

BARRON'S

Rivian Stock Is Trading Terribly. Wall Street Thinks It's Time for an Activist.

By

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Wall Street isn't happy with the recent performance of Rivian or Rivian stock.

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[Rivian Automotive RIVN -0.11%](#) stock has been trading far worse than most of its [peers](#). Sales and products aren't the problem. It's spending. The company needs a plan to control cash and improve investor sentiment. Wall Street has some advice.

Morgan Stanley analyst [Adam Jonas](#) pointed out in a report Wednesday that recent Rivian (ticker: RIVN) stock levels were trading below their [cash value](#). Rivian ended the year with about \$13 in cash a share and added another \$1.40 in cash a share by selling bonds.

The cash-per-share calculation doesn't consider any debt and is only theoretical. Investors can't get the cash and Rivian is using more cash than it is generating. The spending is what Jonas believes is causing this odd situation.

Rivian spent roughly \$3.7 billion on operating expenses in 2022, roughly \$2.8 billion more than [Tesla TSLA -0.03%](#) (TSLA) spent when Tesla was a similar size almost 10 years ago.

Investors are discounting cash usage for years and not quarters, wrote Jonas. He surveyed investors recently about what Rivian should do and almost 40% of respondents believed Rivian should pursue some kind of “strategic alternative.”

Strategic alternative wasn’t defined in the survey and could mean anything from new investors to management changes to a radical change in spending plans.

Wedbush analyst [Dan Ives](#) believes an activist would help at Rivian. The activist could help with costs, focus, and strategic planning, he said. “When you look at Salesforce, and other names, it is activism that’s the gasoline on the fire.”

[Salesforce CRM +0.08%](#) (CRM) has had a few activists involved in the company for months, including [Dan Loeb’s](#) Third Point, [Elliott Investment Management](#), [Starboard Value](#), Inclusive Capital, and ValueAct Capital Partners.

Salesforce CEO [Mark Benioff](#) said ValueAct’s expertise “heavily influenced” the company’s latest quarterly results, noting that ValueAct’s CEO Mason Morfit brought with him “whole decks of strategy for distribution strategy, pricing strategy, product strategy.”

Investors appear happy Benioff is listening to outside advice. Salesforce shares have risen more than 40% this year. That’s the kind of stock move a change in investor sentiment can bring.

There are other ways to change investor sentiment. Battle Road Research analysts [Ben Rose](#) and Jonathan Rowe laid out a six-point recovery plan for Rivian in a report Tuesday. The first point of the plan is for management to buy some Rivian stock. Insider buying can demonstrate to outside investors that management is confident in the future and display to investors that a stock is a good value at current levels.

Battle Road is “perplexed” that no management or board members are buying and “instead, the company continues to issue additional shares to management, despite the stock’s poor performance.” Rivian’s stock-based compensation expense for 2022 totaled almost \$1 billion.

Along with stock purchases, Battle Road wants Rivian to relocate headquarters to Illinois, where its manufacturing plant is based, add to manufacturing and fulfillment staffing levels, pause spending on a second assembly plant in Georgia, renegotiate supplier deals and accelerate production on electric delivery vans.

All are good ideas and might be what an activist investor would suggest.

Battle Road rates shares Hold and doesn’t have a price target on Rivian stock. Ives and Jonas rates shares Buy. Jonas has a \$26 price target for the stock; Ives’ target price is \$25.

Rivian stock was down 0.3% at \$13.7 a share. The [S&P 500 SPX +0.03%](#) and [Nasdaq Composite COMP +0.27%](#) were both rising slightly. Coming into Wednesday trading, Rivian stock has fallen about 26% in 2023. The stock is down more than 80% from the company's 2021 initial public offering price of \$78.

All the declines have Rivian trading for about 0.7 times estimated 2023 sales. [Lucid](#) (LCID) trades for almost 10 times estimated sales. Tesla trades for about six times.