

# Tesla Lied About Profits: Business Insider

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## Sorry, But Tesla's Only Profitable Because Of Your Tax Dollars

Craig Pirrong Yesterday 1:37 AM

Electric vehicle manufacturer Tesla's stock has rocketed up after the company reported positive earnings and operating cash flow for the first quarter. The stock had been heavily shorted, and short covering evidently fuelled the stock's take-off.

Color me sceptical. The company was heavily shorted for good reason, and is even more ripe for shorting after the run-up. (Personal opinion. Not investment advice. You're on your own about that.)

For one thing, although operating results did improve from the (really terrible 3/4Q12), the much hyped earnings number was put into positive territory by two items: a write-down of a warrant that Tesla granted the U.S. Department of Energy as part of a \$465 million DOE loan to the company, and FX gains (mainly on yen). Not repeatable. And the first seems highly dodgy to me — a squishy number based on an assumption that Tesla will be able to pay off

I'm also sceptical because of the near miraculous nature of the turnaround. Mere months ago, the company was in dire straits:

It's a lucky thing for Tesla Motors shareholders that the U.S. Department of Energy loves the company's loan applications.

Without the hundreds of millions of dollars Tesla has received from the federal government this year, the electric-car makers' financials would be gasping for air as 2012 winds down.

Given the ugly state of Tesla's finances — and the company's sky-high valuation: almost \$4 billion — it will rank among the top candidates in Silicon Valley for a 2013 stock collapse, unless it receives significantly more cash next year.

I get a whiff of a company that needed a miracle to stave off disaster. Maybe it got one, but I am always sceptical of miracles whenever accounting is involved. And that's certainly the case here. The shorts have been bloodied, but they'll be back. Indeed, this seems like a typical battle in a war between a dodgy company and short sellers.

But I am most sceptical because of Tesla's not-really-founder-but-biggest-investor, Elon Musk. Mr. Musk is Occupy's favourite crony capitalist. And Occupy is one of Mr. Musk's favourite movements. Yes, once upon a time Musk started a real business, Paypal (NASDAQ:EBAY), that proved very successful without any government help. That was then, this is now.

Musk has three ventures: Tesla, SpaceX, and SolarCity (NASDAQ:SCTY). All are heavily dependent on government largesse.

Take Tesla for starters. It received the \$465 mm loan from DOE, but it also benefits from a \$7500/car federal subsidy for electric cars. Moreover, it benefits from the State of California's Zero Emissions Credit program. In its infinite wisdom, CA mandated that all the major auto companies sell a certain number of zero emissions vehicles. If they don't they have to buy credits from companies that do make them — namely Tesla. This was also essential in putting the company in the black in Q1, and the company is sitting on \$250 mm worth of these credits.

IOW, Tesla's profits are courtesy of you, the taxpayer — and also courtesy of the shareholders of Ford (NYSE:F), GM (NYSE:GM), Toyota (NYSE:TM), Honda (NYSE:HMC), etc.

Next consider SpaceX. This venture provides evidence of Musk's love for Occupy: he has promised that this private space venture will go to Mars, and wears an Occupy Mars shirt to make the point.

It is also touted as a privately capitalised space venture, which it is, I guess, but it is also almost completely dependent on government contracts. The private money is attracted by the scent of public money. Sorry, but a company that is dependent on NASA's IV for support is not truly a private company: the company is basically a cutout between the investors and the taxpayers.

The company has not exactly covered itself in glory. It had serious trouble with its initial launches, including an embarrassing episode in which the ashes of Star Trek's Scotty, James Doohan, were on a SpaceX craft that didn't make it into space: it crashed instead somewhere in the South Pacific. Which I guess would have been great if James Doohan had starred in South Pacific. Don't worry, though. As a precaution, some of Mr. Doohan's ashes were retained, and that part of the beloved actor's remains did make it into space as he desired.

And speaking of Broadway and movie classics, Musk is auditioning for a role in a summer stock Music Man with his boosterism of SpaceX:

You don't have to be a believer in conspiracy theories to wonder why senior government officials are so committed to going the commercial route in space. Even a cursory review of SpaceX programs and plans reveals reasons for doubt. The questions begin with a business strategy that isn't just disruptive, but downright incredible. Mr. Musk says that he can offer launch prices far below those quoted by any traditional provider — including the Chinese — by running a lean, vertically integrated enterprise with minimal government oversight that achieves sizable economies of scale. The economies of scale are possible, he contends, because there is huge pent-up demand for space travel in the marketplace that cannot be met within the prevailing pricing structure. By dropping prices substantially, this latent demand can then be unlocked, greatly increasing the rate of rocket production and launches. When combined with other features of the SpaceX business model, the increased pace of production and launches results in revolutionary price reductions.

There isn't much serious research to demonstrate that the pent-up demand Musk postulates really exists, nor that the price reductions he foresees are feasible. He has suggested in some interviews that launch costs could decline to a small fraction of current levels if all the assumptions in his business plan come true, and he has posted a commentary on his web-site explaining how SpaceX is already able to offer the lowest prices in the business. It's hard to look inside the operations of a private company, but SpaceX does seem to be doing all the things necessary to minimize costs such as using proven technology, building as many items as possible in-house, and hiring a young workforce willing to work long hours. And to his credit, Musk has committed over \$100 million of his own money to the venture. However, his rockets have major performance limitations compared with other launch vehicles in the market, and they are not yet rated as safe for carrying people. Becoming "man-rated" will necessarily increase the role of federal officials in monitoring SpaceX operations, which is not good news for a business model grounded in minimal government oversight (traditional launch providers say government regulations and overhead charges are a key driver in their own pricing policies).

Downright incredible sounds about right. It sounds like a con to me. Especially the whole "economy of scale" thing. That's the kind of thing defence contractors say to get the government to buy more units of a plane or ship. It's not good economics.

And Musk's winning personality was on display when questioned about SpaceX's launch failures:

Mr. Musk recently responded to a question from Space News reporter Amy Vitak about the two-year delay in accomplishing that second Falcon 9 launch by observing, "In the space business that's on time." Perhaps he was irritated by the reporters' implied criticism, but it goes without saying that if astronauts on board the space station are awaiting supplies, a prolonged launch delay could spell big trouble.

What a guy. Takes your money, and then gets peevish when you accuse him he's blowing it.

Then there is SolarCity, an installer of solar panels. The solar industry has raked in \$4.1 billion of stimulus money, and the government thinks that SolarCity in particular has played fast and loose with the numbers to get more than it should:

Last July, federal investigators subpoenaed SolarCity, the largest installer of residential solar panels, as part of a probe into whether solar-power companies received excessive government grants.

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Even before the Treasury Department's inquiry into grant applications filed by SolarCity and other installers, House Republicans had questioned the program's effectiveness in creating jobs. Congress declined to renew the grant program at the end of 2011, and only projects that were being planned by that date can receive grants today.

The government is looking into whether SolarCity and other firms misrepresented the fair-market value of solar systems in order to boost the value of the grants they received. In its suit, SolarCity says two of the company's subsidiaries received smaller-than-expected grants. The company doesn't say exactly how much funding it applied for originally, but it says the final grants issued by the Treasury Department were \$8 million less than was proper under the law.

But SolarCity is doubling down on the chutzpah, and suing the government, claiming the government has paid it too little!:

Now, SolarCity is pushing back with a lawsuit that alleges the opposite: some of the taxpayer-funded grants it received weren't as big as originally promised.

The suit, filed quietly in February in the U.S. Court of Federal Claims, comes as SolarCity and other industry players are defending solar-friendly government policies, and it could undermine the industry's message that solar power will soon be viable without government help.

Solar businesses have cratered around the world: China, Spain, Germany. The industry is addicted to government support.

Elon Musk has a plan to get rich. It involves you. The taxpayer. You pay taxes. The government gives huge dollops of that money to Elon. Elon gets rich. Who could possibly object? Who could deny Elon's genius?

He certainly thinks he's a genius. He has no hesitations in telling people so.

And there is a kind of perverse genius here. In the Age of Obama he has found the key to riches. Get in good with the government-by, you know, sponsoring an inaugural ball. And then let the government give you the goodies. Then sue the government if they don't give you enough goodies.

And then preen before the world, touting your genius-and your environmental credentials. (Pay no attention to that private jet behind the curtain!) (Musk quit the Zuckerberg-created immigration lobbying effort FWD.us because it bought ads supporting politicians who support immigration changes but also had the temerity to support the Keystone pipeline.)

What a repulsive man.

Repulsive, yes, but sadly, Elon Musk is a Man For Our Age, in more ways than one.