Written by William F. Jasper on May 9, 2018

Tesla Woes: "Subsidy Entrepreneur" Elon Musk Faces Dire Market Realities

High-flying "visionary" Elon Musk is finding that "public-private partnerships" have their risks. Taxpayers are learning that lesson also.

See Elon Musk's Tesla electric cars save the planet from global warming! See Elon Musk's SpaceX take us to "infinity and beyond!" See billionaire Elon Musk defy the laws of physics and economics! See Elon Musk wow world leaders at the World Economic Forum!

Now see Elon Musk's Tesla Model S driverless car kill its human "safety driver" (oops!).

See Elon Musk's Tesla investors and buyers flee as taxpayer subsidies and rebates dry up (oops!).

See Elon Musk's Tesla stock tank as Musk gets "weird" and "bizarre" at the Tesla shareholder meeting (OOPS!).

Elon Musk may indeed be the "visionary" and the "genius" his legions of adoring fans claim him to be, but the flamboyant techno-wunderkind is facing a very serious reality check that may prove, nonetheless, he is still human, and still very much subject to the laws of physics and economics. Tesla's stock took an epic dive of more than eight percent following CEO Elon Musk's odd behavior at the company's quarterly earnings call on May 2. Even for an entrepreneurial phenom such as Musk, famous (and celebrated) for his break-the-mold, quirky thinking and conduct, his "eccentric" reactions to legitimate questions were shocking enough to rattle the markets and cause many members of his usual cheering section to question his judgment and stability.

A *Chicago Tribune*/AP headlined, "'Not cool': Tesla plummets after Musk lets loose in testy earnings call," began, noting: "Tesla's record net loss in the first quarter and fast-burn through millions of dollars is raising questions about the company's ability to pay all its bills."

"Wednesday's results showed Tesla tearing through $745.3 million in cash in the first quarter, due largely to the slow production ramp-up of the Model 3 mass-market electric sedan," the article noted. "The cash burn could put pressure on the company to borrow more or sell additional shares to raise more cash. When asked by an analyst on a conference call about all-important reservations for the Model 3, Musk cut him off, calling questions dry and 'not cool.'" However, judging by the market reaction, it would appear that most observers agree it is Musk's broken promises regarding Tesla's deliverables and his own behavior that are "not cool."

"I don't think there's a more bizarre earnings call I've listened to, been part of or trained people for," said Paul Argenti, an expert on corporate communication strategy at Dartmouth College's Tuck School of Business. (See media and financial analysts' remarks on Musk's "remarkable" quarterly earnings call at CNBC, CNN, the *Washington Post*, and Bloomberg.)

"Moody's Investor Service downgraded Tesla's debt into junk territory back in March, warning at the time that Tesla didn't have cash to cover $3.7 billion for normal operations, capital expenses and debt that come due early next year," the *Tribune*/AP story continued. "At the end of last year the company had a total of $9.5 billion in long-term debt. Tesla Inc. has had only two profitable quarters in its nearly eight years as a public company."

Even before the now-infamous Musk quarterly call, the Tesla mystique was wearing thin on numbers crunchers who were skeptically eyeing the company's fundamentals.

A *Bloomberg* piece by Dana Hull and Hannah Recht on April 28 mercilessly laid out Musk's hemorrhaging woes at Tesla, under the title, "Tesla Doesn't Burn Fuel, It Burns Cash." The subtitle went further: "A complete guide to how Elon Musk has raised, and then spent, billions of dollars." The title page of the article features an animated photo of Elon Musk standing atop two flamethrowers, with dollar bills cascading down out of his hands, to be consumed by the flames. "The company that Elon Musk built to usher in the electric-car future might not have enough cash to make it through the calendar year," the *Bloomberg* story begins. "The anxieties that lurk beneath the tremendous ambition of Tesla Inc. moved into the forefront in recent weeks. The company again fell far short of its own production targets for the mass-market Model 3 sedan, another person died in a crash involving its assisted-driving feature and Musk entered into a public dispute with federal safety regulators. Tesla's once high-flying stock, buffeted by a downgrade from credit analysts, has dropped 26 percent from its peak in September."

"There's a good reason to worry," say the *Bloomberg* writers. "No one has raised or spent money the way Elon Musk has. Nor has any other chief executive officer of a public company made a bankruptcy joke on Twitter at a time when so much seemed to be unraveling and it's been a long time since there's been such a combative quarterly earnings call."

Robert Tracinski at *The Federalist* provides one of the best summary snapshots of Tesla's many problems. "Elon Musk may finally be running out of other people's money," Tracinski wrote, in a May 2 column entitled "Tesla Is an Environmentalist Tulip Mania." "That's the upshot of a report on how Tesla is burning so much cash it may run out by the end of the year," says Tracinski. "This is a company that has raised more than $5 billion from its investors so far, and it is still going to need many billions more — if it can get them. What is more interesting is how Tesla got to the point where it is still bleeding cash, just when it was finally supposed to be making good on its extravagant promises."

Tracinski notes that Musk's much-hyped Tesla factory, which was promoted as the automated factory of the future, turned out to be a robotics disaster, which is now being retrofitted (at enormous cost) with thousands of human workers. Still, even best estimates show it is way behind in production schedule. "Let me do the math for you," says Tracinski, "because Musk regularly relies on the fact that you won't. The company was supposed to build 500,000 Model 3s this year. It has been producing them at a rate of 100,000 per year, but Musk really, really promises they will ramp that up soon to a rate of 300,000 per year."

"But wait, there's more," Tracinski reveals. "Tesla is facing a wall at the end of this year, when the $7,500 federal tax credit for its electric vehicles expires. The idea behind the tax credit was to stimulate the production of electric vehicles in their early stages until they became profitable and economically self-sustaining. But Tesla still hasn't reached that point and is not likely to do so. At the same time Tesla's credits expire, many traditional automakers will be bringing to market their own electric vehicles, which still qualify for the credits."

Looking at Tesla's situation, Tracinski sees that "everything is going against it. It is running out of cash. It is not reaching its production targets for its mass-market model. Its attempt at hyper-efficient automated production is a bust. Its overhyped 'Autopilot' feature is regularly abused by enthusiasts and is getting people killed. Tesla is now starting to face intense competition in the electric car business. But there's one more thing: the market is also against it."

Elon Musk, however, is showing no signs of fear — at least not yet, and not publicly. His message: What? Me Worry? Worry is for mere foolish mortals; I'm Elon Musk, The Magnificent! A few days after his quarterly debacle, he was sashaying through Manhattan with the glitterati and tuxedoed trendies at the Met Gala, arm-in-arm with his latest "significant other," the strange techno-singer/artist who goes by the name "Grimes."

Musk took to Twitter to defiantly blast short sellers who were betting that Tesla stocks would continue to plunge. "The sheer magnitude of short carnage will be unreal. If you're short, I suggest tiptoeing quietly to the exit …," he tweeted. Then, to show his contempt for the doubters and naysayers, he ponied up $10 million of his own personal chump change to buy 33,000 additional shares of Tesla. Some analysts interpreted Musk's bravado as an act of confidence; others saw it as a gambler's act of desperation, but one that will not prevent the inevitable disaster.

Anton Wahlman, in a May 8 critique of the troubled automaker at the investment website SeekingAlpha.com, says "There Is No White Knight Coming To Save Tesla." Wahlman provides a summary list of key issues that should be of concern to investors:

• Tesla CEO Elon Musk buying stock takes the biggest risk for a short-seller off the table: Any good news for the company, including an investment.
• The CEO obviously can't buy the stock if he is aware of any good market-moving developments, including a major deal of any kind — financing or not.
• This means Tesla is left to fight the market forces using only the resources it already has on its balance sheet.
• Tesla has $6.4 billion in current assets and $8.7 billion in current liabilities. It had better come up with $2.3 billion in additional resources quick.
• CEO Musk could of course borrow even more against his Tesla stock and buy additional shares. However, that's now the only major (short-term) risk a short-seller faces.

As the ultimate insider, notes Wahlman, Musk "could not buy shares if he had the slightest whiff of anything positive on Tesla's horizon. He can't even be thinking about any talks to raise money from investors, let alone a 'big' name such as the examples [Warren Buffett, Bill Gates, Alibaba] I provided in the first paragraph of this article. He can't even be aware of any new market-moving customer contract to be announced. Because if he did, it would constitute insider trading of the most flagrant kind."

Musk, no doubt, was counting heavily on a proposed $3 billion electric vehicle rebate program to be paid for by California taxpayers. It would have socked California's working middle-class to pay up to $40,000 for the cost of a Tesla for Musk's upper-class green groupies. Unfortunately, for Musk and his cronies, but fortunately for taxpayers, even fellow global-warming alarmist Governor Jerry "Moonbeam" Brown realized that the Golden State couldn't afford this venture.

Elon Musk, the subsidy king, may finally be out of luck. As Bob Adelmann reported for *The New American* in 2016: "When tallied up Musk has managed, so far, to entice governmental entities across the country to provide a taxpayer-guaranteed 'floor' under his ventures worth nearly $5 billion, according to the *Los Angeles Times*. These include 'a variety of government incentives, including grants, tax breaks, factory construction, discounted loans and environmental credits that Tesla can sell. It also includes tax credits and rebates to buyers of solar panels and electric cars.'"

Like so many other uber-wealthy "crony capitalists," Elon Musk and his so-called entrepreneurial ventures rely on "Public-Private Partnerships" involving taxpayer subsidies, rebates, and bailouts. If Elon Musk's ideas are truly so wonderful, visionary, and ingenious (as well as practical and economically viable), then investors will flock to finance them, and customers will flock to buy them — without being strong-armed by government.

Photo of Elon Musk: Maurizio Pesce via Wikimedia

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