

# Elon Musk and the Fall of the Church of Tesla | Montana Skeptic

September 28, 2018

For some investors, it is not enough to view a stock as attractive or unattractive based on valuation. No, we must believe in it, and we must crush those who fail to share our belief. Submit or die, heretics! – Montana Skeptic

## INTRODUCTION

In this special episode of Hidden Forces, Lawrence Fossi, known to most of you by the pen name, Montana Skeptic, breaks his silence for the first time on camera after having been forced to terminate his twitter handle on account of legal threats made by none other than Elon Musk. The impetus for Elon's threats were Fossi's critical writings about the company going back to November of 2015, as well as his growing popularity on social media, among a community of skeptics and short sellers. A graduate of Yale Law School, Lawrence has 30 years of experience as a commercial trial attorney and is currently the portfolio manager for a family office with over one billion dollars under management.

Time is the only reliable solvent of folly. – Montana Skeptic

## OVERVIEW

It was announced yesterday afternoon that the Securities and Exchange Commission has charged Elon Musk, CEO and Chairman of Silicon Valley-based Tesla Inc., with securities fraud for a series of false and misleading tweets about a potential transaction to take Tesla private. The SEC's complaint alleges that, "in truth, Musk had not discussed specific deal terms with any potential financing partners, and he allegedly knew that the potential transaction was uncertain and subject to numerous contingencies." Steven Peikin, Co-Director of the SEC's Enforcement Division, was quoted as saying: "Corporate officers hold positions of trust in our markets and have important responsibilities to shareholders. An officer's celebrity status or reputation as a technological innovator does not give license to take those responsibilities lightly." [1]

It has been reported that Elon Musk turned down a settlement offer by the SEC that would have included: A 2-year ban on serving as Tesla chairman and CEO, a fine for both Musk and Tesla, and a requirement that Tesla add two new independent directors. Musk would not have been required to admit wrongdoing, and he could have remained CEO. [2] In a statement to CNBC, Musk said, "This unjustified action by the SEC leaves me deeply saddened and disappointed. I have always taken action in the best interests of truth, transparency and investors. Integrity is the most important value in my life and the facts will show I never compromised this in any way." [3]

A statement issued late Thursday from Tesla and its Board states that "Tesla and the board of directors are fully confident in Elon, his integrity, and his leadership of the company, which has resulted in the most successful U.S. auto company in over a century. Our focus remains on the continued ramp of Model 3 production and delivering for our customers, shareholders and employees." [4]



## LATEST UPDATE

- **Yesterday, the SEC sued Musk for allegedly making several false statements**, related to his abandoned efforts to take Tesla Motors private, centered around his August 7<sup>th</sup>, “Funding Secured,” tweet.
- **The civil complaint came hours after Musk reportedly pulled the plug on a settlement.**
- By not taking the settlement, Musk faces a very real possibility that he'll be **banned from being either CEO or a director of not just Tesla, but any other public company**, for a significant period of time.
- **Musk could also could face criminal charges by the U.S. Justice Department**, if it determined that Musk's misstatements weren't just reckless, but were also motivated either by a desire for personal gain or revenge against short sellers of Tesla stock.
- **Not settling also makes it easier for shareholders to sue.** Shares opened this morning down 12%, representing more than \$6.3 billion in lost market cap since yesterday's close. Even if Musk ultimately wins, Tesla shareholders are currently being hurt and the broader uncertainty cannot be good for employee morale.

“Tesla cannot be understood as a business enterprise it must be understood as the new religion of our day. Elon Musk is the minister of this great church and his congregation is deeply faithful and unless you acknowledge that there is a religious aspect to this where we are saving the earth and we are engaged in a Manichean struggle with these evil fossil fuel companies you are going to have a hard time understanding Tesla.” – Montana Skeptic

Markets don't change when fundamentals change, they change when beliefs change. – Montana Skeptic

## QUESTIONS

1. **The Faithful** — We have devoted three prior podcasts to the subject of Tesla, but we have – perhaps mistakenly- treated it as a company, when in fact, it seems more like a religion (in need of a reformation that may now have become an apocalypse). In fact, I’m going to quote something you said to this effect on our friend Jim Grant’s podcast (take quote above). **What have those of us who have treated Tesla as a company, and applied to it all the traditional methods of valuation and appraisal, missed?**
2. **Losing My Religion** — **When did you first notice that there was something rotten in the state of Denmark? Was it simply a matter of running the numbers, or did you need to overcome some emotional hurdle in order to rid yourself of the aura surrounding the company?**
3. **The Facts** — **I would like you to walk us through the process by which you came to an early determination that Tesla was mispriced, then egregiously mispriced, and then, to where you felt that this company and its CEO could be engaged in outright fraud.**

Hubris of the CEO	Model S & X Growth Over	\$35k Model 3 False Promises	Semi Silliness	Autonomous Driving Fairytale	Competition at both Ends
Valuation	Model 3 shortcuts	Structurally Bankrupt	Gigafactory	China is Not Happening	Inadequate Cash Reserves
Subsidies	Logistics Infrastructure	Insurance Costs	Roof Tile Fantasy	Europe is a Shrinking Story	Model Y Won't Cut it
Battery Costs	Wrong Car at the Wrong Time	Bad Country for Auto Manufacturer	Tesla Energy Bust	Competition is Coming	

4. **Accounting Tricks** — **What sort of accounting tricks do you believe Tesla has been using, and do you believe that these will play a role in any further legal action that may be pursued by the SEC or DOJ?**
5. **Galileo Galilei** — **Was your choice of Galileo as a profile picture born from some kind of adherence to empiricism and falsifiability in the face of religious inanity and dogma?**

6. **Interview with the Vampire** — Can you fill us in on your own story with Elon Musk. How did he discover who your identity, and what was the threat he made? What has prompted you to come forward at this time? How difficult has this been for you? What have you learning from the process and what can the rest of us learn going forward as we watching how Elon responds to the challenges that await him?
7. **Carnival Barker** — What other CEO's or public facing executives would you compare this person to?
8. **Q3 Numbers** — Do you expect the company to try and pull any accounting tricks in its next earnings report for Q3? Has the SEC also put a permanent lock on Elon's ability to put lipstick on this pig?
9. **Biggest Risks** — What is going to sink this company? Is it going to be the inability to raise any more capital that is going to kill it? What are the biggest, most immediate risks it faces? What are the next dates that shorts are looking at as critical, and where we might see a phase transition in this stock?
10. **Raising Capital** — What do the SEC charges do to Tesla's ability to raise capital?
11. **Demand Crisis** — In our last episode, Gordon brought up (going off a publicly available spreadsheet that tracks VIN #'s) the issue of demand, and the fact that Tesla may have fully exhausted its real wheel drive, long-range, Model 3 orders. Additionally, more than half of the all-wheel drive, long-range and performance backlog has been met. How significant is demand site of this equation?
12. **Role of Competition** — How important is competition? What is this landscape going to look like without Tesla? Will the consumer even notice?
13. **Role of the Media** — How do you feel the media has fared in covering this company?
14. **Role of Cheerleaders** — What role have prominent cheerleaders for this stock played? What explains the fact that institutional investors and money managers have been willing to not only own this stock but cheer on the CEO up until even these most recent charges by the SEC? (Ark Invest and their \$4,000 price target and same EBITA number for their best- and worst-case scenario)
15. **Sign of the Times** — Is the story of Tesla a sign of the times? Do you think this is



**Cathie Wood**   
@CathieDWood

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If @ARKInvest's analysis of the autonomous taxi network opportunity is correct, \$TSLA will be worth \$4,000 in five years. At a 15% discount rate, \$TSLA should be priced at \$2,000 today...and we aren't including trucks, energy storage, or China in that calculation!

11:13 AM - 16 Aug 2018

31 Retweets 90 Likes



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a harbinger of things to come for other companies that have managed to paper over their losses with easy money and bullish sentiment?

16. **Technology Company** — Has dubbing yourself a “tech company” become a marketing ploy similar to slapping a .com on the end of your name in the late 90s?
17. **The Deal** — Should Elon have taken the deal?
18. **SEC Charges** — What do we know about the charges?
19. **One-Way Ticket** — Do you believe Elon Musk is going to end up in jail? As former commercial trial attorney with 30-years of experience, what types of charges do you think Musk could he be facing? What are we talking in terms of jailtime?
20. **Tick by Faithful Tick** — How long can the stock hold on?

## August-September Timeline

On August 1<sup>st</sup>, Tesla reports the largest quarterly loss in its history showing a GAAP loss of \$717 million and free cash flow of negative \$812 million. But shares rise on Musk’s claims of positive cash flow and profit in the second half of 2018, and signs of more consistent Model 3 production. In this Q2 release Tesla claimed that it would be GAAP profitable in Q3 & Q4 barring a “force majeure.” I’ve asked Mark Spiegel his take on this and he says that he’s “run numbers every which way I can and the best I can come up with for Q3 is a GAAP loss of around \$100 million.” 1

On August 7<sup>th</sup>, Elon Musk tweeted out that he was “considering taking Tesla private at \$420 a share,” and then followed up with that by saying that he had secured funding. On August 12<sup>th</sup>, Azealia Banks shares an Instagram story about her experience at Elon’s house resembling the movie “Get Out,” and suggests that Elon was possibly on Ambien or on drugs during the tweetstorm. 1 2

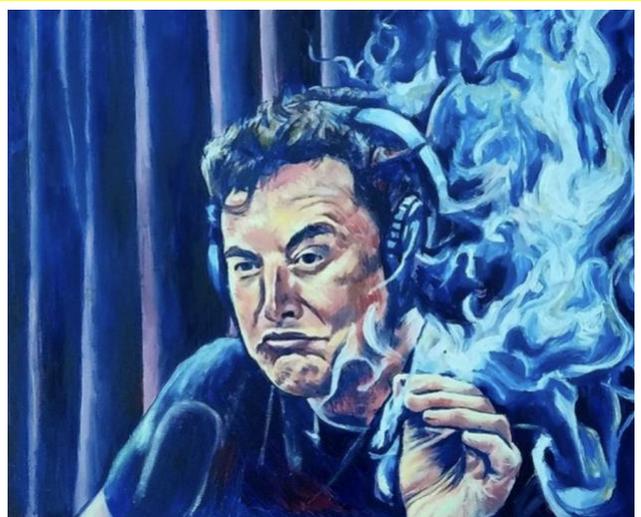
On August 13<sup>th</sup>, Elon followed up with a press release that attempts to explain his last tweet. 1

On August 15<sup>th</sup>, Charlie Gasparino reports that the SEC has begun a probe into violations made by Elon Musk 1 2

On August 15<sup>th</sup>, ex-Tesla employee and whistleblower Martin Tripp tweeted photos on Wednesday night that he alleged came from inside the company that he says show battery scrap, trailers containing battery waste, and documentation of punctured battery parts in Model 3 vehicles. Tesla denies that any punctured battery parts made it into vehicles. 1

On August 16<sup>th</sup>, a Tesla ex-security employee filed a whistleblower complaint with the SEC, accusing the electric vehicle maker of spying on employees, hiding significant theft of raw materials alleges theft, and drug dealing at company 1

On August 16<sup>th</sup>, Elon conducts a tearful interview with the New York Times 1



On August 20<sup>th</sup>, (or thereabouts) reports emerged of **Lucid Motors (a silicon valley electric car startup) was in talks with Saudi Arabia's sovereign wealth fund** for a reported \$1 billion in funding.

On August 24<sup>th</sup>, Elon Musk released a public statement and tweet that he is **keeping Tesla public** [1](#) [2](#)

On September 6<sup>th</sup>, **Elon Musk does the Joe Rogan Experience, where he ends up smoking weed.**

On September 7<sup>th</sup>, **Tesla's chief accounting officer Dave Morton resigns after a month on the job.** In a statement in Tesla's recent 8K filing, Morton says he left Tesla because of "the level of **public attention placed on the company.**" **Dave replaced the previous CAO, who left in March, on apparently no notice.** [1](#) [2](#) [3](#)

On September 7<sup>th</sup>, **Tesla's Chief People Officer Gaby Toledano announces she is leaving the company after announcing a leave of absence in August. She was at the company for only a year (May 2017)** [1](#)

On September 8<sup>th</sup>, it is reported that **Justin McAnear, vice president of worldwide finance and operation, is parting ways with the electric-car maker,** said the people, who requested anonymity because the information hadn't been made public. McAnear confirmed his last day at Tesla will be Oct. 7 in a statement obtained by CNBC. [1](#)

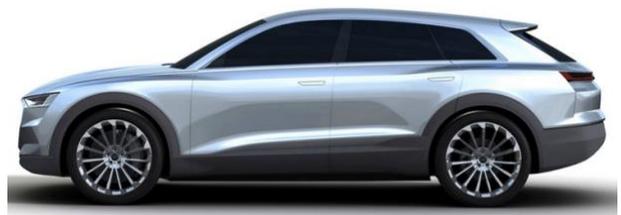
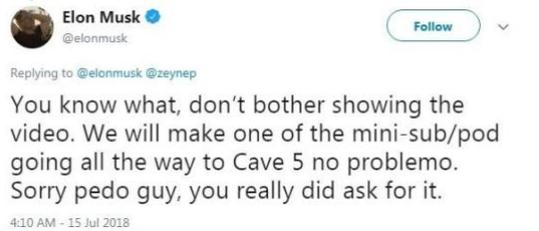
On September 17<sup>th</sup>, **British diver and cave explorer Vernon Unsworth sued Musk for libel in a California district court.** The lawsuit comes two months after Musk called Unsworth "pedo guy" on Twitter, following an interview in which the Brit denigrated Musk's attempt to build a mini-submarine that could rescue a group of Thai boys trapped in a cave. **Though Musk later deleted and apologized for the tweet, he doubled down on the pedophilia claim a month later.** [1](#)

On September 17<sup>th</sup>, it is reported that **Lucid Motors closed \$1 billion deal with Saudi Arabia to fund electric car production.** [1](#)

On September 17<sup>th</sup>, reports emerge that the justice department is investigating Tesla over public statements made by CEO, Elon Musk in a criminal probe. [1](#)

## **COMPETITION**

- **Jaguar I-Pace** electric SUV (which had already received fabulous reviews, handily beating Tesla in comparison tests) became widely available in European showrooms (and does so in November in the U.S.) at a price roughly \$13,000 cheaper than the Model X and \$7000 less than the Model S, gaps that will widen substantially as Tesla's tax credits phase out.
- Next, the **Mercedes EQO** was unveiled in September. This all-electric SUV will be available in Europe in mid-2019 and in the U.S. in early 2020, with an EPA range roughly comparable to that of the base Tesla Model X (an estimated 225 miles vs. 237 for the Tesla) but will cost approximately \$25,000 less, as the Mercedes should sticker at around \$65,000 and will get a full \$7500 tax credit while the Model X starts at \$83,000 and will get no tax credit when the Mercedes arrives. (By 2022 Mercedes will have ten fully electric models, covering nearly all its model lines.)



- Next came the introduction of the **Audi e-Tron**, an all-electric SUV with roughly the same estimated EPA range as the 237-mile base Model X but with a much nicer interior and a price that's \$8200 less before the Audi's tax credit advantage. Then when the Audi arrives in the U.S. in April (it'll be in Europe this fall) it will receive a tax credit that's \$3750 better than Tesla's (thus stretching its price advantage to \$11,950), an advantage that will grow to \$13,825 in July when Tesla's credit is reduced to just \$1875 vs the full \$7500 for the Audi.
- Next in luxury EV competition for Tesla will be the **Porsche Taycan**, which will be available mid-to-late 2019 with a base price will be similar to that of the base Tesla Model S, and will probably be less expensive with the advantage of the tax credit Tesla will soon lose. Hmmm, Tesla or Porsche... tough choice!

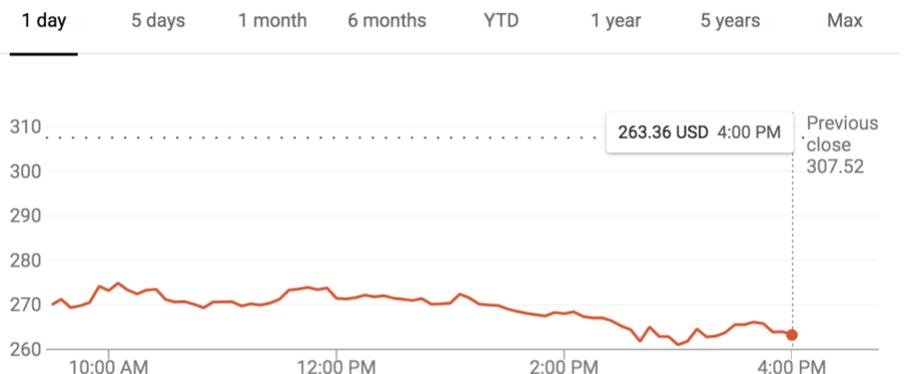


## FACTS

- After December 31st 2018 Tesla's \$7500 tax credits will be cut to \$3750 for six months, then \$1875 for six months, and then goes away completely.
- Tesla had \$3.4 billion in cash and equivalents at the end of the year and raised an additional \$550 million from bonds backed by lease payments in February.
- In February Tesla released its worst quarterly earnings report ever. In Q4 (using the total net loss ex ZEV credits) Tesla lost over \$28,000 on each car it sold.
- Tesla has \$31.4 billion in combined long-term debt and battery purchase obligations. Its interest expense is at a run-rate of nearly \$600 million per year, which in Q4 amounted to \$4,884 per car sold.
- Model 3 production will be at 2,500 cars per week by the end of the first quarter, according to Tesla.
- The company expects to produce 5,000 Model 3 cars a week by the end of the second quarter.
- Tesla overtook GM last year to become the most valuable US carmaker, despite having less than 1% of GM's volume
- Car component parts account for more than 70% of a car, up from 40-50% in the early 90s, according to industry experts. Their share has grown as cars have become more technologically complex, requiring niche expertise.
- Tesla issues its largest recall ever (123,000 vehicles) over faulty Model S steering. Before this, its largest Model S recall was when 90,000 of the vehicles were affected in 2015 by a faulty seat belt. And last year, it recalled 53,000 Model S and Model Xs' over a parking brake fault.
- Tesla's debt-to-equity ratio is 243% as of Dec. 30; SolarCity's was 375.6% at time of acquisition.
- Customer deposits, which are mostly refundable, topped \$850 million at last count.

264.77 USD -42.75 (13.90%) ↓

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After hours 265.00 +0.23 (0.087%)



Open	270.26	Div yield	-
High	278.00	Prev close	307.52
Low	260.56	52-wk high	387.46
Mkt cap	45.17B	52-wk low	244.59
P/E ratio	-		