

Tesla Q3 2025 Earnings Report

A comprehensive analysis of financial performance, operational metrics, and strategic positioning for investors



Revenue Growth Exceeds Expectations Despite Earnings Miss

Tesla delivered \$28.1 billion in total revenues for Q3 2025, representing 12% year-over-year growth and surpassing consensus expectations of \$26.4 billion. This top-line performance demonstrates continued market momentum across Tesla's product portfolio. However, the quarter presented a challenging narrative on profitability.

\$28.1B

Total Revenue

12% YoY growth, beating consensus by
\$1.7B

\$0.50

Earnings Per Share

Missed estimates of \$0.53, down from
\$0.72 prior year

5.8%

Operating Margin

Compressed 501 bps YoY but exceeded
expectations

The divergence between revenue growth and earnings compression signals the primary challenge facing Tesla: maintaining profitability amid competitive pricing pressure and elevated cost structures. This margin dynamic will be critical for investors to monitor in coming quarters.

Automotive Segment: Strong Deliveries Meet Margin Headwinds

Automotive revenues reached \$21.2 billion, up 6% year-over-year and materially exceeding expectations of \$18.86 billion. Vehicle deliveries totaled 497,099 units, up 7% year-over-year and significantly ahead of the 435,370 unit estimate. Model 3 and Model Y deliveries specifically reached 481,166 units, demonstrating robust demand for Tesla's volume products.

However, production declined 5% year-over-year to 447,450 units, missing estimates and suggesting inventory management dynamics rather than fundamental demand weakness. The delivery-production gap indicates Tesla is drawing down inventory to meet customer orders.

The critical concern remains automotive gross margin compression to 14.7% from 16.4% in the prior-year quarter. This 170 basis point deterioration despite higher volumes reflects pricing pressure in competitive markets and elevated manufacturing costs, weighing heavily on bottom-line performance.

Key Automotive Metrics

- \$21.2B automotive revenue (+6% YoY)
- 497,099 total deliveries (+7% YoY)
- 447,450 units produced (-5% YoY)
- 14.7% gross margin (down 170 bps)

Energy Storage: The Breakout Growth Driver

Revenue Performance

\$3.4 billion in Q3 2025, up 44% year-over-year and beating estimates of \$2.9 billion

Deployment Volume

12.5 GWh of energy storage deployed, demonstrating accelerating market adoption

Strategic Importance

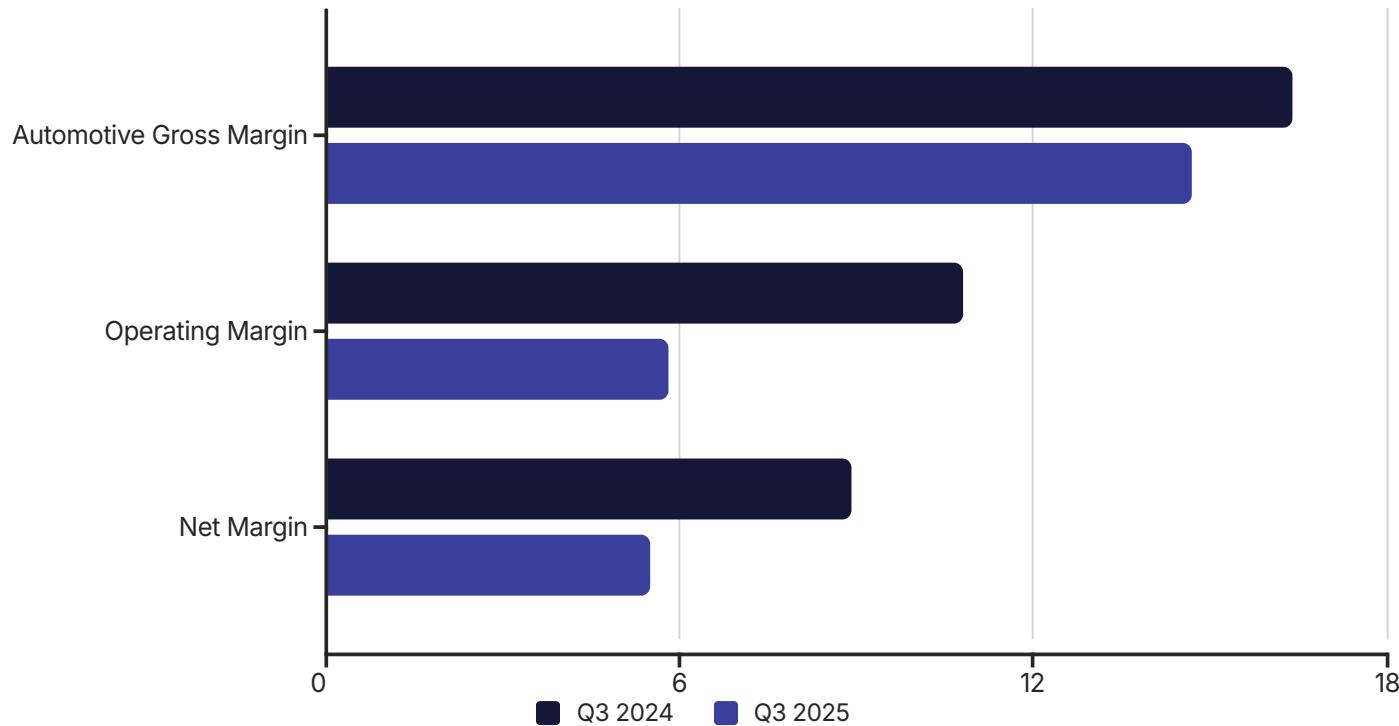
Management views energy as a critical growth pillar with higher margin potential

Energy Generation and Storage emerged as the quarter's bright spot, representing Tesla's fastest-growing business segment. This 44% growth rate significantly outpaces automotive growth and provides meaningful diversification from the core vehicle business. As grid-scale storage demand accelerates globally, this segment positions Tesla to capture value beyond transportation electrification.



Margin Compression: The Central Challenge

The quarter's most significant concern centers on profitability erosion across multiple dimensions. Despite revenue growth and delivery increases, Tesla experienced meaningful margin compression that directly impacted earnings performance and investor sentiment.



Pricing Pressure

Competitive intensity forcing strategic price reductions

Cost Structure

Elevated manufacturing and scaling costs impacting absorption

Credit Decline

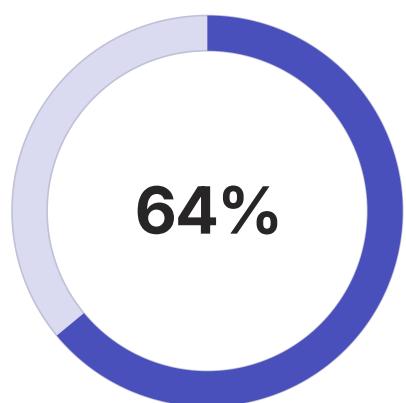
Regulatory credits down 43.6% to \$417M, reducing high-margin revenue

Cash Generation Remains Strong Despite Earnings Pressure



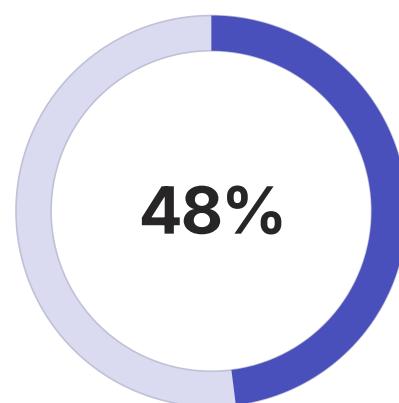
Despite the earnings headwinds, Tesla demonstrated robust cash generation capabilities in Q3 2025. Operating cash flow totaled \$6.24 billion, essentially flat with the prior-year quarter, while capital expenditure of \$2.25 billion resulted in free cash flow of \$4 billion—up significantly from \$2.7 billion in Q3 2024.

This improvement in free cash flow despite lower net income signals disciplined capital allocation and effective working capital management. The company maintains financial flexibility to invest in strategic priorities including FSD development, manufacturing capacity, and the charging network expansion to 73,817 Supercharger connectors.



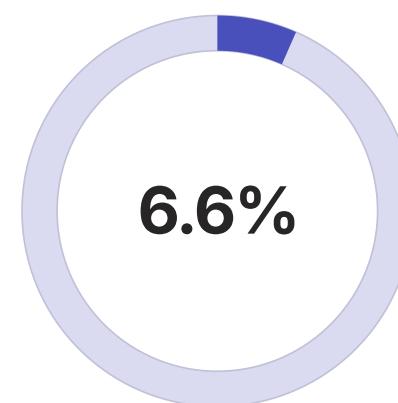
FCF Conversion Rate

\$4B free cash flow on \$6.24B operating cash flow



FCF Growth

Year-over-year increase from \$2.7B to \$4B

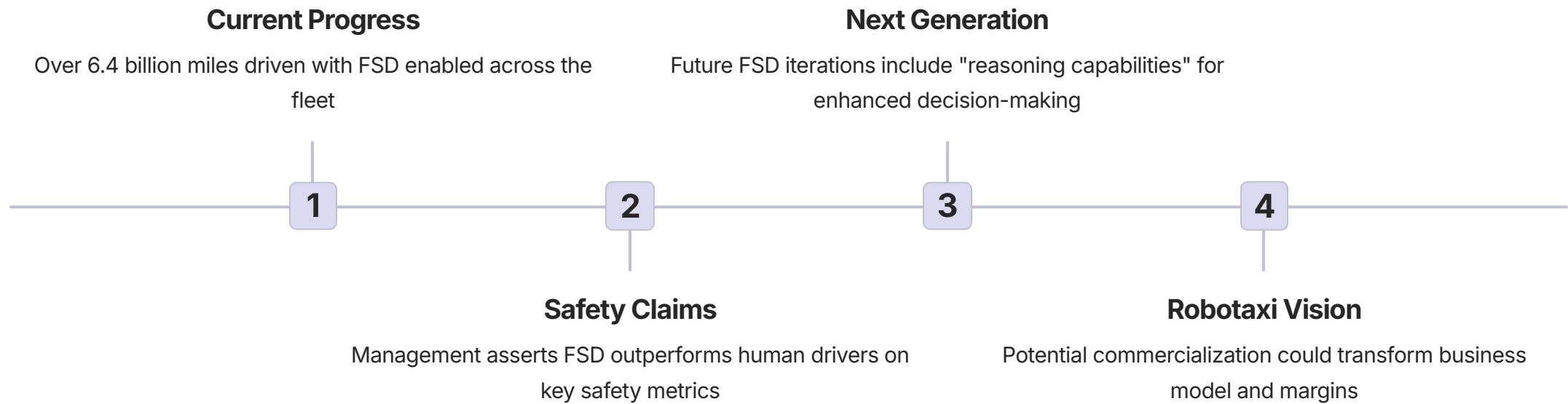


Return on Equity

Reflecting reduced earnings power relative to equity base

Full Self-Driving: The Long-Term Optionality Play

While near-term financial performance centers on margin compression challenges, Tesla's long-term investment thesis increasingly relies on Full Self-Driving software and autonomous vehicle commercialization. Management emphasizes continued progress, though monetization remains aspirational.



Stifel's bullish EBITDA forecasts of \$14.86 billion for 2025 and \$19.49 billion for 2026—meaningfully above consensus—are predicated largely on optimism around robotaxi commercialization and FSD adoption. However, investors should recognize this remains an unproven commercial driver with significant regulatory and technical hurdles.

Investment Implications and Key Takeaways

Tesla faces a critical inflection point where near-term profitability challenges must be weighed against long-term strategic positioning and technological optionality. Investors should focus on four primary considerations going forward.

1

Margin Trajectory

Automotive margin compression from 16.4% to 14.7% represents the primary near-term risk. Monitor whether margins stabilize or continue deteriorating, as further compression would pressure valuation multiples despite revenue growth.

2

Energy Business Scale

The 44% growth in Energy Generation and Storage provides meaningful diversification and potentially higher margin profile. This segment's continued scaling could offset automotive headwinds over time.

3

Cash Flow Quality

Strong free cash flow generation of \$4 billion despite earnings pressure demonstrates financial resilience and provides capital for strategic investments and downside protection.

4

FSD Optionality

The market prices significant value into autonomous vehicle capabilities and robotaxi commercialization, but these remain unproven revenue drivers requiring continued monitoring of technical progress and regulatory developments.

Current consensus rating of Hold reflects divergent views between near-term profitability concerns and longer-term strategic opportunities. Full-year 2025 EPS consensus of \$2.56 suggests modest recovery expectations, though achieving this target requires stabilization of automotive margins and continued momentum in energy storage deployments.