Tesla Inc. (TSLA): 3Q23 First Take

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- **Tesla reported revenue/non-GAAP diluted EPS (excluding SBC) of $23.4 bn/$0.66, which was 3% below/$0.07 below the Street (FactSet) and 2% below/$0.01 above GS.**
- **The non-GAAP automotive gross margin (including SBC and excluding the revenue from regulatory credits) was 16.3%, below FactSet consensus of 17.6% and just above GS at 16.0%. The margin was down from 18.1% in 2Q23 and 26.8% in 3Q22.**
- **Implied vehicle ASP of $44.5K was slightly below our estimate of $44.8K. Cost per vehicle declined to ~$37.5K from ~$37.9K last quarter.**
- **Gross margins in both the Energy and Services segments were up yoy, and the Energy gross margin was above our estimate while the Services gross margin was below.**
- **EBIT of ~$1.8 bn was slightly below our forecast, with a higher gross margin (including higher regulatory credit sales) offset by higher opex.**
- **Non-GAAP EPS (ex. SBC) was $0.66, $0.01 above GS and $0.07 below the Street.**
- **FCF was $0.8 bn in 3Q23.**
- **The company continues to expect to deliver about 1.8 mn vehicles in 2023.**
- **We believe that a key area of investor focus on the call will be on the potential trade off between vehicle volume and price (and implications for profits) going forward. Tesla reiterated its long-term 50% volume CAGR target but also suggested that it will be more limited with capacity growth of Model Y in Berlin and Austin, and how these factors impact the bottom line (along with new product launches such as Highland/Cybertruck and ongoing cost reduction efforts) will be a debate in our opinion. We also believe company comments on AI/FSD and Energy will be a focus.**

Results

Tesla reported 3Q23 revenue of $23,350 mn (down 6% qoq and up 9% yoy) which was 2% below GS at $23,884 mn and 3% below the Street (FactSet) at $24,188 mn. Tesla reported the following by segment:

- **Automotive** revenue of $19,625 mn (down 8% qoq and up 5% yoy) compared to GS at $19,593 mn and the Street at $20,463 mn. Implied vehicle ASP was about $44.5K and below our $44.8K estimate. Sales of regulatory credits were $554 mn in the quarter vs. our estimate of $275 mn, up from $282 mn last quarter and from $286 mn in 3Q22.
- **Energy Generation and Storage** revenue of $1,559 mn (up 3% qoq and up 40% yoy) compared to GS at $1,775 mn. The company reported storage deployments of 3,980 MWh (up 90% yoy). Tesla commented that the continued growth in deployments was driven by the ongoing ramp of its Megafactory in Lathrop, CA, toward full capacity of 40 GWh with the phase two expansion. Additionally, the production rate improved further sequentially in Q3.
- **Service and Other** revenue of $2,166 mn (up 1% qoq and up 32% yoy) compared to GS at $2,516 mn.

As previously reported, total vehicle deliveries in the quarter were about 435k (down 7% qoq and up 27% yoy). Model 3/Y deliveries in the quarter were about 419k (down 6% qoq and up 29% yoy), and Model S/X deliveries were about 16k (down 17% qoq and down 14% yoy).

Tesla produced about 430k vehicles (down 10% qoq and up 18% yoy), of which 417k were Model 3/Y (down 9% qoq and up 20% yoy) and 14k were Model S/X (down 30% qoq and down 31% yoy). Tesla attributed the reduced production to downtime for factory upgrades (and we believe a key driver of this was the Model 3 changeover in Shanghai).

The total company gross margin (including SBC) was 17.9%, above GS at 16.4% and in line with the Street at 17.9%. The 2Q23 margin was 18.2%, and 3Q22 was 25.1%.

The non-GAAP automotive gross margin (including SBC and excluding the revenue from regulatory credits) was 16.3%, which compares to GS at 16.0% and FactSet at 17.6%. The 2Q23 margin was 18.1%, and 3Q22 was 26.8%.

Tesla commented that margins were impacted by reduced ASPs (due to mix and pricing), an increase in operating expenses driven by Cybertruck, AI and other R&D projects, the cost of production ramp and idle cost related to factory upgrades, and a negative FX impact. These headwinds were partially offset by growth in vehicle deliveries (despite a margin headwind from the underutilization of new factories), a lower cost per vehicle, IRA credits, gross profit growth in Energy Generation and Storage as well as Services and Other, and growth in regulatory credit sales.

Non-GAAP diluted EPS (excluding SBC) was $0.66, slightly above GS at $0.65 and below the Street at $0.73.

Including SBC, EPS was $0.53 vs. GS at $0.52. Relative to our estimate, a higher gross margin (150 bp higher driven in part by higher regulatory credit sales), higher interest and other income, and a lower tax rate were mostly offset by ~2% lower revenue and higher operating expenses.

Cash and cash equivalents and short-term marketable securities increased by $3 bn qoq to $26.1 bn, with FCF of $0.8 bn (4% of revenue). Inventory dollars were down $0.6 bn qoq to $13.7 bn.

By region, Tesla commented that:

- **US:** Tesla commented that at Gigafactory Texas, the company began pilot production of the Cybertruck, which Tesla believes remains on track for initial deliveries this year. The company is expecting the Model Y production rate in Texas to grow very gradually from its current level as it ramps additional supply chain needs in a cost-efficient manner. Production of the company's higher density 4680 cell is progressing as planned, and Tesla continues building capacity for cathode production and lithium refining in the US.
- **China:** Tesla commented besides the scheduled downtime in Q3, its Shanghai factory has been successfully running near full capacity for several quarters, and the company does not expect a meaningful increase in weekly production run rate. Giga Shanghai remains Tesla's main export hub, per the release.
- **Europe:** Tesla commented that Model Y remained the best-selling vehicle of any kind in Europe year-to-date (based on the latest available data as of August). Similar to Texas, Tesla expects that the further production ramp of Model Y will be gradual.

Tesla's stated installed annual capacity estimates across its factories was 650K in California, >950K in Shanghai, and at 375K in Berlin and >375K in Texas, including >125k for Cybertruck in Texas (vs. 2Q23 at 650K in California, >750K in Shanghai, and at 375K in Berlin and >250K in Texas).

Outlook

The company continues to expect to deliver about 1.8 mn vehicles in 2023. This compares to both GS and Visible Alpha consensus at ~1.82 mn.

Tesla commented that Cybertruck remains on track for initial deliveries later this year (with the delivery event planned for 11/30). In addition, the company stated that it continues to make progress on its next generation platform.

Tesla commented that, despite macroeconomic headwinds, planned factory shutdowns in Q3 and the ongoing ramp at new factories, the average vehicle cost was ~$37,500, and Tesla continues to work to reduce the cost further.

Tesla commented that it has commissioned one of the world's largest supercomputers to accelerate the pace of its AI development, with compute capacity more than doubling compared to Q2. Tesla also said that its installed base of vehicles continues to generate anonymized video and other data used to develop its FSD Capability features.

Price target and key risks

We are Neutral rated on Tesla shares. Our 12-month price target of $265 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, 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.

TSLA	12m Price Target: **$265.00**	Price: **$242.68**	Upside: **9.2%**

Neutral

Market cap: $844.0bn
Enterprise value: $824.6bn
3m ADTV: $29.2bn
United States
Americas Autos & Industrial Tech
M&A Rank: 3

GS Forecast

	12/22	12/23E	12/24E	12/25E
Revenue ($ mn)	81,462.0	98,430.8	122,818.9	148,885.7
EBITDA ($ mn)	19,213.0	17,220.4	23,796.2	31,391.9
EBIT ($ mn)	13,656.0	9,491.8	15,206.2	21,210.2
EPS ($)	3.63	2.75	4.15	5.60
P/E (X)	72.5	88.3	58.5	43.4
EV/EBITDA (X)	42.1	43.7	31.7	23.6
FCF yield (%)	0.9	0.7	1.5	2.6
Dividend yield (%)	0.0	0.0	0.0	0.0
Net debt/EBITDA (X)	(0.8)	(1.1)	(1.3)	(1.6)

	6/23	9/23E	12/23E	3/24E
EPS ($)	0.78	0.52	0.73	0.78

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 18 Oct 2023 close.

Disclosure Appendix

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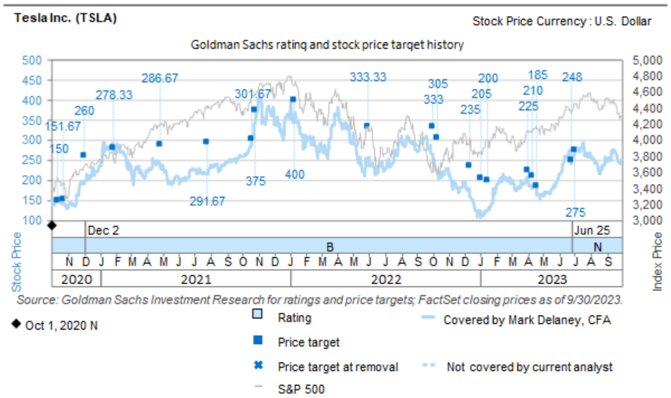

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