

5 January 2010

## Eco City Vehicles

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/07	41.9	1.3	0.5	0.0	12.2	N/A
12/08	19.3	(0.7)	(0.2)	0.0	N/A	N/A
12/09e	23.5	0.2	0.1	0.0	93.6	N/A
12/10e	30.0	0.6	0.2	0.0	33.3	N/A

Note: \*PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

### Investment summary: From Vitoria to London

Based on SMMT data, from a standing start in July 2008 to November 2009 Eco City Vehicles (ECV) has captured 18% of the national market share with its Mercedes Vito Taxi. The key to this investment story lies in ECV's relationship with Mercedes. Short-term, management's success depends on gaining further market share. Longer-term, it has the backing of Mercedes in its attempts to develop both hybrid and sole electric vehicles. We believe the potential for the Vito taxi is significant and likely to drive the share price in the short term. In London, the mayor's recently announced environmental standards suggest that the normal 14-year replacement cycle for London taxis may be compressed. There are further upsides from regional and European sales of the Vito, starting with Germany.

### Vito market share gains driving profitability

For 2010 we are using 500 new Vito sales as our base case. This takes our EBIT estimate from £227k in 2009 to £457k in 2010. Sales of 100 units more or less would increase/decrease EBIT to £772k/£142k. Management is looking to capture a greater share of the manufacturing value-add of One80 Ltd, its 33%-owned associate, which holds the IPR to the rear wheel axle that makes the Vito compliant with London's turning circle requirements. Fully consolidating One80 Ltd on our base case would raise EBIT c 76%. The drop through to the bottom line is clearly contingent on the price paid to secure control of One80.

### Focus on the balance sheet for growth plans

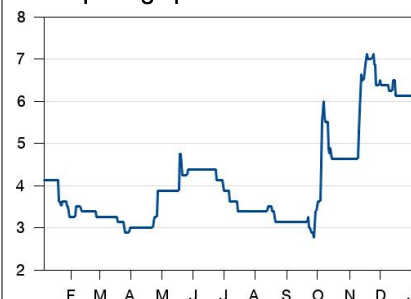
The group has total finance facilities of £6m; of this £2.1m is a mortgage facility with Barclays, and £3.1m is with Mercedes to help finance sales of new vehicles and stocking loans. Movements in the Mercedes facility are captured via creditors rather than debt. We highlight the possible requirement of additional funding.

### Valuation: Multiples reflect a business moving into profits

The current price, in our view, is building in further market share gains for the Vito in London. What does not seem to be included are upsides from expanding regionally and into Europe, with the Vito capturing more of the manufacturing value-add and growth from the eco friendly commercial vehicle strategy.

Price 6.12p  
Market Cap £18m

#### Share price graph



#### Share details

Code ECV  
Listing AIM  
Sector General Retailers  
Shares in issue 302.1m

#### Price

52 week High 7.12p Low 2.75p

#### Balance Sheet as at 31 December 2009e

Debt/Equity (%) 234  
NAV per share (p) 0.4  
Net debt (£m) 3.1

#### Business

Eco City Vehicles has exclusive distribution rights to the Mercedes Vito in the London market. The group provides a one-stop new car, used car and after sales service through its subsidiary KPM Taxis in the London market.

#### Valuation

	2008	2009e	2010e
P/E relative	N/A	N/A	230%
P/CF	N/A	N/A	8.9
EV/Sales	1.1	0.9	0.7
ROE	N/A	15%	27%

#### Revenues by geography

UK	Europe	US	Other
100%	0%	0%	0%

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## Investment summary: From Vitoria to London

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### Company description: Bringing the Vito to the London market

Eco City Vehicles (ECV) has exclusive distribution rights for the Mercedes Vito Taxi in London and together with its 33%-owned associate One80 Ltd developed the Mercedes Benz for the London market. One80 Ltd holds the intellectual property rights (IPR) for the rear wheel axle that makes the Vito compliant with London's turning circle requirements.

From its premises in Bethnal Green, the business has a heritage of over 30 years of servicing taxi owner-drivers. The business currently supplies both the Vito and LTI taxis, but is due to lose its independent dealership status for LTI in July 2010. ECV also supplies used and trade vehicles, parts and accessories and provides after sales services to its client base. The 'one-stop' shop approach has created a reputation for service, with consistent repeat buying from its customers.

The group has strong know-how in the environmentally friendly vehicle segment and is looking to exploit this in the commercial vehicle market as environmental regulations around vehicles tighten. Additional growth plans include expanding sales of the Vito outside of London and into Europe, developing a hybrid and electric taxi/commercial vehicle, and capturing more of the manufacturing value-add of the Vito.

### Sensitivities: Balance sheet and market share of the Vito

The upside case for ECV is predicated on it delivering its growth strategy. We highlight the possible requirement of additional funding to pursue this growth strategy in earnest. How many Vitos the group manages to sell into the London market drives profitability and we highlight the potential upside and downside impact of this. With Manganese Bronze having recently completed a £10m fund-raising and currently discounting aggressively as it works to lower its cost of production, gaining market share is not without challenges. There is further potential upside if the group is successful in its stated strategy of securing more of the manufacturing value-add by taking control of One80 Ltd.

### Financials: Group target to have sold 500 Vitos by end 2009

The group's first target was to sell 500 Vitos from its standing start in July 2008. As disclosed on 14 December 2009, this target was recently achieved. This would suggest that the group is likely to report a profit (excluding exceptional) for the full year. For 2010 our key assumptions are that the group achieves a further 500 Vito sales at a c 9% gross margin, sells 50 LTI vehicles at no margin, continues to break even in the used car segment and maintains parts and accessories and after sales revenues and profits.

### Valuation: Nascent profits and growth potential reflected in multiples

ECV is currently trading at 0.7x 2010 EV/sales and 33x 2010 EV/EBITDA relative to a peer group (excluding ECV) that trades at 0.2x and 8.2x, respectively. We believe this reflects the early stage nature of ECV. We have run a range of earnings scenarios and were ECV to achieve 800 Vito sales, ie a 50% share of the London market in the current duopoly structure, this would put ECV on a P/E multiple of 10x which we regard as a normalised number.

## Company description: Growing UK taxi player

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### A brief history: In business since 1975

Peter DaCosta, Keith Marder and Michael Troullis formed KPM UK Taxis (KPM) in 1975, spotting a gap in the market. Taxis at that time were largely owned by fleet operators as were the repair shops. Owner-driver cars were often at a disadvantage until KPM set up a niche garage servicing their needs, offering a one-stop shop to get owner drivers back on the road as quickly as possible.

In 1989 KPM was granted a franchise dealership by LTI, a subsidiary of Manganese Bronze, which designs, manufactures and distributes the eponymous Black Cab. LTI's own distribution arm, Mann and Overton, has four dealerships across the country (London, Birmingham, Manchester and Leeds). At the time Manganese Bronze felt it important to broaden the distribution network and offer independent dealerships. KPM became one of five independent dealerships, the only one in London, with the other four being in Edinburgh/Glasgow, Liverpool, Peterborough and Bexhill. This arrangement was formalised by an agreement in 2003.

The ability to offer new and used cars built around a one-stop repair service and its legacy of serving the owner-driver market (which now accounts for over 85% of KPM sales) led to rapid growth in revenues. Additional services were added such as the Knowledge School (started in 1991) and vehicle finance.

Following the mayor of London's emission strategy, announced 1 July 2006, KPM saw an opportunity in environmentally friendly vehicles. With new, tighter emission standards, KPM expected drivers of older taxis to replace them with new vehicles, with additional revenues arising from spend on a retrofit from those who chose to retain their vehicles. KPM saw a growing market opportunity and created a strategy to exploit its knowledge in emission reductions. KPM started to target local authorities, fleet owners and business users for early adoption of new environmentally friendly vehicles with a goal to create a one-stop shop for environmentally friendly vehicles and after sales support.

On 11 October 2007, with this wider market opportunity in mind, KPM reversed into Pannal, an AIM cash shell, and rebranded itself Eco City Vehicles. Net placing proceeds of £120k were used for working capital. The placing was at 5p/share. KPM is a wholly owned subsidiary of ECV.

The first year as a public company saw growing revenues as pent up demand for the new LTI TX4 model led to a surge in sales, although a larger loss was reported due to an exceptional write-off of £2.4m relating to debts owed to ECV by Cab Vision (a company that ECV had no shareholding in).

In January 2008, the group acquired a 43,000 sq ft premises next to Coventry Airport on a 125 year lease wholly funded by a £2.15m commercial mortgage to facilitate its expansion programme. Part of the facility was sublet to Penso and One80 Ltd to cover the interest costs and repayment of the mortgage. One80 Ltd is a 33%-owned associate of ECV, while Penso is an independent third party.

2008 was a more challenging year. Sales slumped as economic conditions deteriorated and the prior year impact of the new TX4 was no longer supporting revenue growth. The highlight of the year was an announcement that KPM had secured an exclusive distribution contract to supply a new

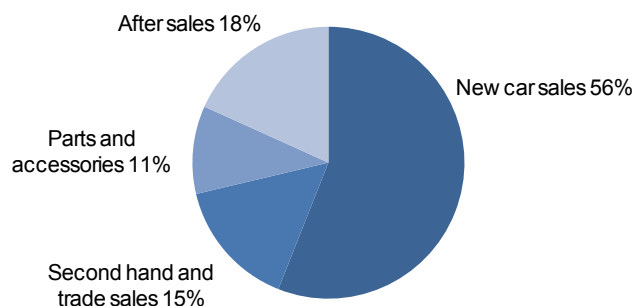
Mercedes Benz Vito taxi within London. The taxi was developed by KPM together with its associate One80 Ltd. One80 Ltd owns all the intellectual property rights for the rear wheel axle that allows the Vito to meet the 25 foot turning circle requirement of a London taxi. ECV has a contract with Mercedes where it buys the Vito. Having secured a letter of no objection from Mercedes, the Vito is then converted at the Coventry facility, with One80 Ltd overseeing Penso's second stage production, including fitting of the rear wheel axle.

The group also received its first demonstrator Mitsubishi Canter 3.5 tonne truck, the first hybrid truck running on an electric battery backed up by an LPG generator, capable of covering 125 miles on a full charge. The truck is at an enquiries stage with councils and fleet operators and the initial response has been encouraging. Mercedes Benz owns Mitsubishi Fuso, which is Mitsubishi's commercial truck division, stressing again the importance of ECV's relationship with Mercedes.

## Group activities today: Sales, end of LTI distributorship, after sales

Exhibit 1 summarises the principal revenue streams of ECV today. We examine these in more detail below.

**Exhibit 1: Group revenues by activity based on 2009 estimates**



Source: Edison Investment Research

## New car sales: Vito growing market share

Based in Bethnal Green, KPM competes with LTI owned Mann & Overton for sales of taxis into the London market. It offers both the TX4 and Mercedes Vito currently. The group received notice along with all the other independent LTI franchise dealerships that LTI was terminating its sales agreement as part of a dealer network reorganisation.

KPM will cease to sell new LTI vehicles from 17 June 2010, although it will continue to sell used vehicles. Going forwards, how the Vito captures market share is all important (we discuss this in more detail on page 6). This is already being reflected in KPM's sales. In 2008 (based on SMMT and company data) the group sold 357 new vehicles, of which we believe 108 were Vitos and 249 were LTI vehicles. For 2009 we are estimating a total 492 vehicles being sold, of which 369 are the Vito and 123 are LTI vehicles.

The on the road price of the Vito is £35,400 (assuming a 17.5% VAT rate) which is comparable to the list price for an Automatic TX4 Gold. Based on reported revenues and cars sold, KPM achieved an average selling price of £29,014 in 2008, although this figure drops to £26,800 for H109. The drop in revenues is in part related to LTI offering £4-5k discounts on its vehicles.

**Exhibit 2: List prices for taxis (£)**

		Price	VAT (17.5%)	DVLA fees	Total
TX4 Bronze	Manual	25,229	4,415	270	29,914
	Automatic	26,506	4,639	460	31,605
TX4 Silver	Manual	27,400	4,795	270	32,465
	Automatic	28,677	5,018	460	34,155
TX4 Gold	Manual	29,102	5,093	270	34,465
	Automatic	30,465	5,331	460	36,256
Vito	Automatic	29,391	5,143	460	34,994

Source: Eco City Vehicles, Mann & Overton November 2009 price list

Currently we estimate that the group is making a c 9% gross margin on new car sales. The distribution margin for every Vito sold is c 10%, while due to the heavy discounting on the LTI vehicles, KPM is effectively break-even on these sales.

The vast majority of cabs (estimated at 95%) are sold with a financial package. There is a wide range of options available, but the typical package for a new vehicle equates to a £750 per month lease over 60 months for a new Vito. This is based on a hire purchase agreement with no deposit. The group primarily uses Mercedes Benz finance and Singer & Friedlander Asset Finance, and on occasion uses Lloyds TSB. Typically KPM earns £400 for every vehicle financed, which is reported as other income.

### Used car sales: Break-even but good for the customer list

A typical cab will last for up to 14 years and probably change hands up to five times during that period, implying that, in volume terms, the used cab market is several times the size of that for new vehicles. However, the market is far more fragmented than for new vehicles. KPM offers used and trade cars. Used cars come with a full service, MOT, a year's road tax, a number plate and a one-year warranty, while trade are sold as seen, with no plate and no warranty. In 2008 the group sold 145 used cars (down from 508 for the 17 months to December 2007). There is effectively no margin on this business, but by offering an alternative choice, the group retains its relationship with customers, core to making these customers repeat buyers.

### Parts, accessories and after sales

Low-cost 'under the arches' operators are able to command a substantial share of the parts, accessories and after sales market, keeping charge-out rates relatively keen. KPM looks to differentiate itself on customer relations and by providing some unique services such as being accredited to carry out meter testing and calibration. The goal of KPM is to get the driver back on the road as quickly as possible.

KPM has access to Unipart, which manages LTI's parts inventory for both the franchised dealership network and to third party service and repair shops. This allows parts to be delivered within 24 hours.

New vehicles come with a warranty and KPM receives fees from Mercedes and LTI for the warranty work. In addition, cabs need to be serviced at regular intervals and KPM charges between £70 and £385 excluding VAT depending on number of miles. Mercedes offers a TLC package for the Vito, where for £400 three years of servicing is provided for free; again KPM is paid by Mercedes for these services. The Vito can be serviced at any Mercedes garage, however the cost of service

offered by KPM is more competitive (first 'A Service' is £128 plus VAT compared to a typical Mercedes garage price of £180 plus VAT). Typically we see gross margins of 25% to 30% in the parts and accessories business and c 65% in the after sales business.

## Group strategy: Two-pronged approach

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ECV is looking to create shareholder value over the short and long term by building on its foundations and relationship with Mercedes Benz. Short-term plans involve developing the Vito Taxi business, advancing recent success. Long-term, management wishes to leverage its experience in environmental vehicles by producing both hybrid and electric commercial vehicles and taxis.

### Growing Vito market share and capturing more of the value chain

- **London market.** While reluctant to discount on list price, management is offering incentives in order to continue driving sales; examples include free service for three years and a free 24-hour test drive is also proving popular with two out of three drivers converting to the Vito.
- **Broadening distribution by using the Mercedes Benz dealer network and LTI independent dealers.** With all of LTI's independent dealers no longer being able to supply LTI vehicles from July next year, ECV is targeting the likes of Patons (Glasgow/Edinburgh), Taxifix (Liverpool) and Smith & Humphrey (East Sussex). Outside of London, 88 areas have approved the Vito for use as a taxi.
- **Targeting the European market.** The German Taxi Association, which has 6,000 members, recently asked Mercedes to include the Vito Taxi at the Frankfurt Auto Show. The interest stemmed from the Vito's wheelchair accessibility proving more subtle than existing vehicles.
- **Capturing more of the value chain.** One80 Ltd is currently a 33% associate and has the IPR for the rear wheel axle that allows the Vito to meet the turning circle requirements of the Public Carriage Office. ECV stated in its November 2009 strategy presentation that it would like to take control of One80, thereby capturing additional margin for every Vito.

Management is promoting the Vito on being modern, having six passenger seats, being more fuel efficient, having longer between service intervals and air conditioning as standard. However, it needs to overcome concerns about the passenger window not being able to open, not being traditional in look and the intercom. A new intercom system has been approved that should allow the driver to be able to communicate with passengers more effectively.

### The future: Electric and hybrid series commercial trucks

ECV had a good response to the 3.5 tonne Mitsubishi Canter Series Hybrid it used as a demonstrator. Customer feedback was that they would prefer a 7.5 tonne vehicle with a generator run on diesel, while price did not seem to be an issue. ECV has three distinct advantages in this space: 1) its relationship with Mercedes, which has a strong presence in the commercial vehicle market, and owns Mitsubishi Fuso, 2) its low emissions know-how, and 3) using this to create a business to business approach to opening up the market. Management believes the decision to acquire a low emission van requires an advisory approach rather than the approach of a car or van

salesman. ECV has the know-how to deliver solutions to potential customers. The electric hybrid commercial vehicle market is growing as corporations become more environmentally friendly, either due to regulation or corporate social responsibility. For example, UPS currently has a fleet of over 1,800 alternative fuel/technology vehicles, while in 2002 it had close to zero.

With the mayor of London focusing on reducing emissions, ECV is looking to provide an alternative for the taxi driver by introducing a low emission series hybrid version of the Vito. While a zero emission vehicle would be the ideal (ie electric) this at present is unlikely to be commercial. A series hybrid provides a pragmatic approach to overcoming price and performance concerns. Eventually an all electric e Vito will also be available. The group is working to establish UK production capability for these vehicles.

### Management: Strong industry and eco credentials

In terms of corporate governance the group's management is well structured with several non-executive directors. The group requires a finance director, and is in the process of making an appointment. The executive board is made up of the three founding partners and each has a material shareholding (c 25%) in the company. The non-executive team brings a range of political, environmental, commercial and city facing skills to the group.

#### Exhibit 3: Executive board summary

Peter DaCosta, CEO	Peter DaCosta brings a wealth of experience in the taxi market. Peter has taken the Knowledge, is licensed to drive a taxi and has been involved in the repair and servicing of vehicles for over 30 years now. He was responsible for negotiating the independent dealer franchise agreement with LTI and knows what a cab driver wants.
Keith Marder, CTO and Michael Troulis, COO	Both bring technical know-how to the group having been involved in the taxi repair and trade business for over 30 years and with strong engineering backgrounds.
Tim Yeo, Non executive chairman	Tim Yeo has been an MP for Suffolk since 1983. He has had a number of front bench posts in the Thatcher and Major governments. Currently he is on the backbenches and is chair of the Environmental Audit Committee. He has a number of business interests that all revolve around a low carbon theme, including serving as chairman of Groupe Eurotunnel and AFC Energy, a fuel cell business.
Jeremy Fenn	Jeremy Fenn is best known for running Sports Internet plc, a business which was sold to BSkyB for £301m, and for a three-year reign as MD of Leeds United between 1997 and 1999. He is a qualified chartered accountant.
John Swingewood	John Swingewood held a number of posts at BT, including director of internet and multimedia. He then joined Sky where as director of new media he launched Sky's interactive TV sports betting. John (together with Jeremy Fenn) was a founding shareholder of two businesses that were sold to YooMedia in 2004.
Guy Saxton	Guy Saxton brings the city facing skill set to the group. In 1988 he started at AXA and then went on to be a director of Fidelity Brokerage, part of Fidelity. He is currently on the boards of Countermine and is a leading corporate adviser for World Capital Management, which represents the UK interests of Equilateral Limited, a corporate finance and pre-IPO funding business.

Source: Edison Investment Research, Eco City Vehicles

## The taxi market and its growth drivers

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London's taxis carry 1.8m people to their destinations every week. The business is highly regulated, with stringent measures around safety. Every driver has to pass the Knowledge, a test that demonstrates that they know the streets of London, while vehicles must meet a range of criteria set out by the Public Carriage Office, which includes the turning circle and wheel chair access requirements. London's taxis are more expensive to buy compared to the rest of the world, while the fares charged are nearly double the rates found in the rest of the UK.

In total, £2bn pa is spent by UK residents on taxis, and each year cab operators spend £150m on diesel and lubricants, £25m on spares and accessories, £10m on tyres, £12m on insurance and £5m on batteries. Currently there are c 22,000 licensed taxis serving London and the London Chamber of Commerce highlighted that the capital is underserved by the current taxi infrastructure, and, with the 2012 Olympics looming, London needs to recruit younger drivers to the trade.

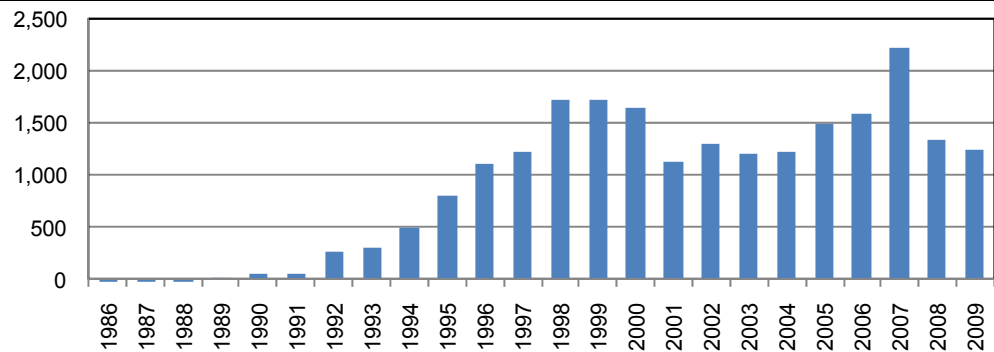
The taxi market used to be a duopoly between LTI and Metrocab. Metrocab ceased producing cabs in 2006, leaving LTI in a monopolistic position until the introduction of the Mercedes Vito.

The demand for taxis is driven by four principal factors: 1) the economic environment; 2) launches of new models; 3) the car replacement cycle, which is a function of the desire of taxi drivers not to let their vehicle fall out of warranty; and finally 4) changes in environmental regulations. This was highlighted in the last couple of years when in 2007 there was a surge in demand as a new Euro IV compliant TX4 was launched, while in 2008 there was a significant drop as the effects of the credit crunch and fewer fare paying passengers took its toll on the market. The normalised rate for new taxi purchases in London is around 1,600 a year.

### **New emission standards: A change to the replacement cycle**

Emission standards are set by the EU and define the acceptable levels of pollutants and particulate emissions. The standards get progressively tougher moving from Euro 1 to 6. Failure to meet the emission standards will result in fines from the EU. Initially looking to delay the introduction of tougher standards, the mayor of London announced at the 2009 Tory party conference that he was pressing ahead with meeting the tougher standards in order to avoid the £300m EU fine. In summary his proposals for the taxi market (which contribute 35% of London's PM10 emissions) state that: every new taxi must be Euro IV compliant by 2012, a 15-year age limit will be imposed on all taxis by 2012 and a 10-year age limit imposed on all taxis by 2015.

With the average replacement of London's 22k taxi fleet running at c 1,600 pa, this would suggest an average replacement cycle of around 14 years, similar to the 15-year age restriction being proposed by the mayor of London for 2012. From the current age distribution of London taxis (see Exhibit 4) there are a number of taxis significantly older than 15 years. Were the new regulations introduced on 1 January 2010, there would be 1,225 taxis that would need to be immediately replaced. If we roll forward to 2012 and 2015, assuming that none of the current London fleet is replaced, 4,387 and 14,386 vehicles, respectively, would need to be replaced immediately. Clearly many of these vehicles would be replaced through the replacement cycle, but it illustrates the potential for acceleration in the normal cycle.

**Exhibit 4: Current age distribution of London's taxi fleet**

Source: Transport for London

## Sensitivities: Funding and Vito take up

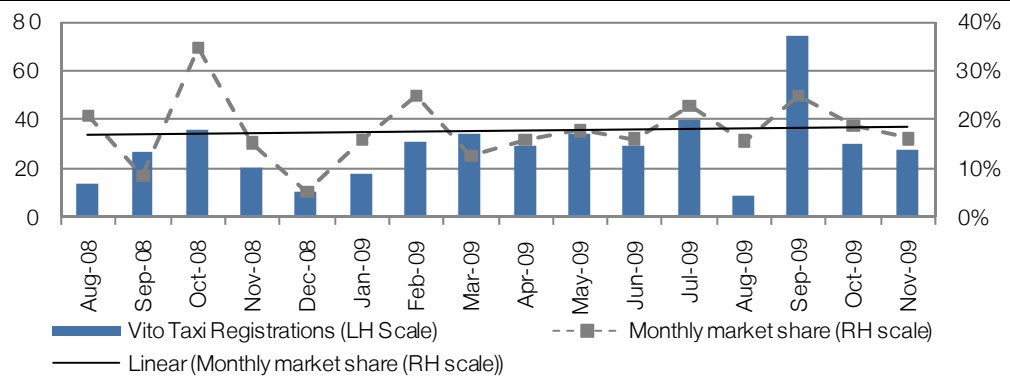
In addition to the normal demand drivers highlighted on page 8, we would highlight two key areas for investors in appraising ECV as an investment opportunity:

- Funding:** ECV treats its commercial mortgage as a current liability despite it being payable over 15 years. The covenants on this mortgage were breached in 2008, but the group was able to successfully negotiate a covenant waiver from Barclays. The group looks to keep forecast net debt at 1.25x EBITDA, which on our current forecasts would require net debt to be £515k. Our estimated net debt (which includes overdrafts, the commercial mortgage and finance lease obligations net of cash) for 2009 is £3.1m. At some stage we would expect the group to look to recapitalise the balance sheet.
- Take up of the Vito and ownership of One80 Ltd.** The Vito has had a successful launch. It has captured c 23% of the London market based on SMMT data to November 2008 and 18% of the national market share (see Exhibit 6). We are basing our 2010 forecasts on the group achieving 500 new Vito sales. Exhibit 5 shows the impact on group profitability depending on the number of vehicles sold. The group has also stated that it would like to take control of One80 Ltd, and we highlight the impact were One80 consolidated from 1 January 2010. Clearly how much the group pays for One80 will have an impact on the bottom line.

**Exhibit 5: 2010 estimates, based on number of Vitos sold, with 500 our 2010 base case**

Without One80 consolidated							
No of Vitos sold	200	300	400	<b>500</b>	600	700	800
Gross profit (£'000s)	3,865	4,180	4,495	<b>4,810</b>	5,125	5,440	5,755
Operating profit (£'000s)	(488)	(173)	142	<b>457</b>	772	1,087	1,402
With One80 consolidated							
No of Vitos sold	200	300	400	<b>500</b>	600	700	800
Gross profit (£'000s)	4,405	4,990	5,575	<b>6,160</b>	6,745	7,330	7,915
Operating profit (£'000s)	(948)	(363)	222	<b>807</b>	1,392	1,977	2,562

Source: Edison Investment Research

**Exhibit 6: Monthly Vito tax registrations and monthly market share of national taxi market**

Source: SMMT, Edison Investment Research

## Valuation: Premium to peers reflects early growth stage

We would typically expect ECV to be compared to the motor dealers and Manganese Bronze. ECV's high multiples reflect its move from marginally loss-making towards profitability. The market is clearly anticipating growth. Based on our sensitivity table (Exhibit 5), were the group to achieve 800 Vito sales (ie 50% of the London market) which could be seen as a normalised number, this would put the group on a P/E multiple of 10x its current price. Resistance to the Vito taking market share is a risk to the share price, while the upside to the price in our view includes a) securing the additional value add of One80 Ltd at a reasonable price, b) the overseas and regional expansion potential, and c) securing additional margin from eco friendly commercial vehicles.

**Exhibit 7: Peer group multiples for motor dealers, Manganese Bronze and ECV**

Note: Prices as at 4 January 2010; ratios are calendarised.

Companies	CCY	Year end	Price (p)	Mkt Cap (£m)	P/E	EV/Sales	EV/EBITDA	P/E	EV/Sales	EV/EBITDA
							2009e			2010e
Eco City Vehicles	£	Dec	6	19	93.6	0.9	52.5	33.3	0.7	33.0
HR Owen	£	Dec	66	15	N/A	0.2	N/A	N/A	0.2	19.3
Inchcape	£	Dec	30	1,382	15.0	0.3	7.1	15.0	0.3	7.0
Lookers	£	Dec	51	187	7.1	0.2	5.4	9.6	0.2	5.5
Manganese Bronze	£	Dec	111	34	N/A	0.4	13.1	30.8	0.3	6.3
Pendragon	£	Dec	23	149	22.8	0.2	4.5	7.6	0.2	4.1
Vertu Motors	£	Feb	39	76	11.2	0.1	14.2	18.3	0.1	8.8
<b>Average excluding ECV</b>					<b>14.0</b>	<b>0.2</b>	<b>8.9</b>	<b>16.3</b>	<b>0.2</b>	<b>8.5</b>
<b>Average including ECV</b>					<b>27.3</b>	<b>0.3</b>	<b>15.1</b>	<b>18.7</b>	<b>0.3</b>	<b>11.6</b>

Source: Edison Investment Research, Thomson Reuters

## Financials

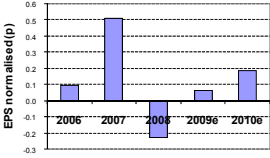
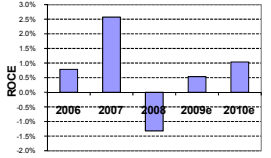
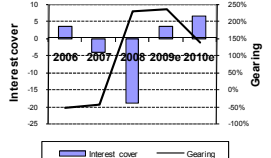
Key factors and assumptions driving our financial forecasts are as follows:

- We are assuming 50 LTI vehicles and 500 Vitos are sold in 2010. We assume no margin for the LTI vehicles and a c 9% gross margin for the Vito.
- We assume that the gross margin drops in 2010 due to the mix effect, with more vehicle sales making up revenues which have a lower margin relative to the part and after sales.
- Capex is expected to be minimal for the coming years, running below depreciation. The Bethnal Green facility was recently reorganised and the Coventry facility has capacity to deal with 4,000 Vitos a year.

**Exhibit 8: Financials**

<b>PROFIT &amp; LOSS</b>	<b>£'000s</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>
Year-end:		31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
<b>Revenue</b>		<b>27,268</b>	<b>41,893</b>	<b>19,318</b>	<b>23,545</b>	<b>29,961</b>
Cost of Sales		(23,299)	(35,805)	(15,566)	(19,011)	(25,151)
Gross Profit		3,969	6,088	3,752	4,533	4,810
<b>EBITDA</b>		<b>399</b>	<b>1,175</b>	<b>(397)</b>	<b>412</b>	<b>656</b>
<b>Operating Profit (before GW and except.)</b>		<b>275</b>	<b>1,044</b>	<b>(582)</b>	<b>227</b>	<b>457</b>
Goodwill Amortisation		0	0	0	0	0
Exceptionals		(519)	(3,982)	(564)	(460)	0
Associate income		0	0	(90)	35	165
<b>Operating Profit</b>		<b>(244)</b>	<b>(2,938)</b>	<b>(1,236)</b>	<b>(198)</b>	<b>622</b>
Net Interest		(77)	254	(31)	(65)	(68)
<b>Profit Before Tax (norm)</b>		<b>198</b>	<b>1,298</b>	<b>(703)</b>	<b>197</b>	<b>554</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(321)</b>	<b>(2,684)</b>	<b>(1,267)</b>	<b>(263)</b>	<b>554</b>
Tax		34	(6)	20	0	0
<b>Profit After Tax (norm)</b>		<b>232</b>	<b>1,292</b>	<b>(683)</b>	<b>197</b>	<b>554</b>
<b>Profit After Tax (FRS3)</b>		<b>(287)</b>	<b>(2,690)</b>	<b>(1,247)</b>	<b>(263)</b>	<b>554</b>
Average Number of Shares Outstanding (m)		240.0	252.4	302.1	302.1	302.1
<b>EPS - normalised (p)</b>		<b>0.1</b>	<b>0.5</b>	<b>(0.2)</b>	<b>0.1</b>	<b>0.2</b>
<b>EPS - FRS 3 (p)</b>		<b>(0.1)</b>	<b>(1.1)</b>	<b>(0.4)</b>	<b>(0.1)</b>	<b>0.2</b>
Gross Margin (%)		14.6%	14.5%	19.4%	19.3%	16.1%
EBITDA Margin (%)		1.5%	2.8%	(2.1%)	1.8%	2.2%
Operating Margin (before GW and except.) (%)		1.0%	2.5%	(3.0%)	1.0%	1.5%
<b>BALANCE SHEET</b>						
<b>Fixed Assets</b>		<b>429</b>	<b>3,471</b>	<b>3,947</b>	<b>3,838</b>	<b>3,747</b>
Intangible Assets		0	0	0	0	0
Tangible Assets		429	2,516	2,837	2,688	2,547
Investment in associates		0	955	1,110	1,150	1,200
<b>Current Assets</b>		<b>4,765</b>	<b>5,705</b>	<b>6,423</b>	<b>8,063</b>	<b>10,261</b>
Stocks		1,099	2,527	4,228	4,838	6,156
Debtors		2,163	1,916	2,148	3,225	4,104
Cash		1,503	1,262	47	0	0
<b>Current Liabilities</b>		<b>(2,679)</b>	<b>(6,550)</b>	<b>(8,996)</b>	<b>(10,513)</b>	<b>(11,912)</b>
Creditors		(2,594)	(6,489)	(5,886)	(7,404)	(9,162)
Short term borrowings		(85)	(61)	(3,110)	(3,109)	(2,749)
<b>Long Term Liabilities</b>		<b>(128)</b>	<b>(42)</b>	<b>(23)</b>	<b>(44)</b>	<b>(44)</b>
Long term borrowings		(100)	(8)	(9)	(30)	(30)
Other long term liabilities		(28)	(34)	(14)	(14)	(14)
<b>Net Assets</b>		<b>2,387</b>	<b>2,584</b>	<b>1,351</b>	<b>1,344</b>	<b>2,052</b>
<b>CASH FLOW</b>						
<b>Operating Cash Flow</b>		<b>937</b>	<b>754</b>	<b>(3,483)</b>	<b>(234)</b>	<b>207</b>
Net Interest		(77)	254	(31)	216	200
Tax		(90)	0	169	0	0
Capex		1	(2,217)	(506)	(50)	(47)
Acquisitions/disposals		0	(955)	(245)	0	0
Financing		0	0	0	0	0
Dividends		(150)	(300)	0	0	0
Net Cash Flow		621	(2,464)	(4,096)	(67)	360
<b>Opening (net debt)/cash</b>		<b>723</b>	<b>1,318</b>	<b>1,193</b>	<b>(3,072)</b>	<b>(3,139)</b>
HP finance leases initiated		0	0	0	0	0
Other		(26)	2,339	(169)	0	0
<b>Closing (net debt)/cash</b>		<b>1,318</b>	<b>1,193</b>	<b>(3,072)</b>	<b>(3,139)</b>	<b>(2,779)</b>

Source: Eco City Vehicles accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	◐
			Pensions	○
			Currency	○
			Stock overhang	◐
			Interest rates	◐
			Oil/commodity prices	◐

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	Company details		
EPS CAGR 06-10e	13.7	ROCE 09e	0.7	Gearing 09e	234	Address:	
EPS CAGR 08-10e	N/A	Avg ROCE 06-10e	0.7	Interest cover 09e	3.5	Hemming House, Hemming Street, London E1 5BL	
EBITDA CAGR 06-10e	10.5	ROE 09e	14.7	CA/CL 09e	0.8	Phone	020 7377 2182
EBITDA CAGR 08-10e	N/A	Gross margin 09e	19.3	Stock turn 09e	75	Fax	020 7247 1481
Sales CAGR 06-10e	1.9	Operating margin 09e	1.0	Debtor days 09e	50	www.ecocityvehicles.com	
Sales CAGR 08-10e	15.8	Gr mgn / Op mgn 09e	20	Creditor days 09e	105		

Principal shareholders	%	Management team
Peter Da Costa	26.5	<b>CEO: Peter DaCosta</b>
Michael Troulis	26.5	Peter DaCosta founded KPM UK Taxis in 1975 together with COO Michael Troulis and CTO Keith Marder. He secured the independent dealership rights for the LTI Taxi and secured the exclusive rights to distribute the Mercedes Vito taxi in London. He brings over 30 years of experience of working and operating in the London taxi market.
Keith Marder	26.5	
Giltspur Nominees Limited	5.8	
		<b>Chairman: Tim Yeo</b>
		Tim Yeo has been an MP for Suffolk since 1983. He has had a number of front bench posts in the Thatcher and Major governments. Currently he is on the backbenches and is chair of the Environmental Audit Committee. He has a number of business interests that all revolve around a low carbon theme, including serving as chairman of Groupe Eurotunnel and AFC Energy, a fuel cell business.
<b>Forthcoming announcements/catalysts</b>	<b>Date *</b>	<b>Finance Director: To be appointed</b>
Post period end update	Jan 2010	
Preliminary Results Announcement	March 2010	
<i>Note: * = estimated</i>		

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