

Musk's Big Questions: Can Tesla Make Model 3s and Burn Less Cash?

Progress toward boosting production looms large.

By Dana Hull February 7, 2018, 3:00 AM MST <https://www.bloomberg.com/news/articles/2018-02-07/musk-s-big-questions-can-tesla-make-model-3s-and-burn-less-cash>

Elon Musk is a man with quite a few balls in the air. On Tuesday afternoon, he watched the private rocket company that he runs, SpaceX, [successfully launch its first Falcon Heavy](#). On Wednesday afternoon, Wall Street will watch as the public automaker that he runs, Tesla Inc., reports fourth quarter earnings.

Information-starved investors will be on high alert, as will thousands of would-be drivers waiting for Tesla to produce and deliver new electric cars. Here are five key questions to ask as a way to gauge Tesla's prospects going into a decisive year.

1. How many Model 3s can Tesla actually produce?

The more affordable Model 3 sedan is the linchpin of Tesla's attempt to transition from niche automaker to high-volume manufacturer, and the ramp-up so far has been muted. The first wave of cars has been delivered to paying customers, but Tesla has delayed targets several times to focus on quality and play whack-a-mole with several unspecified production bottlenecks at both its Gigafactory in Nevada and its assembly plant in California.

Tesla said in January that it expects a more gradual production ramp through the first quarter and intends to achieve the 5,000-per-week milestone by late June, three months later than previous guidance—and even that was already delayed a quarter. The company hasn't yet clarified whether a 10,000-per-week run rate is still possible this year. When that question came up back in November, Musk answered with a [12-second pause](#).

Investors will be watching closely for any indication that output goals have slipped again, and any news on 2018 full-year targets and de-bottlenecking efforts will be welcome. Also avidly interested will be many of the hundreds of thousands of would-be buyers who put down \$1,000 deposits, starting almost two years ago, to reserve Model 3s.

2. How far off are the long-awaited updates to Tesla's autonomous features?

Musk vowed to demonstrate a completely autonomous Los Angeles-to-New York trip by the end of 2017—a feat that hasn't yet happened. Investors and enthusiasts alike know that the chief executive officer's timelines are often overly aggressive. But with autonomous driving now as hot as electrification—General Motors Co. vehicles [are improving fast](#), and Alphabet Inc.'s Waymo plans to start ferrying passengers in Phoenix this year—there will be renewed focus on Tesla's driverless program.

Things have [not been smooth](#) within the Autopilot team at Tesla. Two leaders departed in roughly the past year, and staff has suffered from inevitable talent churn. It doesn't help that Chris Lattner, who led the team from January 2017 until June, recently got his Model 3 and [threw some shade via Twitter](#) about lack of progress on Autopilot. Tesla also recently disclosed

that it [didn't test](#) any autonomous cars on California's public roads last year, even as Waymo [churned up](#) more than 352,000 miles.

1 week minireview of the Tesla Model 3: the hardware is truly great (a big step up from my Model S) but the software is unfinished and buggy.

I'm also sad how little progress HW2 Autopilot has made since I last drove it in June...

— Chris Lattner (@clattner_llvm) [February 2, 2018](#)

Tesla charges customers \$5,000 for an option called “Enhanced Autopilot” and an additional \$3,000 for an option called “Full Self-Driving Capability.” Close observers can't help but wonder: Does Tesla, which doesn't use lidar, have the hardware necessary to deliver on its promises? The goal, as Musk has said, is nothing less than full self-driving mode in almost all circumstances. And what ever happened to Musk's plan to take on Uber Technologies Inc. with the “Tesla Network” of shared autonomous rides?

3. Have customer deposits become a major revenue stream?

In an unusual way for automakers to raise cash, Tesla takes deposits from customers for products that have been unveiled but are not yet in production. That amounted to a staggering \$686 million on the books at the end of the third quarter, much of that from down payments for the Model 3 sedan. And in November, Tesla unveiled not just one but two new vehicles: an electric Semi truck and a next-generation Roadster sports car.

Tesla's Cash Situation

Carmaker burned through a record \$1.42 billion in the third quarter as deposits rose

Source: Company statements

Deposits for the Semi and the Roadster could add a further \$300 million to Tesla's working capital, according to UBS analyst Colin Langan, and clearing inventory could add \$400 million. With reservations for the “Founders” series Roadster running at \$250,000 each, could this be the moment when deposits approach \$1 billion?

Investors would especially love to see Tesla break out deposits by vehicle, as well as for other products, including the Powerwall home battery and new solar roof. That's something the company hasn't previously done.

4. Is Tesla making any progress on getting into China?

Tesla said in November that it remains about three years from starting production in the world's largest auto market, although Musk warned that the timeline could slip. “Don't set your watch by this,” Musk told an analyst at the time, calling his estimate of the wait until production starts a “rough target.”

Still, Tesla's factory needs are vast and growing. The company is bursting at the seams at its auto plant in Fremont, California, and is still building out its Gigafactory near Reno, Nevada. The

company has not said where it will make its Semi truck or the new Roadster. Will Tesla expand domestic manufacturing capacity before committing to China? Or is China still top of the list?

India hasn't given up its hopes of wooing the automaker, either. India's transport minister, Nitin Gadkari, has [promised to roll out the red carpet](#) for Musk, offering land and other help to attract a Tesla plant.

5. How fast is all that cash burning?

Tesla was burning through \$8,000 a minute last year, according to [Bloomberg calculations](#), and the slower ramp-up of the Model 3 means there's less cash coming in the door. But the company has always been creative about financing and just sold \$546 million of auto lease-backed bonds. The question looming large for Wall Street: Just how long can Tesla go before it returns to the equity or debt markets? Most analysts expect a \$2 billion to \$3 billion capital raise sometime this year, though the forecast as to timing is still up in the air.

“While we believe Tesla will be able to fund the Model 3 ramp without raising additional capital, we think a raise would remove an overhang on the stock,” analyst Ben Kallo of Robert W. Baird wrote in a note.

Musk has had no trouble accessing the market in the past, and his [new proposed pay package](#) would help ensure he stays around to hit Tesla's aggressive growth targets. With SpaceX—plus OpenAI, Neuralink and Boring Co.—all vying for Musk's attention, Tesla is trying to keep its CEO and largest shareholder close for the next decade.