

Tesla slides on murky outlook for fixing Model 3 production woes (Update)

November 1 2017



This Friday, Sept. 30, 2016, file photo shows the logo of the Tesla Model S on display at the Paris Auto Show in Paris. Tesla Inc. reports earnings Wednesday, Nov. 1, 2017. (AP Photo/Christophe Ena, File)

Tesla shares skidded Wednesday after offering only a murky timetable for fixing production "bottlenecks" for its Model 3, the vehicle aimed at broadening the appeal of the electric carmaker.

Shares in Tesla, a longtime favorite of Wall Street, sank 4.7 percent in after-hours trade to \$306.00 following its quarterly update, which also showed its net loss nearly doubled to \$619 million—its largest deficit ever.

Tesla has been under pressure to ramp up production of the Model 3, which at \$35,000 could appeal to a broad market and is around half the cost of its other cars.

But in its letter to shareholders, Tesla chief Elon Musk said boosting production of the Model 3 remains "challenging" given that the company is striving for a highly automated assembly process.

"While we continue to make significant progress each week in fixing Model 3 bottlenecks, the nature of manufacturing challenges during a ramp such as this makes it difficult to predict exactly how long it will take for all bottlenecks to be cleared or when new ones will appear," the letter said.

Musk, who has described the company as being in production "hell," said on a conference call with analysts that he was upbeat in spite of the challenges and that he had no doubts the company would meet its long-term targets.

He also confirmed reports the company plans a plant to build cars in China.

"We have a clear plan," Musk said. "We understand the bottlenecks."

Tesla earlier this year briefly eclipsed General Motors as the US automaker with the biggest market capitalization, but shares have been under pressure for the last month on missed production targets for the Model 3.

"Some reality is starting to set in that they are building cars not just selling ideas," said Jessica Caldwell of Edmunds.com, adding that there is still a lot of optimism over the company.

'Exponential' growth

The company said it expects to reach a production rate of 5,000 Model 3 vehicles per week by the end of the first quarter of 2018. The company had previously said it would hit that level by the end of 2017.

Later, during the conference call, Musk appeared to back off a target to raise Model 3 production to 10,000 at some point in 2018.

Musk declined to provide current figures on weekly Model 3 output, or to offer a prognosis for what the rate would be at the end of 2017. Removing bottlenecks can result in "exponential" changes in output, he said, adding that just a couple of weeks can see dramatic changes in output.

"People tend to extrapolate on a linear basis instead of an exponential path," he said.

Musk said the company does not expect significant capital spending in China until 2019 and that production is about "three years out." The plant may also serve other countries that neighbor China, he said.

The update showed total revenues for Tesla rose nearly 30 percent from a year ago to \$2.99 billion. But the net loss widened sharply to \$619 million from \$336 million a year earlier.

Tesla has also come under scrutiny of late over its labor practices, with the United Auto Workers alleging in a federal complaint that Tesla fired and harassed workers involved in union activity.

Musk did not comment on the labor complaint, but criticized as "ridiculous" reports chronicling the firing of hundreds of workers from the company as part of the annual performance review.

He said only about 700 workers had been sacked in all. That accounts for about two percent of overall employees, a much lower count than at other large companies, Musk said.

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