

Opinion **Lex**

GM/Nikola: honey for the badger

Legacy automaker is buying rather than building its way to a low-carbon future



GM is contributing its manufacturing infrastructure to launch the Nikola Badger, a passenger truck.

SEPTEMBER 8, 2020

Objects in a rear view mirror may appear to be ballooning in cost. Nikola Corporation, an electric truck start-up, raised venture capital at a valuation of just \$1 billion two years ago. An IPO earlier this year has since set its worth at \$4bn. On Tuesday, [General Motors took an 11 per cent stake](#) at a heady \$18bn valuation, just above a quarter of the enterprise value of the Detroit stalwart.

Consider that General Motors sold 3m cars in 2019 in North America. Nikola has said that neither its battery nor hydrogen fuel cell trucks will be available until 2023, with less than 6,000 projected to be sold.

GM remains an industrial powerhouse and has made speculative investments in the likes of ride-sharing company Lyft, autonomous vehicles start-up Cruise and now Nikola. GM still has considerable weight to throw around, ensuring it remains relevant even as the internal combustion engine approaches obsolescence.

Nikola listed its shares through a merger with a blank cheque company that closed in June. Its stock has quintupled since it started trading. Several other auto technology upstarts have listed their shares this year through reverse mergers. They have surfed the mania brought on by both Nikola and Tesla.

GM's own low valuation (its automotive EV/ebitda multiple rarely travels above five times) underscores its lack of Wall Street appeal. So it is trading a portion of its scale and expertise for a stake in Nikola, hoping to share in the newcomer's popularity.

The automaker will not pay cash for its piece of Nikola, instead contributing its battery and fuel cell technology as well as its manufacturing infrastructure to launch the Nikola Badger, a passenger truck.

GM expects to realise \$4bn of transaction benefits from the appreciation of its shares alongside gains in contract manufacturing and deals to supply batteries and fuel cells. Nikola hopes to realise \$5bn in savings on input costs and R&D

GM shares jumped a tenth on Tuesday. The market evidently wants this legacy automaker to buy rather than build its way to a low-carbon future.

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