

# Investors will eye cash, production in Tesla 1Q earnings

May 2 2018, by Tom Krisher

---

When Tesla releases first-quarter earnings after the closing bell on Wednesday, investors will be scrutinizing more than the bottom line.

They'll want to see how much [cash](#) the company burned during the quarter as well as its free cash flow, which is cash generated minus capital spending. Those numbers could either allay or increase fears that Tesla will run out of money this year and have to borrow more or sell additional stock.

In last year's fourth quarter, Tesla burned through \$162 million, or roughly \$1,200 per minute, knocking its available cash from \$3.53 billion down to \$3.37 billion. For the full year, Tesla burned up almost \$640 million. Free cash flow in the fourth-quarter was a negative \$276.8 million.

Moody's Investor Service downgraded Tesla's debt into junk territory back in March, warning at the time that Tesla didn't have cash to cover \$3.7 billion for normal operations, capital expenses and debt that come due early next year. At the end of last year the company had a total of \$9.5 billion in long-term debt.

"The negative outlook reflects the likelihood that Tesla will have to undertake a large, near-term capital raise in order to refund maturing obligations and avoid a liquidity shortfall," Moody's wrote in a note to investors.

Tesla Inc., which has had only two profitable quarters in its nearly eight years as a public company, is expected to lose millions again in the critical first quarter. Analysts polled by FactSet predict a net loss of \$713 million, or \$4.04 per share. That would be Tesla's worst quarterly loss. Excluding one-time items the company should lose \$3.54 per share on revenue of \$3.28 billion.

The key to raising cash to cover expenses is production of the Model 3 mass-market electric car, which starts at \$35,000 but can easily top \$50,000 with options. Tesla has had trouble ramping up its factory in Fremont, California, near San Francisco—so much so that Musk has tweeted he's sleeping at the plant and that automation is overrated and more humans are needed to build the cars. More humans would cost more money, increasing the cash burn.

The plant has wildly missed Musk's forecasts. When production started last summer he promised to build 20,000 Model 3s during the month of December. Instead, Tesla made only 2,425 during the entire fourth quarter.

Then Tesla forecast 10,000 Model 3s per month at the end of the first quarter. As it turned out, just under 9,800 were assembled from January through March, Tesla said in April. The Fremont factory was shut down for four or five days last month to clear production bottlenecks, Tesla said.

The Palo Alto, California, company predicted in April that production will climb rapidly through the second quarter and reach about 5,000 vehicles per week—which would return Tesla to its originally promised 20,000 per month rate—around the end of June. It predicted high sales and strong cash flow in the third quarter. "As a result Tesla does not require an equity or debt raise this year, apart from standard credit lines," the company said.

The Model 3 is the most important piece of Tesla's plan to become a mainstream automaker. At one point it had more than 500,000 potential buyers on a waiting list. But in April the company conceded that some had canceled, although it refused to give numbers. Tesla said reservations "remained stable" through the first quarter.

Jeffries analyst Philippe Houchois will be watching for gross orders of the Model 3 to look for growth. "If there is underlying demand, funding and manufacturing issues and therefore (stock) valuation can be addressed," he wrote in a note to investors.

Tesla also has to deal with two federal investigations into crashes of its vehicles, at least one of which was operating on the [company's](#) semi-autonomous "Autopilot" system. In that crash on March 23 near Mountain View, California, the driver was killed when his Model X SUV hit a lane barrier. In the other crash near Los Angeles in January, a Model S sedan hit a parked firetruck on a freeway. The driver wasn't hurt.

Both the National Transportation Safety Board and the National Highway Traffic Safety Administration sent investigators to the crashes.

Tesla was kicked out of the Mountain View investigation team by the NTSB for making details of the probe public, adding to its troubles.

Shares of Tesla have suffered on all of the bad news, falling nearly 16 percent from this year's peak closing price on Feb. 26 to \$300.82 in midday trading Wednesday.

© 2018 The Associated Press. All rights reserved.

Citation: Investors will eye cash, production in Tesla 1Q earnings (2018, May 2) retrieved 8 May 2024 from <https://phys.org/news/2018-05-investors-eye-cash-production-tesla.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.