Rodney's Take

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2021: The Year of the (Car) Crash

The first month of 2021 is in the books, and it feels like we lived a full year, if not a lifetime, in just those 31 days. So many crazy things happened that it's hard to keep track. We could spend hours or even days talking about the breach at the Capitol, President Biden's executive orders, or even the retail investor attack on hedge funds through stocks like GameStop and now silver. But there's another incredible change we need to watch as well: it's General Motors and the other old-line car companies becoming relevant.

I've not been a fan of GM for years, because management has ripped off investors, handed GM pension liabilities to U.S. taxpayers, and continued to make cars that most drivers don't want. They whittled down their sedan offerings while selling ever-bigger pickups and SUVs, claiming that Americans just don't want passenger cars, even as Honda, Toyota, BMW, Mercedes, and even Tesla kept moving inventory off of their lots. A better explanation for what happened at GM is that consumers didn't want *their* passenger cars, and the same went for Ford. Nothing has changed in the past 12 months or 31 days, but big things are on the horizon.

GM CEO Mary Barra announced last week that the company aspires to be done with fossil fuel vehicles by 2035, a mere 14 years from now. She's already increased the amount the company will spend developing electric vehicles (EVs) from $20 billion to $27 billion, and she also noted that GM plans to offer 20 EV models in North America by 2025. Ford is spending $11 billion to bring 40 EV models to market in the next several years, including the Mustang Mach-E. Volkswagen will spend nearly $90 billion on EVs. The Renault Zoe was the best-selling EV in the first half of 2020, and the Volkswagen ID.3 was the best-selling EV in Europe last fall.

All of this portends incredible competition for Tesla, and I haven't even mentioned all of the Chinese EV companies.

Speaking of Tesla, the company announced fourth-quarter earnings last week, and while the company sold more cars than in previous quarters, it earned less money per vehicle in the process. That's a problem.

To keep sales moving, Tesla had to cut its prices. While the company posted a net profit of $721 million for all of 2021, that figure includes the sale of emission credits for $1.6 billion. Without that, Tesla would have lost $879 million, or $1,758 per vehicle. The situation brings up the old joke of the retailer who lost money on every sale, but made it up on volume. It's not possible, of course, and those small losses become enormous over time.

It's possible that Tesla will earn even more revenue by selling emission credits this year, because the company will sell more zero-emission vehicles. But as old-line car companies remake themselves into EV car companies, they won't need to buy those credits from Tesla, and then the firm will be left only with its main business, still losing money on every car it sells.

This doesn't mean that GM, Ford, Volkswagen, and other car companies that are spending gobs of money to develop EVs are fabulous investments. The early word on the Mustang Mach-E is that it leaves a lot to be desired. These companies have a long history of offering cars, especially hybrid and electric cars, that don't turn the heads of consumers, but eventually they'll hit on the right formula. Maybe it's electric trucks, or perhaps we just need more recharging infrastructure. Perhaps it's a combination of those things along with new financial incentives from the federal government.

Whatever mixtures make that happen, it looks like our auto fleet will move to EVs, pushed by manufacturers and politicians. Established companies will spend record amounts to make the transition, while Tesla will cut prices to maintain its lead. Investors will have to look far down the road to see the eventual payoff, which could give them a reason to take some profits at current high prices and wait to see what tomorrow brings.

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Got a question or comment? You can contact us at info@hsdent.com.