

## TSLA | QUOTH THE RAVEN & THE SHORT ECHO CHAMBER

AUGUST 2018

# DISCLAIMER

## DISCLAIMER

Hedgeye Risk Management is a registered investment advisor, registered with the State of Connecticut. Hedgeye Risk Management is not a broker dealer and does not provide investment advice for individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security. This research is presented without regard to individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice. This presentation is based on information from sources believed to be reliable. Hedgeye Risk Management is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of Hedgeye Risk Management, and are intended solely for the use of Hedgeye Risk Management's clients and subscribers. In reaching these opinions and conclusions, Hedgeye Risk Management and its employees have conducted research based upon sources considered credible and reliable within the industry. Hedgeye Risk Management is not responsible for the validity or authenticity of the information upon which it has relied.

Quoth the Raven Research is not a registered investment advisor and is not offering investment advice.

## TERMS OF USE

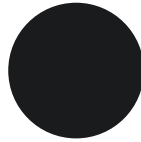
This report is intended solely for the use of its recipient. Redistribution or republication of this report and its contents are prohibited. For more details please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Use at [www.hedgeye.com](http://www.hedgeye.com)

# TODAY: EXIT SHORT ECHO CHAMBER



## ADDED TSLA AS SHORT IN JUNE 2017

Mass production is not the same as high-end production and Tesla was an objectively bad manufacturer, tax credit expiry while competitive entrants would retain tax credit (first loser disadvantage), brand vulnerable, not moving manufacturing the right way, etc.



## SHORTS USUALLY MISUNDERSTAND LONG CASE

We provide institutional research, and have a firm mission to 'democratize' research where we can. We've met with institutional longs, and they every bit as smart(ish) as the rest of the investing community. Their view is not understood well by many shorts.

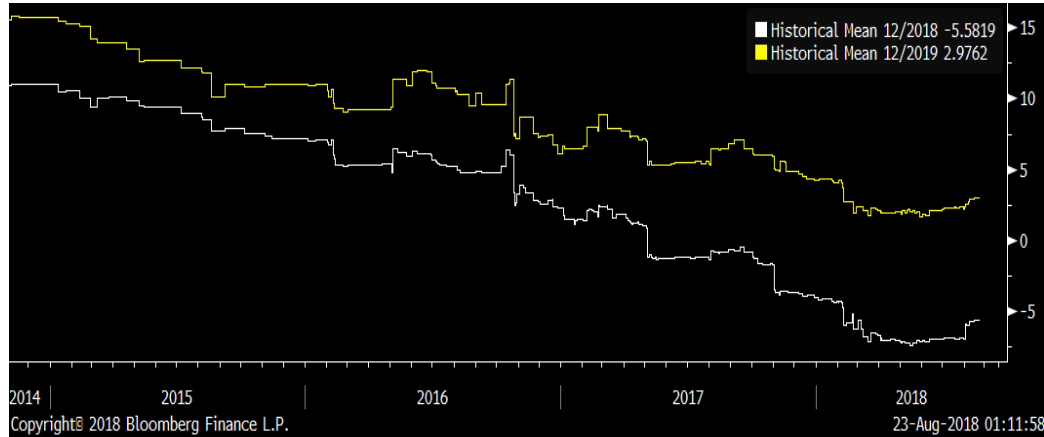


## OFTEN FOCUSED ON THE WRONG METRICS

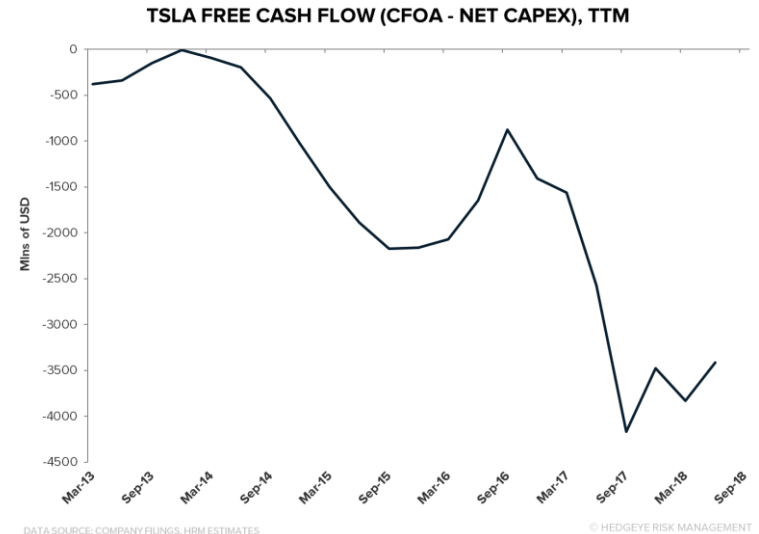
Hedgeye has a number of ex-buysiders...that means we have been humbled before market gods. If it doesn't work, why bother with it? Tesla is dominated by two camps of investors, those focused on the brand/eventual demand growth/scale and those focused on some of the boundary pushing technology they have deployed.

# THINGS THAT DON'T WORK

## Earnings revisions and a miss/beat framework



## Cash burn



# HAVE WE FORGOTTEN HOW TO FRAUD?

Tesla clearly reports losing gobs of money, even on adjusted metrics – if there is *accounting* fraud, they aren't very good at it.

(Enron financials have an entirely different sign)

ITEM 1. FINANCIAL STATEMENTS  
ENRON CORP. AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENT  
(In Millions, Except Per Share Amounts)  
(Unaudited)

<CAPTION>

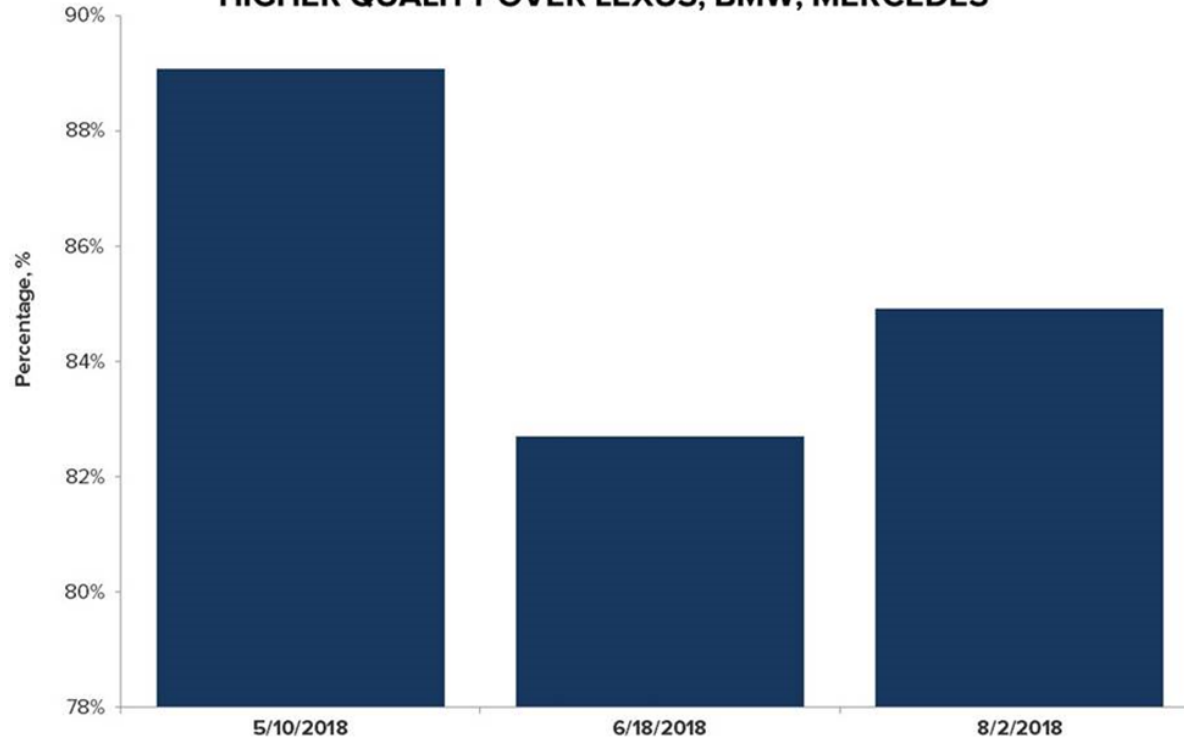
	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
<s>	<c>	<c>	<c>	<c>
Revenues	\$50,060	\$16,886	\$100,189	\$30,031
Costs and Expenses				
Cost of gas, electricity, metals and other products	48,173	15,324	96,332	27,212
Operating expenses	1,027	892	2,020	1,639
Depreciation, depletion and amortization	240	192	453	364
Taxes, other than income taxes	78	59	166	125
	49,518	16,467	98,971	29,340
Operating Income	542	419	1,218	691
Other Income and Deductions				
Equity in earnings of unconsolidated equity affiliates	100	55	174	319
Gains on sales of non-merchant assets	18	72	50	90
Other income, net	133	63	146	133
Income Before Interest, Minority Interests and Income Taxes	793	609	1,588	1,233
Interest and Related Charges, net	215	196	416	357
Dividends on Company-Obligated Preferred Securities of Subsidiaries	18	21	36	39
Minority Interests	30	39	70	74
Income Tax Expense	126	64	256	136
Net Income Before Cumulative Effect of Accounting Changes	404	289	810	627
Cumulative Effect of Accounting Changes, net of tax	-	-	19	-
Net Income	404	289	829	627
Preferred Stock Dividends	21	21	41	41
Earnings on Common Stock	\$ 383	\$ 268	\$ 788	\$ 586
Earnings Per Share of Common Stock				
Basic				
Before Cumulative Effect of Accounting Changes	\$ 0.51	\$ 0.37	\$ 1.02	\$ 0.80
Cumulative Effect of Accounting Changes	-	-	0.02	-
Basic Earnings per Share	\$ 0.51	\$ 0.37	\$ 1.04	\$ 0.80
Diluted				
Before Cumulative Effect of Accounting Changes	\$ 0.45	\$ 0.34	\$ 0.92	\$ 0.73

Tesla, Inc.  
Consolidated Statements of Operations  
(in thousands, except per share data)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Revenues</b>				
Automotive sales	\$ 3,117,865	\$ 2,013,852	\$ 5,679,746	\$ 4,048,912
Automotive leasing	239,816	272,764	413,252	527,304
Total automotive revenues	3,357,681	2,286,616	6,092,998	4,576,216
Energy generation and storage	374,408	286,780	784,430	500,724
Services and other	270,142	216,161	533,554	408,887
Total revenues	4,002,231	2,789,557	7,410,982	5,485,827
<b>Cost of revenues</b>				
Automotive sales	2,529,739	1,472,578	4,621,136	2,969,227
Automotive leasing	136,915	175,433	241,411	341,459
Total automotive cost of revenues	2,666,654	1,648,011	4,862,547	3,310,686
Energy generation and storage	330,273	203,762	705,636	355,535
Services and other	386,374	271,169	767,343	485,045
Total cost of revenues	3,383,301	2,122,942	6,335,526	4,151,266
<b>Gross profit</b>	618,930	666,615	1,075,456	1,334,561
<b>Operating expenses</b>				
Research and development	386,129	369,774	753,225	691,814
Selling, general and administrative	750,759	537,757	1,437,163	1,141,212
Restructuring and other	103,434	—	103,434	—
Total operating expenses	1,240,322	907,531	2,293,822	1,833,026
<b>Loss from operations</b>	(621,392)	(240,916)	(1,218,366)	(498,465)
Interest income	5,064	4,785	10,278	7,875
Interest expense	(163,582)	(108,441)	(313,128)	(207,787)
Other (expense) income, net	50,911	(41,208)	13,195	(59,306)
<b>Loss before income taxes</b>	(728,999)	(385,780)	(1,508,021)	(757,683)
Provision for income taxes	13,707	15,647	19,312	40,925
<b>Net loss</b>	(742,706)	(401,427)	(1,527,333)	(798,608)

# HOW MANY BETTER BRANDS OUT THERE?

POTENTIAL CAR BUYERS/LESSEES IN NEXT 6 MONTHS VIEW TESLA AS HIGHER QUALITY OVER LEXUS, BMW, MERCEDES



DATA SOURCE HRM ESTIMATES

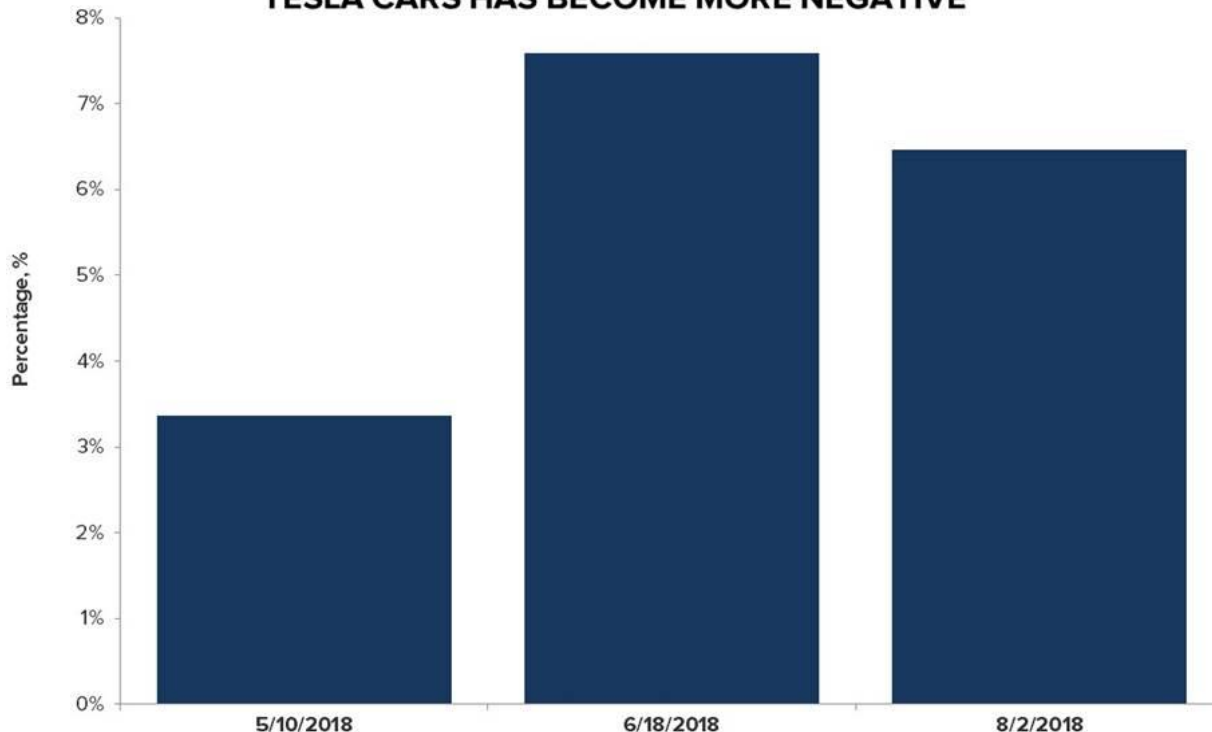
© HEDGEYE RISK MANAGEMENT

~85% say  
better quality  
than Toyota....  
TOYOTA! As  
of this month,  
too.

# HOW AT 320? PUBLIC DOESN'T WANT TO HEAR

Only ~7% say they heard bad things about Tesla, with Thai tweet, republican donation, bumpers detaching.

POTENTIAL CAR BUYERS/LESSEES IN NEXT 6 MONTHS IMPRESSION OF TESLA CARS HAS BECOME MORE NEGATIVE

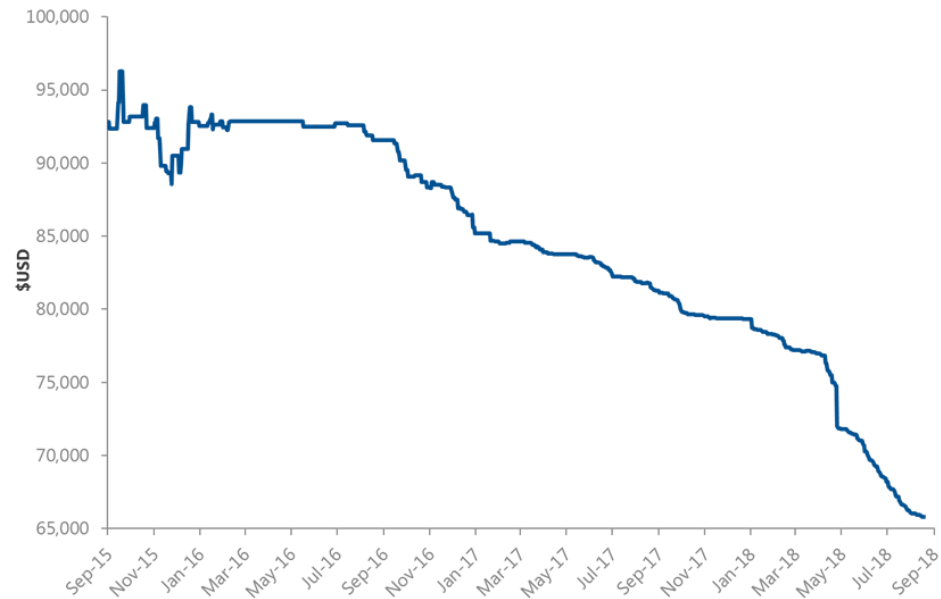


DATA SOURCE HRM ESTIMATES

© HEDGEYE RISK MANAGEMENT

# LONGS CORRECTLY POINT OUT THIS IS GREAT

TESLA 2015 U.S. USED MODEL S LIST PRICE

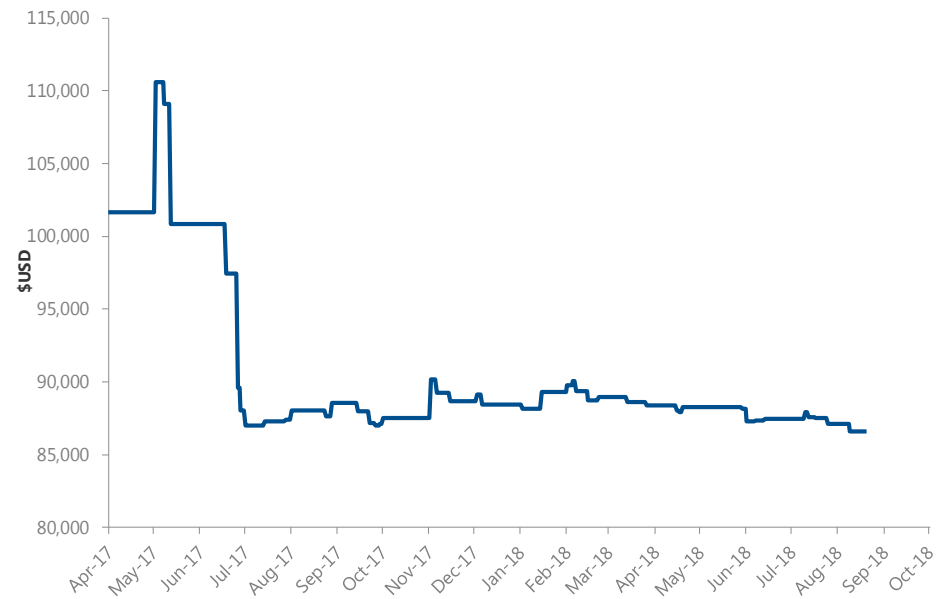


DATA SOURCE: HRM ESTIMATES

© HEDGEYE RISK MANAGEMENT

Better than normal depreciation, with the downside acceleration interesting us.

TESLA 2017 U.S. USED MODEL S LIST PRICE



DATA SOURCE: HRM ESTIMATES

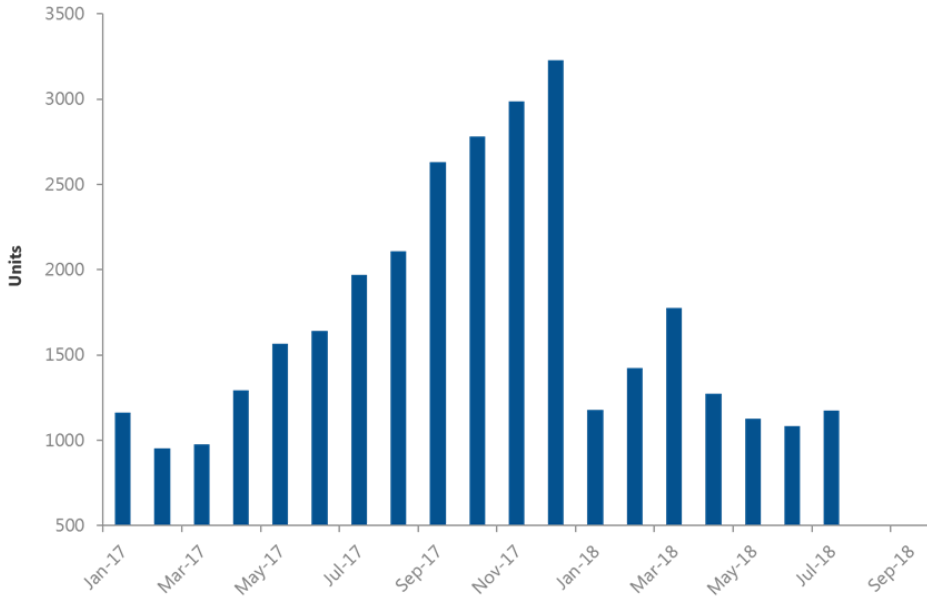
© HEDGEYE RISK MANAGEMENT

A lack of depreciation for used 2017s is pretty amazing... HOV access, but still.



# COMPETITIVE ENTRY AN UNPROVEN BEAR POINT

U.S. MONTHLY PLUG-IN SALES: CHEVY BOLT



DATA SOURCE: INSIDEEVS.COM, HRM ESTIMATES

© HEDGEYE RISK MANAGEMENT

TESLA

MODEL S

MODEL X

MODEL 3

CHARGING

ENERGY

## Forums

### Jaguar IPace Deliveries Delayed 3-4 months

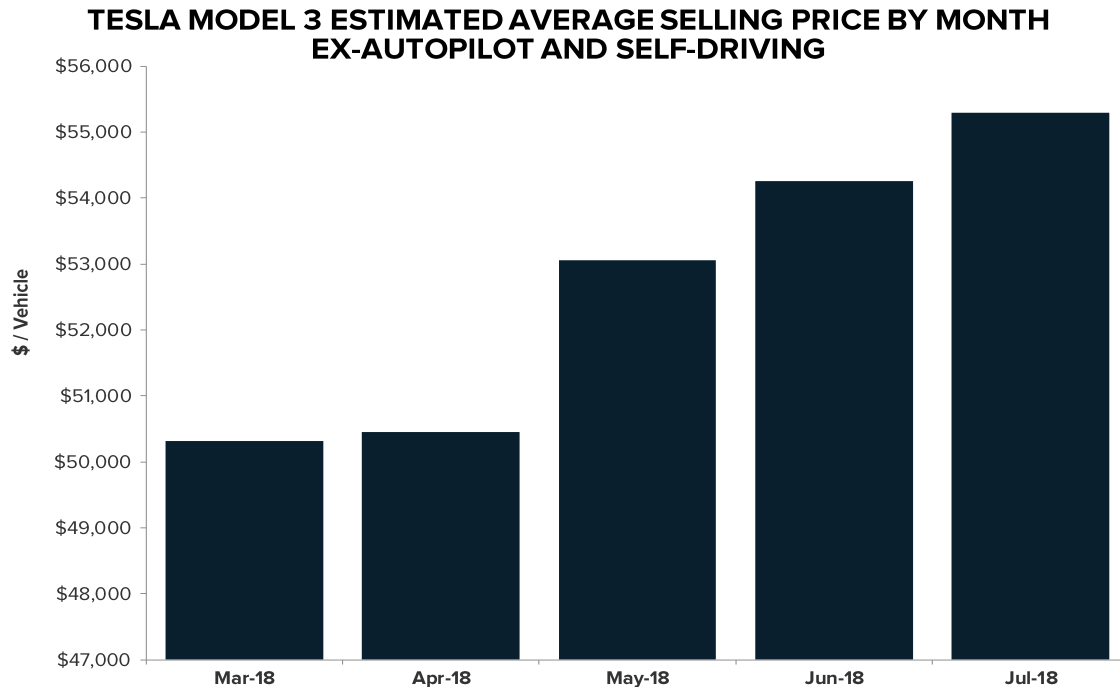
Submitted by TexasBob on July 26, 2018

For early customers who put down \$1000 deposit and configured in July, Jaguar is moving deliveries from Sept to Jan/Feb. "Dealers say it is due to "manufacturing issues" while Jaguar says it is "prioritizing" orders."

We feel your pain! Hopefully working out the production kinks/prioritization soon.

# MODEL 3 ASPS INCREASING, CHANGING NARRATIVE

This should help Q3 results, and it buys them a couple more months. Q4 has the tax credit expiry rush. Tesla has been great at finding a way to keep moving the ball downfield.

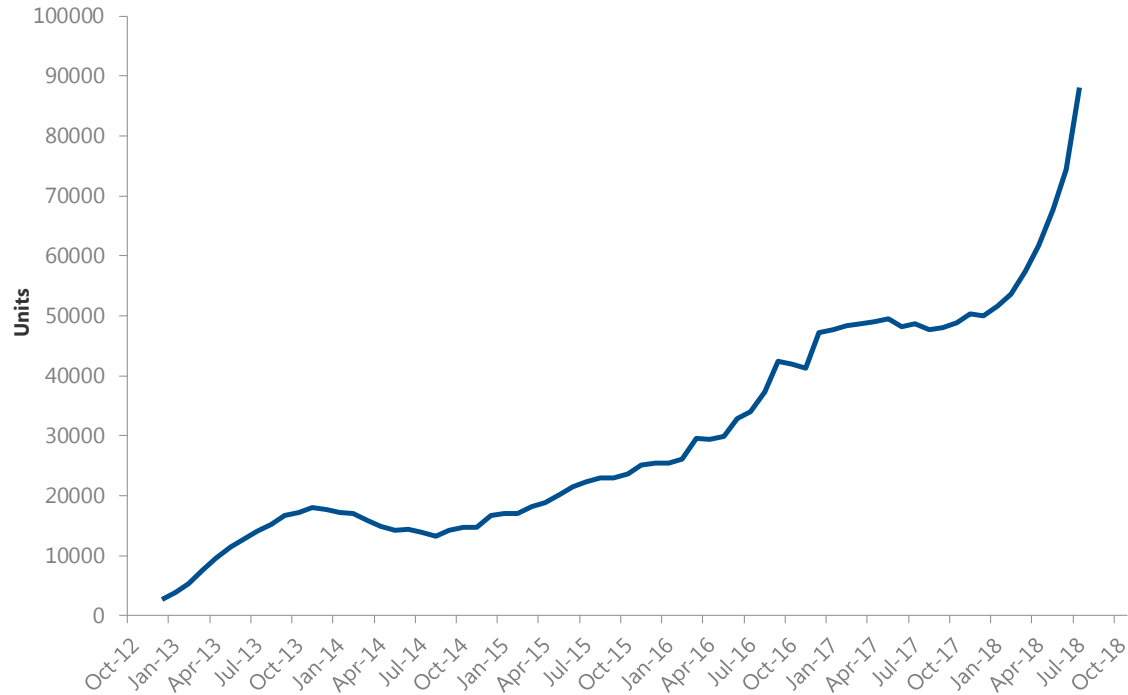


DATA SOURCE: TESLA MOTORS CLUB FORUM, HRM ESTIMATES

© HEDGEYE RISK MANAGEMENT

# MEANWHILE, LONG CASE VERTICAL CLIMB

U.S. MONTHLY PLUG-IN SALES: TOTAL TESLA, TTM



DATA SOURCE: INSIDEEVS.COM, HRM ESTIMATES


© HEDGEYE RISK MANAGEMENT

# IS MUSK A DRUGGED-UP WINGNUT? **NO**

Longs see Musk as a modern Edison. While that may not be a great comparison, he is clearly an exceptional individual. Beyond any engineering issues, he objectively has an ability to promote his vision and the energy/enthusiasm to pursue it. He has recognized talented people and led them to exceptional output. Self control? Well, everyone has flaws. To say Musk isn't exceptional is not even smartish. Heck, we are here discussing the guy.



**Psychology Today**[Find a Therapist](#) [Get Help](#) [Magazine](#) [Today](#)



**Satoshi Kanazawa**  
The Scientific Fundamentalist

## Why Intelligent People Use More Drugs

Intelligent people don't always do the right thing

Posted Nov 01, 2010

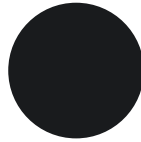
[f SHARE](#) [TWEET](#) [EMAIL](#) [MORE](#)

# SOME OTHER POINTS



## **THEY CAN'T RAISE EQUITY? WHY NOT? SEC KNOWN**

Musk probably doesn't want to announce an equity raise because it would be inconsistent with 3Q guidance. Does Tesla want to undermine its own guidance? Probably not. Tesla can probably raise a couple of billion even with the now clear SEC investigation. Evidence? Shares still >300.



## **SEC GOING TO TAKE TESLA DOWN?**

We don't know what the SEC will do, but Tesla's share price hasn't declined much, so shareholders haven't been crushed, mostly. The lawsuits will be expensive, for sure, but the SEC doesn't seem likely to take down an iconic brand like Tesla.



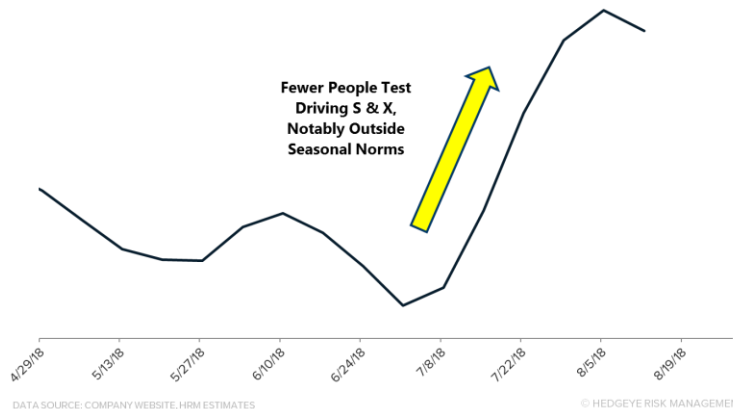
## **MUSK IS GOING TO GET FIRED?**

He may need to move to a non-executive roll if things get bad, but he is so intertwined with the brand that he really can't be separated from Tesla without a significant impact on the share price, we think. The board isn't going to tank the stock, most likely.

# THEN WHAT ARE WE DOING WITH A SHORT CALL?

Every great mass produced car brand was made by great manufacturing. The combo of poor quality (yesterday's reports of a low first pass yield in June is nothing new), declining subsidies, and competitive entry take their toll through 1H2019, as we see it. And we could be wrong. **However, our data is showing initial cracks....**

SAMPLE OF TESLA MODEL S & X WEEKEND TEST DRIVE AVAILABILITY,  
4-WK SUM



FOR MORE INFORMATION CONTACT:

**SALES@HEDGEYE.COM**

**203.562.6500**