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

Jan. 2, 2019 6:07 PM ET by: Donn Bailey

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

expectations for growth in sales and revenues for 2019.

So let's get right to the numbers:

PERIOD	Units				MODEL 3							
		Units In-Transit at Qtr End			Current		Prior Qtr In-Transit Units		Total Deliveries		Quarterly Surplus Inventory	Cumulative Surplus Inventory
	Produced				Potential Deliveries							
	Α											
		+	В	=	(C	+	D)	-	E	=	F	
4Q2018	61,394	-	1,010	=	60,384	+	8,048	-	63,150	=	5,282	7,042
3Q2018	53,239	/3	8,048	=	45,191	+	11,166	-	56,065	=	292	1,760
2Q2018	28,578		11,166	=	17,412	+	2,040	-	18,449	=	1,003	1,468
1Q2018	9,766	+	2,040	=	7,726	+	860	-	8,182	=	404	465
4Q2017	2,425	-	860	=	1,565	+	38	-	1,542	=	61	61
3Q2017	260	-	38	=	222	+	0	-	222	=	0	0
					Tesla 2018 M3 deliverie			5	145,846			

(table provided by author)

Just to recap, the numbers in column A, B, D and E are given to us each quarter by Tesla in the 8-K filed with the SEC (here) which includes the company's press release on Q4 production and deliveries. So with a little simple math, we can use these numbers to arrive at the unsold, surplus inventory.

We start with units produced. If we subtract the units in transit at the end of the quarter, this leaves us with 60,384 units in Q4 that potentially could have been delivered. If we add the in-transit units from Q3 that were expected to be delivered in Q4, we arrive at 68,432 total units that could have been delivered in Q4. Tesla reported Model 3 deliveries of 63,150, leaving 5,282 units that could have been delivered but were not. If we add this number to the accumulated Q3 inventory of 1,760 units, we now have 7,042 Model 3s scattered around the U.S. and Canada. Since we are talking roughly one to one and a half weeks of production this is hardly a big deal, but startling in comparison to past quarters.

Many of you may scoff at this number saying "where are the units?" The numbers do not lie. So if the cars are not indeed out there (there are 11 new Model 3s here in Jacksonville, Florida, as of the morning of Jan. 1) then the production numbers as reported by Tesla are incorrect. It can only be one or the other. So I think it's safe to assume the cars are out there since we are only talking about 1 to 1.5 weeks of production. But when you compare the excess inventory in Q4 with Q3 (5,282 with 292)

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.

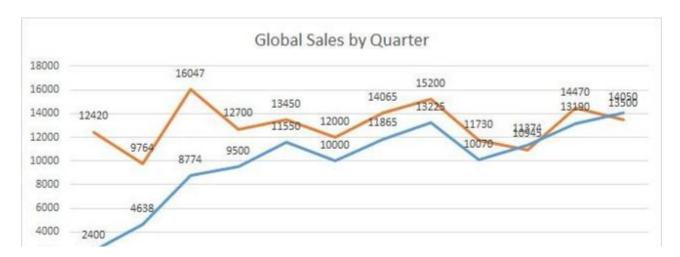
Looking at Model S and X

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	Units				MODEL S & X						
			Units		Current		Prior Qtr		Total	Quarterly	Cumulative
	Produced		In-Transit		Potential		In-Transit		Deliveries	Surplus	Surplus
	Α	-	at Qtr End		Deliveries		Deliveries			Inventory	Inventory
			В	=	(C	(C +	D)	-	E	F	
4Q2018	25,161	-	1,897	=	23,264	+	3,776	-	27,550	(510)	5,430
3Q2018	26,903	4	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.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.