



Team 4 Final Project: Apple's acquisition of Lucid

AD 714 Mergers and Acquisitions

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M&A Proposal

Apple Inc. has evolved from a pioneer in personal computers to a leading global consumer technology company. Its innovative products, such as the Macintosh, iPod, iPhone, and MacBook, have disrupted industries and set new standards. Apple has built strong brand loyalty with a focus on premium products and seamless ecosystem integration. Strategic investments in software, hardware, and services made it the first company to reach a \$1 trillion valuation in 2018. This success stems from its commitment to innovation, customer-centric design, and the ability to anticipate market trends.

Main Revenue Stream and Performance

The iPhone is central to Apple, generating over half of its total revenue, which highlights Apple's leadership in the smartphone industry. Beyond the iPhone, Apple thrives with its Mac computers, iPads, Wearables, and a range of services, all contributing to its innovative ecosystem. Within the past year, great growth was observed within their segment of services that would help the company improve the ecosystem. Revenue at Apple reached US\$391 billion in the fiscal year 2024, fueled by strong service growth. Apple has maintained solid margins despite the economic uncertainty by capitalizing on its powerful brand and ecosystem advantages to stay well ahead of the competition. However, as the smartphone market approaches maturity, diversification and finding new sources of income become imperative for long-term growth.

Risks to Apple current strategy

Apple faces several risks that could affect its long-term growth and market dominance. The smartphone market is reaching maturity, which is its primary revenue driver, leading to a noticeable slowdown in growth. In 2024, iPhone revenues increased to \$201.2 billion from \$200.6 billion in 2023, remaining flat. Other product lines experienced minor revenue increases or nearly 6 to 7 percent declines. The overall revenue growth for Apple in 2024 is attributed to services, compared to the same period the previous year. The trend emphasizes the urgent need for Apple to start diversifying sources of revenue and

aggressively pursue emerging high-growth businesses like electric vehicles as a hedge to future-proof its innovative edge and leadership in the markets.

The company faces ongoing pressure to innovate in the tech landscape, as failing to deliver groundbreaking products could harm its market share. According to Apple's report, it must continuously transition its products to stay competitive and meet customer demand. To mitigate risks, diversification is essential, particularly in high-growth emerging markets like electric vehicles, which offer significant potential returns.

Lucid's advantage

Lucid positions itself as a technology company dedicated to promoting sustainable energy adoption. Lucid targets developing advanced technology with intriguing luxurious EVs to create an entirely new dimension of human experience. It focuses on designing, engineering, and manufacturing electric vehicles, powertrains for electric vehicles, and battery systems in-house and is creating proprietary software for its vehicles.

Lucid stands out with innovative battery systems that enhance driving range and energy efficiency, alongside a compact electric powertrain. Positioned as a luxury electric car brand, Lucid evokes a high-end, Apple-like image. Its flagship model, the Lucid Air, has received acclaim for its design, performance, and industry-leading range, appealing to high-end consumers.

Lucid's disadvantage

Lucid faces significant challenges that could impede its growth. Its primary drawback is financial instability, as the company has incurred substantial losses while scaling operations. High development and manufacturing costs and reliance on a single vehicle model raise risks to profitability. Lucid has \$2,358 million in current debt, with about \$2,012.5 million maturing in 2026. Sustainable growth is urgently needed.

Lucid faces challenges in scaling production to meet demand, impacting its competitiveness against established players. The company struggles with supplier management, relying on single-source suppliers for critical components, which creates bottlenecks and risks from supply chain disruptions. Despite

gaining some visibility in the luxury EV market, its limited brand recognition compared to leaders like Tesla leaves it vulnerable to market fluctuations and consumer skepticism. Additionally, the EV industry is highly competitive, with established automakers and emerging startups heavily investing in innovation, intensifying the pressure on Lucid to differentiate itself and secure market share.

Strategic Rationale for Entering the Electric Vehicle Market

The electric vehicle market presents a significant growth opportunity, driven by global trends towards sustainability, government incentives, and the ongoing shift to clean energy solutions. Apple has long expressed interest in the EV industry, as shown by its development of Apple CarPlay, which has become a leading interface in modern vehicles. This initiative highlights Apple's ambition to improve user experience in the industry. Moreover, Apple has invested heavily in autonomous driving technologies, signaling a desire to enter the EV market.

Bringing Lucid Motors into Apple's ecosystem presents a critical opportunity for the company to enter the growing EV market while capitalizing on its strengths in design and innovation. Lucid's advanced battery technology and luxurious designs align with Apple's premium image.

Acquiring Lucid would accelerate Apple's entry into the EV sector, diversify its revenue streams, and reduce reliance on mature markets like smartphones. This move would reinforce Apple's reputation as an industry leader and position it for long-term growth in the evolving automotive landscape, boosting shareholder confidence.

Market

The Lucid Air features advanced Autopilot and Driver Assistance Systems (ADAS), powered by radar, cameras, and LiDAR, enabling semi-autonomous driving. The company's cutting-edge battery technology offers up to 500 miles of range on a single charge, positioning Lucid as a direct competitor to Tesla. Lucid's focus on performance and luxury drives its product development strategy. Lucid is also committed to sustainability, offering eco-friendly electric vehicles and employing green production practices. Features such as Creature Comfort Mode, which remotely controls cabin temperature for pets,

and Range eXchange, which enables Lucid vehicles to charge other EVs via bi-directional charging, demonstrate the company's dedication to technological innovation.

We believe that Lucid has not yet established a strong market position. Despite its high-priced vehicles, there are other options available at more affordable prices from well-known brands. Lucid's focus on performance and luxury is showcased by the Lucid Air Sapphire, a high-performance luxury sedan with 1,234 horsepower, acceleration from 0 to 60 mph in just 1.89 seconds, and a top speed of 205 mph, all while maintaining a 427-mile range. The fully equipped price for this vehicle is \$249,000 before tax, which makes it excessively priced compared to its competitors. Lucid's main vehicle lineup emphasizes luxury and customer comfort, with current price ranges between \$60,000 and \$120,000. However, the company does not compete in the lower-cost vehicle market, which limits its appeal to a broader consumer base.

Lucid's competitive position becomes clearer when compared to key players in the electric vehicle (EV) market, such as Tesla, Rivian, and other automakers like Toyota. When comparing sales figures for 2023, Lucid sold only 6,001 units of its vehicles, while Tesla sold 1,808,581 units and BYD sold 3,024,417 units. Even Rivian, a direct competitor, sold 50,122 units. The industry median for EV sales in 2023 was approximately 152,600 units. Lucid's projected sales for 2024 are estimated to increase to around 9,768 units, which is still significantly lower than its peers. Lucid's financial performance is also concerning. The company has posted negative EBIT (Earnings Before Interest and Taxes) since 2021, while its competitors have maintained positive EBIT. This indicates that Lucid is struggling with profitability and is failing to capitalize on economies of scale and operational efficiency that its competitors are benefiting from. Looking at Lucid's gross margin, it has been consistently negative: -13.8% in 2021, -17.0% in 2022, and -22.5% in 2023. In contrast, the industry median gross margin for electric vehicle manufacturers is approximately 20.2%. Tesla's gross margin for 2023 was 18.2%, showing a slight decrease from 2022, when it stood at 25.6%. BYD's gross margin was 20.21% in 2023, up from 17.04% in 2022. Toyota's gross margin was 22.3% in 2023, and in 2022, it stood at 19.82%(Bloomberg). Lucid's

negative margins suggest that it is facing significant challenges in controlling production costs and achieving profitability, especially when compared to the higher margins achieved by its competitors.

Synergies / Benefits Identification

One of the primary advantages of the acquisition will be the realization of cost synergies by elimination of duplicate functions and the optimization of operations. With Apple's established relationships with suppliers and its ability to leverage bulk purchasing power, manufacturing costs at Lucid's AMP-1 (Arizona) and AMP-2 (Saudi Arabia) facilities can be reduced. Apple's partnership with Foxconn, a global leader in electronics manufacturing, offers significant opportunities to reduce manufacturing costs for Lucid Motors. Foxconn has extensive experience in the EV sector, having developed its own electric vehicle models such as the Model C, Model E, and Model T, as well as introducing the MIH Open Platform. This open-source EV platform is designed to lower production costs and improve scalability, making it a valuable resource for streamlining Lucid's operations. By leveraging Foxconn's expertise in advanced manufacturing techniques, such as robotics and automation, Lucid can optimize its production processes, reduce material waste, and enhance operational efficiency. Foxconn's global procurement networks and cost-effective sourcing strategies can complement Apple's supply chain capabilities, helping Lucid achieve the projected 10% reduction in manufacturing costs, saving approximately \$130 million annually, based on Lucid's 2024 projected production costs of \$1.30 billion. In addition to cost synergies, the merger offers significant potential for revenue synergies through cross-selling, market expansion, and product innovation. Apple's vast retail and distribution network, with over 500 stores worldwide, offers a significant opportunity to expand Lucid's reach into international markets, particularly in Europe and Asia. This market expansion could lead to the sale of an additional 10,000 vehicles annually, generating approximately \$1 billion in new revenue based on an average vehicle price of \$100,000. Integrating Apple's ecosystem (iOS, Apple Music, CarPlay, etc.) into Lucid's vehicles could create a compelling value proposition for customers. This could result in a 5% increase in Lucid's annual sales, which would generate an additional \$140 million in revenue. By combining Lucid's cutting-edge autonomous driving technology with Apple's expertise in AI and machine learning, the merged company

could position itself as a leader in self-driving electric vehicles. Capturing just 1% of the luxury EV market (projected at \$100 billion by 2030) could add \$1 billion in annual revenue by 2030. Furthermore, the strategic synergies from the acquisition will position the combined company for long-term growth. Apple's premium brand aligns with Lucid's luxury positioning, strengthening their appeal to high-net-worth individuals focused on ESG values. This alignment could increase pricing power, raising vehicle margins by 2% and contributing \$48 million in annual gross profit (Lucid Group, Inc., 2023).

Management Structure

Apple's business model primarily focuses on consumer electronics, software, and services. Following the merger, the combined entity could establish two distinct divisions: one dedicated to Consumer Electronics (including iPhone, Mac, wearables, etc.) and the other focused on Electric Vehicles and Sustainability (covering Lucid EVs, renewable energy, and cleantech initiatives). This structure would allow both business lines to thrive independently while also capitalizing on synergies between Apple's software ecosystem and Lucid's electric vehicle technology. As part of the integration process, we are considering a reduction in staff at Lucid, as Apple has established teams in many of these areas. We are prepared to offer compensation to those affected. Given Apple's strong capabilities in marketing, human resources, and other key departments, we plan to collaborate with Lucid's department heads to assess performance and identify areas where staff reductions may be necessary. Our goal is to make these decisions based on departmental performance, ultimately reducing overlapping staff costs.

Craig Federighi, Senior Vice President of Software Engineering at Apple, could take on a leadership role overseeing software development at Lucid. However, Lucid should retain its current software development team, as integrating Lucid's and Apple's software capabilities is crucial for future innovation. John Ternus, Senior Vice President of Hardware Engineering at Apple, who leads design and hardware engineering for products like the iPhone, iPad, Mac, and AirPods, could also play a pivotal role in Lucid's engineering team. His expertise would help guide the integration of Apple's hardware technologies into the future development of Lucid vehicles. This integration would follow a hybrid approach, Lucid would retain its talented software and engineering teams while benefiting from Apple's

leadership and resources in both software and hardware development. This collaboration would allow both companies to grow and innovate together, enhancing Lucid's position in the electric vehicle and sustainability markets.

Peter Rawlinson, the current CEO of Lucid, could retain a leadership role overseeing the EV division or serve as the Chief Technology Officer (CTO). Given his extensive experience with Lucid and the electric vehicle industry, he would be a valuable asset to the combined entity. Tim Cook may continue as the CEO of the merged company, provided he chooses to remain in that role. We do not anticipate firing the current CEO after the merger, as that could send a negative signal about the deal. However, from Apple's perspective, we may offer compensation to allow him to leave once the company is fully integrated. If Peter Rawlinson continues to lead Lucid well post-merger, he could maintain his position as the CTO, as his deep background in the EV market is highly valuable.

Due Diligence

The due diligence process between Apple and Lucid Motors would involve targeted evaluations to assess compatibility, risks, and synergies. For Lucid, Apple's team would first examine financial performance, including revenues, cash reserves, and operational costs, to understand its sustainability and growth potential, such as Lucid's reported \$200 million revenue and \$5.16 billion liquidity in Q3 2024 (Lucid Group, Inc., 2024). Legal due diligence would focus on Lucid's history of regulatory challenges, such as frequent changes in legal leadership, to ensure robust compliance frameworks are in place. Additionally, Apple would scrutinize operational aspects, including Lucid's AMP-1 and AMP-2 facilities, to assess manufacturing capacity and efficiency for scaling production. Leadership evaluation would include interviews with key executives as well as other employees to confirm strategic alignment, team and management strength. For Apple, Lucid would review its financial stability, focusing on Apple's \$80 billion cash reserve and \$394 billion in 2023 revenue to confirm its capacity to fund Lucid's growth. Legal due diligence would validate Apple's clean history, ensuring limited risk of litigation impacting operations. Lucid would analyze Apple's M&A track record, including its successful acquisition of Beats Electronics, to assess its ability to integrate and scale premium brands while preserving their identity.

Both teams would jointly examine strategic synergies, such as aligning Apple's supply chain expertise with Lucid's manufacturing operations and integrating Apple's ecosystem into Lucid vehicles. Findings from this due diligence would inform final negotiations and integration planning. (Apple Inc., 2023)

DCF Valuation

Based on Lucid's current financial performance, the company's Free Cash Flow (FCF) is negative, which makes it challenging to provide a reliable estimate. Therefore, we have made several key assumptions for our valuation. We project an average revenue growth rate of 56% over the next five years. However, we believe such a high growth rate is unsustainable over the long term, as it would be unrealistic for the company to maintain this level of growth indefinitely. To account for this, we have used a more conservative perpetual growth rate of 5% for the DCF calculation in order to generate reasonable implied price valuations. Additionally, the electric vehicle (EV) market is highly volatile, with revenue growth subject to significant fluctuations. Given this volatility, we believe it would be unwise to rely on such aggressive growth assumptions for the valuation. As a result, we have placed more emphasis on post-five-year Free Cash Flow, with Lucid projected to turn positive FCF in 2028. The estimated FCF for 2029 is projected to be \$937.4 million (Bloomberg), which we have used for our DCF calculation.

For the DCF model, we used a Weighted Average Cost of Capital (WACC) of 13.8%. Lucid's total debt stands at \$2.36 billion, and its adjusted beta is 2.33 in 2024. The company has cash and cash equivalents of \$1.89 billion in 2024. Lucid's capital structure consists of 70.7% equity, 20.2% debt, and the remainder in preferred equity (Bloomberg). After completing the DCF calculation, we arrived at a terminal value (TV) of 43.1 million for 2024. Using the following formula to calculate the enterprise value: $\text{Enterprise Value} = \text{Market Capitalization} + \text{Total Debt} - \text{Cash and Cash Equivalents} + \text{Minority Interest} + \text{Preferred Equity}$ We arrive at an enterprise value of \$511.97 million. Dividing this by the total shares outstanding (3,011.6 million), we obtain an implied share price of approximately \$0.17 per share. While this implied share price is relatively low, it is important to note that even if we were to offer a 50% premium, Lucid would likely reject such an offer, given that their stock is currently trading around \$2 to

\$2.20 per share. Despite the DCF-derived valuation, we must also consider the market reality and the company's stock performance.

Comparable Valuation

The peer companies selected for Lucid Motors' valuation—Tesla, Rivian, BYD—offer a balanced comparison in the automotive and electric vehicle industry. As the market leader, Tesla represents the valuation potential of a mature and profitable EV company with advanced technology. Rivian, an early-stage EV startup like Lucid, faces similar challenges, making it a relevant comparator. BYD, an established manufacturer with lower production costs, contrasts Lucid's luxury-focused model. We guarantee that this method provides a thorough and accurate valuation framework for Lucid Motors. For Lucid, the P/E ratio and EV/EBITDA are not useful due to negative net income and EBITDA, making them meaningless for valuation. Negative implied share prices are impractical since prices can't be negative. Although Lucid has rising revenue, its negative profitability makes the EV/Revenue multiple the most appropriate metric. Tesla's EV/Revenue ratio is 9.1, reflecting strong market confidence, while Rivian's is 2.57, typical for early-stage electric vehicle companies. Consequently, by averaging the implied share prices, we confidently arrive at a value of \$0.17 per share.

In this context, the valuation provides a starting point for negotiations with Lucid's board of directors. There may be shareholders looking to exit, which could provide leverage for negotiating a price closer to the implied value. However, in our scenario, we would recommend offering a premium of 10-15% above the market price, depending on the specific market conditions and the company's strategic goals.

Deal Structure and Financing

We propose structuring Apple's acquisition of Lucid Group as a merger to integrate Lucid's operations, R&D, and technology into Apple's ecosystem, while preserving Lucid's brand identity. The acquisition will be financed with 70% cash and 30% stock. (#####numbers) Apple's significant cash reserves allow it to fund the deal without compromising its financial stability, minimizing shareholder dilution. The stock component offers Lucid stakeholders long-term value growth, aligning their interests with Apple's success. A premium of 10-15% will be offered over Lucid's current market valuation to incentivize

Lucid's shareholders, reflecting Lucid's strategic value in the growing EV market. Assuming Lucid's \$1.15 billion in liabilities, including \$2 billion in long-term debt as of Q3 2024, increases Apple's obligations but remains manageable due to its strong balance sheet (Lucid Group, Inc., 2024).

As part of the merger, Apple will gain the right to nominate key managerial positions within Lucid, ensuring alignment with Apple's strategic vision and fostering smooth operational integration. This enables effective cultural and operational collaboration, promoting cross-company learning and innovation.

Anti-trust

The proposed merger between Apple and Lucid presents antitrust risks, such as market concentration in the luxury EV sector and potential restrictions on access to key technologies. To address these, Apple should emphasize that Lucid focuses on automotive while Apple specializes in technology, ensuring the merger enhances, rather than reduces, competition. Apple can commit to open standards for its EV technologies and offer fair licensing of Lucid's innovations to other manufacturers. Additionally, Apple could increase R&D investments, benefiting both Lucid and the broader EV ecosystem. Early engagement with antitrust authorities and emphasizing public benefits, like sustainable technology advancement, will help mitigate concerns. Apple could also consider divesting conflicting business segments and implementing data governance measures to promote fair competition and align with regulatory expectations.

Integration Analysis

The integration of Apple and Lucid will require addressing cultural, systems, and HR challenges. While senior management changes may lead to resentment, it's crucial that all employees, from leadership to staff, are involved in the decision-making and integration process. Although tough decisions, such as letting go of underperforming executives, are inevitable, ensuring transparency and early involvement will help manage the transition smoothly (Refer to Table 2 for reference).

Conclusion and Recommendation

In conclusion, acquiring Lucid Motors offers Apple a strategic chance to expand its revenue sources and accelerate its entry into the electric vehicle (EV) market. Despite Lucid's financial challenges and limited presence, its advanced technology and luxury positioning complement Apple's premium brand. The proposed merger would allow Apple to harness its strong supply chain and marketing expertise to enhance Lucid's operations and profitability. We recommend proceeding with the acquisition at a price of \$2 to \$3 per share, estimating a total valuation between \$6.023 billion and \$9.035 billion, plus a 10% to 15% premium, resulting in a final range of approximately \$6.625 billion to \$10.350 billion.

Table 1: Synergy and numbers

Category	Synergy	Value/Impact
Cost Synergies	Bulk purchasing power and supply chain optimization	10% reduction in manufacturing costs; ~\$130M savings annually (Apple's supplier, Foxconn, has experienced of building EVs. They could offer significant opportunities for reducing cost)
Revenue Synergies	Expanded global reach using Apple's retail network (500+ stores worldwide)	Sale of an additional 10,000 vehicles annually; \$1B in new revenue
Revenue Synergies	Integration of Apple's ecosystem (iOS, CarPlay, etc.) into Lucid vehicles	5% increase in annual sales; ~\$140M additional revenue
Revenue Synergies	Capturing 1% of the luxury EV market projected at \$100B by 2030	\$1B additional annual revenue by 2030
Strategic Synergies	Alignment of Apple's premium brand with Lucid's luxury positioning	Enhanced market appeal, increased pricing power, and 2% higher vehicle margins (~\$48M annually)
Strategic Synergies	Combined expertise in innovation (AI, autonomous driving, EV technology)	Market leadership in luxury autonomous EVs

Table 2: Challenges of integration and solution

Challenge	Key Issues	Solutions
Cultural Integration	Cultural clash between Apple's process-driven and Lucid's flexible, innovative culture.	<ul style="list-style-type: none"> - Develop a unified vision. - Conduct leadership, values, and strategic goals workshops. - Appoint cultural ambassadors. - Ensure transparent leadership selection.
Systems Integration	Differences in IT systems and processes causing inefficiencies.	<ul style="list-style-type: none"> - Phased integration of systems. - Conduct a technology audit. - Adopt unified systems where necessary.
HR and Talent Retention	Employee anxiety about job security and potential redundancies (ie, overlapping job responsibilities due to merging teams).	<ul style="list-style-type: none"> - Communicate merger goals and impact clearly. - Offer retention bonuses and career development programs (career paths & skills). - Involve leadership in decision-making.
Resentment & Morale	Leadership feeling sidelined or threatened by role changes.	<ul style="list-style-type: none"> - Engage leaders early in integration planning. - Offer new roles leveraging expertise. - Implement recognition programs for both legacy teams.
Change Management	Resistance to change and uncertainty about the integration process.	<ul style="list-style-type: none"> - Train change agents to communicate benefits. - Manage expectations through structured communication.

References

Cite all sources accurately according to the chosen citation style. This includes not only the 10K forms but also any articles, reports, or other resources you used to inform your analysis. Make sure to follow ethical practices in citation to avoid plagiarism.

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