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XL Fleet: Not Denying Much, Still SPAC Trash

On March 8, 2021, XL issued a multi-page response to our March 3rd report.[1] The response did not deny key claims of company misrepresentations. On the next page is a summary table of the key claims that we made in our initial report, and whether in our view XL specifically denied them in its response. Following the table, we discuss certain of XL's responses to the claims in more detail.

XL did not deny exaggerating its purported $220 million pipeline. XL also did not deny that many of its featured customers have failed to reorder, or that its customer reorder rate is only approximately 10%. XL partially denied and partially admitted the claims of disappointing gas savings. While it made a general statement that its customers "regularly achieve" expected mileage gains, it simultaneously admitted that customers' real world experiences can materially differ from the purported gas savings. To support its gas savings proposition, it points investors to testimonials on its website. One of the testimonials is from an employee of a Fortune 500 company, but the testimonial gives no specific savings numbers. However, we spoke *to that exact person*, and he specified that the fleet fuel savings his company received was only approximately 10%. XL also did not deny that its City of Seattle case study significantly misrepresented the customer's results.

XL's strongest denials centered around the assumptions we used to calculate fleet ROIs. We disagree with its responses on the specific assumptions that drive the ROI calculation, but on most of those assumptions, reasonable people can disagree. However, low reorder rates certainly imply that the ROI for most customers is in line with our estimate.

We understand that following our report, XL's counsel sent threatening emails to former employees warning them about speaking with investors. We see that as consistent with a company that is dishonest. Based on XL's response with its numerous non-denials, we continue to believe that the company greatly exaggerates its pipeline, performance, and potential sales. In short, XL is more SPAC trash.

[1] https://investors.xlfleet.com/news/news-details/2021/XL-Fleet-Refutes-Grossly-Inaccurate-and-Misinformed-Report-by-Short-Seller/default.aspx

MW Claim	Denied?
XL management systematically inflates the company's pipeline	**No**
XL's claimed customer base appears grossly overstated	**No**
We understand that at least 18 of 33 touted customers were inactive	**No**
Numerous XL customers have not reordered due to poor performance and regulatory issues - the reorder rate reportedly is only ~10%	**No**
The majority of touted customers are reportedly inactive	**No**
XL's City of Seattle case study misrepresents the results, which were much worse than claimed	**No**
XL does not achieve stated MPG gains	Yes
XL does not achieve claimed ROIs	Yes
We understand fleet-wide savings are generally only 5% to 10% and sometimes negative	Yes
XL's plug-in hybrid also significantly underperforms XL's efficiency claims	Yes
XL cherry-picked data and blamed MPG misses on customers' drivers	**No**
XL claims positive fleet ROI of 55.7%, but we adjust to a negative ROI	Yes
XL's sales projections are laughably exaggerated	**No**
Despite not being an EV company, XL compares itself to EV players	Yes
XL lacks the supply chain and proprietary technology for effective full electrification	Yes
XL's actual timeline and cost structure for EV builds are poorly disclosed, raising questions	**No**
XL does not have the engineering talent or knowhow to compete in EVs	Yes
Undergraduate interns reportedly filled a number of engineering roles	**No**
XL raised its most recent equity round at ~$73 million, a fraction of its SP.	**No**
XL had significant supply chain woes indicative of a bit player	**No**
There appears little proprietary about XL Grid	**No**
Ford, GM, and Rivian stand to eat XL's lunch in Evs	**No**
Without subsidies, XL's value proposition worsens even further	Yes

Is XL's purported $220 million pipeline exaggerated?

Our report included numerous quotes from three former salespeople stating that XL routinely and systematically exaggerated its pipeline. The specific claims included changing the probabilities of a sale closing from 25% to 75% before a board meeting to making entries in Salesforce for 100 chassis for a company that in reality "has no interest".

XL made no denial of these exaggerations. It instead focused on our occasional use of the word "backlog". Each of the former employee quotes we provided exclusively referenced the "pipeline". We also showed the portion of XL's September 2020 presentation in which it presents its $220 million purported pipeline.[2] In our own verbiage, we used the word "backlog", but it should be obvious that we were describing the purported pipeline. By focusing on our choice of words, XL attempted to deflect from the claim and distract from its misconduct.

If XL's pipeline is exaggerated, what does that mean for its sales projections?

In our report, we described how multiple former XL employees audibly laughed when asked about XL's 2024 revenue forecast of $1.4 billion. XL did not attempt to defend, justify, or explain its forward projections in any way in its response.

XL links its exaggerated $220 million pipeline to its revenue forecasts on slide 18 of its September presentation. Even absent that linkage, we believe it is prudent to extrapolate that a company exaggerating its sales pipeline would have little fealty to good faith when making its 2024 forecast. But with that linkage evidenced, we think it is obvious that investors should also view XL's latter year revenue projections as garbage.

Are XL's customers reordering?

We stated that the slide on which XL displays 33 logos of large corporate customers is greatly misleading because former employees told us that 18 of the 33 had failed to reorder during their times at XL.[3] (They had worked at XL no more recently than mid-2020.). XL did not deny that these companies had failed to reorder.

We quoted one former XL employee as approximating XL's reorder rate at 10%. XL did not expressly deny this reorder rate either. Instead, XL referenced "…increasingly large order sizes from its customers, accounting for a majority of XL Fleet revenues since inception." Given that XL's 2019 revenue was only $7.2 million, it seemingly would not be hard for a small number of reorders to account for a majority of XL's cumulative sales. Therefore, XL's response gives no reason to challenge the 10% reorder rate estimate as being materially inaccurate.

Do XL's customers experience 25% fuel savings on hybrid / 50% fuel savings on plug-in hybrid?

[2] https://xlfleet.com/assets/Uploads/PDF/Updated-Investor-Presentation-9.21.20.pdf
[3] September 2020 investor presentation, slide 12.

Our report quoted former XL employees and a fleet manager with XL hybrids describing the typical customer fuel savings as falling well short of 25% / 50%. The consensus seemed to be that typical fuel savings were only 5% to 10% with the XL system. The former employees also stated that XL misled customers about the potential savings, and then when fleet managers noticed that the actual savings fell short, XL would typically blame the drivers.

XL's response pushes back on these claims, but offers no specific support. Ironically one of the fleet managers who provided a testimonial on XL's website told us the fuel savings was only approximately 10%. XL's response affirms the former employee statements in our report that the hybrid solutions work best in stop and go driving. However, XL's response fails to acknowledge that many fleets must do significant highway driving, which is when the battery and motor reportedly become extra weight that increases gas usage.

Much of XL's response to the mileage misrepresentation referenced the EPA testing standard. However, the former employees never claimed that XL's testing was not in line with EPA standards. Their claim is that testing on a dynamometer does not simulate real world driving conditions and fuel savings. Given that the kits require expenditure beyond that of the vehicle itself, the real world experience is what matters to the customers.

Was XL's last equity raise (Series D) at $73 million?

XL does not deny that this prior raise was at a fraction of the SPAC transaction valuation. It attempts to deflect from this dichotomy by pointing to its "more than $400 million of cash on the balance sheet". Yet, this is an odd distraction, given that cash obviously came from XL's raises, rather than its operations. One item worth mentioning is that the SPAC sponsors never obtained a fairness opinion in conjunction with the de-SPACing.[4]

The absence of a fairness opinion is telling because fairness opinions are notoriously favorable to acquirers. Given the amount of money involved in this transaction, the lack of a fairness opinion was clearly not because it costs too much. We conclude that the SPAC sponsors were concerned (or knew) that they would not receive a credible fairness opinion affirming the valuation of the XL purchase.

[4] Pivotal Investment Corporation II S-4 filed October 2, 2020, p. 6.