

Road Beat: Tesla's house of cards

By Larry Weitzman

There is an adage in the auto industry, especially among car dealers: "We lose money on every car, but we make it up in volume." Obviously, if you sell your cars or any product at a loss, more volume just magnifies the loss. That appears to be the business plan of Tesla Inc. (formally known as Tesla Motors), the maker and seller of the much-heralded Tesla electric car.

Now connect the first adage with the dot com bubble saying that in the late 1990s as tech companies were losing ever more money, their stocks prices climbed, the bigger the loss, the bigger the stock price gain and you have the Tesla business model. It is the current description of what is happening to Tesla.

Tesla earnings for the first quarter of 2017 was a loss of \$330 million on just \$2.7 billion in sales. In the almost five years that the Model S has been in production, Tesla has had only two profitable quarters, which profits were achieved by the sale of fictitious zero emission vehicle credits to other manufacturers. For all prior quarters, Tesla has never made a profit from the sale of their cars which income included the sale of ZEV credits.

In fact, in those two "profitable quarters, the first quarter of 2013, Tesla had earnings of just \$11 million but their income included \$85 million in ZEV credits so their loss on car sales was in fact \$74 million and in the third quarter of 2016 when Tesla reported a profit of \$22 million, ZEV credit sales totaled \$139 million meaning the loss on car sales was about \$117 million.

But the stock continues to climb from about \$40 a share in early 2013 when I first wrote about this house of cards and its inability to earn money because electric cars are too expensive and impractical (range anxiety and refueling anxiety) to a current \$310; the all-time high was \$325. That without the government mandating electric cars and government subsidies, electric cars cannot compete with conventional cars.

Now with that huge loss in the first quarter this year, Tesla stock has climbed to over \$300 a share. Tesla's market cap (total value of its stock) now exceeds the value of GM and Ford. And that begs a question. How many cars did Tesla sell last year (answer: about 76,000). GM and Ford sold about 8 million and 6.7 million cars, respectively. GM earnings for the last five years' total about \$32 billion and for Ford it was about \$30 billion. Tesla has lost over \$2 billion over the same period and without ZEV credits that loss would have been \$600 million more and federal tax credits to buyers totaled about \$300 million (state credits would add another \$50 million to \$100 million as California alone has paid out \$38 million), so without direct government help, Tesla losses would have totaled about \$3 billion.

Looking at it another way, according to *AutoNews*, last quarter, GM earned a profit of \$1,418 and Ford \$1,174 for every car they sold throughout the world. Tesla lost \$15,855 for every car it sold. And the market cap of Tesla is about equal to Ford or GM? And we haven't even discussed the hard assets (land and buildings) of each company. Something doesn't make "cents" here.

And it's not like Tesla has some patent or proprietary information. GM is already producing a pure EV, the Chevy Bolt that has a range of about 230 miles with terrific reviews and it retails for about \$40,000. Tesla's not yet in production Model 3 is alleged to have a price of \$35,000, but insiders tell us that all Model 3s will sticker for \$50,000 or more as

they will come optioned up. And even if the price were \$60,000, it is questionable whether at that \$60K price Tesla will make any money on the Model 3. GM is losing money on the Bolt as well, but their other profitable production allows them to do so. In other words, other GM customers are subsidizing the Bolt.

Tesla's average sale price is about \$108,000 and considering its loss per car, it would need an average sales price of \$125,000 per car to break even. Most buyers receive \$10,000 back in federal and state tax credits that you pay. Tesla's most expensive car is the P100D at \$140,000 (price went up in the last few weeks from \$134,500) and the Model X starts at, \$82,500 and goes up to about \$100,000 for the 100-kWh Model X. However, the base model S 75D starts at \$70,000 going up to \$97,500 for the 100D.

If you talk to most people on the street, they believe batteries are improving. The reality is they are not. Battery technology and chemistry is essentially the same for the Tesla sports car of ten years ago, as it is today for the Model S and X. The key word here is chemistry which describes what a battery is, a chemical reaction. There is nothing new under the sun and there is nothing in the foreseeable future to change that unless a new element is discovered which shall be named "Unobtainium."

Without government mandates and subsidizes, Tesla would have folded years ago, just as other start up battery car companies have done and the Baker Electric car did which owned the car market in 1902. When government subsidies terminate such as the tax credits and ZEV credits, Tesla's prices will have to increase by as much as \$30,000 per vehicle. According to Strategic Vision, Tesla buyers now have an annual average income of \$320,000. With respect to Tesla, the poor and middle class are subsidizing the wealthier.

And Elon Musk, who made his first millions selling PayPal to

EBay, and who owns about 27 percent of Tesla is now worth over \$10 billion. I hope he cashes in on a billion or two while he can.

The problem for any electric car is that batteries do not have sufficient energy density to compete with gasoline or diesel and the refueling process of batteries is time consuming and cumbersome and if everyone used electric cars, without nuclear energy producing the power, the cost per mile for electricity would probably be more expensive than gasoline. And right now, many utilities are subsidizing EV energy costs, meaning that you are paying for that, too.

Let's hope if and when Tesla folds, we do not hear politicians claiming "It's too big to fail."

Larry Weitzman has been into cars since he was 5 years old. At 8 he could recite from memory the hp of every car made in the U.S. He has put in thousands of laps on racetracks all over the Western United States.