April Fools' for post-SPAC Investors $NKLA $GOEV

Astute readers might notice that I did not do an April Fools' joke this year. I considered doing one, but honestly I did not know how I could top the ongoing pranks that deSPAC'd companies are pulling on their shareholders.

A quick background is important to understand what's happening. When a normal company goes through an IPO, they cannot provide projections on their future because doing so would open up to lawsuits if they missed those projections in the future. SPACS have a loophole around that; because a SPAC is already a public company, they can provide projections from their target since their target is going public through a merger, not an IPO.

That projection loophole has enabled some pretty wild projections. The WSJ noted a wave of EV SPACs that were projecting $10B in revenue in record time. Google was the fastest company to ever reach $10B in revenue, with it taking them eight years to go from startup to $10B. Five different EV SPACs projected they could hit $10B in revenue faster than Google.

Those wild projections were always going to lead to issues. While it was.... unlikely (to say the least) that any of these SPACs would hit their $10B revenue target in the time they forecast, it was almost literally impossible for all of them to hit their targets because the market simply wasn't big enough to support multiple new companies doing billions in sales inside of five years.

So, yes, the SPAC projections were aggressive. I don't think anyone ever questioned that. Still, I think even the biggest SPAC skeptic would be surprised by the degree of slaughter that has come along with the current round of deSPAC'd companies announcing earnings this quarter. (And I'll just pause here to remind that nothing on here is investing advice and investing in anything, whether short or long, is quite risky, and SPACs even more so!)

Probably the most vanilla of this type of "prank" is what someone like Multiplan (MPLN) did. The company released their Q4'20 earnings and did "not provide guidance for the current year (2021) given the uncertainty of COVID." There are plenty of companies that aren't providing guidance for COVID; no doubt that it's a big issue and makes forecasting difficult. But Multiplan deSPAC'd in the back half of 2020 and, at the time, they felt comfortable issuing detailed projections going out to 2025. It's not like COVID wasn't around when they were finished deSPACing and providing those projections; in fact, I'd argue that COVID impacts are much easier to forecast today than they were in the back half of 2020 now that we have a vaccine and we're finally starting to get the virus somewhat under control!

So the Multiplan guidance path is certainly curious and raises all sorts of red flags. But as far as SPACs playing games with projections, it's pretty benign.

I think the next level of aggressive guidance / "pranking" would be something like Romeo Power (RMO). The company wrapped up their merger literally at the end of 2020; they mailed their final proxy on December 4th and finished the merger December 29. That proxy included guidance for ~$140m in revenue in 2021. They released 2020 earnings on March 30, and their revenue guidance for 2021 went to $18-$40m. Ignoring just how freaking wide that revenue range is, it is scandalous that the company put through a merger on one set of projections and just~3 months later they cut those near term revenue projections by ~80%. Honestly incredible. They had plenty of excuses for why they had to cut their revenue on their earnings call (battery shortage, high standards, etc.), but it was pretty wild and the call got pretty feisty; one analyst basically called the company out for lying while another analyst begged them to reconfirm their long term forecast (which the company declined to do!).

But, as crazy as the RMO situation is, I think it pales in comparison to what Canoo (GOEV) did. I highlighted this in my March things and ideas, but Canoo went public late last year in large part on the promise of a partnership they had with Hyundai. When they reported earnings this week, they completely pivoted the business. Why? Because the Hyundai partnership was dead. O, and they also disclosed that their CFO was leaving alongside the partnership dying. What followed was the single worst earnings call I've ever heard from a public company; the Executive Chairman did a valiant effort of trying to call a turd a raisin, but it was pretty clearly a giant, smelly turd. After a little prodding, the exec chair basically had to admit that everything he was saying was a giant contradiction and the projections from the previous management team were bogus. O, and another analyst had to clarify if the CEO was still employed or not!

It's just bonkers. Making predictions is hard, especially about the future. I get that. But we're talking about companies using the SPAC proejction loopholes to go public at huge valuations on the back of these predictions and then just a couple of weeks later coming out and basically admitting that the predictions were lies. Honestly, I hope there's some type of investigation into every SPAC and SPAC sponsor that played those games, but that's probably hoping for too much.

In terms of shenanigans, it would have been tough for me to imagine companies topping the GOEV example listed above. But what's really funny is that multiple SPACs have gone public and revealed shenanigans even crazier than simply making up projections!

Again, let's start with the vanilla level here; I think that would be something like Clover. The company went public with a DOJ investigation ongoing and felt like that didn't rise the level of materiality for disclosure (I first highlighted this is my "notes from the podcast cutting room floor"). I'm unsure how a company can honestly think a DOJ investigation is immaterial; maybe if you're already a public company you don't have to explicitly disclose a DOJ investigation for a variety of reasons (like it's a confidential investigation), though I think most companies tend to disclosure investigations. So maybe you don't have to disclose, but I would think that any company would not want to raise any type of money without disclosing a DOJ investigation for fear of breaching their reps and warranties clause and getting sued. IDK. What I do know is that lawyers are sure to include everything imaginable in the risk statements of capital raising, and the fact CLOV had a DOJ investigation and raised money without disclosing it suggests some hilarious combination of naivety, incompetence, greed, and/or abuse.

That's a pretty vicious combo. But, again, there are multiple other examples of SPACs that have been even more brazen in skating the lines to raise money at huge valuations in the SPAC process.

Consider someone like Lordstown Motors (RIDE). Obviously they pulled the old SPAC guidance double whammy: they went public on one set of projections, and now that they're public they're projecting significantly higher costs and capex without a corresponding increase in production capacity, and they also pulled their revenue guidance and refused to provide new ones. That's a pretty vanilla case so far; where Lordstown really takes it to the next level is with their order book. Hindenburg accused the company of faking their order book in order to go public, and the CEO's defense of their characterization of the order book when he went on CNBC was.... not exactly robust. The SEC is looking into whatever is happening there; the results should be interesting!

In a normal year, it's tough to imagine something could catch RIDE or CLOV for disclosure shenanigans.... but because these are all SPACs and the world has gone crazy, those two don't come close to the largest shenans. Obviously the king of all SPAC shenanigans remains Nikola (NKLA). The company got caught rolling a truck down a hill and claiming it was a working prototype, and then their founder had to leave in the wake of that scandal plus allegations of sexual abuse.

There are countless other examples of these shenanigans, big and small. XL Fleet's response to MW's short thesis was... not exactly encouraging (and, of course, they pulled full year guidance after providing plenty of projections when they deSPAC'd!). Tattooed Chef's (TTCF) 10-K basically admits they went public without a functioning accounting department (though, to be fair, at least they make a real product and they actually stood by their 2021 projections!). Danimer's

(DNMR) claims about biodegradable straws appear to be just a little aggressive. And it's almost impossible to recount how many issues popped up around Triterras (TRIT) and they're a little more nuanced than "company rolled a car down the hill and claimed to worked," but that might be the worst of the bunch. (PS- If you've got any good examples of SPAC shenans, drop me a DM and I'll include it in my April links at the end of the month.).

These types of shenanigans were the natural result of the SPAC bubble. For the past six months, investors were willing to shower money on buzzy stories merging into SPACs. Sponsors saw a window of opportunity and they grabbed it; you heard tons of whispers that sponsors were doing only the most basic of due diligence in the rush to get a deal done before the window closed and both their deal proxies and the types of issues coming out after deal close is the result of that rush / lack of due diligence.

One of my predictions for 2021 was we saw a wave of "red flag" SPAC deals whose share prices collapsed after deSPAC. And, so far, it seems that prediction is coming true. In fact, it seems to be coming true even faster and harder than the biggest SPAC skeptic would have thought. I mean, these companies are going public and blowing up on their first earnings report. Imagine how bad things are going to get as all of these SPACs fully season and have to report a couple of quarter of operations. So things are bad out there, and the prediction seems to be coming true... except for one thing: somehow, the stocks for all of these companies are hanging in there!

It's unreal. Again, consider GOEV from earlier. They had the single worst earnings call I've ever seen, their CFO unexpectedly left, their chair admitted that their new plan made no sense and their old projections were bogus.... and, somehow, the stock is still at $9/share. Remember, SPACs start with $10/share in trust, so investors are basically looking at GOEV and saying, "O yeah, that's not good. Looks like we overpaid by 10% for GOEV. Rats." That's INSANE (and investors are actually factoring in a much rosier valuation once you factor in all the sponsor promote and merger fees). I feel like I'm taking crazy pills. I've seen the market punish companies more for missing earnings estimates by a penny than the market is punishing GOEV for all of these shenanigans. GOEV still has a $2B market cap and they literally just said, "Everything we went public on was wrong and/or a lie." Somehow, despite all that, investors are giving them the benefit of the doubt and saying they only slightly overpaid. In general, when a company admits to lying, you didn't slightly overpay; you massively overpaid and the stock is heading straight down. For some reason, that's not the case here.

Or look at Nikola. Yeah, it's way down from the lofty heights it hit last fall ($70/share!). But it's still trading at ~$14/share. Remember, trust was $10/share, so investors are looking at Nikola and saying, "yeah, you lied to us, and your founder had to leave because of that and some other serious allegations.... but this merger still credited tons of value. Great job guys!"

The list goes on and on and on. It's truly crazy stuff,

I was never much for alpha shorting, and in the wake of Gamestonk I basically stopped for fear of getting run over. I feel like the current SPAC pricing is kind of reaffirming that decision for me. If companies are coming out and admitting that they lied to investors and maybe committed some light treason to get their deals through, and investors are digesting that news and still bidding these stocks up, how the heck are you supposed to make any money shorting?

Eventually, the tide will go out. But SPACs are dropping bombs on investors left and right, and the market is easily digesting them. Combine that with the risk of GME type squeezes as these stocks are still a little thin / illiquid / heavily shorted, and I just don't think the risk reward for doing anything on these stocks is there.

SPACs are pranking investors left and right with their earrings. But, given the market doesn't seem to care and the squeeze risks, maybe the real joke is on short sellers right now? Or maybe the joke is on people (like me!) who take the stock market somewhat seriously, don't enjoy seeing the merger/IPO/ funding process abused like this, and are worried about the contagion effect as more and more companies see that the risk / reward of aggressive guidance / extremely selective disclosure is pretty damn good. I don't know.

What I do know is it's scary out there! (O and I also know that nothing on here is investing advice!)

PS- SPACs weren't the only ones pranking their investors. The MSGE / MSGN deal as an absolute joke; Boyar Value sent a letter to James Dolan highlighting what a bad deal it was. We recorded a podcast yesterday to expand on that letter; that'll be coming out Monday if you're interested!