Tesla Inc. (TSLA): 2Q24 First Take

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- **Our initial view from the shareholder letter is that the report will be viewed by investors as a modest negative given the weakness in the automotive non-GAAP gross margin excluding regulatory credits. However, Tesla reported record non-automotive profits driven by strength in the Energy segment, record regulatory credit sales, and the company believes plans for new vehicles remain on track with production starting in 1H25.**
- Tesla reported revenue/non-GAAP diluted EPS (excluding SBC) of $25.5 bn/$0.52, which was 4% above/$0.09 below the Street (FactSet) and 1%/$0.10 below GS.
- The automotive non-GAAP gross margin (including SBC and excluding the revenue from regulatory credits) was 14.6%, below GS at 15.3%. This was down from 16.4% in 1Q24 and 18.1% in 2Q23. The decline in ASP has driven the automotive non-GAAP gross margin lower, although relative to our forecast higher cost was the driver of incremental weakness.
- The total company gross margin (including SBC) was 18.0%, above both GS at 17.0% and the Street at 17.4% with upside vs. our forecast driven by higher regulatory credit revenue (higher regulatory credit revenue was about a 150 bp tailwind to the consolidated gross margin vs. our forecast).
- EBIT of ~$1.6 bn was below our forecast of ~$2.1 bn, driven by a $622 mn restructuring charge included in GAAP opex.
- Non-GAAP EPS (ex. SBC) was $0.52, below both GS at $0.62 and the Street (FactSet) at $0.61. Excluding the ~$622 mn restructuring charge (with a marginal tax rate of ~25%), we estimate that EPS would have been $0.65. However, we estimate that the incremental regulatory credit revenue ($890 mn vs. our $425 mn forecast) was a $0.10 tailwind after tax.
- FCF was $1.3 bn in 2Q24.
- The company reiterated that in 2024 its vehicle volume growth rate may be notably lower than the growth rate achieved in 2023. In 2024, Tesla 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 believes its plans for new vehicles, including lower cost vehicles, remain on track with production expected to start in 1H25.
- We believe that key factors investors will look to better understand on the call will include the outlook for automotive margins excluding regulatory credit sales, vehicle demand, the timeline for new lower cost models, the timeframe for robotaxi and other AI related efforts like FSD and Optimus, and the sustainability of the strength in the Energy segment.

Results

Tesla reported 2Q24 revenue of $25,500 mn (up 20% qoq and up 2% yoy) which was 1% below GS at $25,844 mn but 4% above the Street (FactSet) at $24,540 mn. Tesla reported the following by segment:

- **Automotive** revenue of $19,878 mn (up 14% qoq and down 7% yoy) compared to GS at $19,476 mn and the Street at $20,177 mn. Implied vehicle ASP was about $42.7K and slightly above our $42.5K estimate. Sales of regulatory credits were $890 mn in the quarter vs. our estimate of $425 mn, up from $442 mn last quarter and from $282 mn in 2Q23.
- **Energy Generation and Storage** revenue of $3,014 mn (up 84% qoq and up 100% yoy) compared to GS at $3,697 mn. Tesla commented that energy storage deployments increased sequentially in 2Q to a record 9.4 GWh, and Energy Generation and Storage revenue and gross profit also achieved an all-time high in 2Q. Energy is Tesla's highest margin business.
- **Service and Other** revenue of $2,608 mn (up 14% qoq and up 21% yoy) compared to GS at $2,672 mn.

As previously reported, total vehicle deliveries in the quarter were about 444k (up 15% qoq and down 5% yoy). Model 3/Y deliveries in the quarter were about 422k (up 14% qoq and down 5% yoy), and other model deliveries (e.g., S/X/Cybertruck) were about 22k (up 27% qoq and up 12% yoy). Tesla produced about 411k vehicles (down 5% qoq and down 14% yoy).

The total company gross margin (including SBC) was 18.0%, above both GS at 17.0% and the Street at 17.4%. The 1Q24 margin was 17.4%, and 2Q23 was 18.2%. We estimate that higher regulatory credit revenue was about a 150 bp tailwind to the consolidated gross margin vs. our forecast.

The non-GAAP automotive gross margin (including SBC and excluding the revenue from regulatory credits) was 14.6%, which compares to GS at 15.3%. The 1Q24 margin was 16.4%, and 2Q23 was 18.1%.

EBIT of ~$1.6 bn was below our forecast of ~$2.1 bn, driven by a $622 mn restructuring charge included in GAAP opex.

Non-GAAP diluted EPS (excluding SBC) was $0.52, below both GS at $0.62 and the Street at $0.61. Excluding the ~$622 mn restructuring charge (with a marginal tax rate of ~25%), we estimate that EPS would have been $0.65. However, we estimate that the incremental regulatory credit revenue ($890 mn vs. our $425 mn forecast) was a $0.10 tailwind after tax.

Including SBC, EPS was $0.42 on a GAAP basis.

Cash and cash equivalents and investments increased by $3.9 bn qoq to $30.7 bn, with FCF of $1.3 bn in 2Q. Inventory dollars were down $1.8 bn qoq to $14.2 bn.

By region, Tesla commented that:

- **US:** Tesla commented that the refreshed Model 3 ramp continued successfully, including the introduction of Model 3 Performance in 2Q and Long Range RWD in July. Cybertruck production more than tripled sequentially and remains on track to achieve profitability by the end of the year.
- **China:** Tesla commented that the company significantly increased deliveries in several markets supplied by Gigafactory Shanghai including South Korea. While the auto market in China remains among the most competitive globally, the company believes its cost structure positions it well.
- **Europe:** Gigafactory Berlin began producing vehicles for right-hand drive markets and delivered its first units to the UK. Tesla believes its regional production strategy provides flexibility as needs change across markets.

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 the 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.

In 2024, Tesla continues to expect the growth rate of deployments and revenue in its Energy Storage business to outpace the Automotive business. Tesla further commented that the company expects Energy Storage production to continue to grow sequentially, though deployments will continue to fluctuate depending on several factors including project milestones and logistics timing.

Tesla noted that plans for new vehicles, including more affordable models, remain on track for start of production in 1H25. Recall that these vehicles will utilize aspects of the next-gen platform while being produced on the same manufacturing lines as the current vehicle line-up. The Robotaxi product will continue to pursue the “unboxed” manufacturing strategy.

Price target and key risks

We are Neutral rated on the stock, and our 12-month price target is $248 (based on 65X Q5-Q8E EPS).

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/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 by Tesla, a stronger macroeconomic environment for new vehicle sales more generally, earlier new product launches than we expect, and an earlier/larger impact from AI enabled products (e.g., FSD, Optimus and robotaxis) than we currently anticipate.

TSLA	12m Price Target: **$248.00**	Price: **$246.38**	Upside: **0.7%**

Neutral

Market cap: $858.4bn
Enterprise value: $845.3bn
3m ADTV: $20.2bn
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	103,311.9	121,616.8	143,269.8
EBITDA ($ mn)	16,633.0	16,969.1	23,682.3	31,287.9
EBIT ($ mn)	8,891.0	8,199.8	12,415.1	17,836.2
EPS ($)	2.60	2.05	3.20	4.45
P/E (X)	83.5	120.2	77.1	55.4
EV/EBITDA (X)	40.6	45.6	32.5	24.4
FCF yield (%)	0.6	0.1	1.2	1.5
Dividend yield (%)	0.0	0.0	0.0	0.0
Net debt/EBITDA (X)	(0.9)	(0.8)	(1.0)	(1.1)

	3/24	6/24E	9/24E	12/24E
EPS ($)	0.34	0.50	0.56	0.65

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

Disclosure Appendix

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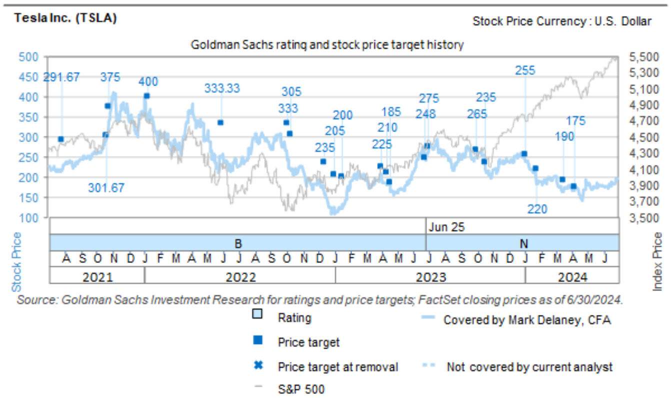

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