



# Musk Mayday: Tesla Model 3 Deposit Refunds Soar

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Profile picture for Tyler Durden

by Tyler Durden

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In a report that should provide further grist for the increasingly vocal Tesla bears, [Recode](#) reported that **nearly a quarter of reservations for the Tesla Model 3 have been refunded**, citing data compiled by data firm Second Measure, which analyzed billions of dollars of anonymous credit- and debit-card purchases.

The two notable observations from the report are the i) deposit refunds soared in recent weeks as Musk announced further Model 3 delays and ii) as of April's end, Tesla has been **paying out refunds faster than new Model 3 deposits have been coming in**, meaning that the deposits the company had collected to date, i.e. working capital which until recently had served as a source of cash has turned into a drain on Tesla's declining cash hoard.

*Two years ago Tesla began accepting \$1,000 deposits for its new, lower-priced Model 3 electric car, with the expectation that customers would likely receive their vehicles in 2018. Hundreds of thousands of people have reserved one.*

*But perhaps due to extended production delays, many customers have been asking for their money back.*

*As of the end of April, **some 23 percent of all Model 3 deposits in the U.S. had been refunded**, according to new U.S. data from Second Measure, a company that analyzes billions of dollars in anonymized credit and debit card purchases.*

The [Recode](#) report also provides some context for the company's latest reporting on its deposit intake. During Q1 2018, Tesla reported customer deposits of nearly \$1 billion. Thanks to the Second Measure data, we now know that these deposits are mostly for Tesla's other products, like its planned semi-truck and Tesla roadster. And if the past is any guide, these products will likely also face delays - meaning that deposit refunds could amplify the pain from Tesla's already [hefty cash burn](#), which has also been exacerbated by assembly line problems that have forced factory closures.



While Tesla told Recode that Second Measure's numbers don't accurately reflect the company's internal metrics, reporter Rani Molla pointed out that, even if the ominous figures are correct, there's still a silver lining here: Even if they don't bode well for cash flows, the refunds are at least taking some pressure off of Tesla after it delivered only 8,180 Model 3s last quarter. That's compared with more than 450,000 reservations that remain unfulfilled. It's also possible that customers could renew their orders once Musk has resolved the production difficulties.



Despite Tesla's denial, Recode pointed out that Second Measure's data appeared to be accurate as of last August, when 63,000 orders were cancelled, it said. **That represents a cancellation rate of 12%. Roughly 60% of total Model 3 deposits were made back in April 2016.** Second Measure added that roughly 18% of cancellations were made in April, the largest number of any month so far. Those cancellations followed Musk's revelation that production would be delayed between six to nine months amid ongoing problems at the company's Fremont, Calif. factory.

The data also suggest that some customers might instead have decided to purchase other more expensive Tesla models like the Model S or Model X.

*That's also when the largest share of "configuration fees" — a non-refundable deposit customers put down to customize their vehicle shortly before they receive it — were spent, meaning with production*

*ramping up more customers had to decide whether they actually wanted to pay \$35,000 (at the very minimum) for their Teslas or ask for refunds. As more Tesla Model 3s become available, we'll get a better glimpse of what share of reservations turn into purchases.*

*As of April 2018, 8 percent of Model 3 customers have paid a \$2,500 configuration fee. We'd note that paying a configuration fee could also mean that the customer opted for a more expensive Tesla model, like the S or X. Indeed, Musk has said that Tesla is doing its best to "anti-sell" the Model 3 so that people buy more expensive models.*

Any investor who has been following Tesla's epic production delays since late last year, when the Wall Street Journal reported that Tesla had resorted to assembling some Model 3s by hand due to difficulties with its highly automated production line, should immediately recognize that this doesn't bode well for Musk, who last month sent Tesla stock sliding after angrily rebutting probing questions from an analyst about the company's notorious cash-burn rate.

As Musk famously declared during that outburst, Tesla has "no interest in satisfying the desires of day traders."

However, at the very least, Musk is demonstrating a commitment to giving his customers what they want most: their money back. In other words, if there is a "deposit" run, it hasn't crippled the company, yet.

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