Tesla Inc. (TSLA): 1Q24 First Take

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- **Our initial view from the shareholder letter is that the report will be viewed as better than expected. Tesla reported an automotive non-GAAP gross margin and overall gross margin that was above both Street consensus (FactSet) and our forecast. In addition, post recent media reports (e.g., Reuters) that Tesla was significantly delaying or canceling plans for a consumer vehicle using its low-cost next generation platform (a product that Tesla had said would be key for future growth), comments that Tesla will seek to launch new models using elements of the low-cost platform but on existing lines to save capex/pull-in timing should help to mitigate intermediate to longer-term growth concerns.**
- Tesla reported revenue/non-GAAP diluted EPS (excluding SBC) of $21.3 bn/$0.45, which was 4%/$0.04 below the Street (FactSet) and in line with/$0.01 above GS.
- The automotive non-GAAP gross margin (including SBC and excluding the revenue from regulatory credits) was 16.4%, above GS at 14.5%. This was down from 17.2% in 4Q23 and 19.0% in 1Q23. The total company gross margin (including SBC) was 17.4%, above both GS at 15.4% and the Street at 17.1%.
- EBIT of ~$1.2 bn was slightly above our forecast of ~$1.1 bn. Higher opex mostly offset a better gross margin compared to our forecast.
- Non-GAAP EPS (ex. SBC) was $0.45, just above GS at $0.44 but modestly below the Street (FactSet) at $0.49.
- FCF was -$2.5 bn in 1Q24.
- The company reiterated that its vehicle volume growth rate may be notably lower than the growth rate achieved in 2023 and expects the growth rate of deployments and revenue in its Energy Storage business to outpace the Automotive business. Tesla also reiterated that it is between two major growth waves, and it expects autonomy and new products to initiate the next growth wave.
- Tesla commented that it has updated its future vehicle line-up to accelerate the launch of new models ahead of its previously communicated start of production in the second half of 2025. These new vehicles, including more affordable models, will utilize aspects of the next generation platform as well as aspects of Tesla's current platforms, and will be able to be produced on the same

manufacturing lines as its current vehicle line-up, per the release. This update may result in achieving less cost reduction than previously expected but enables Tesla to prudently grow its vehicle volumes in a more capex efficient manner during uncertain times, per the company.

- We believe that key factors investors will look to better understand on the call will include the updated new product plan and shift in bringing new lower cost models to market, AI related efforts like FSD and the robotaxi, and comments on where margins will trend including any comments on its pricing strategy.

Results

Tesla reported 1Q24 revenue of $21,301 mn (down 15% qoq and down 9% yoy) which was about in line with GS at $21,253 mn and 4% below the Street (FactSet) at $22,220 mn. Tesla reported the following by segment:

- **Automotive** revenue of $17,378 mn (down 19% qoq and down 13% yoy) compared to GS at $17,184 mn and the Street at $18,894 mn. Implied vehicle ASP was about $43.5K and above our $42.8K estimate. Sales of regulatory credits were $442 mn in the quarter vs. our estimate of $425 mn, up slightly from $433 mn last quarter but down from $521 mn in 1Q23.
- **Energy Generation and Storage** revenue of $1,635 mn (up 14% qoq and up 7% yoy) compared to GS at $1,705 mn. The company reported storage deployments of 4,053 MWh (up 4% yoy). Tesla commented that energy storage deployments increased sequentially in 1Q to a record 4.1 GWh, and Energy Generation and Storage revenue and gross profit also achieved an all-time high in 1Q, driven by increased Megapack deployments, partially offset by a decrease in solar deployments. Energy is Tesla's highest margin business. Tesla also noted that its second general assembly line is now commissioned, and it continues to ramp its 40 GWh Megafactory in Lathrop, CA toward full capacity.
- **Service and Other** revenue of $2,288 mn (up 6% qoq and up 25% yoy) compared to GS at $2,365 mn.

As previously reported, total vehicle deliveries in the quarter were about 387k (down 20% qoq and down 9% yoy). Model 3/Y deliveries in the quarter were about 370k (down 20% qoq and down 10% yoy), and other model deliveries (e.g., S/X/Cybertruck) were about 17k (down 26% qoq and up 59% yoy). Tesla commented that the decline was partially due to the early phase of the production ramp of the updated Model 3 at its Fremont factory, and factory shutdowns resulting from shipping diversions caused by the Red Sea conflict and an arson attack at Gigafactory Berlin.

Tesla produced about 433k vehicles (down 12% qoq and down 2% yoy), of which 412k were Model 3/Y (down 14% qoq and down 2% yoy) and 21k were other models (e.g., Model S/X/Cybertruck) (up 15% qoq and up 8% yoy).

The total company gross margin (including SBC) was 17.4%, above both GS at 15.4% and the Street at 17.1%. The 4Q23 margin was 17.6%, and 1Q23 was 19.3%.

The non-GAAP automotive gross margin (including SBC and excluding the revenue from regulatory credits) was 16.4%, which compares to GS at 14.5%. The 4Q23 margin was 17.2%, and 1Q23 was 19.0%.

Tesla commented that EBIT margins were impacted by a reduced vehicle ASP due to pricing and mix, an increase in operating expenses partly driven by AI, cell advancements and other R&D projects, the cost of Cybertruck production ramp, the decline in vehicle deliveries, partially due to the Model 3 update in the Fremont factory and Giga Berlin production disruptions. These headwinds were partially offset by a lower cost per vehicle, including lower raw material costs, freight and duties, gross profit growth in Energy Generation and Storage including IRA credit benefit, and higher FSD revenue recognition YoY due to the release of the Autopark feature in North America.

Non-GAAP diluted EPS (excluding SBC) was $0.45, just above GS at $0.44 but below the Street at $0.49.

Including SBC, EPS was $0.34 vs. GS at $0.31. Relative to our estimate, EPS upside was driven primarily by ~200 bp higher gross margin and higher other income. This was partially offset by higher opex (on a dollars and percentage basis) and a higher tax rate (a $0.02-$0.03 headwind).

Cash and cash equivalents and investments decreased by $2.2 bn qoq to $26.9 bn, with FCF of -$2.5 bn in Q1 (Tesla noted that AI infrastructure capex was $1.0 bn in 1Q). Inventory dollars were up $2.4 bn qoq to $16.0 bn.

<u>By region, Tesla commented that:</u>

- **US:** Tesla commented that in 1Q24, Model 3 production in Fremont was down sequentially as the company changed the production line to the updated model. Sequentially, Model Y production at Gigafactory Texas increased to an all-time high, while COGS per unit improved to an all-time low. The Cybertruck ramp continued at Gigafactory Texas, with a sequential cost improvement in Q1. Tesla produced over 1,000 Cybertrucks in a single week in April.
- **China:** Tesla commented that Shanghai production was down sequentially due to seasonality and planned shutdowns around Chinese New Year in Q1. Demand typically improves throughout the year, per the company. Tesla expects that as it enters new markets such as Chile, many of them will be supplied from Gigafactory Shanghai.
- **Europe:** Tesla commented that Model Y production in Berlin was down sequentially due to impacts from the Red Sea conflict and the arson attack that impacted the factory. Despite idle capacity charges and other costs from production disruptions, COGS per unit continued to decline sequentially.

Tesla's stated installed annual capacity estimates across its factories was >650K in California, >950K in Shanghai, and >375K in Berlin and >375K in Texas, including >125K for Cybertruck in Texas (vs. 4Q23 at 650K in California, >950K in Shanghai, and at 375K in Berlin and >375K, including >125k for Cybertruck, in Texas).

Outlook

The company reiterated that it is currently between two major growth waves: the first one began with the global expansion of the Model 3/Y platform, and Tesla believes the next one will be initiated by advances in autonomy and introduction of new products, including those built on the next generation vehicle platform.

In 2024, Tesla continues to expect that the vehicle volume growth rate may be notably lower than the growth rate achieved in 2023, as the company works on the launch of the next generation vehicle and other products. For 2024 vehicle deliveries, GS is at ~1.83 mn (up 1.5% yoy) and Visible Alpha consensus is at ~1.91 mn.

In 2024, Tesla continues to expect the growth rate of deployments and revenue in its Energy Storage business to outpace the Automotive business.

Tesla commented that it has updated its future vehicle line-up to accelerate the launch of new models ahead of its previously communicated start of production in the second half of 2025. These new vehicles, including more affordable models, will utilize aspects of the next generation platform as well as aspects of Tesla's current platforms and will be able to be produced on the same manufacturing lines as its current vehicle line-up, per the release. This update may result in achieving less cost reduction than previously expected but enables Tesla to prudently grow its vehicle volumes in a more capex efficient manner during uncertain times, which would help to fully utilize its current expected maximum capacity of close to 3 mn vehicles, enabling more than 50% growth over 2023 production before investing in new manufacturing lines, per the company.

Tesla believes its purpose-built robotaxi product will continue to pursue a revolutionary "unboxed" manufacturing strategy.

Furthermore, Tesla said it would manage the business such that it maintains a strong balance sheet during this uncertain period. The company has previously communicated that it plans to stay FCF positive on an annual basis, even if it is more aggressive with pricing.

Price target and key risks

We are Neutral rated on Tesla shares. Our 12-month price target of $175 is based on 50X applied to Q5-Q8 estimated EPS including SBC.

Key downside risks to our view relate to potentially larger vehicle price reductions than we expect, increased competition in EVs, slower EV demand, delays with products/capabilities like FSD/the third generation platform/4680, key person risk, the internal control environment, margins, and operational risks associated with Tesla's high degree of vertical integration. Upside risks include faster EV adoption and/or share gain from Tesla, a stronger macroeconomic environment for new vehicle sales more generally, earlier new product launches than we expect (e.g., a vehicle using the third generation platform), and an earlier/larger impact from AI enabled products (e.g., FSD, Optimus and robotaxis) than we currently anticipate.

TSLA	12m Price Target: **$175.00**	Price: **$144.68**	Upside: **21.0%**

Neutral

Market cap: $505.2bn
Enterprise value: $489.0bn
3m ADTV: $18.1bn
United States
Americas Autos & Industrial Tech
M&A Rank: 3

GS Forecast

	12/23	12/24E	12/25E	12/26E
Revenue ($ mn)	96,773.0	99,802.0	122,946.4	146,945.2
EBITDA ($ mn)	16,633.0	16,076.1	24,189.2	31,649.5
EBIT ($ mn)	8,891.0	7,090.9	12,628.6	18,017.5
EPS ($)	2.60	1.90	3.25	4.45
P/E (X)	83.5	76.1	44.5	32.5
EV/EBITDA (X)	40.6	27.7	18.1	13.5
FCF yield (%)	0.6	0.4	2.2	3.1
Dividend yield (%)	0.0	0.0	0.0	0.0
Net debt/EBITDA (X)	(0.9)	(1.0)	(1.1)	(1.3)

	12/23	3/24E	6/24E	9/24E
EPS ($)	0.57	0.31	0.41	0.54

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 23 Apr 2024 close.

Disclosure Appendix

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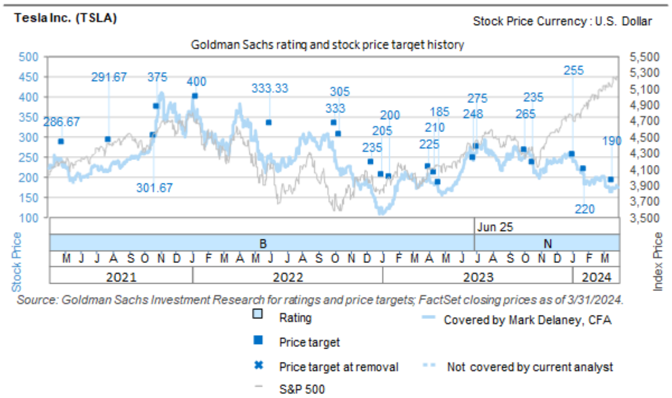

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