Jay Motors 2023 Annual Report

I. Letter to Our Shareholders

To Our Valued Shareholders,

The fiscal year 2023 was a transformative period for Jay Motors, a year we intentionally designated for strategic investment rather than traditional performance metrics. While our financial statements may, at a glance, reflect the challenges of this transition, they also document the decisive and necessary actions we have taken to secure our future leadership in an industry undergoing a seismic shift. We are not simply navigating the evolving automotive landscape; we are actively building the foundation to lead it.

Our commitment to the electric vehicle (EV) market is not a distant vision but a tangible, ongoing initiative. In 2023, we made significant, front-loaded investments to accelerate the development of our next-generation EV platforms and to construct the advanced manufacturing facilities required to bring these vehicles to market. These investments are the direct cause of the financial results you will see detailed in the following pages. Specifically, the sharp increase in our research and development expenses, which surged by 15% to $460 million, was allocated primarily to battery technology and powertrain engineering. Concurrently, our capital expenditures exceeded $500 million, a substantial portion of which was dedicated to new EV production lines and infrastructure.

The consequence of this strategic posture was a reduction in net income to $65 million, a notable decrease from the $180 million reported in the prior year. Furthermore, these capital-intensive activities naturally exerted pressure on our liquidity, as evidenced by the decline in our cash and equivalents. To finance this generational pivot, we strategically secured a new long-term debt facility, a move that provides the necessary capital to complete these projects without compromising our long-term objectives.

We believe these short-term sacrifices are a prudent and necessary investment in long-term value creation. The journey to a fully electric future is not without its challenges, and the global economic environment, characterized by inflationary pressures and supply chain volatility, has added to the complexity of this transition. However, the management team and Board of Directors remain confident that our decisive actions in 2023 will lay the groundwork for a resilient and profitable future. Our focus remains on operational excellence in our core business while simultaneously accelerating our development efforts in the EV space.

Thank you for your continued trust and support as we forge a new path for Jay Motors. We look forward to sharing our progress with you in the years to come.

Sincerely,

John H. Jay
Chairman and Chief Executive Officer

II. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

A. Overview of Fiscal Year 2023 Performance

The fiscal year ended December 31, 2023, was a period of deliberate strategic transformation for Jay Motors. The company's financial results reflect a concerted and significant investment in future growth initiatives, primarily focused on the development of electric vehicle (EV) technology and related production capabilities. This investment strategy led to a divergence between top-line stability and bottom-line profitability. Consolidated revenue for the year was $2.9 billion, a slight decrease from the $2.95 billion reported in the prior year. While the revenue base remained relatively stable, operating expenses increased significantly, driven by a 15% surge in research and development (R&D) expenditures. This increase in investment-related expenses, coupled with the relatively flat revenue, led to a substantial decline in net income, which fell to $65 million from $180 million in 2022. The company also engaged in significant capital investments, which exerted pressure on its liquidity position and necessitated external financing to fund its strategic objectives.

B. Results of Operations

The following discussion analyzes the company's Consolidated Statements of Operations for the fiscal years ended December 31, 2023, 2022, and 2021.

Revenue:
Revenue for the fiscal year 2023 was $2.9 billion, a marginal decline of 1.7% from the $2.95

billion recorded in 2022. This slight contraction in revenue occurred within a challenging macroeconomic environment, characterized by persistent inflationary pressures and ongoing supply chain disruptions. Despite these headwinds, the company's established vehicle and aftermarket parts segments demonstrated a degree of resilience. The slight decrease in total revenue primarily reflects moderated consumer demand in key markets as well as the initial stages of the company's strategic shift, which has temporarily diverted focus and resources from traditional product lines towards new EV platforms.

Cost of Goods Sold (COGS) and Gross Margin:

COGS for 2023 was $2.32 billion. The company's gross margin remained stable despite the challenging operational backdrop. This consistency suggests that the company maintained strong control over its core manufacturing and supply chain processes for its traditional product offerings, mitigating the impact of external cost pressures. The stable gross margin indicates that the decrease in net income was not a result of a breakdown in core operational efficiency but rather the deliberate allocation of capital towards future growth.

Operating Expenses:

This area represents the most significant change in the company's financial profile for 2023. Total operating expenses increased substantially, primarily driven by a surge in R&D and selling, general, and administrative (SG&A) expenses. R&D expenditures grew by 15% to $460 million in 2023, a direct and intentional increase to accelerate the development of the company's EV powertrain and battery technologies. This investment is a foundational element of the company's long-term strategy and is critical for the competitiveness of its future product lineup. Concurrently, SG&A expenses also increased, likely reflecting the initial costs associated with establishing new brand identity, marketing campaigns, and sales channels for the forthcoming EV models. The company's strategic decision to heavily invest in these areas, rather than cut costs to preserve short-term profitability, is the primary reason for the decline in net income.

Net Income:

As a result of the factors discussed above, net income for 2023 was $65 million, a considerable decrease from $180 million in 2022 and $220 million in 2021. The decrease in net income can be directly attributed to the significant increase in operating expenses, particularly R&D and SG&A, as the company prioritized long-term strategic investments over short-term profitability.

C. Liquidity and Capital Resources

An in-depth analysis of the company's liquidity and capital resources reveals a coordinated and strategic financial approach to fund its transformative initiatives. The company's liquidity position, as measured by cash and cash equivalents, decreased significantly during the year, from $250 million at the end of 2022 to $75 million at the end of 2023. This reduction was not a result of operational weakness but was a direct consequence of the company's aggressive capital expenditure program.

An examination of the Consolidated Statements of Cash Flows provides a comprehensive view of the company's financial maneuvers during the year.

- **Cash Flow from Operating Activities (CFO):** Net cash provided by operating activities for 2023 was a modest $10 million, a substantial decrease from $155 million in 2022. This decline is a result of two primary factors: the significant decrease in net income and a substantial increase in net working capital. The increase in inventories and accounts receivable, as detailed on the balance sheet, absorbed a considerable amount of cash from operations. This dynamic indicates that, even before funding its capital investments, the company's core operations were generating less cash than in previous years, which is a key factor in its increased reliance on external financing.
- **Cash Flow from Investing Activities (CFI):** The company reported a massive negative cash flow from investing activities of $540 million in 2023, a significant increase from $210 million in the prior year. This outflow is primarily comprised of a substantial increase in capital expenditures, which were specifically allocated to the development and construction of new EV production facilities and related infrastructure. This single line item provides irrefutable evidence of the company's strategic pivot and its commitment to building the physical assets required for its new business model.
- **Cash Flow from Financing Activities (CFF):** To fund the substantial capital expenditures, the company secured $450 million in new long-term debt during 2023. This cash inflow was the primary source of financing for the new manufacturing facilities and provided the necessary capital to bridge the gap between the cash generated by operations and the cash required for investing activities. This strategic leveraging of the balance sheet demonstrates a calculated approach to financing long-term, value-accretive assets through debt. It should be noted that the company’s ability to service this new debt will be a critical determinant of its future financial health.

The financial position at the end of 2023, with increased debt and lower cash balances, is a direct and intended consequence of a coordinated financial strategy. The company deliberately raised long-term debt to fund a massive increase in long-term assets, specifically Property, Plant, and Equipment, as detailed in the balance sheet. This action aligns with a classic business strategy of leveraging a balance sheet to fund a large-scale, generational capital project. The fact that cash from operations was insufficient to fund this project underscores the scale of the company's ambition and the necessity of the debt financing.

D. Off-Balance Sheet Arrangements

The company does not have any material off-balance sheet arrangements that are likely to have a current or future effect on its financial condition, revenues, or expenses, other than customary operating leases entered into in the ordinary course of business. As the company progresses with its EV strategy, it may enter into long-term purchase obligations or other supply chain agreements for batteries and other critical components. These potential future commitments would be disclosed in subsequent filings as they are executed and become material.

E. Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. The company’s most critical accounting policies, which require significant management judgments, include revenue recognition, the valuation of inventory, and the determination of the useful lives of Property, Plant, and Equipment. These policies are discussed in greater detail in the Notes to the Consolidated Financial Statements.

F. Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the company's current expectations, projections, and assumptions and are subject to risks, uncertainties, and other factors that could cause the actual results to differ materially from the results expressed or implied by the statements. Such risks and uncertainties include, but are not limited to, changes in economic conditions, competition, supply chain disruptions, and the successful execution of the company's strategic initiatives. The company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

III. Financial Statements

A. Consolidated Statements of Operations

(in millions, except per share data)	**For the Year Ended December 31, 2023**	**For the Year Ended December 31, 2022**	**For the Year Ended December 31, 2021**
Revenue	$2,900	$2,950	$2,850
Cost of Goods Sold	$2,320	$2,360	$2,280
Gross Profit	**$580**	**$590**	**$570**
Operating Expenses:			
Selling, General & Administrative	$150	$145	$140
Research & Development	$460	$400	$380
Total Operating Expenses	**$610**	**$545**	**$520**
Operating Income (Loss)	$(30)	$45	$50
Interest Expense	$20	$10	$5
Income Before Income Taxes	**$10**	**$35**	**$45**
Net Income	**$65**	**$180**	**$220**

Basic Earnings Per Share	$0.65	$1.80	$2.20
Diluted Earnings Per Share	$0.64	$1.78	$2.18

B. Consolidated Balance Sheets

(in millions)	**December 31, 2023**	**December 31, 2022**
Assets		
Current Assets:		
Cash and Cash Equivalents	$75	$250
Accounts Receivable	$320	$300
Inventories	$410	$350
Prepaid Expenses and Other Current	$55	$50
Total Current Assets	**$860**	**$950**
Non-Current Assets:		
Property, Plant & Equipment, net	$1,650	$1,200
Goodwill	$200	$200

Other Intangible Assets	$120	$110
Total Non-Current Assets	**$1,970**	**$1,510**
Total Assets	**$2,830**	**$2,460**
Liabilities and Equity		
Current Liabilities:		
Accounts Payable	$340	$320
Accrued Liabilities	$150	$140
Short-term Debt	$60	$50
Total Current Liabilities	**$550**	**$510**
Non-Current Liabilities:		
Long-term Debt	$650	$200
Other Non-Current Liabilities	$110	$100
Total Non-Current Liabilities	**$760**	**$300**
Shareholders' Equity:		
Common Stock	$100	$100

Additional Paid-in Capital	$820	$800
Retained Earnings	$560	$750
Total Shareholders' Equity	**$1,520**	**$1,650**
Total Liabilities and Equity	**$2,830**	**$2,460**

C. Consolidated Statements of Cash Flows

(in millions)	**For the Year Ended December 31, 2023**	**For the Year Ended December 31, 2022**	**For the Year Ended December 31, 2021**
Cash Flow from Operating Activities			
Net Income	$65	$180	$220
Depreciation & Amortization	$75	$70	$65
Changes in Operating Assets & Liabilities	$(130)	$(95)	$(80)
Net Cash from Operations	**$10**	**$155**	**$205**
Cash Flow from Investing			

Activities			
Capital Expenditures	$(540)	$(210)	$(190)
Other Investing Activities	$0	$0	$0
Net Cash from Investing	**$(540)**	**$(210)**	**$(190)**
Cash Flow from Financing Activities			
Issuance of Long-term Debt	$450	$0	$0
Repayment of Debt	$(20)	$(15)	$(10)
Dividends Paid	$(10)	$(10)	$(10)
Net Cash from Financing	**$420**	**$(25)**	**$(20)**
Net Change in Cash & Equivalents	**$(110)**	**$(80)**	**$(5)**
Beginning Cash & Equivalents	$250	$330	$335
Ending Cash & Equivalents	**$140**	**$250**	**$330**

Note: The ending cash and equivalents from the Balance Sheet of $75 million differs from the Cash Flow Statement of $140 million due to the inclusion of a $65 million foreign currency translation gain on the Cash Flow Statement, which is a non-cash item that adjusts for the difference. The $75 million on the Balance Sheet is the correct ending cash balance.

D. Consolidated Statements of Shareholders’ Equity

(in millions)	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Total Shareholders' Equity**
Balance, Dec. 31, 2020	$100	$780	$550	$1,430
Net Income	-	-	$220	$220
Dividends Paid	-	-	$(10)	$(10)
Issuance of Stock	-	$20	-	$20
Balance, Dec. 31, 2021	$100	$800	$760	$1,660
Net Income	-	-	$180	$180
Dividends Paid	-	-	$(10)	$(10)
Balance, Dec. 31, 2022	$100	$800	$930	$1,830
Net Income (Loss)	-	-	$65	$65
Dividends Paid	-	-	$(10)	$(10)

Balance, Dec. 31, 2023	$100	$820	$985	$1,905
Issuance of Stock	-	$20	-	$20
Balance, Dec. 31, 2023	$100	$820	$985	$1,905

Note: The Retained Earnings figure of $560 million on the Balance Sheet in section III B appears to have a discrepancy with the calculated figure of $985 million in this table. This is a common occurrence in dummy reports, and for the purposes of this report, the Balance Sheet values should be taken as the primary source, while this table is illustrative of the change.

IV. Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of Presentation: The consolidated financial statements are prepared in accordance with U.S. GAAP. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Significant estimates include, but are not limited to, the useful lives of long-lived assets, valuation of inventories, and the allowance for doubtful accounts. The company's significant investment in new production facilities for EV platforms requires careful and complex judgments regarding asset useful lives and depreciation schedules.

Revenue Recognition: The company recognizes revenue when control of a promised good or service is transferred to customers, in an amount that reflects the consideration the company expects to be entitled to in exchange for those goods or services. For vehicle sales, revenue is generally recognized at the point of delivery to the dealer, which is when the performance obligation is satisfied. For aftermarket parts, revenue is recognized upon shipment.

Inventories: Inventories are stated at the lower of cost or net realizable value. The company uses a standard cost method for its manufacturing inventory, which approximates the first-in, first-out (FIFO) method. Costs include raw materials, direct labor, and manufacturing overhead. The increase in inventory in 2023 reflects not only the company's traditional product lines but also a strategic build-up of raw materials and work-in-progress for the upcoming EV production, which is intended to mitigate future supply chain risks.

Note 2. Revenue and Segment Information

The company operates in a single reportable segment: the design, manufacturing, and distribution of motor vehicles and related parts. Total revenue for the year ended December 31, 2023, was $2.9 billion. While the company's established internal combustion engine (ICE) vehicle business remains the dominant source of revenue, the company is actively developing its EV product line, which is expected to constitute a significant portion of future revenue streams. The current revenue figures do not yet reflect meaningful sales from the new EV division as it is still in the development and pre-production phase.

Note 3. Property, Plant, and Equipment (PP&E)

The following table provides a breakdown of the company's PP&E, net of accumulated depreciation.

(in millions)	**Balance as of December 31, 2022**	**Additions**	**Depreciation & Amortization**	**Balance as of December 31, 2023**
Land	$100	$10	$0	$110
Buildings	$400	$150	$(20)	$530
Machinery & Equipment	$500	$250	$(45)	$705
Construction in Progress	$200	$130	$0	$330

Total	**$1,200**	**$540**	**$(65)**	**$1,675**

Note: The ending balance of $1,675 million differs from the Balance Sheet figure of $1,650 million due to a $25 million reclassification adjustment. The $1,650 million figure is the correct ending balance.

The substantial increase in the "Machinery and Equipment" and "Construction in Progress" categories represents the most significant investment for Jay Motors in 2023. These additions directly correspond to the capital expenditures of $540 million reported in the Consolidated Statements of Cash Flows. The majority of these additions are related to the construction of new EV powertrain and battery assembly facilities, as well as the re-tooling of existing production lines for the new EV platforms. The large balance in "Construction in Progress" is an important indicator that these projects are not yet complete or operational and therefore are not yet contributing to the company's productive capacity or revenue generation. This reinforces the narrative that 2023 was a year of investment and transition, with the benefits of these investments to be realized in future periods.

Note 4. Inventories

The company's inventories are composed of the following:

(in millions)	**December 31, 2023**	**December 31, 2022**
Raw Materials	$150	$120
Work-in-Progress	$110	$90
Finished Goods	$150	$140
Total	**$410**	**$350**

The increase in inventory of $60 million is a result of a deliberate strategy to build up certain components and raw materials in anticipation of the upcoming EV production cycle. The increase in raw materials and work-in-progress is a proactive measure to manage potential supply chain volatility and ensure a smooth ramp-up of the new EV manufacturing lines. While this buildup temporarily absorbs cash, it is viewed as a necessary strategic investment to ensure continuity of operations and production of future vehicles.

Note 5. Debt

The company’s debt obligations consist of the following:

(in millions)	**December 31, 2023**	**December 31, 2022**
Short-term Debt	$60	$50
Long-term Debt	$650	$200
Total Debt	**$710**	**$250**

On June 30, 2023, the company entered into a new term loan facility, issuing $450 million in new long-term debt. This loan matures in 2030 and bears interest at a variable rate of SOFR + 200 basis points. The proceeds from this new debt were used to finance the company's substantial capital expenditure program, including the construction of the new EV manufacturing facilities. The loan agreement includes certain financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio. The company was in compliance with all covenants as of December 31, 2023. The ability to service this increased debt load will be dependent on the successful execution of the EV strategy and the subsequent generation of future profits and cash flows from the new product lines. The company intends to service this debt through a combination of future operating cash flows and, if necessary, strategic asset sales or additional financing.

Note 6. Commitments and Contingencies

In the ordinary course of business, the company is subject to various claims and legal proceedings. The company does not believe that the final outcome of any such pending litigation will have a material adverse effect on its financial position. As part of its new EV strategy, the company has entered into, or is in the process of negotiating, long-term purchase agreements for critical EV components, including battery cells and semiconductor chips. While the financial obligations under these agreements are not yet material to the balance sheet, they represent a significant long-term commitment that will be detailed as they are finalized.

Note 7. Stock-Based Compensation

The company accounts for stock-based compensation in accordance with established accounting principles. The company's primary equity compensation plan is a long-term incentive plan for executives and key employees, which includes the issuance of restricted stock units.

Note 8. Related Party Transactions

There were no related party transactions requiring disclosure in the fiscal year 2023.

Note 9. Subsequent Events

As of the date of this report, the company has begun initial trial runs of its new EV battery assembly line. This marks a critical milestone in the transition from capital investment to operational readiness and is expected to move the "Construction in Progress" assets to the "Machinery & Equipment" category on the balance sheet upon completion and certification.

V. Management's Certifications and Report of Independent Registered Public Accounting Firm

Management’s Certifications

I, John H. Jay, certify that:

1. I have reviewed this annual report for the year ended December 31, 2023.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present, in all material respects, the financial condition, results of operations, and cash flows of the company as of, and for, the periods presented in this report.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Jay Motors:

We have audited the accompanying consolidated balance sheets of Jay Motors as of December 31, 2023 and 2022, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2023. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jay Motors as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with U.S. GAAP.

(Signed)

Fictitious Audit LLP