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Tesla Earnings Disappoint, but Future Looks Bright (TSLA)

The one-of-a-kind brainchild of Elon Musk is ramping up production.



(The Associated Press) 

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By [John Divine \(/topics/author/john-divine\)](/topics/author/john-divine) | Staff Writer

Aug. 3, 2016, at 5:03 p.m.

Electric car manufacturer Tesla Motors (ticker: [TSLA \(http://money.usnews.com/investing/stocks/tsla-tesla-motors-inc\)](http://money.usnews.com/investing/stocks/tsla-tesla-motors-inc)) reported [second-quarter results \(http://money.usnews.com/investing/articles/2016-07-14/should-you-invest-in-tesla-tsla-stock\)](http://money.usnews.com/investing/articles/2016-07-14/should-you-invest-in-tesla-tsla-stock) on Wednesday, missing badly on earnings and very slightly on revenue. But shares merely wavered in after-hours trading.

The company still sees deliveries in the second half of the year of around 50,000 vehicles and is meaningfully ramping up production. TSLA stock was down 6 percent for the year going into Wednesday's report.

Tesla reported an adjusted loss per share of \$1.06 on revenue of \$1.56 billion, up 30.5 percent from the same quarter a year ago. Analysts were expecting Tesla to lose 55 cents per share on revenue of \$1.62 billion.

Three months ago, the company said it expected to end the quarter producing 2,000 vehicles per week; Tesla said it's producing "nearly" 2,000 vehicles per week, so it's more or less in line with its own goals. By the end of the third quarter, TSLA now expects the weekly production rate will be around 2,200, and by the end of the year it should rise to 2,400.

"It is heartening to see that cash inflows through sales and deposits are creeping upward. In sum, (CEO) Elon Musk's reputation may pull Tesla through over the long term, but there are significant hurdles for him and his management team to overcome," says George T. Haley, director of the Center for International Industry Competitiveness at the University of New Haven.

Tesla expects automotive gross margins to increase between 2 to 3 percentage points in the third and fourth quarters due to "cost reductions and improved vehicle manufacturing efficiency" in the Model S and Model X.

[See: [Car Companies and the Race to Profits \(http://money.usnews.com/investing/slideshows/car-companies-and-the-race-to-profits\)](http://money.usnews.com/investing/slideshows/car-companies-and-the-race-to-profits).]

The importance of production and delivery numbers. Tesla produced 18,345 vehicles in the second quarter and delivered 14,402, but investors caught wind of that about a month ago when the company issued a news release.

While you can't expect the market to react to already-released numbers, it's worth noting that when Tesla announced first-quarter earnings in May, the high-tech automaker projected it would produce about 20,000 vehicles in the second quarter and deliver about 17,000 vehicles. Tesla fell well short of both those numbers.

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Tesla also projected in May that it would be able to deliver about 50,000 vehicles in the second half of the year, a commitment it stuck to in its earnings release.

Despite being founded in 2003, [Tesla](http://money.usnews.com/investing/articles/2016-02-18/lithium-holds-battery-powered-potential-for-investors) is still in the early phases of its company life cycle. What that means for investors is it's not currently profitable, and production and demand metrics like production and deliveries hold more weight than they would otherwise.

The Tesla-SolarCity marriage: more important than second-quarter results. While earnings, deliveries and production numbers all seem vitally important from the perspective of short-term-obsessed money managers, the biggest recent news surrounding the company is undoubtedly Tesla's decision to acquire SolarCity (SCTY <http://money.usnews.com/investing/stocks/scty-solarcity-corp>) for \$2.6 billion.

The move, which thrusts Tesla to the front and center of the solar power industry, effectively makes Tesla a more diversified sustainable energy company rather than just a high-tech, new-age auto titan.

While Tesla investors remain somewhat unconvinced by the merits of the deal – SCTY isn't close to being profitable and has over \$2.6 billion in debt – Tesla CEO Elon Musk insisted [the SolarCity deal](http://money.usnews.com/investing/articles/2016-08-01/tesla-tsla-solarcity-scty-stumble-on-26-billion-buyout) was made with a long-term mindset.

Medium-term "drivers" for TSLA stock. The most important medium-term catalysts for Tesla and its stock price will be the [upcoming Model 3](http://money.usnews.com/investing/articles/2016-04-01/the-model-3-may-be-tesla-motors-biggest-test-yet-tsla), projected to debut in late 2017. The Model 3 will be the company's first-ever mass-produced, affordable vehicle, and will retail for \$35,000 before incentives.

In the first week that Tesla began taking deposits for the Model 3, customers placed over 325,000 reservations, implying \$14 billion in future sales.

In May, in order to fast-forward its production ambitions, Tesla moved up its goal of producing 500,000 vehicles annually by two years, from 2020 to 2018. The "Gigafactory," the massive battery-production plant in development in Nevada, will be central to these efforts.

When completed, it will be the second-largest building by volume on the planet, giving it unparalleled scale in the electric car industry.

"Benefiting from the anticipated fierce competitions from China and Korea, the average lithium-ion battery pack has already dropped to \$150 per kWh from \$1,200," says K C Ma, professor of finance at Stetson University. "The accelerated progress of the Gigafactory in the second quarter led Musk to predict that their cost can go down to \$100 per kWh by 2020. This is an exciting outlook since battery cost, around a quarter of the car price, is a deal-breaker for the future of American (electric) car use."

[See: [10 Ways to Invest in Driverless Cars](http://money.usnews.com/money/personal-finance/mutual-funds/slideshows/10-ways-to)]

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Longer-term. The enigmatic Musk, sometimes referred to as the real-life Tony Stark, is pushing the boundaries with Tesla's autonomous driving initiatives. Despite recent wrecks, one fatal, that involved Tesla drivers using the Autopilot feature (<http://money.usnews.com/investing/articles/2016-07-01/operator-in-fatal-tesla-s-crash-reportedly-was-listening-to-harry-potter>), Tesla notes that Autopilot is, to date, still safer than human-piloted vehicles.

"This is the first known fatality in just over 130 million miles where Autopilot was activated. Among all vehicles in the U.S., there is a fatality every 94 million miles. Worldwide, there is a fatality approximately every 60 million miles," the company said in a post on its blog.

Within the next decade, Tesla aims to produce fully autonomous vehicles that are 10 times safer than manually operated ones.

Autonomy is a major part of Tesla's long-term vision; Musk recently released a 10-year plan for the company that includes letting Tesla owners add their fully autonomous cars "to the Tesla shared fleet just by tapping a button on the Tesla phone app."

Essentially Tesla plans to go up against Uber (<http://money.usnews.com/money/personal-finance/articles/2016-04-06/can-you-really-make-money-as-a-rideshare-driver>), and to allow customers to generate income while they're at work or sleeping.

[See: 11 Stocks That Donald Trump Loves. (<http://money.usnews.com/money/personal-finance/mutual-funds/slideshows/11-stocks-that-donald-trump-loves>)]

While the Palo Alto, California-based company's second-quarter results and third-quarter projections are important, what's far more important is the long-term plan, which is wildly ambitious and risky – but potentially very lucrative for patient investors.

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