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Tesla's improbable rise to the most valuable US car company

By Jonathan Michaels

This past summer, Tesla accomplished the unimaginable: It became the most valuable car company in the nation, surpassing both General Motors and Ford in total market value. With a market cap of \$66 billion, Tesla stunned an industry that has high barriers to entry and is steeped in rich tradition.

By comparison, the numbers are jaw-dropping. GM, which has been producing cars since 1908 and is the third largest car manufacturer in the world, traded this past July at \$35. Ford, which has been selling since 1903 and ranks fifth in world order, traded at \$10. Tesla, however, which sold its first car in 2008, rung in the bell at an astonishing \$395 per share.

The feat becomes even more miraculous when it is remembered that Tesla rolled out its public offering in 2010 at \$17 per share. An investment of \$25,000 would have yielded a return of \$580,000. If we only knew when to invest.

The fact that Tesla ever became relevant is even a bit of an astonishment. The last American car maker to go public before Tesla was Ford in 1956, and that was only after it had successfully demonstrated sheer market dominance. Recall that there once existed a time when one in every four cars sold in the U.S. was branded with the blue oval.

What makes the matter all the more shocking is the company's lack of fundamentals. In 2016, GM sold 10 million cars and posted a profit of \$9.4 billion. Ford raked in \$4.6 billion. Tesla, on the other hand, has sold a little over 200,000 cars in its entire existence, and in 2016 posted a loss of \$773 million.

So, why then have skilled traders been throwing throngs of investment-dollars at the company? Future prospects, presumably. After the successful launch of the low-volume Model S, Tesla announced its plan to produce a high-volume economy car that would rocket the automaker to respectable levels of legitimacy. And that's when the public went crazy.

At \$35,000, the new Model 3 seemed like a sure thing. And if there was any doubt about it, the market put that to rest with consumers lining up to place \$1,000 down to secure their place in line to receive one. As of the end of 2016, Tesla had received 664,000 deposits for the range-topping car, yielding \$664 million of available cash for the company.



New York Times News Service

In an undated handout image, the Tesla Model 3.

Now they just have to build it. And that's where things get interesting. The Model 3 went into production this summer at the NUMMI manufacturing facility in Fremont, California, with the highest of hopes. Elon Musk publicly stated that Tesla would be churning out 10,000 Model 3's per week by the end of 2017 (GM produces about 200,000 cars per week by comparison), and many pundits pegged Tesla's long term viability on its ability to meet this goal.

Then reality set in. Musk has found that going from the low-volume Model S to a high-volume economy car is much more difficult than anticipated. How much so? As of the beginning of November, Tesla has only produced 260 cars — a far cry from the predicted 10,000 units per week.

Musk, who describes the situation as “Dante's Inferno,” blames the catastrophe on the failure of suppliers to timely deliver parts, and he is probably right. But managing supply chain deliveries is the essence of a manufacturing process. In large part, car manufacturers are assemblers of a myriad of parts produced by a quilt-work of suppliers sprinkled throughout the world. A windshield wiper doesn't show up, and an entire assembly line can be idled for weeks.

The fallout from the calamity is now beginning to surface. Last month, Tesla fired 700 employees, resulting in a complaint being filed by the United Auto Workers. Then it announced its third quarter financial results, which were staggering — even for Tesla.

Historically, Tesla has been financially insolvent. The company's first public reporting indicates that it lost \$82 million in 2008, and filings since then show that its losses have increased year-over-year, with only mild deviations. In its best year, Tesla lost \$74 million. Last year, it lost \$888 million.

Now, Tesla is in a financial freefall of epic proportions. It reported a third quarter loss of \$671 million — or about a \$7.5 million per day. All of this only adds to the company's shaky balance sheet. Last November, Tesla completed its \$2.6 billion acquisition of SolarCity, a California-based solar energy company started in 2006 by Elon Musk's cousins, Peter and Lyndon Rive. Musk claims that the move will create operational synergies with Tesla, but at what cost? Like Tesla, SolarCity has been losing money at an alarming, and increasing, rate. In 2012, the company posted a net loss of \$64 million; last year it lost \$820 million. Had Tesla and SolarCity been combined for all of 2016, they would have experienced a collective \$1.6 billion loss.

The market is now beginning to respond. While the market was bullish on the company when the Model 3 went into production, hiking the stock price to \$395 per share, the recent news of production delays, mass firings and enormous financial losses has hit the company hard. As of the close of last week, the stock was trading at \$306, resulting in loss in market cap of \$15 billion.

There is not great reason for optimism inside the company's headquarters. According to S3 Partners, a financial technology company with \$2 trillion in assets under management, Tesla is now the largest equity short in the U.S. and Canada, with short interest totaling \$8.27 billion. Gene Munster, a former analyst at Piper Jaffray and now venture capitalist at Loup Ventures, predicts that Tesla will not reach profitability until the third quarter of 2020.

The question is will it make it? Certainly Tesla has been innovative, refreshing and engaging, but how much longer can it withstand quarterly losses that are nearing \$1 billion? One thing is for certain, if Musk cannot find a way to get the production delays under control, Tesla will be remembered as that company that once-upon-a-time had a shot at greatness, but fell victim to the realities of moving into mass production. In truth, it's a lot harder than it looks.



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