

ED WALLACE

## Walls Come Tumbling Down

BY ED WALLACE  
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“We’re in a golden age of fraud.” — Investor Jim Chanos, *MarketWatch* Aug. 1

There’s an old saying that if it sounds too good to be true, it probably is. Yet so much of our economic society is driven by claims, outrageous or not, that something you can buy will make you smarter, more attractive, and more powerful, boost your self image and whiten your teeth. After all, humans have the capacity to be both logic and emotions, in varying degrees depending on the person. And if one uses logic to justify an emotional purchase, things tend to work out. But using emotion to override logic typically doesn’t lead to much more than buyer’s remorse.

Well, last week logic started winning over all of the so-called “disrupters” to our mobile society.

First, it’s been five years since Jeff Bezos of Amazon told 60 Minutes that in the near future our Amazon orders would be delivered by drones — and in just a half hour, for Prime members. Given that this would replace trucks full of packages with individual drones hovering across major cities delivering the \$17 million in orders Amazon receives every hour, nothing about that plan sounded smart, viable or capable of reducing the transaction’s complexity. For the record, Amazon just got FAA approval for its drones.

But at the same time, Amazon was also working on the Amazon Scout, a precious little six-wheel delivery robot; Amazon said they were being put into operation. Again, these would replace one huge delivery truck

full of goods with hundreds, if not thousands of little slow-moving robots that would clog up our sidewalks and streets. Only last week Amazon admitted it was hiring a new team to work on the Amazon Scout; and that suggests these self-driving buggies weren't working as advertised.

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Not to be outdone, Consumer Reports tested Tesla's autopilot; it found the Autopark feature inconsistent, that Smart Summons often had the car driving in the wrong lane, that Navigate on Autopilot would disengage for no reason, and that Stop Sign Control has Teslas blowing right through some intersections. Other than the fact that nothing really worked right, though, it's a great idea whose time has come.

Then David Trainor at Forbes wrote a lengthy column on Uber and how it had a broken business model. In fact, by his calculations they are going backwards financially and have been for some time. The one issue that CEO Dara Khosrowshahi brags about is Uber Eats; but two years ago it held 22 percent of the food delivery market, and it has only 23 percent this year. Meanwhile Doordash, another money-losing food-delivery darling of the business media, jumped its market share from 19 percent to 46 percent in the same period.

But then the big chalupa: Nikola had cut a deal with GM to build their upcoming Badger EV pickup truck and supply the fuel cell systems for its full-size Class 8 Big Rig. Intentionally or not, that announcement was also a stunning admission that everything Nikola claimed was a reality in the past was little more than a fairy tale. Not that long ago, Bloomberg pointed out that during the reveal of that fuel-celled Big Rig truck, founder Milton Trevor told the audience that it was the real deal and a fully functional truck. In fact, it had no fuel cell system in it. Four years later and just one month ago, Nikola told Reuters that it was open to a deal with Hyundai for their fuel-celled powerplants, but Hyundai apparently wouldn't return Nikola's phone calls.

Keep in mind, Milton at one point was worth billions; that's pretty good for a truck manufacturer that's been talking a good game for a couple of years on how they are going to transform the market with their electric and fuel-celled trucks — and with no factory to even build the first one. Now, while the Koreans may be too busy to take Trevor's call, General Motors CEO Mary Barra apparently was having a slow morning and cut a deal; GM would build Nikola's Badger pickup and supply the battery pack and propulsion unit for it; and, just to make sure it works, GM will also be doing all the engineering work on that truck. As stated, GM will also supply the fuel cell technology for the stationary Big Rig truck of Nikola's, too. For this Nikola is issuing what was valued at \$2 billion in new stock in the company for GM. Some reports stated that Nikola will supply GM with \$700 million in cash for expenses and we're good to go.

As Mary Barra said that day, "This strategic partnership with Nikola, an industry-leading disrupter ..." Let me put you on hold right there, Mary. To be a disrupter you actually have to have a product to disrupt with, and the only pickup Nikola might one day have is the truck GM is going to create for him.

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Now, here's where this story becomes somewhat fun. For years the business media has told the American public that companies like GM and Ford are old line, old idea, corporate dinosaurs that are nearing extinction due to all of these upstarts that are going to change how we all get around. Typically, those stories end as a parable on why stock in these companies are stagnant because they are the ancient past, not the future. Yet, when one of those so-called highly touted and over-hyped disrupters is found to be incapable of delivering on their promises, yeah, it's that old-idea dinosaur who already knows how to engineer and build their pipe-dream truck for them. Not to mention, GM has fuel cell capability and Nikola never did.

So, guess whose stock jumped the most on that day? The company that should have been named Wizard of Oz Trucking instead of Nikola, or the company that actually knows how to design and build advanced high tech vehicles? That's right, stock in the company that only talked a good game but had nothing jumped 53 percent on the news. GM went up slightly; both have since fallen back.

Then Hindenburg Research, a noted short seller, put out a 47-page, 11-point-font takedown of Nikola and CEO Trevor Milton; and it is breathtaking in scope. Now, so far these are just allegations, but there are links to back up everything stated and quotes from some big players and a previous business partner to Mr. Milton. One comes from Volvo AB, which at one point partnered with Nikola for hydrogen fuel cells, then walked on that deal and said Nikola's battery and hydrogen fuel claims were just "hot air."

Hindenburg even went back to Milton's first business venture in 2004, selling home security systems in St. George, Utah; Milton claims he sold that company for \$2 million. The research seems to show that it was only \$300,000 up front and \$5,000 a month until \$850,000 was paid. Then, according to Hindenburg, that corporation forced Milton to take the company back over misrepresentation. His partner denies knowing of any of that; he only got back \$100,000, or about what he had put into the business. Then added if Milton did resell that company for \$2 million he'd like his \$900,000 from the proceeds.

Of course, when you are dealing with billions in someone else's money, a 47-page report alluding to fraudulent behavior is going to end in litigation. And to that end Milton has engaged Kirkland and Ellis to defend his company, since his angry tweetstorm didn't quite seem to do the trick. The problem here is that many of his claims suspected to be untrue have been documented by the media. In reality, because Nikola has publicly held shares from a reverse merger with VectoIQ, an acquisition company run by former GM executive Steve Girsky, it should have been the Securities and Exchange Commission uncovering all of this.

Girsky was named vice chair of GM during its bankruptcy, but he's actually a former Wall Street guy. And as recently as last month, he praised his own brilliance in helping a private company with nothing to its name to become the merger partner and allow it to backdoor its way into the stock market. Ironically, as pointed out, Nikola didn't have any more than Girsky's investment shell.

There's still a big problem. Given the Hindenburg paper, other investors have already hired another outside firm to investigate Nikola and its business dealings. For its part, Hindenburg welcomes the potential lawsuit by Nikola, because it makes all legal discoveries public record. But all of this leaves Mary Barra at GM a bit exposed.

After all, if Hindenburg is right, or the law firm hired by investors proves many of those points that ultimately might be considered fraud, Barra is going to be under the microscope at GM for failing in her fiduciary duties to protect the corporation. She should have found all of this out before she signed a deal with Trevor Milton; that's her job.

Still, after years of non-stop hype, every last story a week ago said that the best thing Uber, Lyft, Tesla, and every other so-called disrupters are really good at is raising huge amounts of cash just to stay in business.

Time to reread Mr. Chanos' quote.

*Ed Wallace is a recipient of the Gerald R. Loeb Award for business journalism, bestowed by the Anderson School of Business at UCLA, and hosts the top-rated talk show, Wheels, 8:00 to 1:00 Saturdays on 570 KLIF AM. Email: [edwallace570@gmail.com](mailto:edwallace570@gmail.com)*

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