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# VISIBILITY

## 2ND QUARTER UPDATE

# Mizati Luxury Alloy Wheels, Inc. (Other OTC: MZTI)

SEPTEMBER 18, 2007 | 12 MONTH TARGET PRICE: \$ 1.73 | RATING: BUY

### RESEARCH ANALYSTS

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### AT A GLANCE

TICKER	MZTI
RATING	BUY
FISCAL YEAR	DECEMBER
SECTOR	AUTO PARTS
RECENT PRICE	\$0.32
TARGET PRICE	\$1.73
MARKET CAP	12.4M
52-WEEK HIGH	\$1.41
52-WEEK LOW	\$0.15
PRICE/EARNINGS	N/A
PRICE/SALES	2.1X
AVERAGE DAILY VOLUME	9,864
SHARES OUTSTANDING	38.8M
FLOAT	8.6M
INSIDER OWNERSHIP	22%
CEO	HAZEL CHU

As of September 18, 2007



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### INVESTMENT HIGHLIGHTS

- Revenues increased by 34% from \$1.2 million in Q2 2006 to \$1.6 million in Q2 2007. Expanding its base of dealers and distributors was the driving factor behind this growth.
- Gross margins increased to 11.6% in the quarter compared to 9% in the same quarter in the previous year. This expansion can be attributed to cost of sales being spread over a broader revenue base.
- MZTI expanded into the Rent-To-Own segment with the opening of a 3,000 square-foot Wheel Lots store in Upland, CA on July 27<sup>th</sup>.
- MZTI successfully expanded into the international market by pre-selling orders to its distributor in Mexico.
- The new Private Label and organic sales initiatives have already secured \$4 million in orders for FY 2008.

### AUTOMOTIVE AFTERMARKET

According to Specialty Equipment Marketing Association (SEMA) study, the accessories and appearance market segment of specialty equipment has grown substantially over the years generating \$6.94 billion in sales at the manufacturer level in 2005. Automotive customization among mainstream automobile buyers continues to be a significant factor in this growth. SEMA research showed that over the first three months of 2007, approximately one out ever 10 consumers (surveyed) planned to purchase accessory and appearance products for their automobiles. This translates to over 10 million U.S. households planning to make purchases in the automotive aftermarket.

*MZTI sets the precedent for other wheel manufacturers with its foray into the Rent- to-Own market.*

On July 27, 2007, MZTI opened a new 3,000 square-foot Wheel Lots store in Upland, CA. MZTI is the first wheel manufacturer to open a company owned Rent-To-Own store (RTO). The new facility is located the Inland Empire area which is the 14th largest metropolitan area in the country with a population

exceeding 4 million people. Revenue from this segment was lower than anticipated due to sluggish summer sales. However, management indicated that it expects stronger results during the latter part of FY 2007 from the Wheel Lots segment.

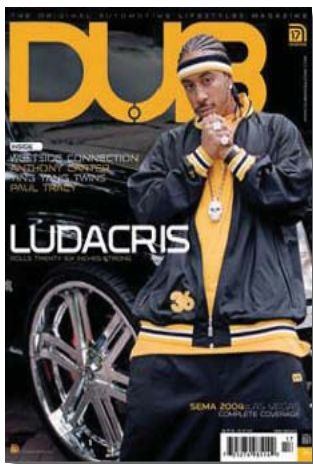
While the RTO Segment is still in the early developmental stage, MZTI will conservatively open Wheel Lots stores in strategic locations. Identifying the right target market is the key to success in this segment. Since the RTO segment targets a lower income market than that for custom made rims, store locations must be strategically located to address the socioeconomic status of the community. MZTI plans to open one more Wheel Lot store in FY 2007. We believe this is a disciplined and strategic approach by management to maximize the success of the individual Wheel Lot stores. A vertically integrated structure in the RTO segment will provide MZTI with a significant advantage over competitors in terms of distribution. Additionally, this segment will improve MZTI's gross margin since wheels will be distributed internally, cutting out the wholesaler.

### ***INTERNATIONAL EXPANSION***

MZTI is laying the ground work for a strategic partnership with a Mexican distributor that works with over 7,000 different retail stores. The Company has secured orders for FY 2008 from this distributor for 24" and 26" rims. Expansion into the Mexican market is a natural extension of the Company's current customer base. Approximately 55% to 60% of MZTI's domestic sales come from the Latino market.

The National Institute of Auto parts (INA), Mexico's prominent auto-parts manufacturer and distributor trade association, estimates that the number of vehicles in circulation is growing at approximately eight percent per year. It is projected that the number of automobiles in Mexico will increase to 17.2 million by the end of 2007. Since the enactment of NAFTA in 1994, U.S. manufacturing companies have invested an average of \$2.2 billion a year in factories in Mexico. The burgeoning automotive sector including the automotive aftermarket offers MZTI with a promising growth opportunity. MZTI is projecting FY 2008 revenue of \$4 to \$5 million for the international segment.

### ***INITIATIVES FOR FY 2007 AND FY 2008***



MZTI will be launching a new media campaign that includes print, radio, and television initiatives. These efforts to increase brand awareness are in line with the Company's organic growth model. The radio and magazine campaigns are set to launch in October 2007. MZTI will launch print ads in DUB Magazine, the premier publication addressing urban automotive lifestyles. The publication features pro athletes, hip hop stars and other celebrities, and continues to be the pulse of the urban automotive market. The TV campaign will begin in FY 2008 and will be focused on the Latino market. We believe that this media campaign is strategically focused to address MZTI's target audience and should significantly enhance brand awareness.

In an effort to tailor demand for its distributors, MZTI is developing a Private Label that it plans to introduce in FY 2008. The idea behind the Private Label is that the Company will cater to the specific demands of its distributors by providing specific designs upon request. This arrangement creates a mutually beneficial relationship between MZTI and its distributors and establishes a responsive and exclusive customer service platform for MZTI. The Company conservatively projects \$4 to \$6 million in revenue from the Private Label segment for FY 2008. MZTI already has commitments valued at approximately \$4 million from traditional and Private Label initiatives for FY 2008. In addition, the Company plans to expand its product lines to include performance parts such as mufflers, steering wheels, pedals, etc. This diversification of revenue streams should help increase top line growth by providing a broader revenue base.

### COMPETITION IN A HIGHLY FRAGMENTED INDUSTRY

The Specialty Automotive Equipment market is saturated with many small, privately held companies. This coupled with the fact that MZTI is one of the only companies that exclusively focuses on selling wheels/rims makes finding public comparables difficult. The closest comp we identified is American Racing Capital, Inc. (OTC BB: ANRC), which specializes in motorsports and is one of the oldest companies in the business. As of recent, ANRC has generated significant losses from operations and required a capital infusion of \$2 million to move forward with its business plan.

Other comps include much higher capitalized players such as LKQ Corp. (NASDAQ: LKQX) and Keystone Automotive Industries, Inc. (NASDAQ: KEYS). While these companies do not operate in the exact same segment, they can be used as a basis for comparison to companies in the automotive parts market. In a recent offer, LKQ has agreed to acquire Keystone for \$48 per share in cash or an aggregate purchase price of approximately \$811 million on a fully diluted basis.



KLICK: 18X7.5, 20X7.5 CAR



DOUBLE D: 18X7.5, 20X8.5 CAR



FACE-OFF: 20X8.5, 22X9.5  
CAR, TRUCK, & SUV

### MZTI VS INDUSTRY PEERS

COMPANY	TICKER	PRICE	MARKET CAP	EPS(TTM)	P/E	P/S(FY 2007)
MIZATI LUXURY ALLOY WHEELS, INC.	MZTI	\$0.32	12.4M	N/A	N/A	2.1
AMERICAN RACING CAPITAL, INC.	ANRC	\$0.05	\$1.5M	(\$0.40)	N/A	N/A
LKQ CORP.	LKQX	\$31	1.6B	\$0.90	34	1.7
KEYSTONE AUTOMOTIVE INDUSTRIES, INC.	KEYS	\$47.60	788M	\$1.92	25	1.0

### *INVESTMENT CONCLUSION*

MZTI's recent expansion into the RTO segment will provide the Company with significantly higher margins over its current distribution model. In addition, it will allow MZTI to capture a broader base of customers in a \$6.7 billion industry by offering customers a lower entry price. MZTI's expansion into the Mexican market is through a distributor with a network of over 7,000 different retail stores. The automotive aftermarket is a burgeoning segment in Mexico and represents a very promising growth opportunity for MZTI.

At a recent share price of \$0.32, MZTI shares are trading at less than 1x projected FY 2008 revenues. MZTI's strategic initiatives for FY 2007 and FY 2008 should enhance brand awareness, and significantly drive revenue and margin expansion. We believe that there is tremendous growth potential in Mexico, the RTO segment, and the Private Label. Given the scope of MZTI's revenue growth initiatives and potential for gross margin expansion, we believe that MZTI deserves a richer valuation and a slightly higher P/S multiple than the publicly traded comps (LKQX and KEYS). We maintain our "Buy" rating and assign a 12 month price target of \$1.73 based on a multiple of 5x projected 2008 revenues of \$13.5 million.

### *RISKS*

Currency revaluations could pose a threat to MZTI given that it manufactures its products from China. On May 21 2007, The People's Bank of China, or the central bank, widened the floating band of yuan against US dollar for daily spot trading on the inter-bank market from 0.3 % to 0.5%. The primary goal of this is to allow the yuan to rise against the US dollar faster. This could adversely impact MZTI's margins.

According to the American Iron and Steel Institute (AISI), steel wheels are making a comeback as manufacturers realize they save up to \$250 per vehicle without sacrificing quality or performance. Some believe that the market for alloy wheels has peaked.

Mizati Luxury Alloy Wheels, Inc.  
Statements of Income  
For three months ended March 31 2007 and 2006  
(Unaudited)

	3 months ended 3/31/2007	3 months ended 3/31/2006
<b>OPERATING REVENUES</b>		
Sale, net	\$ 1,732,569	\$ 1,315,603
Cost of Sales	1,378,386	1,076,000
Gross profit	354,183	239,603
<b>OPERATING EXPENSES</b>		
Wages and salaries expense	88,844	62,526
Repairs	993	1,717
Rent & lease expenses	13,460	9,750
Tax & Licenses	11,457	9,213
Interest expenses	36,996	8,780
Advertising	32,196	6,572
Insurance expenses	5,282	6,650
Professional expenses	9,947	10,485
Telephone & Utilities	17,065	2,473
General & Administrative Expenses	35,801	33,980
Depreciation & Amortization	14,454	1,614
Total Operating Expenses	266,495	153,760
Income from operations	87,688	85,843
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	61	75
other income	139	140
Net income (loss) before income taxes	87,888	86,058
Provision for income taxes	35,800	48,320
Net income (loss) after income taxes	\$ 52,088	\$ 37,738

Mizati Luxury Alloy Wheels, Inc.  
Statements of Income  
For Six months ended June 30 2007 and 2006  
(Unaudited)

	6 months ended 6/30/2007	6 months ended 6/30/2006
<b>OPERATING REVENUES</b>		
Sale, net	\$ 3,325,549	\$ 2,500,119
Cost of Sales	<u>2,786,283</u>	<u>2,153,406</u>
Gross profit	539,266	346,713
<b>OPERATING EXPENSES</b>		
Wages and salaries expense	218,660	140,217
Repairs	4,114	1,924
Auto expenses	17,360	3,136
Rent & lease expenses	18,093	19,830
Tax & Licenses	31,931	16,661
Bad debt	4,794	(1,467)
Bank charges	7,967	1,310
Interest expenses	82,586	16,061
Association fees	12,295	-
Advertising	53,229	9,253
Insurance expenses	14,617	22,431
Professional expenses	24,062	53,114
Telephone & Utilities	16,096	5,072

Temporary labor	10,432	2,834
Warehouse and shipping supplies	11,872	5,214
General & Administrative Expenses	23,725	8,160
Depreciation & Amortization	24,875	4,547
Total Operating Expenses	576,708	308,297
Income from operations	(37,442)	38,416
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	102	152
other income	245	139
Net income (loss) before income taxes	(37,095)	38,707
Provision for income taxes	-	25,902
Net income (loss) after income taxes	\$ (37,095)	\$ 12,805

**DISCLOSURES**

The analysts contributing to this report do not hold any shares of MZTI. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. RedChip certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. As such, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. RedChip Companies Inc. is an affiliate of the Aurelius Consulting Group, Inc. Mizati Luxury Alloy Wheels, Inc. is a client of the Aurelius Consulting Group, Inc. and of RedChip Visibility, a division of RedChip Companies. MZTI paid RedChip Visibility a monthly fee of \$10,000 for investor relations, and \$36,000 for the RedChip Visibility Research Program, which includes this report.