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Key takeaways from Tesla & Rivian field trip

Mark Delaney, CFA
+1(212)357-0535 |
mark.delaney@gs.com
Goldman Sachs & Co. LLC

Will Bryant
+1(212)934-4705 | will.bryant@gs.com
Goldman Sachs & Co. LLC

Morgan Leung
+1(212)934-4683 |
morgan.leung@gs.com
Goldman Sachs & Co. LLC

Aman Gupta
+1(212)357-1549 |
aman.s.gupta@gs.com
Goldman Sachs & Co. LLC

On March 21st we hosted investors for a field trip to Tesla and Rivian in the Bay Area. Common topics during our meetings included new EV products, pricing, and software and services opportunities.

Specifically:

Tesla

We met with Martin Viecha (VP of IR), Abhinav Davuluri (Investor Relations Lead), and Travis Axelrod (Sr. Staff Program Manager, IR), in Fremont. Our key takeaways are:

Tesla is between growth waves; new products a key consideration: According to the comments from its last earnings call, Tesla is currently between two growth waves, and expects notably lower growth in 2024. Ramping new and refreshed models, and entering additional countries, could contribute to growth this year. Tesla is now using some digital advertising.

The company has faced certain headwinds to production this year in Berlin, including the Red Sea conflict and loss of power.

As Tesla shared on its last earnings call, new products like a vehicle using the low cost platform could help to re-accelerate growth, and the company is targeting 2H25 to begin production of this product in Texas.

Tesla remains flexible with pricing and plans to stay FCF positive on an annual basis: Tesla continues to actively monitor pricing, and has regularly adjusted pricing in key markets. As communicated on recent earnings calls, the company plans to stay FCF positive on an annual basis, even if it is more aggressive with pricing. Lower pricing could put more vehicles on the road and create an opportunity to monetize software and services.

As we highlighted in our note The price is right? The case for Tesla to be more selective on US price cuts; analysis on EV pricing and IRA we believe that Tesla should be firm with pricing for Model 3/Y in the US as the vehicles are attractively priced particularly with IRA credits and our analysis shows that broad-based incremental price cuts would be negative for profits at least in the short term (although a more entry level SKU of the Model Y with a lower BOM could help Tesla to expand volumes while supporting overall margins/profits in our opinion). However, we believe Tesla is facing a higher degree of competition internationally, especially in China, and a somewhat more aggressive approach to pricing may be needed there.

Tesla continues to be optimistic on AI and what it could enable for its products: The company is optimistic on what AI will mean for its technology, with FSD Beta 12.3 being a step change forward and exhibiting more human-like behavior. Increasing GPU capabilities should help to accelerate development.

4680 making progress: On 4680 the company commented on X recently that it continues to make progress ramping production, having recently produced enough for 1K Cybertrucks in a week. The company has mentioned on recent earnings calls that its yields are not yet where it wants to be, but in the long-term 4680 batteries could contribute to cost savings.

Energy and Services offer growth: Tesla has a good opportunity to grow in both Energy and in Services. In Energy, Tesla is expanding in Lathrop, and the Services business can benefit from non-Tesla vehicles on the road.

We are Neutral rated on Tesla shares. Our 12-month price target is $190 which is based on 50X applied to our Q5-Q8 EPS estimates including SBC.

Key downside risks to our view relate to potentially larger vehicle price reductions than we expect, increased competition in EVs, 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 and Optimus) than we currently anticipate.

Rivian

We met with Claire McDonough (Chief Financial Officer), Tim Bei (Vice President - Strategic Finance, Corporate Development and IR), Derek Mulvey (Sr. Director, Strategic Finance & Investor Relations), and Aly Scholfield (IR) in Palo Alto. Our key takeaways are:

Rivian continues to monitor the business environment and will be flexible with pricing: Rivian will utilize tools to support R1 demand including new SKUs and leasing. There will be various puts and takes to ASPs, including the lower-cost standard range vehicles but also fewer sales of vehicles at the original pricing stack. Rivian has seen good interest in higher-end trims.

Rivian targets a positive gross margin in 4Q: As previously mentioned on its 4Q23 earnings call, management expects to reach a positive gross margin in 4Q24.

One key driver is improved material/input costs. The company plans to utilize several of the new technologies it will introduce into the R1 platform post the shutdown in 2Q24 for the R2, and supplier interest has been supportive to be on these programs.

Increased software and service revenue is another factor in the company's gross margin positive target for 4Q, and management sees opportunities for growth including with regulatory credit sales, insurance, software and digital products.

Rivian commented that it has seen strong interest in R2: R2 interest has been strong, with over 68K refundable deposits received in less than 24 hours. Additionally, Rivian commented that many of its R2 orders were not from existing Rivian customers, which it believes broadened its customer funnel.

Capital allocation and cash runway: The company has extended its cash runway through the start of R2 production (planned for 1H26), and will be opportunistic with the balance sheet.

We are Neutral rated on the stock. Our 12-month price target is $13 which is based on 1.5X our Q5-Q8 revenue estimates. Key upside/downside risks to our view relate to EV adoption, volumes, the production ramp, the competitive landscape, Rivian's high degree of vertical integration, cash burn, and the supply chain.

Disclosure Appendix

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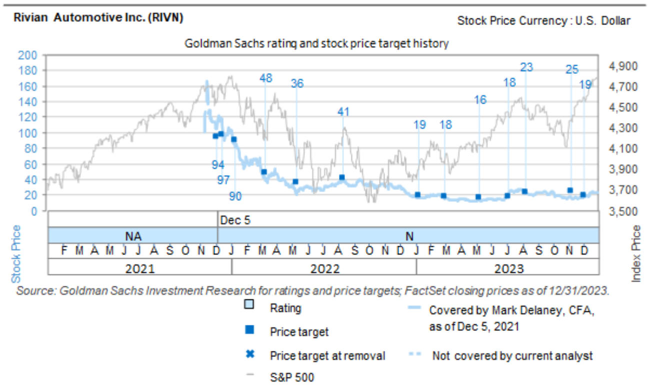

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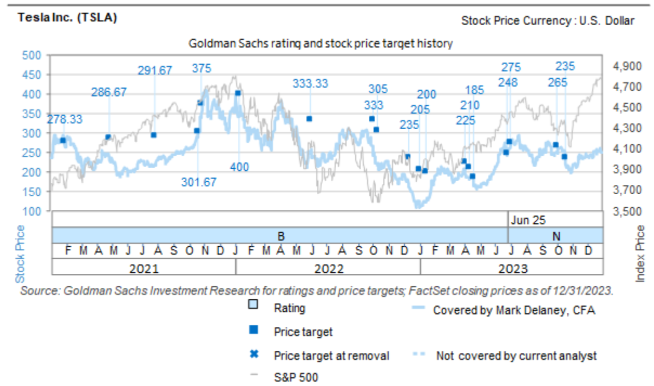

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