

THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER



Announcer: Free and clear of the chatter from Wall Street, you're listening to Talking Stocks Over a Beer hosted by hedge fund veteran and newsletter writer, Mike Alkin, who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors. Mike sifts through all the noise of mainstream financial media and Wall Street to help you focus on what really matters in the markets.

Now, here's your host, Mike Alkin.

Mike Alkin: Welcome to the podcast, it's Tuesday, October 2nd, 2018. I hope you had a good weekend. If you hear a little background noise, I'm on the road. I'm driving out to Long Island from New York City where I had some meetings today.

My choice was either take the Long Island Railroad from my hometown into Manhattan or take the car. If any of you are familiar with either the traffic or the rail service in New York, you'll know there is no good decision, and whichever one I take is typically the wrong one.

As usual, today was another one of those wrong decisions, because it took far longer than I thought. As usual, I find myself in the car getting myself a little worked up in sitting in traffic trying to understand how to go 20 miles the way the crow flies how that can take two hours. I still can't get my head around it, but, hey, that's my cross to bear living here.

Weekend was good, it was quiet. Nothing really eventful, so I have nothing to report. Nothing too crazy or goofy happened, just a nice relaxing weekend with my wife and kids, and we just chilled out.

There was though on Saturday, I looked at my emails, and I saw a note that Elon Musk had settled his fraud suit with the SEC. I thought, "Oh, is that somebody just joking around?" Because it was Thursday where the SEC sued him for fraud. If I wasn't mistaken Elon came out and said, "My integrity is everything. I would not settle. I didn't do any of this."

He settled two days later, and it was claimed that in the settlement Elon was, the SEC, he agreed to step down from the chairmanship role, chairman of the board role at Tesla for three years, and he will pay a personal \$20 million fine, and Tesla will pay a \$20 million fine.

This all relates back to the tweet from August 7th which is when he tweeted, "Thinking of taking Tesla private \$420 a share. Funding secured," and it turns out, there was no funding secured. There was no agreement. There was nothing. But, he wanted to get his stock going, jam the shorts, because that's what he does.

He settled that, and everyone was very excited over the weekend. Obviously, all the polls came out with, "My god, King Elon gets to stay. How wonderful this is."

That was, okay, coincidental, a couple, I think it was Monday or Friday night, one of them, I forget the last couple of days, but Elon sent an email out to his employee base saying, "We are," something along the effect, and I'm driving, so I don't remember exactly, but it was, "One more day, if we can get Sunday done, this will be an epic quarter." Which is not anything remotely close to what the CEO of \$50 billion company does.

Oh, by the way, so it comes down to, is this a tech company? No, I'm sorry, it's not. It's not. Is it selling software the last day of the month? Because that's what happens at tech companies. The last day of the month is everything. But, here, it's always to make the numbers, it comes right down to the last day of the month, and, by golly, he's doing everything he can. He's saving the world, old Elon.

He put out an email, because that's Elon's new way of communicating with the market. Because as part of the settlement agreement, he pretty much has to run anything that he's going to tweet by corporate lawyers, and then, if they deem it material, you're going to see an 8-K filed, which is what you need to do when you tell the world something, which he tends not to do. He just tweets it, or there's a handful of websites that like to report his stuff and always wonder where they get that information from.

But, the SEC felt as though they wanted to protect the small investor as they said. I think history will show when we look into the future, down the road, we'll be looking back on that going, "Oh, dear, not quite sure that accomplished what you were hoping to happen."

But, hey, we'll see, because I think for me personally, as someone who's like I've said before, I love EVs, love electric vehicles, really excited to save the Earth, Me Too, god. Unfortunately, Elon doesn't have the corner on that, or for the few hundred thousand people who bought the cars, and those who worship Elon, who think that they belong to a special club that if you disagree with the business plan that you are against entrepreneurship. You're against vision. You're against the environment. That you're a bad guy.

Sorry, that's not the case. It's when people are taking public shareholders' money, and there is \$10 billion invested, and time lines are continuously pushed out, I think it's reasonable to just try and peel the onion back and understand why that's all happening.

Like I've said before, I think Elon is quite the visionary, quite the entrepreneur. I think his best skill set is he's a great salesman. He's able to convince investors to keep giving him money. He's been very successful with that. Look at the stock price. He's got a cult following.

But, at the end of the day, at the end of the day, the math matters. You can make the argument that he's growing like weeds and no other vehicle company has grown like this. Absolutely, last time I checked, revenue does not get deposited into the bank. Profits do. When you have a mountain of debt coming due, and you don't have the cash flows to support that debt, to pay that debt, then the rubber meets the road. We'll see where that goes.

I think I've often commented that I think Tesla's one of the most interesting, certainly, the most interesting companies I've ever looked at in the sense that looking at it from a numerate perspective, which sometimes doesn't fly in the argument of bull versus bear. Because the bear case is predicated on, it's all on the come, and the numeracy required to look at it and try and understand how it all fits together with working in the short term, because that's what they have to deal with when you have that mountain of debt and those cash burn that's coming, that tends to get lost in the argument.

They came out, and they talked about, so Elon's there, and the stock had a huge rally yesterday, rallied back to about 307, 308 bucks. I'll remind everyone it was \$379 when, it peaked at 379, 380 with the funding secured tweet.

Along the way there have been like I said the email that was leaked by employees out to the masses, and that the delivery numbers

were going to, the production numbers were going to be 50 to 55,000 on the Model 3. We were going to see the great numbers on deliveries.

Guess what? Here we are today, and I've been in the city, so I haven't had time to really peel back the onion on it, but I did glance and spent a little bit of time reading the release, lo and behold, those are numbers that happened.

But, interestingly enough, in that production number in that press release, I didn't see a reaffirmation of cash flow positive in the third, fourth quarter like we saw before. I did see some language around the Chinese tariffs causing some issues. They're working through their logistics issues. But, I didn't see a reaffirmation of that cash flow. Again, that's what matters when you got mountains of debt coming due, and you're bleeding cash.

We're going to see when they put their earnings report out. But, in the interim, I thought it would be interesting to have a very vocal bear come on and talk about it. He gets hammered on Twitter. I think he enjoys it sometimes though. Because all the people who come out and hammer him, talk about the shorts getting crushed, the shorts getting burned. I love it.

I watch it, because a lot of it, the people on Twitter, the folks who talk about it, it's clear they're not investors, because the terminology, they're not understanding risk management and how a short would think about it. Even I see it in the press, "The shorts today lost X billions of dollars." Right away, they think everybody got carried out. There's risk management that takes place.

We're going to bring on, Mark Spiegel from Stanphyl Capital who I've had on as a guest before, and we're going to get his fresh, hot off the presses view of Tesla, and what's going on.

Mark, welcome to the podcast.

Mark Spiegel:

Thank you. It's great to be here, again.

Mike Alkin:

Well, yeah, it's great to have you. You and I, we were just talking offline. Where the New York City sirens were going off in the background where you are at your office, and I'm sitting on the Grand Central Parkway trying not to drop the F-bomb while I'm on the podcast with all the traffic that I've been sitting in. Listeners are getting a real flavor of what it's like to be in New York [crosstalk 00:11:01]-

Mark Spiegel: Any time I hear those sirens, the first thing I do is I look down to make sure the building isn't on fire, and then, I feel my chest to make sure I'm not having a heart attack.

Mike Alkin: Right.

Mark Spiegel: Then I know I'm okay. That the fire truck and the ambulance aren't coming for me. We're okay. I'm good for this podcast.

Mike Alkin: Oh, good, I'm glad you're okay. That's great. Oh, man, so I was just getting people up to speed for those who may not be familiar with what's going on with Tesla, and so I was telling them over the weekend that the SEC after, probably 48 hours, decided to settle with Elon Musk and put that behind him. A whole \$20 million fine for Elon, and he gets to keep the CEO role.

From my viewpoint, Mark, it's funny, because if you brought a new CEO in, and I thought about this, if Elon left, and you brought a new CEO in, probably, if the guy is halfway numerate, what he's going to do, my guess would be, spend a little bit of time, look at the numbers and reorg the company.

Mark Spiegel: Quit.

Mike Alkin: Either quit or go to the board and say, "Folks, we got to bankrupt this thing." That's how I viewed it.

On the other hand, I thought, as long as this guy's allowed to run the company, that's great. Because he's going to do what he does, which is over promise, under deliver, and the cash is just going to keep imploding.

That was my plan. Obviously, you knew Monday would be a big day, and the market would take that as very exciting. You'd have the sell side guys come out, jump up and down, those who still like him. The guys on Twitter, some of the RIAs that are out there, and I think you know who I'm talking about out in California.

Mark Spiegel: Yeah.

Mike Alkin: You can't even make the stuff up. Then, here, today, I've been running around the city. I've been in meetings, and I looked at the numbers a little bit on the production and delivery numbers. But it's what was being leaked over the last few days, as that's what Tesla does, which was the 53,000 Model 3s and the 80 some odd thousand vehicles they delivered.

What's your view? You've had a chance to pore over the numbers. What's your take on what they put out this morning?

Mark Spiegel:

I think the biggest take I have, look if those numbers are real, good for them. But this is good as it gets, because the backlog for the rear-wheel-drive, long-range model is gone. They have a lot of them sitting around in inventory. The New York Times actually spotted them this morning in a very good article.

The all-wheel drive, they have some inventory, but, then, they also have mismatch on deliveries through their logistics screw up. But, from what I've read, the guys who track this stuff that backlog is going to be gone before this first month of the quarter, October, is out. Then they're screwed.

Now, look, they'll start selling these in Europe at some point. Although, they didn't mention that today which is interesting. We've been theorizing that maybe they're just not homologated yet for Europe. Maybe there's some safety issues either with the touch screen or the rear door locks or something, but we don't know, or, rather, inability to open the rear door if the car loses battery power. We don't know.

At any rate, this is really as good as it gets in terms of profitability, and probably, deliveries, because I don't think enough new orders are coming in to make up for whatever they can, the smaller amount of overseas sales that they'll be doing when they do start going overseas.

Then, the next thing they'll do is they'll come out with the shorter-range model, which will have a smaller battery, but there isn't really much else they can strip out of the car, and I don't think they can save more than, I don't know, \$4,000 by going to a smaller battery, especially, if you believe the low battery cost that they claim to have. That's a double-edged sword.

In that case, I see them, the less expensive car not being \$35,000. I see the best case for it is \$40,000 with a, best case in terms of low price, would be \$40,000 with a mandatory premium package, which is what they do now at \$50,000 for the long-range one.

Mike Alkin:

Yup.

Mark Spiegel:

If that happens, if it's a \$10,000 price cut, but only a 3 or \$4,000 savings on car equipment, most of which would be the battery, they're screwed. Basically, their gross margin is cut by two-thirds,

which means they'd have to sell three times as many \$40,000, short-range cars as they're selling on long-range cars.

But, here's the thing. The long-range car in the U.S. gets a \$7,500 tax credit. That goes away next year. It gets halved and then halved again. Right now, you can buy a long-range Model 3 rear-wheel drive for a net cost of \$42,500, right?

Mike Alkin: Yup.

Mark Spiegel: How are they going to sell a short-range car for-

Mark Spiegel: Right? How are they going to sell a short range car for only 2500 dollars less, which is what it would be at 40 once the tax credit is gone. If they're basically at a backlog now, who's going to step up and buy a drastically inferior car for 2500 less. You're finding a car, nobody's going to notice that money. You know.

Mike Alkin: What I think Mark, you mentioned ... So let's talk about the backlog, right? We heard originally 500,000 and a lot of time it's 420,000 backlog and yet-

Mark Spiegel: 420, anybody believe that number? Does anybody believe that number? 420,000, that was the number they put. I could guess how that conversation went. What's his name, the CFO Deepak is like, "Hey Elon, what should we put in the press release for the Q2, what do you call it? Reservation list for the Model 3?"

Musk takes like, he takes a big hit of a blunt and says, "420". That's how they did it.

Anyway, but listen-

Mike Alkin: Hey, after all-

Mark Spiegel: [crosstalk 00:17:07] Speculate it.

Mike Alkin: No, but we do know accordingly to what he said that he chose 420, because thought it would be cool because it has some sort of what? Marijuana connotation to it.

Mark Spiegel: Well that was on the buyout offer.

Mike Alkin: On the buyout.

Mark Spiegel: So how [crosstalk 00:17:20].

Mike Alkin: Right. Was there any mention of that today in the press release of the-

Mark Spiegel: No. They actually, they omitted that. They omitted any mention of profitability, which they had promised before. They omitted any mention of being able to sell cars in Europe pretty soon. The reason the stock is now down roughly 8 bucks as I say this at 20 to 30 on that day, is that there was no real positive guidance.

A lot of people say, "Well that's because of the new scrutiny by the SEC," which is really possible.

Mike Alkin: Really possible.

Let's talk about that Mark. So you talk about this long reservation risk. But yet you saw, as I saw and a lot of anecdotal stuff, that over the course of the quarter, there are people ordering cars, getting them relatively quickly. So what happened to all those reservation holders? How would you feel if you were on that reservation list? Because then that's telling us, right? It's telling us they're all 35,000 dollar holder if that's the case and if you can't get there and the tax credit goes away, then what happens? What's your view on that?

Mark Spiegel: Right. So my view is that that reservation list, the vast majority of it was comprised of people who were promised a 35,000 dollar car with a 7500 dollar tax credit, right? But these people put in a reservation thinking they would get a car which would cost them 27,500 dollars and according to Musk, although he didn't explicitly say it would include the self-driving. But according to Musk for let's say another 5000 or whatever it would be, you can press a button when you're in New York and summon your car from Los Angeles. It was such total nonsense, right?

So that's what reservations were. They were for a fictional car that will never exist. The tax credit's going to be gone and as I said, I doubt he put it out at 35 anyway. Best case would be 40 with the mandatory [inaudible 00:19:24] package. It could be 40 as a base and no premium package, which would be even worse, versus spending 42,500 today to getting a long range premium with the tax credit which is going away.

Mike Alkin: What's your view on the amount of cars in transit as you saw on the press release?

Mark Spiegel: Since production, there are, I believe the number is around 3000

missing Model 3s that between what they claim they produced and what they delivered. So I don't know if some of those were scrapped, which Musk hinted at, because they were producing such garbage when they were trying to cram everything through the assembly line and the tent and the paint shop, or if they've been put into, I haven't heard about any Model 3 loaners yet. I guess they have demo cars around, or if they're sending some as inventory unsold to China maybe or something. Or they're in Tesla's inventory.

So I know that the in-transit number is lower now than it was last time. You said it's about 8000 now and I think it was about 11,000 at the end of Q2.

Mike Alkin: Yeah, yeah.

Mark Spiegel: But it's just intuitive that the only place that can really maintain this level of sales is going to be the first quarter or two of overseas sales and they don't seem really ready for that. At some point, they'll sell them in Europe, but by that point there are some really good electric cars in Q4 that are hitting Europe before they hit here. Kia and Hyundai both have a small electric crossover, which is similar to what the fictional Model Y would be from Tesla. They're going to sell for US price probably just under 40,000 and they have a range on the USEPA of like 260 miles. They're rated at 300 miles on the European cycle.

That's real competition, especially since people want crossovers for the most part, and not small sedans. Then when you get into the fancier Model 3, the all-wheel drive or the performance models, where you can get a price in the 60,000 range or more, the Jaguar I paid, which is a spectacular car. I've driven it. It's way nicer than a Model 3 inside and it's got way more capability. You can actually take that thing off road. That car starts at 69,000 dollars and it's going to have the 7500 dollar tax credit.

So that car's essentially a net of 62,500 and as the tax credit diminishes on Model 3s, they're going to be the same price and there's no comparison. Unless all you care about is zero to 60 time, well there the performance Model 3 definitely has an edge, but most people don't care about that. They want a nicer car and the Jag runs to 60 in 4.5 seconds I think and it's a crossover, which is what people want.

So Tesla's going to have competition on both, for the Model 3 and both the high end and the low end, and of course on the high

end, the Jaguar is much nicer than a Model S for 7000 dollars less and Audi has this E-tron electric SUV coming out, which looks spectacular. It's going to be on sale in November in Europe. It comes to the US next April.

So they're going to get slammed on the high end and the low end, which is why I think the quarter is the best they'll ever have.

Mike Alkin:

You know Mark, and you're saying the quarter being the best you'll ever have. We've only seen the production and the delivery numbers, but we've not yet to see, obviously they haven't been able to have the earnings report. So we don't know what the earnings and cashflow look like. How are you thinking about this upcoming quarter? Because I was surprised when I saw on the press release no mention of reiteration of cashflow positive. But I did see the whole paragraph about China and the tariffs. My take on Musk is a great messenger, right? So he tells you things and he tweaks them out all the time. If you just read through the lines a little bit, you kind of can take away the message.

For me, without seeing that cashflow statement, or the cashflow rate reinforcing the cashflow positive and then seeing there's a lot of conversation about China, he's been tweeting about logistics nightmare and logistics hell. What's your view on, how are you viewing what the numbers that matter really will look like. Not the delivery and production numbers, because that's what he's focusing everyone. But the stuff that's going to take those bonds coming through and get them to the next carry on.

Mark Spiegel:

Right. So, let's start with GAP. So GAP, I can see a small GAP profit this quarter thanks to the mix. The heavy mix of the all-wheel drive models and the performance models, which first became available both this quarter, and the sale [inaudible 00:24:15] credits, depending on what they can get. I understand the market for those. Those are the zero emission credits that they can get if these cars sold in the right states.

Putting all that together, I could see them making a GAP, something between zero and 100 million in profit. As a best case scenario and the best that ever is going forward. I don't know. Let's say maybe they could make 75 million, but it's hard because they have so many crazy costs on defective cars and cars they had to repaint and all that kind of stuff and last minute probably more expensive trucking costs, that they might also have a loss. But I think it's not going to be a severe, I don't think it's going to be a big GAP profit or loss either way. I think it's, I don't know,

somewhere between minus 50 and plus 75 or something.

Cashflow is tough man. Because there's so many gains that they can play further stretching out their suppliers. Who knows? Maybe they're double borrowing on cars. There's a lot of cars apparently if you believe the forums and there's enough instances of it, were they took full money for a car and then kept canceling the delivery date and said they'd deliver it in October or November. Have they also borrowed against the ABL on those cars? Are they double dipping? I don't know. That's not an accusation, but it's a question. It's just something that should be looked at.

So I don't know where they come in on cashflow. But I know this, let's go back to GAP earnings. If this is the best quarter they ever have, and let's say they make 100 million dollars, and let's just say for the sake of argument, which can't happen, that they could make 100 million a quarter in perpetuity. So they would make 400 million a year, automakers have a PE of 8. Okay. If you gave Tesla a PE of 25 on 400 million, 10 billion dollars. That's the debt. It leaves zero value for the equity, right?

So, it's like. So, the way, I see two possibilities here. One is, they go away fast. They don't have the cashflow, they can't pay off to converge. They somehow can't negotiate this payment stock or whatever happens. Suppliers start shipping them COD and that's it. Okay, that's a [inaudible 00:26:34]. The flip side of it is, it just becomes a busted growth story. As the months go on, it gets revalued into, "Oh, this is a car maker." They lose money, or they barely break even, or they make a tiny bit. Whatever the hell it is. They get an appropriate multiple for a car maker, which leaves the equity value at near zero.

Meanwhile of course, Musk is the wild card and I don't mean that in a good way. I'll be shocked if he can adhere to this SEC agreement that basically shuts him up. He's already playing games with it as you know from his tweets the last couple of days. The OPP tweet. What's that band? Naughty By Nature. He's tweeted a smile when somebody commented on the stock price overnight last night. He can't control himself. I think on one level he's a self-destructive guy. He thinks he's above it all and he thinks he can put one over on the SEC.

My guess is the SEC understands him very well and there's just lying and waiting, and they'll spring the trap on him for something that's bigger than that, so they don't get blamed for shutting down a company just over three or four stupid tweets.

But I think there's more out there. I think there's probably a lot of whistle blowers out there.

So this either gets shut down regulatory wise, or it just gets shut down as a business, or the equity just gets wiped out or almost wiped out just because people realize what they're dealing with here, which is a busted growth story that doesn't make money.

Mike Alkin: Yeah, [inaudible 00:28:07] you talked about his tweets. I was thinking back to, I think it was early September, where I think he put out a note that said, "We're about to have the most amazing quarter in our history. Building more than twice as many cars as we did last year."

Mark Spiegel: Right. He didn't come close to twice as many cars.

Mike Alkin: Right. That would have been 106,000, 107,000 cars and he put out 82,000, 83,000 cars this quarter. That's on the production side, right? Forget the-

Mark Spiegel: Delivery.

Mike Alkin: Yeah, delivery side. So yeah, so how do you see this unfolding Mark, because my goodness, stock goes down to what? [inaudible 00:28:45] interesting number. Whenever that stock hovers around 250-260, boy news comes out, something happens that gets it hot, gets it higher. Where's your view on marching calls that come into play?

Mark Spiegel: Well it's hard. I actually wrote an article about this in the Spring for Zero Hedge. As best as I can tell and it's sort of guess work, if the stock gets into the low 230s, he'd have to post more stock as collateral at the very least. At that point, and who knows since then, I mean hell, he probably got to borrow more to pay these fines, right? And buy the stock he did in the open market, which by the way, was a manipulation in itself, because he did it in the ill liquid pre market twice in the Spring just to jam up the price. It's hilarious. This guy's like. This guy is like a ... There's somebody on Twitter who's very good. I forget his name, but I think his handle is like Geneseo or something.

He basically says-

Mike Alkin: Yeah [crosstalk 00:29:45].

Mark Spiegel: He basically has said before, he said, "Think of what like any pink

sheet, penny stock, boiler room, fraud kind of stock would do and that's what Elon Musk is going to do on his 50 billion dollar company." So jamming up the stock price in the open market.

Mike Alkin: But those penny stocks, the motors go to jail. Right?

Mark Spiegel: Well that's the interesting thing. Right? So far he's too big to fail, right? I think what the SEC is hoping, is ... Those guys aren't dumb and I think what they're hoping is that this thing is, that Musk's problem gets taken care of just from the business. They're not the ones who put him out of business. Musk is the guy who puts himself out of business, right? I think that's what they're hoping.

You asked me a question. I went on this long winded.

Mike Alkin: No, I was going to say. So as we see the evolution of this. He's got some big debt payments coming due, whether or not he makes 75 or he loses 50 million this quarter. For me, by not seeing the reinforcement in this quarter of cashflow positive, to me that means something. But even without that, I was very suspicious third quarter, fourth quarter. He's got a mountain of debt coming due. He hasn't raised capital and we've got this competition coming. So from a, how do you view this playing out over the next six, nine months?

Mark Spiegel: Right.

Speaker 1: Hey guys. Real quick.

Mike Alkin: Yeah.

Speaker 1: Mike, did you go back on speaker phone?

Mike Alkin: Oh yeah. Hang on.

Speaker 1: Yeah, you need to keep it off speaker phone.

Mike Alkin: Oh.

Speaker 1: Because I can barely hear you.

Mike Alkin: Got it. Okay, got it.

Speaker 1: Thanks.

Mike Alkin: Okay, yeah. Sure.

- Mark Spiegel: So it can happen two ways. I'm going to paraphrase that famous Hemingway line, How did they go broke? Slowly and then quickly.
- These guys can go broke quickly or slowly. Turn it around. Listen, if they can get a registration statement through the SEC, which is a big question, because the obvious question is why haven't they done that already? But okay, maybe the SEC now will allow them to disclose whatever else is going on and-
- Mark Spiegel: ...Will allow them to disclose whatever else is going on and register stock. So, maybe somebody will give them a couple billion bucks to keep the lights on for six months. My guess is it would be some very ugly deal from a consortium with hedge funds or somebody who heavily discounted stock or a death spiral convertor, death spiral preferred, something... Anyway, maybe they can pay that stuff off and keep the lights on for another six months.
- So, then next year, it's a busted growth story, and it's that much harder to raise the capital they need incrementally from there. Or maybe nobody gives them the money now, and they put it into bankruptcy or heavy restructuring, big write down of the debt, lots of equity.
- Look, the one thing I can't rule out is somebody puts money into this company now or soon at some ridiculously low price, relative to where it is. And say, "Yeah. I'll do this at, I don't know whatever, a 15 billion dollar valuation." So what would that be? A ton of debt and five on the equity would be like, what? \$30 a share?
- Maybe somebody puts in equity at 25, 30 dollars a share, and the stock still trades at \$150, because a bunch of idiots out there think the company is now safe, you know? To be clear, presumably a deal like that would not be registered stock, so it wouldn't go into the flow, and it wouldn't be available. So anything can happen with this crazy company. But the ace in the hole is really Musk will wind up blowing himself up anyway.
- Mike Alkin: So Mark, I want to back. Today was production delivery numbers coming out, and I know we touched on demand. But I want to go through this, because one of the things that since I've been looking at the company, that strikes me, is the demand side of the equation, and why is everything so focused on production with this assumption that the demand is there? So as we think about-
- Mark Spiegel: Right. Of course. You know the answer to that.

Mike Alkin: Yeah.

Mark Spiegel: Because that's the way Musk and the company has steered the gullible media.

Mike Alkin: Exactly. [crosstalk 00:34:04] So talk about as... Because people say, "Listen. Okay, Mark. So, lay out the case." What's the demand case that you see? Because to look at the Bolts, Bolts will take on a sudden demand and they're going to take over the EV market. Lay out the demand unfolding as you see it.

Mark Spiegel: Well, first of all, it's a limited market for cars at 50 thousand or higher anyway. I mean, [inaudible 00:34:32] put out the number, but it's a relatively small number of cars and not crossovers on top of that. These are sedans, small sedans. Again, the 4-wheel drives backlog is gone, new orders for that car now are probably like trickling in, and the all-wheel drive backlog will be gone soon. I don't know how many of these they can sell.

The U.S. right now is something like 50 or 55% of the market for the S and X. If that were to be maintained, and steady U.S. demand might be only like 2,000 cars a week or something. If the rest of the world would buy another 2,000, then maybe they could sell 200,000 a year of these, which would be 50,000 a quarter versus the 55 they just did, but the pricing would be considerably less. They won't be able to get the \$60,000 ASP they supposedly just got. That's why I think they can't make money.

The other important thing to remember is the competition on the high end. The Model S and X probably have three times the incremental margin, contribution margin, of the Model 3. For every single S or X sale they lose, they probably have to sell three of these Model 3s to make up for that. That's three Model 3s, not the cheap model. That's the one that starts at \$50,100 ASP, \$55,000 to \$60,000, let's say, right? Those S and Xs are going to suffer as the Germans and the Jaguar come in.

I just think they're screwed. S and X, by the way, demand has been roughly flat anyway since like 2016, before the luxury competitors came in. By the way, they start seizing about the Model Y. Really? Where are you going to build that? They would need a couple of billion dollars at least of CapEx to build the factory for the Model Y or to build a factory in China in order to build [crosstalk 00:36:35]

Mike Alkin: In the press release today, they talked about they're going to be ramping up the factory in China. With what money?

Mark Spiegel: Actually, and the person, I believe they said accelerating. [crosstalk 00:36:47]

Mike Alkin: Accelerating. Yes, yes, yes.

Mark Spiegel: How is accelerating compared to ramping? They switched the word. If you look through the Tesla press release and do a Control + F search for "r-a-m-p", it probably comes up like 50 times, right?

Mike Alkin: Yeah, yeah, yeah. Yep.

Mark Spiegel: I guess they switched it up on us to accelerating. They got to raise the money. U.S.-China relations are not great right now. If they raised it, it would undoubtedly have to stay there and just be for that factory.

It's actually unclear if they build in the China free trade zone, if that would be tariff-free or if they would still have to pay the import tariff, which isn't bad. It wouldn't be like coming from the U.S., but it could still be like... I think they just cut the tariff to 15%. It used to be 25. It still might not be tariff-free. Up to now, when you build in a free trade zone, you still have to pay a tariff if you import it into the mainland outside of that free trade zone. That's an unclear situation.

Anyway, it's years away and the company, I don't think the company has that much time.

Mike Alkin: You are a lightning rod for Tesla, and you are out there and you use your name so nobody can dox you. That's who you are.

Mark Spiegel: I'm pre-doxed. I come pre-doxed.

Mike Alkin: You're pre-doxed.

Mark Spiegel: I'm inoculated against being doxed.

Mike Alkin: You see every bull case coming at you. Some is well thought out, and others that people pull the motions, spewing venom at you. What's the best bull case you've seen? You sit there and say, you're open-minded, right? You're a hedge fund. You're long and short. You have the ability on anything, any name, at this point it's different. What's the one where you said, "Oh you know, maybe there's a possibility." You're looking at everything. You don't have a monopoly on being right for everything. What is it when you've seen one? What's the bull case or is there one?

Mark Spiegel: You know, somebody just... It's funny you say that. Somebody who's an analyst just emailed me the exact same question ironically, literally as we're on this conversation.

Mike Alkin: Oh, that's weird.

Mark Spiegel: I said, "I haven't yet found a bull worth listening too on this." This guy emailed me back. He said, "If you can't intelligently argue for both sides of an issue, you don't understand the issue well enough to argue for either." Okay? And here's my answer to that.

There are many, many companies that I won't touch because I understand both sides. I will not short Netflix. I understand how expensive Netflix is and how much cash it's burning under current parameters, but I also understand that there's probably a lot of pricing power there. If everybody paid \$16 a month instead of 10 or 11, right? And they had 250 million subs instead of whatever they have, 100 or something million, all of a sudden, you've got a very different looking company, right? It doesn't get cheaper then, but at least it sort of makes sense.

I can't find an intelligent bull case to Tesla from people who've actually done the work. I just can't find one. My answer to that guy who emailed me this thing, kind of obnoxiously but that's okay, I'm an obnoxious guy myself. There can be a piece of shit lying in the street and I can say it's zero. Am I supposed to understand the bull case for why it's worth a \$100 bill? Maybe if it was Elon Musk's shit, it would be worth \$100. But other than that... I just haven't heard...

I mean, you have these people, like Ross Gerber and ARK, invest with their \$4,000 price. She's like, "Oh yeah. Tesla is years ahead of everybody in our economy and everybody's going to rent out their self-driving car." But anybody who's studied the situation knows Tesla is years behind everybody in our economy, their software sucks, they have no LIDAR. To me, all they're ahead of is recklessly cloying autopilot on the highways so people can put up YouTube videos of their cars getting taken over like... What was that Stephen King car that tried killing people?

Mike Alkin: Christine.

Mark Spiegel: Christine! Yeah!

Mike Alkin: Is ii Christine? Yes?

Mark Spiegel: Christine! Yes!

That's how they're ahead. Musk puts out beta versions of software steering five thousand pound machines around and he doesn't even have the hardware to back up the software properly. Believe me, I can see both sides for Amazon. I can see both sides of [inaudible 00:41:29]. You give me any so-called bubble price stock, just about, and I can understand both sides of it. There just isn't an intelligent other side for Tesla. I could make up a bunch of nonsensical, pie in the sky projections, and stick the spreadsheet in front of somebody and say, "Here. Okay." But it's got to be grounded in reality.

Mike Alkin: Yeah. That's great.

Anything else you're looking at? What else outside of Tesla is interesting you right now?

Mark Spiegel: The only other positions, except for one sort of Nano cap... It's all macro and it's mostly short. I'm sure the Russell 2000, very heavily... I've called it on and off and then stocked out, but it did look to me last week as if that was it. So far, last week and this week, it was working out, it's getting pounded today.

The P/E on the Russell 2000 as of last Friday, the gap trailing P/E was 59. That's an index. I think the [inaudible 00:42:32] ratio of the Russell 2000, I saw a chart last month, was just off the charts. I think long ad commodities [crosstalk 00:42:46] EVA. It's on a little bit higher than it is now, and it got pounded down, I added a lot for that. Those things are just so washed out and now we've got that Nasdaq agreement approved. It's not a home run but those ad commodities are back to the level they were in 2002. Every other thing is just off the charts. The world's population is bigger and people got to eat, so there's that.

I've been short for a while, it's an ETF, which is European sovereign debt. [inaudible 00:43:19] roughly 1% with like an average term of over nine years. It's got Germany, but then it's got all the garbage bonds, like Italy...

Mike Alkin: Yep.

Mark Spiegel: ...And Japan, and all that stuff. I've actually got positive carry with the rebate, at least from the interest earned rebate from my prime broker. I really have roughly six positions now. Then I'm long one little company, I don't even want to talk about it here. It's a little company. I don't want to be accused of [crosstalk 00:43:50]

Not to stretch right there, but you never know.

Mike Alkin: Well listen, I appreciate it. I wanted to get your thoughts on the FCC stuff and with the numbers that were coming out today, I thought it would be good for listeners to hear what your thoughts are. I really appreciate you taking the time to come on.

Mark Spiegel: Thank you. It's always fun and I appreciate the invite. Have fun on the Grand Central Parkway right there.

Mike Alkin: Thanks, I will. I'll talk to you later.

Mark Spiegel: Take care. Okay. Bye-bye.

Mike Alkin: Okay, thanks.

Well I hope you enjoyed listening to Mark Spiegel. He's always a good guy to spend time chatting with. Mark just tells it like it is, tells it as he sees it. He doesn't sugarcoat anything. You're always going to get his unblemished view on how he's viewing it. Obviously, he's a lightning rod. There's a lot of people on the bull side that go after Mark because of his negative views of Tesla, but I think Mark has a really insightful view and analysis, as you get to read his stuff and watch his stuff. It's taken longer for anyone would have thought from the short side for Tesla. I guess we'll have to see how that plays out. I wanted to bring Mark's thoughts, with all that was going on with the FCC and the big numbers they put out today.

Anyway, I am sitting in traffic. I am on the Grand Central Parkway in New York and I'm trying to figure out how to make those 19 miles not turn into two and half hours. I don't think I'm going to be able to do it. I'm going to cut this short, but I hope you have a good week and I will be back next week. I look forward to chatting with you then. Thanks. Have a good week.

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