# Tesla’s Financial Analysis And Statement Preparation

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As the CEO of Tesla, Inc., I would like to present a comprehensive report to the stakeholders, which would help them make a critical decision and allow prospective investors to confidently invest in the entity. The company is an electric vehicle and clean energy entity based in Palo Alto, California. Its major products include “electric cars, battery energy storage from home to grid-scale, solar panels, and solar roof tiles, as well as other related products and services”. The importance of such products has increased in recent years, which has proved to be a good sign for the organization. To capitalize on this opportunity, the company’s developers have presented various innovative products and services to enhance convenience and improve the lives and experience of domestic and commercial customers. It has already been 18 years since Tesla embarked on its quest for a high-end electric car. The automaker was founded in 2003 by Martin Eberhard and Marc Tarpenning, who would soon be joined by its iconic figure and current leader, Elon Musk. The name of the company comes from Nikola Tesla (1856-1943), an inventor of genius in electricity and mechanics. In recent years, the organization has experienced significant success. However, the operating and business environment also poses various challenges that management is trying to face effectively to enhance the shareholders’ value and the benefits of other stakeholders. In the future, the company will follow its innovative approach to offer superior and technically advanced products and services to the customers to achieve all of its business objectives.

## Tesla’s Business Model

From the very initial days of the entity, Tesla’s founder, Elon Musk, took a unique, unprecedented approach to dealing with things that were really different from all other car manufacturers that most people didn’t know about. The company sells directly to customers through its online and physical stores. Although the number of vehicles delivered is still small, this difference is reflected in Tesla’s high market value. Every vehicle Tesla makes for its customers delivers more value than any other competitor, which is critical to a successful business. If customers are getting better deals, why would they buy from suppliers with inferior deals? The automakers’ approach to selling models with enhanced hardware features makes sense, as they make very good money from every vehicle sold and – more importantly – from spare parts and after-sales services. It is a strategy similar to Apple’s, which chooses not to negotiate to maintain its significant image of the brand. The commercial advantage Tesla has brought to customers over a decade has contributed to the success of the company, and it also proves that this business model is indeed sound.

# Tesla's Pricing Strategy

After having benefited for several years from the absence of a strong rival in the 100% electric niche, the Californian manufacturer must face increased competition. Tesla's strategy is founded on the creation of consumer envy. The company does not spend on any type of marketing and advertisements and chooses to assign its funds to the growth and expansion of its products. The company's primacy is then to invest unceasingly. Moreover, it wants to set competitive prices to increase its brand share. This is clearly what led it to slash the prices of its best-seller, the Model 3, in several countries, including China and France. The substantial price reductions will delight buyers but will not be without impact on margins, as already shown by the results of the fourth quarter of 2020. The Californian manufacturer has just lowered the price of its Model 3 by 14% in Europe. At the beginning of January, the just-released Model Y was reduced by 30% in China. The company has a desire to be more affordable, but also, above all, to adapt to the offensive on the electricity of other manufacturers.

# The Historical and Projected Costs Used in the Case

## The Total Cost of Revenues

The total cost of revenues is the most important cost in the company's accounting books. From the analysis of the figures in the 10K filing, it is clear that the total cost of revenues increased from 17,419 million dollars to 20,509 million dollars in 2019, which comes to 17.73 per cent (Tesla-10k-2020, 2021, page 54). In 2020, it moved to 24,906 million dollars, which is an increase of almost twenty per cent (Tesla-10k-2020, 2021, page 54). For the year following the 2020 filing used in this case, the analysis projected a further 20% increase in total cost of revenues to approximately $30 billion. This was a scenario estimate, not a current-year figure or reported outcome.

### Research and Development Cost

The company attaches immense importance to cutting-edge research and development; therefore, R&D is a significant portion of its current cost, and this trend might persist, keeping in view its long history, as shown in the diagram. According to the latest 10 K filings, "research and development costs are expensed as incurred" (Tesla-10k-2020, 2021, page 65). From the diagram, it is clear that from 2019 to 2020, the research and development cost increased by 11 per cent (Statista, 2021). It is estimated that it will increase by another 11 per cent in 2021. Under this estimation, it would be 1640 million dollars from the previous year's figure of 1491 million dollars. The higher management of the company is aware of the importance of innovation. The experts also believe that innovation brings considerable value to organizations. They say with conviction that “abetted by IoT and Industry 5.0 phenomenon, innovation is indispensable for competitive advantage and economic growth” (Aslam et al., 2020). With time, the company might increase its research budget by more than ten per cent.

# Break-Even Analysis

The break-even of the company was at 24,906 million dollars in 2020. It was at 20,509 million dollars in the previous year (2019) and was at 17,419 million dollars in 2018. The trend reveals that with the passage of time, the break-even point of the company increased consistently. It is projected that in the current year, the company needs to earn significantly more than it did in the previous year to attain break-even. In line with the previous trend, the break-even of the company would come at 29887.2 million dollars, which would be more than twenty per cent of 2020. Many factors in the external and internal environment of the entity might alter the break-even point of the company. The details of such factors are mentioned in the following sections of this short report. The management is aware of the importance of reducing expenses, which would help it to achieve the break-even point with relative ease. The details of such strategies are mentioned in the following sections of this report.

# Pro Forma Financial Statements

The management of the entity has prepared pro forma financial statements to forecast the operational and financial performance of the company. Such statements play an important role in decision-making (Accounting Tools, 2021). It is expected that this set of statements would make it clear to the prospective investors that the management is visionary and believes in scenario planning. Moreover, they would believe that the company is on a growth trajectory.

# Profit and Loss (Income Statement) (please also see Annexure 1)

| | 2020 (Actual) (in millions of dollars) | 2021 (Forecasted) (in millions of dollars) | 2022 (Forecasted) (in millions of dollars) | 2023 (Forecasted) (in millions of dollars) |
|---|---|---|---|---|
| Total revenues | 31,536 | 37,843 | 45,411 | 54,494 |
| The total cost of revenues | 24,906 | 30,000 | 36,000 | 43,200 |

| | | | | |
|---|---|---|---|---|
| Gross profit | 6,630 | 7,843 | 9,411 | 11,294 |
| Total operating expenses | 4,636 | 5,100 | 5,610 | 6,170 |
| Income (loss) from operations | 1,994 | 2,743 | 3,801 | 5,124 |
| Income (loss) before income taxes | 1,875 | 2,250 | 2,700 | 3,240 |
| Provision for income taxes | 1,154 | 1,269 | 1,396 | 1,535 |
| Net Income (loss) | 721 | 981 | 1,304 | 1,705 |

# Balance Sheet (please also see Annexure 2)

| | 2020 (Actual) (in millions of dollars) | 2021 (Forecasted) (in millions of dollars) | 2022 (Forecasted) (in millions of dollars) | 2023 (Forecasted) (in millions of dollars) |
|---|---|---|---|---|
| Total current assets | 26,717 | 29,389 | 32,328 | 35,560 |
| Total non-current assets | 25,431 | 26,703 | 28,038 | 29,440 |
| Total assets | 52,148 | 56,092 | 60,366 | 65,000 |
| Total current liabilities | 14,248 | 15,673 | 17,240 | 18,964 |
| Total non-current liabilities | 14170 | 14,879 | 15,622 | 16,404 |

| | | | | |
|---|---|---|---|---|
| Total liabilities | 28,418 | 30,552 | 32,862 | 35,368 |
| Total stockholders' equity | 22,225 | 25,540 | 27,504 | 29,632 |

# Cash Flow Statement (please also see Annexure 3)

| | 2020 (Actual) (in millions of dollars) | 2021 (Forecasted) (in millions of dollars) | 2022 (Forecasted) (in millions of dollars) | 2023 (Forecasted) (in millions of dollars) |
|---|---|---|---|---|
| Total Cash Flows from Operating Activities | 5,943 | 7,131.6 | 8,557.92 | 10,269.504 |
| Total Cash Flows Used in Investing Activities | (3,132) | (3,601.8) | (4,142.07) | (4,763.3) |
| Total Cash Flows from Financing Activities | 9,973 | 10,471.65 | 10,995.23 | 11,544.99 |

# Sales Forecasts for the Short to Medium Term

The management is hopeful that the COVID-19 situation will improve in the coming months. The entity is optimistic regarding the mass vaccination campaigns. Apart from this, the technically advanced models of the company would help it to achieve higher sales. The company is working on advanced batteries as well. The short to medium-term forecast is summarized below in a tabular form.

| | 2020 (Actual) (in millions of dollars) | 2021 (Forecasted) (in millions of dollars) | 2022 (Forecasted) (in millions of dollars) | 2023 (Forecasted) (in millions of dollars) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Total sales | 31,536 | 37,843 | 45,411 | 54,494 |

# Potential Challenges the Company may Face, Based on the Financial Statements and Projections.

The company faces a plethora of challenges. The immediate threat to its sales and operation is COVID-19. The second is the rising cost of operations; moreover, the challenges are emerging from the overseas competitors. Tesla has established an extensive electric charging network in the country; however, it needs to be extended to sustain growth. It is clear that such expansions need a lot of resources.

1. Major Assumptions and Estimates
2. Profit and Loss(Income Statement) (please also see Annexure 1)

| | 2020 (Actual) (in a million dollars) | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Total revenues | 31,536 | It is estimated and assumed that the revenue would increase by twenty per cent from the previous year. | It is estimated and assumed that the revenue would increase by twenty per cent from the previous year. | It is estimated and assumed that the revenue would increase by twenty per cent from the previous year. |
| The total cost of revenues | 24,906 | It is estimated and assumed that the revenue would increase by twenty per cent from the previous year. | It is estimated and assumed that the revenue would increase by twenty per cent from the previous year. | It is estimated and assumed that the revenue would increase by twenty per cent from the previous year. |

| | | | | |
|---|---|---|---|---|
| Gross profit | 6,630 | The difference between total revenues and total cost of revenues | The difference between total revenues and total cost of revenues | The difference between total revenues and total cost of revenues |
| Total operating expenses | 4,636 | It is estimated and assumed that the revenue will increase by twenty per cent from 2020. | It is estimated and assumed that the revenue will increase by twenty per cent from 2021. | It is estimated and assumed that the revenue will increase by twenty per cent from 2022. |
| Income (loss) from operations | 1,994 | The difference between gross profit and total operating expenses. | The difference between gross profit and total operating expenses. | The difference between gross profit and total operating expenses. |
| Income (loss) before income taxes | 1,875 | – | – | – |
| Provision for income taxes | 1,154 | It is estimated and assumed that the provision for income taxes will increase by ten per cent from 2020. | It is estimated and assumed that the provision for income taxes will increase by ten per cent from 2021. | It is estimated and assumed that the provision for income taxes will increase by ten per cent from 2022. |
| Net Income (loss) | 721 | The difference of total Income (loss) before income taxes and total provision for income taxes. | The difference of total Income (loss) before income taxes and total provision for income taxes. | The difference of total Income (loss) before income taxes and total provision for income taxes. |

# Balance Sheet (please also see Annexure 2)

| | 2020 (Actual) (in a million dollars) | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Total current assets | 26,717 | It is estimated and assumed that the current assets will increase by ten per cent from 2020. | It is estimated and assumed that the current assets will increase by ten per cent from 2021. | It is estimated and assumed that the current assets will increase by ten per cent from 2022. |
| Total non-current assets | 25,431 | It is estimated and assumed that the non-current assets will increase by five per cent from 2020. | It is estimated and assumed that the non-current assets will increase by five per cent from 2021. | It is estimated and assumed that the non-current assets will increase by five per cent from 2022. |
| Total assets | 52,148 | 56,092 | 60,366 | 65,000 |
| Total current liabilities | 14,248 | It is estimated and assumed that the current liabilities will increase by ten per cent from 2020. | It is estimated and assumed that the current liabilities will increase by ten per cent from 2021. | It is estimated and assumed that the current liabilities will increase by ten per cent from 2022. |
| Total non-current liabilities | 14170 | It is estimated and assumed that the non-current liabilities will increase by five per cent from 2020. | It is estimated and assumed that the non-current liabilities will increase by five per cent from 2021. | It is estimated and assumed that the non-current liabilities will increase by five per cent from 2022. |
| Total liabilities | 28,418 | 30,552 | 32,862 | 35,368 |
| Total stockholders' equity | 22,225 | 25,540 | 27,504 | 29,632 |

# Cash Flow Statement (please also see Annexure 3)

| | 2020 (Actual) (in millions of dollars) | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Total Cash Flows from Operating Activities | 5,943 | It is estimated and assumed that the cash flows from operating activities will increase by twenty per cent from 2020. | It is estimated and assumed that the cash flows from operating activities will increase by twenty per cent from 2021. | It is estimated and assumed that the cash flows from operating activities will increase by twenty per cent from 2022. |
| Total Cash Flows Used in Investing Activities | (3,132) | It is estimated and assumed that the cash flows used in investing activities will increase by fifteen per cent from 2020. | It is estimated and assumed that the cash flows used in investing activities will increase by fifteen per cent from 2021. | It is estimated and assumed that the cash flows used in investing activities will increase by fifteen per cent from 2022. |
| Total Cash Flows from Financing Activities | 9,973 | It is estimated and assumed that the cash flows from financing activities will increase by five per cent in 2020. | It is estimated and assumed that the cash flows from financing activities will increase by five per cent from 2021. | It is estimated and assumed that the cash flows from financing activities will increase by five per cent from 2022. |

# Conclusion

The company has an established history of success in the USA and other countries, including the EU. The entity is investing significantly in research and development, which would bring revenue in the near future. It is high time that the investors evaluate this golden opportunity to invest in the company.

# Reference


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