GBH INSIGHTS

Technology Research
Industry Update
May 14, 2018

Can Tesla Meet Production Goals on Model 3? Pivotal Few Months Ahead

Daniel Ives, Head of Technology Research | 917.210.3220 | daniel.ives@gbhinsights.com

---

It has been an interesting few weeks for Tesla (and its investors) with the company kicking things off with one of the most perplexing earnings calls we have heard in the last few decades, followed by its senior engineering head Doug Field taking a "break" from the company, and now the news that a flatter management structure at the company is on the horizon along with a hackathon announced yesterday to fix the two worst production choke points for the Model 3. While its been a rollercoaster few weeks for investors with much agita, importantly it appears production on Model 3 is clearly moving in the right direction as this remains a linchpin for the company's long term success and thus limit its cash burn situation which remains a clear overhang on the stock. Taking a step back, the focus for Tesla, Musk, and investors is laser centered around ramping up Model 3 production efforts to narrow the gap on the production line reaching the elusive 5,000 per week mark, which has been its Achilles heel. While its been an uphill battle over the last year with many production speed bumps, it appears the company is significantly ramping up Model 3 production closer to 3,000-3,200 per week with a clear realistic trajectory to hit the company's long stated target goal of 5,000 per week over the coming months in our opinion with an early July timeframe being the sweet spot. We are closely watching progress on the bottleneck situation as Musk rolling up his sleeves along with his engineering team looking to smooth out some of the clear production issues will be a major positive catalyst for shares moving forward if successful. While Tesla and Musk are tracking behind its original 5,000 per week goal on the Model 3, we are encouraged by some of the progress in the field, although hitting these all-important targets by the late June/early July timeframe will be integral to the stock (and its cash burn situation) during these pivotal few months ahead. That said, losing a major engineering force within the company at this crucial juncture is a bit "head scratching" and does add more uncertainty and worries to the Model 3 production saga. **We maintain our Attractive rating and $320 price target on shares of Telsa.**