming Hypertruck ERX powertrain is what really steals the show. Unlike other electric trucks, Hyllion's ERX has a unique net-carbon-negative emissions solution (the only of its kind). Their ERX Hypertruck's use renewable natural gas (RNG), produced from biowaste, to fuel the generator, charging the batteries that power the e-motor. By using RNG, each truck reduces methane, and produces no additional emissions which allows the ERX to have net-carbon-negative emissions.

In Hyllion's most recent fiscal year, they generated no revenue, \$(31.94) million of EBITDA, and Net Cash Flow of 383 million. They have a current Market Cap of \$2.57 billion and current Enterprise Value of \$1.98 billion. This valuation is based upon its future potential rather than its current business.

Investment Thesis

Currently, the market views Hyllion as just "another pre-revenue EV company" that will get lost in the sea of its competitors. Hyllion's stock has seen a significant amount of downside following its unwarranted gains of 300% since the stock's IPO. People may view this downside as a negative; however, I believe that this was necessary for the stock as it created a natural resting price/floor.

Using global heavy-duty commercial vehicles (HCVs) data, we can project by 2030, 30% of the new HCVs will be built on alternative drive systems. Since currently there are ~1.7 Million HCVs sold, that implies that 500,000 alternative-drive HCVs will be sold in 2030. There will be a lot of competition for those 500,000 alternative-drive HCVs, but Hyllion only has few competitors.

If we assume that Hyllion gets 20% of the market share, they will sell 100,000 powertrains in 2030. Based on Hyllion's financials, they imply that each powertrain will sell for ~\$60,000 and the EBITDA margins in 2030 should be around ~35%. Combining these, we can project that the EBITDA in 2030 will be over \$2 billion. However, Barclays projected Hyllion's 2030 EBITDA more modestly at \$945 million.¹

The average EBITDA multiple for truck suppliers can be around a 15-20X EBITDA multiple. With a 15X EBITDA multiple in 2030, Hyllion's future enterprise value can be projected to be around \$30 billion and with a 20x EBITDA multiple it can be projected around \$40 billion.² Using Barclays's projected 945 million EBITDA in 2030 with a 15x

¹ Barclays Research

² <https://investorplace.com/hypergrowthinvesting/2021/02/hyllions-new-battery-will-shake-hyln-stock-from-its-bearish-slumber/>

multiple, the EV should be around \$14.1 billion and \$18.9 billion at a 20x multiple. Both Hyliion's generous EV and Barclays's conservative EV are very attractive compared to Hyliion's current market cap of \$2.57 billion.

Positive Catalysts

Positive catalysts that will increase the price of Hyliion's shares over the next 6-12 months include the introduction of the Next Generation Battery Module, volume production of the Hypertruck ERX in early 2022, additional partnerships with companies, and President Biden's Made in America Executive Order.

Hyliion announced the introduction of their Next Generation Battery Module on February 11, 2021. This Next Generation Battery has a longer life, higher recharging rates, and better safety. The Next Generation Battery:

- is capable of up to 5 times as much cycle life compared to a conventional EV battery
- can be recharged in under 8 minutes
- has 40 percent improvement in cooling compared to the previous system (which allows for higher charge/discharge rates of the battery and longer sustained power output).³

Hyliion has the best RNG truck powertrain platform, the Hypertruck ERX, that will begin rolling out in the next 12 months. The volume production of this truck will greatly boost Hyliion's revenue and expand their reach into the trucking industry. They are targeting many major companies including Amazon (NYSE:AMZN), UPS (NYSE:UPS), DHL, FedEx (NYSE:FDX), Coca-Cola (NYSE:KO) and Walmart (NYSE:WMT). They already have established partnerships with Dana, Wegmans, Agility, and Penske, and will hopefully partner with many more in the months to come.

President Biden signed an executive order on January 25, 2021 stating that the U.S. government would replace the entire federal fleet of cars, trucks, and SUVs with electric vehicles made in the U.S.⁴ Hyliion has the potential to get a contract with the US DOT to manufacture thousands of Hypertruck ERX's.

Based on the most recent data available from the General Services Agency, the U.S. government had 645,000+ vehicles in its fleet in 2019, of which 412,000+ are trucks.⁵ Even if Hyliion's contract was only to produce 5% of the federal government's trucks, that would be 20,600 trucks. At \$220,000 per truck, they would receive ~\$4.5 billion.

³ <https://investors.hyliion.com/news/news-details/2021/Hyliion-Introduces-Next-Generation-Battery-Module-to-Improve-Performance-and-Efficiency/default.aspx>

⁴ <https://www.cnbc.com/2021/01/25/biden-plans-to-replace-government-fleet-with-electric-vehicles.html>

⁵ <https://techcrunch.com/2021/01/25/president-joe-biden-commits-to-replacing-entire-federal-fleet-with-electric-vehicles/#:~:text=The%20U.S.%20government%20had%20more,more%20than%20412%2C000%20are%20trucks.>

Valuation

I am using Barclays's recent \$20 price target as HYLN's target price for the 6-12 months. I believe that it is a fairly conservative target especially when considering Barclays's projected 2024 EBITDA of \$202 million when compared to Hylilion's projected 2024 EBITDA of \$602 million.

By using a blended average of 1.5x EV/sales multiples and a 7.1x EV/EBITDA multiple on their 2025 estimates, the price target came out to \$20. This 5-year target sales multiple of 1.5x is conservative when compared to Tesla at ~7x and along the same lines as other electric vehicle companies: Nikola at 1.0x, Canoo at 2.0x, and Workhorse 1.5x.⁶

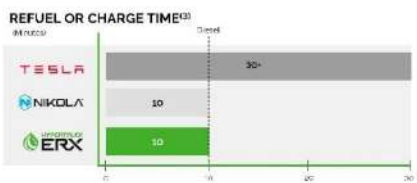
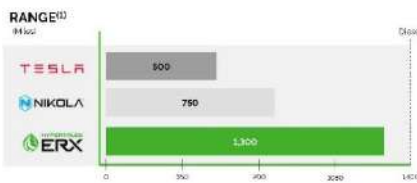
Combining the future revenue from the Hypertruck ERX, implementation of the new battery, and future partnerships, Hylilion should have a strong growth CAGR for the years to come.

Risk Factors

Right now, the market views that Hylilion has limited upside due to its many competitors and lack of strong revenue & positive EBITDA until 2022.

Although Hylilion does have many competitors, its trucks outperform and have the lowest cost of ownership. The Hypertruck ERX has:

- a powertrain system that has 2.6x the range of a Tesla Semi and 1.7x a Nikola semi.
- a capacity of 53,000 pounds, 23.3% more than a Tesla semi and 10.4% more than a Nikola semi.
- a range of 1300 miles, 550 miles more than Nikola and 800 miles more than Tesla.
- a charge time of only 8 minutes, 2 minutes faster than Nikola, and 22 minutes faster than Tesla.⁷



FUTURE SOLUTIONS

	BATTERY-ELECTRIC (BEV)	FUEL-CELL ELECTRIC (FCEV)	HYPERTRUCK ERX
	TESLA	NIKOLA	HYPERTRUCK ERX
AVAILABILITY	2021+	2023+	2021
UPFRONT VEHICLE COST ⁽¹⁾	\$200,000	\$235,000	\$220,000
7-YEAR TOTAL FUEL COST ⁽²⁾	\$98,000	\$350,000	\$94,776
7-YEAR TOTAL PAYLOAD REVENUE LOST/IGAINED ⁽³⁾	\$140,000	\$52,500	(\$35,000)
7-YEAR TOTAL COST OF OWNERSHIP	\$438,000	\$637,500	\$279,776
SAVINGS VS. DIESEL	(1%)	(48%)	+35%

⁶ Barclays Research

⁷ <https://www.sec.gov/Archives/edgar/data/1759631/000121390020015311/ea>

The important thing to note about Workhorse, Arrival, and Lordstown Motors is that these companies do not produce Class 8 Vehicles. Workhorse produces Class C vans, Arrival produces Class C vans and city buses, and Lordstown Motors produces pickup trucks. So, even though Hyliion has many competitors in the EV space, it does not have many in the electric Class 8 space, especially in the Class 8 Long-Haul landscape. Also, it should be noted that the “global Electric Vehicle Market Size was estimated at USD 162.34 Billion in 2019 and is expected to reach USD 802.81 Billion by 2027, at a CAGR of 22.6 percent.”⁸ So, there is a lot of space for Hyliion to grow either with or without competitors.

COMPETITIVE LANDSCAPE

	BEV	FCEV	R/CNG Electric	Hybrid Electric
Medium Duty <250 miles	DANA, Kenworth, Ford, Ram, Chevrolet, GMC, NIKOLA, Tesla, Rivian		Hyundai	EXL
Class 8 Regional <300 miles	DANA, Kenworth, Ford, Ram, Chevrolet, GMC, NIKOLA, Tesla, Rivian	TOYOTA, Nikola, Hyliion	HYLIION	HYLIION
Class 8 Long Haul 500+ miles	Tesla	NIKOLA, HYLIION	HYLIION	HYLIION

Hyliion is a long-term investment, which is why it matters less that Hyliion won't have strong revenues and a positive EBITDA until 2022. Hyliion is projecting \$8 million in revenues for 2021 and for 2022 they are projecting \$344 million -- a 4268% increase YOY. By 2024, Hyliion is projecting \$2.1 billion revenue and \$602 million EBITDA.⁹ This exponential increase in Hyliion's revenue and earnings is somewhat typical for an early-stage start-up, but these numbers really show Hyliion's strength.

SUMMARY FINANCIALS

(\$ in millions)	2020E	2021E	2022E	2023E	2024E
Hybrid Electric Units Sold	20	300	4,100	8,000	16,500
Hypertruck ERX Units Sold	-	-	2,500	8,500	19,000
Total Units Sold	20	300	6,600	16,500	34,500
Revenue	\$1	\$8	\$344	\$1,019	\$2,091
% Growth	-	1307.1%	4268.4%	196.1%	105.1%
Cost of Goods Sold	(1)	(6)	(248)	(698)	(1,353)
Gross Profit	(\$0)	\$2	\$96	\$321	\$737
% Margin	NM	21.0%	28.0%	31.5%	35.3%
EBITDA	(\$56)	(\$135)	\$8	\$214	\$602
% Margin	NM	NM	2.3%	21.0%	28.8%

It should also be noted that there are several other risks including fossil fuel bans in transportation (since Hyliion uses Renewable Natural Gas), policies reducing subsidies for R/CNG, and faster than expected innovations in fuel cell/battery technology. However, these risks do not pose much of a threat to Hyliion within the next

⁸ <https://www.prnewswire.com/news-releases/electric-vehicle-market-size-is-expected-to-reach-usd-802-81-billion-by-2027---valuates-reports-301070826.html>

⁹ https://www.sec.gov/Archives/edgar/data/1759631/000121390020015311/ea123187ex99-3_tortoiseacq.htm

5 years. Beyond 2025, Hylion will continue to innovate software and technology for future truck solutions that will keep them up to date.