

PR 529: Business and Economic Foundations for Communicators

Follow a Company: Paper 2

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This paper is on **Rivian**, a public Irvine-based electric vehicle (EV) and automotive technology company. The company's shares are traded under the ticker "RIVN".

1. Background and Details on the Situation

2023 has been a very difficult year for Rivian so far. In late February the company published its previous year's earnings, revealing significant difficulties with scaling production and a total annual loss of \$6.8 billion (Boudette, 2023). Supply chain issues were identified as the main cause for falling just short of its initial goal of producing 25,000 vehicles for 2022. As a result, Rivian's shares plunged by over 17% within the next day, making it the second biggest one-day drop in the company's short history on the stock market since its IPO in November 2021 (Assis, 2023).

After the investor's strong initial response, the value of Rivian's stock began to rebound and within a few days, it had risen by more than 10% (yahoo! finance, 2023). This paper however will focus on correlated news that broke just a week *after* the underwhelming 2022 earnings report, as on the 6th of March the EV manufacturer announced plans to raise \$1,3 billion by selling convertible **green bonds** (O'Donnell, 2023).

A green bond raises money that can solely be used for projects related to climate change, with Rivian stating plans to invest in renewable energy, clean transportation with the upcoming generation of smaller and more affordable Rivian models (the R2 vehicle family), recycling materials and pollution prevention (O'Donnell, 2023; Binnie & Roy, 2023). These bonds – which in Rivian's case are due in 2029 – are clearly a fundraising instrument to fight the company's expansive unprofitability (Boudette,

2023): The current \$11.6 billion in cash reserves are believed to run out as soon as 2025 (Johnson, 2023) while the company is simultaneously ramping up its production volume and constructing a second manufacturing plant in the state of Georgia (Olinga, 2023).

2. Business Analysis

From Rivian's perspective, choosing *green* bonds over normal ones has two main attractive advantages: Firstly, it supports the EV startup's sustainability mission, secondly, and frankly in this case more importantly in the short- and mid-term, green bonds are usually issued with lower returns for investors in exchange for environmentally-focused efforts, which is significant given the bond's value of \$1.3 billion (Binnie & Roy, 2023). On top, an additional \$200 million can be raised, if initial bond investors choose to purchase further notes (Rosevear, 2023).

Despite the sustainability link, the reactions were tremendously negative: Just a week after the troublesome 2022 earnings report, the slowly recovering stock was hit again by an almost 15% decrease in value on the following trading day, hitting a then-all-time low of \$14.63 when the market closed (Johnson W., 2023; yahoo! Finance, 2023). Following two weeks of continued slow decline, Rivian's stock has since stabilized and has been trading between 13 and 14 dollars; almost a third less than the stock's value prior to the 2022 earnings report when it was selling for \$19.30 only a month ago.

One significant concern for many investors is the convertible nature of these green bonds, allowing them to be exchanged for stock (O'Donnell, 2023). This has raised hesitation, as it could result in an increase in the number of outstanding shares and

potentially dilute the value of the stock in the future. Another concern, as previously mentioned, is Rivian's ongoing high cash burn rate which can only withstand 2025, while its second generation of vehicles is now delayed until 2026 (Rosevear, 2023). Therefore, "[w]ith a long lead time until its next vehicle, Rivian's cash situation is a key focus for analysts and investors," (Subramanian, 2023) and issuing fundraising – in this case, bonds – is an indication for mounting financial pressure for the Californian company. Still, Rivian notes that current model preorders are "expected to last into 2024," (Boudette, 2023) while the manufacturer remains optimistic about reducing costs and achieving profitability by the end of the same year (Johnson W. , 2023).

3. Communication Analysis

Despite the decision making significant and solely negative headlines in national media, Rivian has surprisingly kept completely quiet on all of its owned media (social platforms and website) regarding the issuing of green bonds. This also applies to all platforms of CEO *R.J. Scaringe*. The only material that can be found is a very generic press release that only focuses on the technicalities and conditions of the bond, while fully leaving out any additional relevant information such as the reasoning behind the fundraising or any form of investor communication (Rivian, 2023).

While it is hard to evaluate the impact of the communication – or rather lack of – on the company itself, looking at user reactions on the CEO's and Rivian's tweets from around the 6th of March indicates how shareholders are feeling. It ranges from aggressive comments like "Anything to say to investors??? Sorry we burned your capital, we demonstrated terrible management. We all intend to resign" (Cihantepe, 2023) and sarcastic reactions like "As an investor, I am having a great year also!!!!" (Melgar, 2023) accompanied by a picture of Rivian's plummeting stock

chart, to rather constructive feedback like “Any chance you could “help” Rivian investors as well, and release some news to improve sentiment? Incredible brand, products and future, but we are being ripped apart by the media and markets. Our stock price should not be at \$14.60 - down 90% in 15 months.” (Kendall, 2023)

Seeing that Rivian has not even included its only press release regarding the green bonds in its investor news page (Rivian, 2023) is a very counterproductive move in my opinion. As someone who has been following Rivian for a long time, the company generally seems rather transparent but this time they are very obviously trying to sweep the impactful news under a rug. It is simply a big indication to me, that the company is not proud of its need to support its current cash burn rate to sustain and is trying to please its shareholders. The opposite happened and the strange communications strategy completely backfired on the stock market. Instead of at least trying to frame their story positively and somewhat control the narrative, they chose the worst option: not communicating at all, while stocks were plummeting, the media was talking and investors angrily waiting – and doing anything now would probably make the situation even worse.

4. Results

As previously expanded, the decision to issue green bonds has deeply affected Rivian's finances. A situation that was very bad due to the 2022 financial report got even worse, with the company losing more market cap than the \$1.3 billion the bonds could raise. Since it only happened three weeks ago, it is hard to estimate the long-term effects, though it is obvious that the slowly recovering stock price was hit tremendously by the bond news. Communication could have played a significant

part in lessening the negative effects, as the decision itself tells a lot about the internal confidence of its shrinking cash reserves.

I am certain, that with good news the Rivian stock can still make a huge turnaround and that after a few good months for the stock, the green bond decision can become utterly meaningless in hindsight, but until this, it is one of the most impactful crises the company has experienced so far. Unless significant new fundraising will be done, 2023 will really show how Rivian manages its operations – And it could ultimately show the world whether Rivian will make it, or collapse before ever turning profitable.

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