NEW RISK ALERT: (GOEV)

Canoo Reimburses CEO $561,000 for Personal Jet Use, Understates Lease Liability by 19.9%

Electric vehicle maker also leases office space from its Chairman and CEO and uses an inflated discount rate to lower its lease liability.

By Nick Winkler
May 20, 2021

This alert compares the language used in the company's latest filing with the period before. Research suggests changes in language, particularly in the risk factor section, are powerful indicators of future performance. Companies that change filing language and structure underperform those that don't by 30-50 basis points per month for the following year.

Chairman & CEO Reimbursed for Personal Jet Use

Canoo, an electric vehicle hopeful, pays its Chairman and CEO Tony Aquila for his use of a personal jet. Last year, Canoo reimbursed Aquila $541,000 for use of his family's jet. In just the first 90-days of 2021, Canoo disclosed in its latest 10-Q it has already topped the prior year's air travel reimbursement:

> *"The total aircraft reimbursement to Mr. Aquila for the use of an aircraft owned by **Aquila Family Ventures, LLC** ("AFV"), an entity controlled by Mr. Aquila, for the purposes related to the business of the Company for the **three months ended March 31, 2021 was $561,000.**"*

Canoo Also Leases Office Space From the Boss

Years before going public via a SPAC in December 2020, Canoo richly rewarded investors willing to loan the company money. From promissory notes to convertible debt, investors earned interest on more than $100 million in loans with rates ranging from 10.875% to 12%.

The company's 2020 10-K also revealed Canoo leases office space in Torrance, California from early investors, including Victor Chu, who owns 16.9% of Canoo.

Now Aquila is following in Chu's shoes, profiting from Canoo's insider lease dealings. In its latest 10-Q, Canoo revealed it had entered into a separate 5-year lease agreement for office space in Justin, Texas with an entity controlled by Aquila. In the first quarter, Canoo paid Aquila and the investors owning the Torrance office $500 million in rent.

The silver lining for investors is that Canoo's Justin, Texas office is only about a 15-minute drive from the Aquila Family Ventures' (AFV) office, meaning Aquila won't likely be billing the company for air travel expenses if he visits.

Canoo Understates Liabilities With Inflated Discount Rate

Though Canoo doesn't disclose the rate by which it discounts operating leases, we calculate it's approximately 10.5%. While several of Canoo's competitors do not discount operating lease at all (WKHS, RIDE, XL) the company's rate is significantly higher than other EV peers, which report the following discount rates in their most recent filings:

- Borg Warner: 2.0%
- Fisker: 5.35%
- Tesla: 5.8%

Using an inflated discount rate hide's a firm's true liabilities from investors.

Canoo has $23.1 million in future operating lease obligations. The present value of those obligations, according to Canoo, is $14.7 million. If we use the blended average discount rate for Canoo's peer group— 4.38%— we calculate a lease liability of $19.3 million. It means Canoo is understating its lease liabilities by approximately $4.6 million, or 19.9% of its future operating lease obligations or 4.3% of total liabilities.

Earlier this month, Edwin Dorsey, author of The Bear Cave newsletter, laid out a damning short thesis on Canoo. You can read it by subscribing here.