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EARNINGS

Tesla Reports Loss, as Elon Musk Talks of Raising Capital

Auto maker back in red ink with 40% drop in cash amid Model 3 delivery struggles

A Tesla Model 3 electric vehicle. The company said it also expects a loss for the current quarter. **PHOTO:** JASPER JUINEN/BLOOMBERG NEWS

By Tim Higgins

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Elon Musk agrees with Wall Street: It may be time for Tesla Inc. to raise money.

The auto maker's chief executive has eschewed fund-raising for the past year even while pressure mounted over whether the money-losing company would have enough cash to operate. He balanced Tesla's ambitious growth plans with cutting costs and turning a profit.

Mr. Musk's tune changed on Wednesday after Tesla reported one of its worst quarterly losses in history and its cash on hand fell by more than 40% to $2.2 billion from three months earlier.

"Tesla today is a far more efficiently operating organization than it was a year ago," Mr. Musk told analysts on the quarterly call. "We've made dramatic improvements across the board. And so I think there's merit to the idea of raising capital at this point."

Mr. Musk stopped short of declaring that Tesla would in fact raise more capital. But his comments were a notable reversal after he remained defiant over the past year, and could restore faith among some investors who have helped send the company's stock down more than

20% this year. Other investors may look at it as a sign that Tesla hasn't yet reached its vision of becoming a self-sufficient business.

Tesla's stock rose slightly in after-hours trading following a 1.9% drop in the regular session ahead of Wednesday's results. Tesla's 22% share-price decline this year contrasts with gains of about 17% for the S&P 500 index.

Tesla is in the midst of proving it can sustain lofty demand for the Model 3 after finally lowering the price of the sedan to the long-promised $35,000 threshold. But a 31% decline in vehicle deliveries from the fourth quarter has heightened concern that Tesla is reaching a peak of buyers for its more mainstream vehicle.

The company posted a $702 million loss attributable to common shareholders for the first quarter, slightly better than a year earlier. On an adjusted basis, the loss was $2.90 a share; analysts surveyed by FactSet were expecting a loss of $1.15 a share.

The results mark a return to red ink after two consecutive profitable quarters that had renewed hopes that Tesla's operations had turned the corner toward becoming an auto maker capable of pumping out more than a million electric vehicles a year. Mr. Musk warned investors in January that Tesla would report a first-quarter loss after previously expecting a profit.

Tesla said it struggled during the quarter to get the Model 3 from its California plant into the hands of buyers in Europe and China for the first time. "This was the most difficult logistics problem I've ever seen, and I've seen some tough ones," Mr. Musk said.

Tesla no longer expects to make a profit in the second quarter, instead forecasting income in the third period. It affirmed its guidance of delivering up to 400,000 vehicles this year while noting that production will be "significantly higher" than deliveries because of the delays overseas.

Mr. Musk and his financial chief, Zach Kirkhorn, seemed to frame the first quarter as a speed bump, promising that sales will pick up again this quarter. Revenue fell by 37% from the fourth quarter to $4.54 billion, but Tesla said it expects sales growth to resume, with deliveries rising as much as 59% from the first quarter.

Tesla is changing how it builds vehicles for different markets, Mr. Kirkhorn said, balancing them throughout the quarter rather than spending the first half on overseas vehicles and the back end for North America.

Demand for the Model S luxury sedan and Model X sport-utility vehicles, which dropped dramatically in the first quarter, should rebound in the latest period, Mr. Musk said. The company is rolling out updated versions of those vehicles with longer range from a battery charge and other changes.

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Tesla has a long, and expensive, road ahead. While it tries to iron out the logistical problems of delivering and servicing the Model 3 at higher volumes, it faces competition from luxury auto makers that are rolling out all-electric SUVs, the automobile body style of choice in the U.S.

The company is also building an assembly plant in China, with the ambitious goal of beginning volume production early in the fourth quarter. "Based on what we know today, being able to produce over 500,000 vehicles globally in the 12-month period ending June 30, 2020, does appear very likely," Mr. Musk said in a letter to shareholders.

Mr. Musk has stuck to his habit of steering investors toward the long run. On Monday, he and Tesla executives gave a more than two-hour presentation to investors and analysts about the company's strategy for deploying a robot taxi fleet. Mr. Musk said its vehicles would have fully self-driving capabilities next year, and even predicted that the net present value of a single car in the fleet would be worth $200,000.

Also on Wednesday, Mr. Musk added new uncertainty about where the Model Y—a compact SUV due out next year—will be made, saying he hopes to decide shortly between Tesla's California plant and its Nevada battery factory. He also said Tesla plans to introduce an insurance product for Tesla customers in about a month.

Amid all the costly endeavors, Toni Sacconaghi, an analyst for Sanford C. Bernstein & Co., asked Mr. Musk on Wednesday's quarterly call why he is so averse to raising money. "You sort of shooed it as almost an evil thing and I think a lot of investors believe that the company might be better served…if it did raise capital," Mr. Sacconaghi said.

Mr. Musk touted the benefits of what he described as a "spartan diet," noting it ensured the company didn't have extraneous expenses and would be financially disciplined. But he left open the idea Tesla would raise more money. "This is probably the right time," he said.

"I've said for a long time, just do [raise capital] and take any tail risk off the table, plus do it while your stock is in favor at a $45 billion market cap," David Whiston, an analyst for Morningstar Research Services, said after the call. "Removing any balance sheet concerns would probably help the stock rise."

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