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Weekly Commentary

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The Lion Electric Company – Leading the Charge to Fleet Electrification

Lion Electric (LEV: TSX/NYSE) is an innovative manufacturer of fully electric vehicles including school buses, transit buses, and class 5 to class 8 commercial trucks. The company's current lineup of vehicles has been in development since 2009 when the decision was made to commit to non-hybrid 100% electrification of the company's product line.

In November 2020, Lion announced that the company would go public via a business combination with **Northern Genesis Acquisition Corp. (NGC: NYSE)**, a publicly traded, "blank cheque" Special Purpose Acquisition Company (SPAC). Following a meeting of NGC shareholders held on April 23, 2021, the business combination was approved, and Lion Electric commenced the transition from a privately held company to a public one. The transaction resulted in net proceeds of approximately USD$400 million to Lion, following repayment of outstanding credit and debt. Lion intends to use the cash to finance its ambitious North American growth strategy.

In March 2021, Lion announced the construction of its Mirabel, QC "Lion Campus", consisting of a research and innovation center and battery manufacturing plant. In May 2022, management confirmed that the exterior of the manufacturing structure is complete and that testing on a prototype production module is being conducted by JR Automation at its facility in Troy, NY. The modules will eventually be transferred to the Mirabel plant and the commercial production of batteries is anticipated for the second half of this year.
In addition to the Mirabel facility, Lion's new U.S. based vehicle manufacturing plant located in Joliet, IL, is nearing completion. Current focus is on completing the interior of the 900,000 square foot plant which includes the installation and commissioning of production line equipment. Hiring of plant management and onboarding of around 500 skilled workers is ongoing. The highly automated factory will have the capacity to produce 20,000 vehicles per year. When combined with the Canadian manufacturing plant in Quebec, Lion will have the ability to produce approximately 22,500 vehicles per year. To put this number into perspective, Lion delivered 80 vehicles in 2020 and 196 vehicles in 2021.

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The Joliet plant will provide access to the massive U.S. market by offering a "Made in America" product that will allow access to federal, state and local funding. For example, the U.S. government recently pledged USD$5 billion in funding for the "Clean School Bus Program", a bipartisan initiative that can fund 100% of the cost of an electric school bus (USD$375,000) in "priority districts". Other "eligible districts" could receive up to USD$250,000 per vehicle which significantly closes the price gap between electric and diesel. In addition, USD$7.5 billion had been earmarked for EV charging infrastructure, and about one-third of states have assistance programs for electrification of school buses or urban transit.

Lion's current lineup of electric vehicles includes "urban trucks" that are ideally designed for localized delivery and "specialized trucks" for use in waste collection, tractors, "bucket" trucks (utilities) and ambulances. The advantages of electrification are numerous. The rising cost of diesel fuel is stressing budgets which in turn is converging the comparative cost of electric. Servicing and maintenance of EV's are significantly less than internal combustion engine platforms given the simple fact there are fewer moving parts. Total cost of ownership (TCO) is expected to improve as production optimization and the cost of battery packs, which form the largest cost component in an EV, are produced at scale.

Lion's stated mission is to be the leader in the design, manufacturing and distribution of 100% electric urban commercial vehicles and buses. With over a dozen years' experience in developing EV's, Lion has an early-stage advantage over competitors. The burgeoning "Lion Ecosystem" consists of a vertically integrated product and service offering to fleet operators which includes EV infrastructure (charging), financing, and specialized teams designed to address customer specific needs like training, analytics, servicing and accessing government grants.

On the recent Q1/2022 earning call management highlighted the company's solid balance sheet ($155 million cash, access to $435 million in liquidity), current purchase orders totaling $600 million (2,136 busses, 286 trucks), and its rapidly growing order book with "Tier 1" customers that includes Amazon, CN Rail and IKEA, as well as numerous school bus operators, utilities and waste disposal companies. We recall that in June 2020, Amazon inked a multi-year purchase agreement for the option to purchase up to 2,500 Lion trucks. Terms include Lion reserving the capacity to deliver up to 500 vehicles per year to Amazon until 2025, and 10% of manufacturing capacity from 2026 to 2030. Included is an equity warrant that could potentially see Amazon take a 15% ownership stake in Lion if certain purchasing targets (at least $1.1 billion) are realized.

The tailwinds for accelerated growth in the EV market are clear. In the company's recent corporate presentation, management states that the total addressable market (TAM) for electric busses and trucks is anticipated to be a massive $110 billion in Canada and the United States. Further, with transportation accounting for roughly 25% of greenhouse gas emissions in North America, governments are increasingly supportive of incentivizing the transition to EV's to meet carbon reduction objectives. With an experience management team, an established track record in designing and manufacturing EVs, the establishment of a solid foothold in the U.S., and the upcoming addition of in-house battery manufacturing capability, we believe Lion Electric is ideally positioned to assume a leadership role in the rapidly growing EV industry.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$8.13	-13.67%
Palos Equity Income Fund - RRSP	PAL101	$6.28	-12.71%
Palos Merchant Fund L.P. (Dec 31, 2021) [2]	PAL500	$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	$12.88	-31.83%
Palos-Mitchell Alpha Fund [3]	PAL300	$8.35	-18.80%
S&P TSX Composite (Total Return with dividends reinvested)			-9.85%
S&P 500 (Total Return with dividends reinvested)			-19.97%
S&P TSX Venture (Total Return with dividends reinvested)			-34.24%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			3.01%
Canadian Government 10-Year			3.22%
Crude Oil Spot			US $105.76
Gold Spot			US $1,801.50
US Gov't10-Year/Moody BAA Corp. Spread			225 bps
USD/CAD Exchange Rate Spot			US $0.7768

[1] *Period ending June 30th, 2022. Data extracted from Bloomberg*

[2] *Fund is priced annually*

[3] *Fund is priced weekly on Tuesdays*

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