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Will Tesla make the turn toward profitability?

By Jonathan Michaels

There once existed a time when the financial question of the day was whether Tesla's stock would ever fall from its dizzying height of \$395 per share. For a car company that only sold its first car nine years ago, and that has never turned a profit, it was a legitimate question.

Now the question has turned, with pundits asking whether the company will make it at all. Last month, Bob Lutz, former vice chairman of General Motors, issued a harsh criticism of Tesla, stating that its fixed costs are out of control, and the company "is going out of business." As the person responsible for development of such products as the Chevrolet Malibu, the Ford Explorer and the Dodge Viper, Lutz is not offering an uneducated opinion.

And there are many reasons to believe he may be right. Tesla's expenses have precipitously increased virtually every quarter over the last decade, ballooning to its present-day expenditure of \$1 billion per quarter. Stated another way, Bloomberg recently conducted an analysis that, on average, Tesla has spent \$480,000 every hour of the day over the past 12 months. At its current cash burn, Bloomberg predicts that Tesla will be out of cash by August 2018.

Tesla bet its financial future on the newly minted Model 3, the \$35,000 consumer car that it expected to produce in great volumes. Demand for the product has been outstanding, with over 600,000 consumers lining up to give the company a deposit of \$1,000.

Now, the company just has to make them, and that is where the problem has arisen. As Tesla has discovered, moving from production of the low-volume Model S to the high-volume Model 3 has proved to be substantially harder than expected.

When production of the Model 3 began this past summer, Tesla anticipated building 10,000 units per week by the latter part of this year. Yet, in October the company only built 180 units for the entire month, blaming production delays on suppliers who failed to timely deliver. Whatever the case, the products are not rolling off the assembly line, and without vehicles being delivered, sales revenue will not be coming in.

And for the products that are being built, the vehicles are plagued with quality problems. In a recent interview that Reuters conducted with



New York Times News Service
A Chevrolet Bolt electric vehicle, being operated with self-driving technology, makes its way around San Francisco on Nov. 28.

nine Tesla factory workers, problems ranged from doors not closing, to missing interior trim, to water leaks and the like. Approximately 90 percent of the vehicles that do actually make it off the line are revealed to have quality problems in final inspection. Toyota quotes a defect rate of 10 percent. A report titled "Beyond the Hype" by JD Power opined that the vehicles were "not competitive" in the quality of build, and lacked "precision and attention to detail."

The competitive landscape is also beginning to change. When Tesla first made its splash, a new economy- old economy struggle began to emerge. iPhones were in; conventional thinking was out. Yet while Tesla has been the Cinderella of the party, with seemingly untouchable public support, the titans of the industry are beginning to catch up.

Last week, GM held a media-packed demonstration in San Francisco of its new all-electric autonomous vehicle, the Chevrolet Bolt. Proving that a goliath like GM can still be entrepreneurial, the automaker unleashed a bevy of autonomous Bolt vehicles on the streets of San Francisco, to media delight.

Yet Tesla is no lightweight in product development, to be sure. Last month, amid reports of its production woes, Tesla announced that it was introducing two new vehicles: the Tesla Roadster and the Tesla Semi.

The Roadster is a \$200,000 luxury sports car, which Tesla claims will be the fastest production car on the planet. With a 0 to 60 time of 1.9 seconds, the car would set the industry ablaze and be the new benchmark to beat. If they can build it. It is one thing to claim it, but it is quite another to do what storied supercar manufacturers — including Ferrari, Porsche and Lamborghini

— could not do.

Tesla's other new product, the Semi, is just as interesting, and equally as ambitious. The company claims that the Semi can accelerate from 0 to 60 in five seconds flat, can carry a load of up to 80,000 pounds, has a range of 500 miles, and can travel up a five percent grade with a max load at 65 mph, compared to a conventional diesel truck that can travel 45 mph. Again, if they can build it.

Tesla boasts that the Semi can be charged in 30 minutes with its new "megacharger." But the devil is in the details. One of Europe's leading energy consultancies, Aurora Energy Research, has analyzed the data released by Tesla, and determined that for the megacharger to work, it would have to provide power that is ten times more powerful than Tesla's current network of "superchargers." To put the mission into context, Aurora Energy Research concludes that this is the equivalent of providing power for 3,000 to 4,000 homes. All through one cord.

The claims sound great, but for a company that is not currently capable of producing a \$35,000 car without water leaks, setting the world on fire with this type of earth-shaking technology might be hatched in a den of fiction.

And one has to wonder if the announcements (and claims) have much to do with Tesla's emerging need for gobs of cash. To stand in line for the Roadster, you have to have a \$45,000 check in hand, and to lay a deposit for the Semi, you will need to shell out a \$20,000 deposit. If nothing else, it makes one wonder if the company is trying to finance its massive expenditures by taking customer deposits. After all, this is the same company that is currently holding over \$600 million in customer deposits for the Model 3.

Whether Tesla will turn the corner remains to be seen. One thing is for certain, however; the bloom is beginning to fall off the rose, and Tesla is learning just how difficult it is run with the big dogs, and why many just stay on the porch.



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