

David Einhorn's Letter: Elon Musk is erratic and desperate (investoralmanc.com)

Tesla (TSLA)

- By all available evidence, the company has had a difficult year
- Had trouble demonstrating efficient production and it has delayed capital spending which pushes out future growth opportunities in the Model Y and the Semi
- TSLA is accommodating Model 3 customers who are willing to pay for premium features – making the car more of a luxury item with a smaller addressable market than the mass market car TSLA had promised
- This high-grading of the backlog combined with the reduction in the government subsidy by early next year, new product delays and the emergence of viable competition for the Model S and X means that 2019 should be a very challenging year for TSLA
- We doubt entry-level Model 3 will be produced profitably anytime soon, if ever
- While investors claim to be interested in the long-term growth of TSLA (as the valuation certainly can't be supported by the current loss-making enterprise), the company is focusing investors on very short-term goals
 - Can the company produce a certain number of cars in a single week through short-term surge production techniques?
 - Can the company fire enough staff and scrimp on capex to show a profitable or cash flow positive quarter or two?

- On the other hand, we wonder whether surge production techniques to support self-congratulatory tweets are economically efficient ways of ramping production, or whether customers will be happy with the quality of a car rushed through production to prove a point to short sellers
- We also wonder whether the company's lack of capital and its determination to show positive cash flow is delaying investments in additional manufacturing capacity and infrastructure necessary to fulfill the bulls' long-term growth expectations
- With TSLA's first-to-market window beginning to close, delaying investment undermines the opportunity. Strangely, the bulls don't seem to care
- The most striking feature of the quarter is that Elon Musk appears erratic and desperate. During the quarter, Mr. Musk:
 - Attacked an analyst for asking "boring bonehead questions" on the quarterly conference call
 - Hung up on the head of the National Transportation Safety Board
 - Assailed the media for the audacity to report that Tesla's customers crash while using "autopilot"
 - Accused an internal whistleblower of "sabotage"
 - Appeared to paint the tape with trivial insider purchases
 - Went on a tweetstorm calling for "the short burn of the century"