A Lucid Follow-up on SPAC-craziness: $CCIV

I've discussed CCIV a few times: in the lead up to their deal announcement, I discussed how crazy the stock price / action around the stock was. Then, when the stock crashed on the deal announcement, I wondered if that would mark the turning point to pop the SPAC bubble.

But I wanted to do one more follow up, because their prelim deal proxy (released yesterday) included an absolutely wild tidbit: this deal came together purely because the press speculated it was happening.

The key line is on p. 130 of the proxy; I've quoted it below (emphasis is mine)

> *In September 2020, Lucid engaged Citi as a financial advisor to assist Lucid in evaluating various alternatives with respect to financing Lucid's operations, including a private placement of equity securities, an initial public offering, and a business combination with a special purpose acquisition company (a "SPAC"). In November and December 2020, with the assistance of Citi, Lucid met with more than a dozen potential investors in connection with a proposed private placement of Lucid's equity securities. However, Lucid did not enter into any definitive agreement with respect to any such private placement. In December 2020, Lucid's Chief Executive Officer was contacted by a SPAC regarding a potential business combination with Lucid. Lucid subsequently authorized Citi to contact additional SPACs regarding a*

> *potential business combination with Lucid. From December 2020 to January 22, 2021, Lucid and its representatives met and conducted discussions with representatives of five SPACs, none of which was Churchill, and discussed the terms of a potential business combination with each of them. Lucid did not enter into exclusivity, nor did Lucid agree to terms, with any of these SPACs.*
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> *On January 11, 2021, Bloomberg published an article stating that Churchill was in discussions to acquire Lucid. However, at the time the article was published, Churchill and Lucid had not had any discussions with respect to a potential business combination. Subsequent to the Bloomberg article, Churchill began exploring a possible business combination with Lucid due to its interest in the electric vehicle industry, as well as Churchill's familiarity with Lucid's Chairman, Andrew Liveris, who is an operating partner of the Sponsor. Mr. Liveris did not participate in the evaluation of the Transactions on behalf of Churchill nor did he participate in any discussions or negotiations between Churchill and Lucid.*

Again, I cannot emphasize how wild that is. If the proxy is to be believed, Bloomberg wrongly reported that Lucid was in talks to merge with CCIV when they published this article on January 11. CCIV shares rocket shipped in response to the article, Lucid and CCIV liked what they saw, and they eventually came together to get a multi-multi-billion dollar deal done.

So I wanted to post this because it's so crazy and such a windfall for Churchill. It's not much of an exaggeration to say that Bloomberg's errant report generated more than $2B in profits for Churchill.

How do I get to that math? Well, Churchill's sponsor owns 51.75m shares of stock after the deal goes through; in addition, they own 42.85m private placement warrants with an exercise price of $11.50/share. As I write this, CCIV is trading for ~$26.50, so Churchill's stock is worth ~$1.4B while their warrants are ~$640m in the money (and they're worth more than that given they won't expire for several years). In total, Churchill's stake is worth >$2B at current prices versus ~$43m of risk capital they put in when forming the SPAC in July 2020 (Chart below with share counts from p. 228 of the S-4; you can find the private placement warrant count on p. 34. I've ignored share price vesting requirements for of the sponsor's shares, as the stock is up so much the vesting or nonvesting of a couple of shares doesn't really move the needle here).

	Pro Forma Combined (Assuming No Redemptions)		Pro Forma Combined (Assuming Maximum Redemptions)[4]	
	Number of Shares	% Ownership	Number of Shares	% Ownership
Lucid shareholders[1]	1,177,023,655	73.5%	1,177,023,655	82.6%
Churchill Sponsor[2]	51,750,000	3.2%	51,750,000	3.6%
Churchill public stockholders	207,000,000	12.9%	29,991,399	2.1%
PIPE Investors[3]	166,666,667	10.4%	166,666,667	11.7%
Total	1,602,440,322	100.0%	1,425,431,721	100.0%

I think there are tons of questions on the heels of that proxy. Some of them are more mundane, like does Churchill prefer to swim in a pool of gold coins or dollar bills? Some of them are more serious, like how could a reputable news organization like Bloomberg publish something saying they were "in talks to list" when the two had never had a discussion? That's a real blackeye for the reputation of the newsroom; remember, the S-4 is a legal document, so Churchill would be taking a pretty big risk for no apparent reason if they were lying about not talking before the Bloomberg article. It seems that line was put in there almost as a rebuke of Bloomberg's reporting.... or maybe they just put it in to let the Bloomberg news team know to expect a very nice Christmas present!

Still, it is kind of hard to believe that there were no talks going on between Churchill and Lucid before the Bloomberg article. If the S-4 is to be believed, CCIV and Lucid first talked on January 11 right after the Bloomberg article came out. They signed an NDA on January 12, and they had locked down on LOI by January 23. One of the rumors that you frequently about SPACs is that they aren't really bothering to do due diligence in the rush to get something to market before the froth dies down; CCIV and Lucid locking down the framework for a multi-billion dollar merger in less than two weeks does nothing to quiet those rumors (nor does the eventual merger deck containing several typos). Either the companies had been holding talks before (making Bloomberg correct and meaning CCIV is lying in their proxy), or the companies were just winging things as they came along. I mean, the proxy contains the line "In connection with these discussions, it was decided that Lucid should determine the optimal target launch date that would ensure Lucid launch an exceptional electric vehicle. Lucid determined that the target launch date of the Lucid Air should be in the second half of 2021." How the heck are CCIV and Lucid valuing themselves when they are coming up with the launch date for their product in the middle of due diligence and negotiations????

Ironically, the proxy notes that the Churchill board held a teleconference on Feb. 4 and "Mr. Klein informed the Churchill Board of the Sponsor’s operating partners in depth analysis of Lucid’s technology." That's a legit blast; they'd been under NDA for about three weeks at this point, and the proxy notes that they had yet to perform the following due diligence calls:

- Engineering change and market share data (done Feb. 4)
- Software, Supply Chain, production, and parts readiness diligence (Feb. 8)
- Tax diligence (Feb. 9)
- Cyber, cost, software, IT, and supplier risk diligence (Feb. 11)
- Software (Feb. 12)
- Vehicle safety (Feb. 16)
- IP and privacy (Feb. 17)
- and two more IT diligence calls (Feb. 17 and Feb. 20)

So when Klein informed the board about the depth of their analysis, I wonder if he was using the sarcastic emoji, had his fingers crossed, or if the entire board was in on the joke.

Anyway, the deal is a home run, but it seems it came together in a hurry on the heels of the Bloomberg article. It just seems wild that the article could create that much value for Churchill, and it seems equally crazy how quickly they could go from standing start to a completed multibillion dollar deal.

This deal was a win for Churchill, no doubt about it. But I think there are plenty of questions lurking under the surface when you dig into the proxy. Again, the level of due diligence seems extremely rushed and suboptimal. It worked here because the market was desperate to get access to Lucid, but it makes you think pretty seriously about the rest of Churchill's portfolio. For example, Muddy Waters published a short report on Churchill's last SPAC, Multiplan (MPLN), that I disagreed with. Part of my disagreement stemmed from the belief that a lot of Muddy Waters' issues would have been pretty obviously detected in due diligence, so the fact Churchill looked at them and still decided to merge lent me some comfort.... but, based on the "due diligence" we saw with Churchill / Lucid, you have to wonder if Churchill's due diligence would have detected even basic issues or if their due diligence just exists to rush towards completing a deal.

While the music is playing, Churchill's apparent lack of / rushed due diligence can be overlooked; in fact, it can lead to some really good deals (like Lucid) since they're willing to move a lot quicker and overlook a lot of stuff other people wouldn't. But the music always stops, and this proxy makes me wonder how Churchill will look when it does.

Ps: When I mentioned this disclosure to my colleague Chris, he said it reminded him of Agloe, the imaginary town that became real. I love that comparison; much like map makers "created" the town of Agloe, Bloomberg seemingly spoke the CCIV / Lucid merger into existence by reporting on it. The major difference between the two stories is really in their consequences: the consequence of Agloe was a general store that existed for a few years, while the consequences of the Bloomberg article is a multi-billion windfall for Churchill.

Sometimes it's better to be lucky than good. Going forward, my goal is to be "Churchill being rumored to buy Lucid" level lucky!