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## Tesla: Unsold Model 3s Climb To 7,000-Plus

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### Summary

- Today's Q4 report looked good until one key number: In-transit units.
- Tesla reports that three-fourths of Model 3 sales in Q4 were new customers. Where are the reservations?
- With a huge drop of in-transit units. Q1 sales will likely fall, impacting the bottom line.

Yes folks, I'm back. I know it has been a while since I have written an article (July in fact) but I have chosen to wait for more newsworthy issues to reduce the "noise" on Tesla (TSLA).



As most of you may remember, my first article on Tesla discussed the same subject I'm writing about today - Tesla's unsold inventory and the potential consequences around that inventory growth.

That first article back in June of 2017 was limited to a discussion of the Model S and X units. The news today is more focused around Model 3 where Tesla has pinned its



it's obvious something has seriously changed. Could production have already begun on Chinese or European units? Perhaps, but Tesla should be proactive in answering these obvious questions. Leaving analysts and others wondering will not do anything positive for the share price.

Q4 had some really good Model 3 numbers at first glance. Units produced were 61,394 and total deliveries were 63,150, which were limited to the U.S. and Canada. Total units delivered in 2018 do cross check at 145,846 just as Tesla stated in their press release this morning.

The concerning factor is in that second column where units in transit have fallen to just 1,010 units from a high of 11,166 at the end of Q2. We all know most of that large Q2 number were delayed deliveries to hold off reaching 200,000 delivered units in the U.S. until after July 1 when the clock started in the decline of the U.S. federal tax credit for EV purchases. This decision to delay deliveries in Q2 helped keep the credit at its potential maximum level through the end of 2018.

The bad news is that new orders to be delivered in Q1 have fallen off a cliff as many writers and analysts expected. Will today's announced \$2,000 price reduction on all U.S. Tesla sales have an impact? Time will tell.

## **Where are all of the reservations?**

One odd note in Tesla's release today was the comment that three-fourths of Q4 Model 3 sales were not to reservation holders. Okay, sounds nice for new customer penetration, but it opened the door to a bigger question. Where are the rest of the 455,000 reservations that were widely reported in 2017? Since sales opened up to non-reservation holders at the beginning of Q3 let's assume half of the Q3 deliveries were new orders and three-fourths of Q4 were new orders. Using the numbers in the above chart means only about 72,000 Model 3 sales to date have been to reservation holders. Where are the other roughly 380,000 reservations? Expectations were that about half of all reservations (when announced in July of 2017) were in the U.S. Does this mean there are still 150,000 buyers waiting for the \$35,000 SR Model 3?

To avoid further erosion of the stock price Tesla is going to have to update their reservation counts at least by continents or people are going to assume the worst that many of these reservations have been canceled for one reason or another. This huge book of potential future sales is what has driven the argument for Tesla's \$300 and higher

stock price for over a year.

With higher prices in Europe and China (due to higher transport costs and tariffs), will those areas only produce similar results in reservation deliveries in 2019? With the proven fall-off in Canadian and U.S. sales as incentives get reduced or eliminated, Tesla is extremely vulnerable to forces which they cannot control.

### Looking at Model S and X

While Model 3 is the newsmaker, S and X are far from dead, but just treading water at best. Here's the updated chart for those models.

PERIOD	MODEL S & X							
	Units Produced	Units In-Transit at Qtr End	Current Potential Deliveries	Prior Qtr In-Transit Deliveries	Total Deliveries	Quarterly Surplus Inventory	Cumulative Surplus Inventory	
	A	B	(C	+ D)	E	F		
		=	=	=	=	=		
4Q2018	25,161	1,897	23,264	3,776	27,550	(510)	5,430	
3Q2018	26,903	3,776	23,768	3,892	27,660	(641)	5,940	
2Q2018	24,761	3,892	18,259	4,060	22,319	2,610	6,581	
1Q2018	24,728	4,060	19,295	2,520	21,815	1,373	3,971	
4Q2017	22,137	2,520	23,605	4,820	28,425	(3,988)	2,598	
3Q2017	25,076	4,820	22,415	3,500	25,915	(2,159)	6,586	
2Q2017	25,708	3,500	17,376	4,650	22,026	4,832	8,745	
1Q2017	25,418	4,650	18,601	6,450	25,051	2,167	3,913	
4Q2016	24,882	6,450	16,700	5,500	22,200	1,732	1,746	

*(table provided by the author)*

Global sales remained fairly steady in Q4 with just a very small drop in deliveries over Q3. While no one has been able to duplicate the huge reductions in inventory Jon McNeil achieved in the second half of 2017, unsold inventory has shrunk again in Q4 for the second straight quarter.





*(chart provided by the author)*

As we look at sales for the Model S and X over past quarters, we can see that combined growth has ended for these models. YoY global sales are actually down 3% from 28,425 to 27,550, despite expansion into new markets. The Model S is now struggling to keep pace, with Model X sales falling behind in two of the last three quarters.

## Looking to 2019

Tesla is facing some serious headwinds in at least the first half of 2019. While there will be some new product announcements like the SR Model 3 and perhaps the Model Y, the first will hurt margins and the second may have little if any impact on sales this year. The burden of growth falls entirely on Model 3 this year.

Buyer accounts on websites like TeslaMotorsClub.com toward the end of Q4 stated discounts were widely used to drive sales. Free upgrades in Model 3s versions were used to convince buyers to take a car available for immediate delivery. Tesla's CEO Elon Musk reported in November the company resorted to buying trucking companies in order to ensure timely shipments to U.S. and Canadian buyers. While this was reported to have shaved weeks off transportation times over the use of railways, I can personally attest this practice of using cross-country trucks is much more expensive. In my opinion, this was a permanent solution to a temporary problem and the costs will outweigh the long-term benefits.

It's also highly probable most of those 1,010 units in transit are going to cost Tesla an additional discount of \$3,750 to compensate for those units not being delivered in 2018. While we are only talking about \$3.7 million or so it all adds up.

These and many other costs associated with the rapid ramp of Model 3 production, sales, and staff expansions are going to find their way onto the P&L statement for Q4 coming next month and on into 2019.

Some of my readers may be surprised by my disclosures with this article. I have been on the sidelines and out of TSLA options since early October. The huge stock price decline on 9/28 pushed me to cash out all of our 2019 put options at large gains and flip to calls

that same day, expecting a knee-jerk pop in the following week(s). The surprise settlement announced on 9/29 produced a huge windfall on 10/1. We have since been out of TSLA options altogether.

I keep up with investor sentiment on sites like TMC and others and see a continued sense of blind loyalty and true shock at price movements like today (Jan. 2) when people seem to focus on production or deliveries and completely miss the decline of in-transit units and what that means for the upcoming quarter and beyond. Investors always need to be scratching under the surface noise. This article is meant to shed a little light there.

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