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Friends and Fellow Investors:

For January 2019 and year to date the fund was up approximately 7.9% net of all fees and expenses. By way of comparison, the S&P 500 was up approximately 8.0% while the Russell 2000 was up approximately 11.3%. Since inception on June 1, 2011 the fund is up approximately 73.4% net while the S&P 500 is up approximately 136.2% and the Russell 2000 is up approximately 96.5%. Since inception the fund has compounded at approximately 7.4% net annually vs 11.9% for the S&P 500 and 9.2% for the Russell 2000. (The S&P and Russell performances are based on their "Total Returns" indices which include reinvested dividends.) As always, investors will receive the fund's exact performance figures from its outside administrator within a week or two; meanwhile for existing investors I continue to waive the annual management fee until the entire fund regains its high-water mark.

The markets had an astounding rally this month, undoubtedly spurred by a suddenly cowardly—sorry, I mean "dovish"—Fed, as exhibited first by a series of speeches and then in January's FOMC meeting in which it said it would pause interest rate hikes and reconsider the pace of the balance sheet run-off. As to where the broad markets go from here, the economic slowdown is still in its early stages and we're a long way from QE4 so I've reopened our Russell 2000 (IWM) short position, an index which—despite incorporating almost a full year of drastically lower corporate tax rates—has a trailing twelve-month GAAP PE ratio of nearly 50. And now to the rest of the fund's positions...

We remain short stock and call options in Tesla, Inc. (TSLA), which I consider to be the biggest single stock bubble in this whole bubble market. As a reminder, the three core points of our Tesla short position are:

- 1) Tesla has no "moat" of any kind; i.e., nothing meaningfully or sustainably proprietary.
- 2) Tesla will again soon be losing a lot of money and has a terrible balance sheet despite relatively light competition, but is about to be confronted with massive competition in every aspect of its business.
- 3) Elon Musk is extremely untrustworthy.

In January Tesla reported an (unaudited) Q4 2018 GAAP profit of \$139 million that (as anticipated) was considerably smaller than Q3's never-to-be-topped and highly misleading (as explained in previous letters) figure of \$312 million, and now (as ASPs decline and service expenses soar) the company shall slide back into losses. (I explain why below.) The conference call was filled with so much hilarity that it's hard to pick a favorite example, but this quote from Elon Musk could be the winner...

"The demand for Model 3 is insanely high. The inhibitor is affordability. It's just like people literally don't have the money to buy the car. It's got nothing to do with desire. They just don't have enough money in their bank account."

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...and there were so many [lies and obfuscations](#) that the call [must be heard](#) to be believed (especially the [surprise ending](#) in which [the CFO quits](#)), but the key takeaway from the earnings press release is that the growth story is over, with Tesla guiding on the low end (the only end it ever even *sometimes* hits) to selling a total of 360,000 cars in 2019, representing zero-growth over the annualized pace of Q4 2018's 90,000, while [shrinking capex](#) to an unsustainable level for *any* meaningful growth; thus, Tesla is now just another car company with a busted growth story.

Now here's why Tesla will revert to losses for 2019: the company guided to a (desperately needed, based on currently awful customer service) opex increase of "less than 10%" in '19. Let's say it's 9% x the 2018 number of \$4.43 billion = \$400 million = \$100 million/quarter. As noted above, Tesla also guided to annualized unit sales equal to those of Q4 2018, which had net income of \$139 million. So *before* adjusting 2019 income for the far fewer (vs. Q4 2018) GHG credits that will be earned (due to far more sales overseas, where those credits aren't earned), we derive just \$39 million/quarter in 2019 earnings. However, after Q4 2018's \$94 million in GHG credits are halved (due to more sales overseas), that profit will be wiped out completely.

However, it's my (and many others') opinion (based on terrible January U.S. demand and apparent weakness in European and Chinese orders) that Tesla will deliver far fewer than 360,000 cars this year-somewhere in the neighborhood of 250,000 is possible (including 3,S, & X), and I thus expect Tesla to revert to a massive GAAP loss of somewhere around \$1 billion.

In fact, Tesla has hit such a demand wall (thanks in part to the January 1 halving of its \$7500 U.S. tax credit, which is halved again in July and disappears at year-end) that it ended 2018 with many thousands of unsold cars in U.S. inventory and thus in January cut the Model 3's price by \$2000 and the 100kWh Models S&X by a massive \$11,000 (while very slightly limiting their range via software) and eliminated the popular 75kWh models completely... *Goodbye S/X volume and margins!*

As a harbinger of the competitive forces to come for Tesla's profitable high-end models, 2018 S&X sales in Europe would have been down 16% without the pull-forward demand from an expiring Netherlands tax break...

2018 EU Tesla deliveries (source: TMC data & @fly4dat)									
Country	Q1	Q2	Q3	Q4	Oct YoY	Nov YoY	Dec YoY	2018 YoY	
Norway	40%	104%	-3%	-39%	-31%	-54%	-33%	2%	
Netherlands	75%	157%	180%	194%	99%	113%	269%	159%	
United Kingdom	-41%	8%	-17%	-55%	-61%	-48%	-56%	-29%	
Germany	-35%	-33%	-50%	-59%	-61%	-53%	-64%	-43%	
Switzerland	-31%	-17%	-22%	-40%	-77%	-35%	-18%	-28%	
Sweden	-44%	-19%	71%	8%	2%	2%	14%	-4%	
France	0%	-4%	-13%	-23%	-68%	-10%	91%	-11%	
Belgium	-19%	-24%	-18%	-36%	-44%	-42%	-28%	-24%	
Austria	-50%	-48%	-45%	-46%	-64%	-37%	-43%	-48%	
Italy	-6%	17%	1%	-21%	-66%	-24%	66%	-3%	
Spain	5%	44%	3%	4%	74%	-14%	93%	12%	
Finland	-16%	-33%	-38%	-37%	-56%	-43%	-27%	-30%	
Luxembourg	-36%	-39%	-52%	-41%	-67%	-22%	-50%	-41%	
Other countries	85%	161%	121%	51%	21%	46%	164%	98%	
Totals from countries reported	-7%	32%	13%	-9%	-32%	-23%	6%	5%	
Totals from all countries ex-NL	-16%	16%	-11%	-38%	-50%	-44%	-32%	-16%	

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... and this was with just a few months of competition from Jaguar's beautiful new i-Pace and *before* this year's arrival of superior luxury EVs from Audi, Mercedes and Porsche (discussed below).

I've always argued that TSLA bulls are confusing "luxury electric car love" for "Tesla love," and now that superior European alternatives are beginning to roll out, Tesla drivers will flock to them. Among those relatively near-term alternatives (out in late 2019) is the [Porsche Taycan](#) (here's a [great new video](#) of it), and according to [Porsche's surveys](#) it's Tesla drivers who are most interested in buying it. After its U.S. tax credit price advantage over Tesla (whose credits will be gone at the end of 2019), the stunning, Autobahn and Nürburgring-tested [Taycan](#) will cost approximately the same as the least expensive Tesla Model S and, among innumerable other advantages, will charge 2 ½ times as quickly and, in the U.S., [include three years of that charging as part of the purchase price](#). *Hmm, Tesla or Porsche... Not a tough choice!* In January Porsche [announced](#) that it has the capacity to build 40,000 Taycans a year, roughly the expected number of 2019 Model S sales *before* the Taycan steps in to steal pretty much all of them in 2020. ***In other words, Model S sales are about to be *so* dead.***

The Taycan is just part of an onslaught of luxury EV competition about to rip the face off sales of Tesla's most profitable models, the S&X. In March in Europe and April in the U.S. comes the [Audi e-tron](#), an all-electric SUV with a *much* nicer interior (and better build quality!) than any Tesla and a price that's around \$13,000 lower than the Model X *before* the Audi's (initial) \$3750 to (eventual) \$7500 U.S. tax credit advantage. (In fairness, the Audi's range is expected to come in at around 220 miles vs. 270 miles for the X, but the Audi will charge faster.) The Audi received solid reviews ([here](#), [here](#), [here](#) and [here](#)), and three more electric Audis will follow the e-tron: [the Sportback](#) in late-2019 and, in 2020, [the spectacular e-tron GT](#) that recently debuted at the L.A. Auto show, as well as (in 2020) [a small electric crossover](#).

Available immediately is the [Jaguar I-Pace](#) (which received [fabulous reviews](#), handily beating Tesla in [comparison test](#) after [comparison test](#)) and costing \$18,000 less than the Model X and \$15,000 less than the Model S, price gaps that widen by an additional \$3750 with Jaguar's current U.S. tax credit advantage and escalate to \$7500 in January 2020. I've driven the Jaguar and can assure you that *no* objective person will say it isn't *much* nicer than any Tesla.

The [Mercedes EQC](#) all-electric SUV will be available in Europe in mid-2019 and in the U.S. in early 2020, with an EPA range of around 225 miles and a price that will be around \$25,000 (!) less than the Model X *before* the Mercedes' \$7500 U.S. tax credit advantage! And by 2022 Mercedes will have [ten fully electric models](#), covering nearly *all* its model lines.

And let's not count out BMW; here's [a fascinating interview](#) with its head EV powertrain engineer and [a preview of its upcoming 2021 i4](#).

Less expensive and available now are the excellent new all-electric [Hyundai Kona](#) and [Kia Niro](#), [extremely well reviewed](#) small crossovers with an EPA range of 258 miles for the Hyundai and 238 miles for the Kia, at prices of under \$30,000 inclusive of the \$7500 U.S. tax credit. I expect these cars to have an immediate and severely negative impact on sales of Tesla's Model 3 and a future severely negative impact on Tesla's

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so-far unseen Model Y small crossover (assuming, of course, the latter makes it to market before Tesla declares bankruptcy).

Many people argue that “truly massive” Model 3 demand will be unleashed if Tesla offers a shorter-range, lower-priced version in late 2019 or early 2020; here’s why I think that’s wrong: first, I can’t see any way that a short range (approximately 220-mile) base car can be priced at less than \$39,000 (without losing money) vs. Tesla’s original promise of \$35,000 (before Tesla’s \$1200 delivery charge). But Tesla is now choking on U.S. inventory of its “medium range” 264-mile Model 3 at a price \$44,000 which—after its \$3750 tax credit—costs the buyer only around \$40,000. Yet in January 2020—soon after a \$39,000 Model 3 might be introduced—that tax credit goes away completely, therefore making the base car’s (presumed) net cost to the buyer only \$1000 less than the medium-range car for which demand has nearly evaporated despite 44 additional miles of range! ***The real mass-market Model 3 demand was for a \$35,000 car with a \$7500 tax credit—a fictional product that Musk lied about to do massive capital raises in 2016 and 2017.***

Meanwhile, the Model 3 continues to reveal itself to be a complete lemon (one that’s [particularly disastrous in the winter](#)), with the [latest survey from True Delta](#) ranking it *dead last* among all available vehicles. And in September British magazine [What Car?](#) ranked *overall* Tesla reliability so low that it’s in “a league” of its own. And speaking of lemons, although the latest [Consumer Reports survey](#) doesn’t have enough Model 3 data to provide a reliability estimate other than “average,” it downgrades the Model S to “worse than average” and thus “unacceptable” while the Model X is once again rated “much worse than average” and makes the “coveted” [“10 Least Reliable Cars” list](#).

Meanwhile the number of lawsuits of all types against Tesla continue to escalate ([there are now over 500!](#)), as does the number of executive departures ([here’s the astounding full list](#)).

And finally, here’s a January headline from a [Bloomberg story](#) that perfectly captures this semi-Ponzi scheme of a company:

Q Search **Bloomberg**

Markets

Musk Urges Chinese Consumers to Buy Model 3 Now to Fund Factory

By [Dana Hull](#)
January 7, 2019, 5:38 PM EST

That story derived from “groundbreaking day” of Tesla’s (so far unfinanced) Chinese factory, during which Musk blatantly lied about how long it would take to get things up and running, promising mass production by late 2019 while the site is a dirt field and anyone in the industry can tell you that—even in fast-moving China—it takes at least two years to build a new auto plant and install and calibrate the assembly line

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equipment, and that rapid timeframe is only for a company that knows what it's doing, which Tesla most certainly does *not*.

So here is Tesla's competition in cars (note: these links are continually updated)...

[THE NEW ALL-ELECTRIC JAGUAR I-PACE](#)
[2019 Jaguar XJ to be reborn as high-tech electric flagship](#)
[Audi e-tron electric SUV is available early 2019](#)
[Audi e-tron Sportback comes late 2019](#)
[AUDI E-TRON GT FIRST DRIVE: LOOK OUT, TESLA \(available 2020\)](#)
[Audi to show new baby e-tron electric SUV at Geneva 2019](#)
[Mercedes unveils the 2019 EQC Electric SUV](#)
[Mercedes to launch 10 all-electric models by 2022](#)
[The 2019 Porsche Electric Taycan](#)
[Porsche Electric Mission E Cross Turismo goes into series production](#)
[Porsche Aims At Tesla Again With An Electric SUV, Taycan Targa and Possible Boxster EV](#)
[258-Mile Hyundai Kona electric arrives early 2019 for under \\$40,000](#)
[240-Mile Kia Niro EV Arrives January 2019 at Under \\$40,000](#)
[The 2020 Kia Soul EV Is More Powerful Than Before and Has 260-mile Range](#)
[Kia Europe to have six pure electric models by 2022](#)
[Chevrolet Bolt Offers 238 Miles On A Single Charge](#)
[GM is transforming Cadillac into an electric brand](#)
[VW to spend \\$50.2 billion on electric, autonomous vehicles by 2023](#)
[Here's how Volkswagen plans to turn itself into the world's largest EV maker](#)
[VW Is Planning \\$21,000 Subcompact E-Car to Challenge Tesla](#)
[Nissan LEAF e+ with 226-mile range arrives April 2019](#)
[Nissan Leaf-based SUV coming in 2020](#)
[Volvo Polestar 2: 350-mile range, £30,000 starting price](#)
[Volvo To Start Selling Electric Trucks In 2019, Some Will Hit The Road This Year](#)
[BMW iX3 electric crossover goes on sale in 2020](#)
[BMW i4 confirmed for production in 2021 with 435-mile range](#)
[BMW to have 25 electrified models by 2025](#)
[Ford CEO says 16 electric models are in design & development](#)
[Toyota, Mazda, Denso create company to roll out electric cars beginning 2019](#)
[Toyota to market over 10 battery EV models in early 2020s](#)
[Renault aims to remain EV leader in Europe](#)
[Infiniti will go mostly electric by 2021](#)
[DS 3 Crossback will give PSA's upscale brand an electric boost](#)
[ALL-ELECTRIC MINI COOPER COMING IN 2019](#)
[Smart Will Electrify Its Entire Line-up By 2020](#)
[SEAT's first electric car is due in 2020](#)
[Opel/Vauxhall will launch electric SUV and van in 2020](#)
[2019 Skoda e-Citigo confirmed as brand's first all-electric model](#)
[Skoda planning range of hot all-electric eRS models](#)
[New Citroen C4 Cactus to be first electrified Citroen in 2020](#)
[MG E-Motion confirms new EV sports car on the way by 2020](#)

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[Fiat Chrysler bets on electrification for Alfa, Jeep and Maserati](#)
[Maserati offering three fully electric cars between 2020 and 2022](#)
[Rolls-Royce is preparing electric Phantom for 2022](#)
[Honda will offer full-EV or hybrid tech on every European model by 2025](#)
[Bentley mulls electric car to help reduce carbon footprint](#)
[Subaru to introduce all-electric vehicles by 2021](#)
[Ssangyong e-SIV concept previews 2020 EV](#)
[Dyson Moves Ahead on \\$2.6 Billion Electric Car Plan](#)
[Lucid Motors closes \\$1 billion deal with Saudi Arabia to fund electric car production](#)
[Borgward BXi7 Electric SUV Flies Under The Radar](#)
[Rivian launches all-electric 7-seat SUV with over 410 miles of range](#)
[Rivian Automotive's electric pickup breaks cover](#)
[Detroit Electric promises 3 cars in 3 years](#)
[SF Motors reveals two electric SUVs for 2019 with 300 miles of range](#)
[Two new electric cars from Mahindra in India by 2019; Global Tesla rival e-car soon](#)
[Saab asset owner NEVS plans electric car production](#)
[EVelozcity Raises \\$1 billion For EV Startup](#)

And in China...

[VW, China spearhead \\$300 billion global drive to electrify cars](#)
[Audi China to roll out 12 locally-produced models in total by 2022](#)
[BYD launches EV535, all-electric SUV](#)
[BYD Song MAX BEV version with 500km range to hit market in 2019](#)
[Daimler & BYD launch new DENZA electric vehicle for the Chinese market](#)
[BAIC and Daimler to Build \\$1.9 Billion China Plant](#)
[BAIC brings EX5 Electric SUV to market](#)
[Daimler to Start EQC Electric SUV Production in China in 2019](#)
[GM China raises new-energy vehicle target to 20 models through 2023](#)
[Nissan & Dongfeng to invest \\$9.5 billion in China to boost electric vehicles](#)
[Toyota to Introduce 10 New Electrified Vehicles in China by 2020](#)
[Infiniti bringing EVs to China's luxury car market](#)
[NIOS ES8 Electric Crossover debuts with half the Tesla Model X's price tag](#)
[536 HP Nio ES6 Midsize Electric SUV Launches With 317-Mile Range \(at 1/2 the price of Tesla X](#)
[NIO's third model said to be a sedan dubbed EP7](#)
[BMW will develop and produce electric Mini in China](#)
[Ford ramps up electric vehicle push in China](#)
[Jaguar Land Rover's Chinese arm invests £800m in EV production](#)
[SAIC building factory in China for EVs from Roewe and MG](#)
[Renault and Brilliance Automotive to build 3 new electric light commercial vehicles for China](#)
[Honda launches new all-electric Everus VE-1 for ~\\$25,000 in China](#)
[Honda to roll out over 20 electric models in China by 2025](#)
[Changan building large scale NEV factory](#)
[Mazda and Changan Auto join hands on electric vehicles](#)
[XPENG Motors kicks-off sales of Tesla-infused EV for €30,000](#)
[XPENG Motors to unveil second model at Auto Shanghai 2019](#)

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[WM Motors/Weltmeister EX5 Electric SUV Launched On The Chinese Car Market](#)
[Geely invests \\$5 billion into new electric car factory in China](#)
[Geely's new all-electric sedan code-named GE11 hits market in Q1 2019](#)
[Chery Breaks Ground on \\$240M EV Factory in China](#)
[Chery's second EV plant open in Dezhou](#)
[Fast-growing Byton ready to mass-produce premium EV in China](#)
[DearCC Launches ENOVATE Electric SUV](#)
[GAC Trumpchi to launch range-extended EVs](#)
[Guangzhou Auto To Launch Four New Electric Cars By 2020](#)
[Great Wall Launches New EV Brand \(ORA\) In China](#)
[Singulato iS6 Electric SUV Debuts With 249-Mile Range](#)
[Singulato, BAIC partner to promote smart new energy vehicles](#)
[Hongqi's first all-electric SUV E-HS3 put into volume production](#)
[FAW \(Hongqi\) to roll out 15 electric models by 2025](#)
[JAC's Electric Car Has A Range Of 500 Kilometers](#)
[ICONIQ to build electric cars in Zhaoqing with total investment of RMB 16 billion](#)
[Quianu Motor aims to grab share of US electric vehicle market](#)
[Hozon Kicks Off Mass Production With All-Electric Neta N01](#)
[Aiyaws U5 long-range electric SUV](#)
[All-electric NEVS 9-3 sedans \(nee Saab\) being built in China](#)
[Youxia Motors raises \\$1.25 billion to start 2019 EV production](#)
[CHJ Automotive buys Lifan for shortcut to EV production](#)
[Wanxiang Gets China Electric Vehicle Permit to Make Karma Cars](#)
[Qoros Auto's new owner plans to be an EV power](#)
[JMC \(Jianling Motor Corp.\) Starts New EV Brand In China](#)
[Thunder Power Chinese EV manufacturer clinches deal with Belgian investment fund](#)
[Leapmotor raises RMB2.5 billion for Series A round to build electric cars](#)
[Continental, Didi sign deal on developing EVs for China](#)

Here's Tesla's competition in autonomous driving...

[Tesla Ranks Last for Automated Driving](#)
[What Smart Tesla fans Get Wrong about Full Self-Driving](#)
[A Tesla self-driving blind spot that few are focusing on](#)
[Waymo Starts First Driverless Car Service](#)
[Jaguar and Waymo announce an electric, fully autonomous car](#)
[Waymo Expands Chrysler Self-Driving Fleet 100-Fold to 62,000](#)
[Uber, Waymo in talks about self-driving partnership](#)
[Lyft and Waymo Reach Deal to Collaborate on Self-Driving Cars](#)
[Cadillac Super Cruise™ Sets the Standard for Hands-Free Highway Driving](#)
[GM ride-hailing fleet would ditch steering wheel, pedals in 2019](#)
[Honda Joins with Cruise and General Motors to Build New Autonomous Vehicle](#)
[SoftBank Vision Fund to Invest \\$2.25 Billion in GM Cruise](#)
[An Overview of Audi Piloted Driving](#)
[Mercedes plans advanced self-driving tech for next S class](#)
[Daimler's heavy trucks start self-driving some of the way](#)

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[Nvidia partners with Mercedes on artificial intelligence](#)
[Nvidia to test fleet of robotaxis in 2019 with Daimler, Bosch](#)
[NVIDIA and Toyota Collaborate to Accelerate Market Introduction of Autonomous Cars](#)
[Volkswagen and NVIDIA to Infuse AI into Future Vehicle Lineup](#)
[Volvo, Nvidia expand autonomous driving collaboration](#)
[Continental & NVIDIA Partner to Enable Production of Artificial Intelligence Self-Driving Cars](#)
[Bosch and Daimler join forces to market fully automated, driverless taxis by 2020](#)
[Intel's Mobileye will have 2 million cars \(VW, BMW & Nissan\) on roads building HD maps in 2018](#)
[Volkswagen Group and Aurora Innovation Announce Strategic Collaboration On Self-Driving Cars](#)
[Toyota Adds \\$2.8 Billion to Software Push for Self-Driving Cars](#)
[Toyota, SoftBank in first-ever alliance, target self-driving car services](#)
[Toyota Invests \\$500 Million in Uber to Get Self-Driving Cars on the Road](#)
[Nissan and Mobileye to generate, share, and utilize vision data for crowdsourced mapping](#)
[Magna joins the BMW Group, Intel and Mobileye platform as an Integrator for AVs](#)
[Intel collaborates with Waymo on self-driving compute design](#)
[Fiat Chrysler to Join BMW, Intel and Mobileye in Developing Autonomous Driving Platform](#)
[Ford-Backed Driverless-Car Startup Argo AI Lures Talent](#)
[Ford to invest \\$4 billion in new self-driving vehicle unit](#)
[Ford, Baidu to start self-driving road tests in China](#)
[Baidu, WM Motor announce strategic partnership for L3, L4 autonomous driving solutions](#)
[Baidu plans to mass produce Level 4 self-driving cars with BAIC by 2021](#)
[Daimler and Baidu to Enhance Strategic Cooperation in Automated Driving](#)
[Volvo, Baidu to co-develop EVs with Level 4 autonomy for China](#)
[VW taps Baidu's Apollo platform to develop self-driving cars in China](#)
[Lyft, Aptiv \(formerly Delphi\) partner on driverless ride-hailing at 2018 CES in Vegas](#)
[Lyft, Magna in Deal to Develop Hardware, Software for Self-Driving Cars](#)
[Hyundai, Aurora to release autonomous cars by 2021](#)
[Deutsche Post to Deploy Test Fleet Of Fully Autonomous Delivery Trucks This Year](#)
[Byton cooperating with Aurora on autonomous vehicles](#)
[ZF autonomous EV venture to start output this year, names first customer](#)
[Magna's new MAX4 self-driving platform offers autonomy up to Level 4](#)
[Bosch Creates a Map That Uses Radar Signals for Automated Driving](#)
[Groupe PSA's safe and intuitive autonomous car tested by the general public](#)
[Tencent, Changan Auto Announce Autonomous-Vehicle Joint Venture](#)
[JD.com Delivers on Self-Driving Electric Trucks](#)
[NAVYA Unveils First Fully Autonomous Taxi](#)
[Fujitsu and HERE to partner on advanced mobility services and autonomous driving](#)
[Lucid Chooses Mobileye as Partner for Autonomous Vehicle Technology](#)
[First Look Inside Zoox's Autonomous Taxi](#)
[Apple Is Focusing on Making an Autonomous Car System](#)
[World's most valuable AI startup SenseTime unveils self-driving center in Japan](#)
[Samsung, Harman gear up for self-driving automobiles](#)
[Mitsubishi Electric Develops Automated Mapping For Autonomous Driving](#)
[Hitachi demonstrates vehicle with 11-function autonomous driving ECU](#)
[DENSO and NEC Collaborate on Automated Driving and Manufacturing](#)
[Nuro's Robot Delivery Vans Are Arriving Before Self-Driving Cars](#)

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Here's Tesla's competition in car batteries...

[LG Chem targets electric car battery sales of \\$6.3 billion in 2020](#)
[LG Chem to build \\$1.8 bln EV battery plant in China](#)
[Samsung SDI Unveils Innovative Battery Products at 2018 Detroit Motor Show](#)
[SK Innovation to boost EV battery production capacity more than tenfold by 2022](#)
[New Toshiba EV Battery Allows 320km Charge in 6 Minutes](#)
[Daimler starts building electric car batteries in Tuscaloosa – one of 8 battery factories](#)
[Panasonic Opens New Automotive Lithium-Ion Battery Factory in Dalian, China](#)
[Panasonic forms battery partnership with Toyota](#)
[CATL's Chinese battery factory will be bigger than Tesla's Gigafactory](#)
[CATL to set up battery cell manufacturing in Germany](#)
[BYD to quadruple car battery output with lithium site plants](#)
[GM inaugurates battery assembly plant in Shanghai](#)
[Volkswagen plans entry into battery cell production](#)
[VW Wants to One-Up Tesla With a Next-Generation Battery](#)
[Honda Partners on General Motors' Next Gen Battery Development](#)
[Energy Absolute Plots Asian Project Rivaling Musk's Gigafactory](#)
[France's Saft plans production of next-gen lithium ion batteries from 2020](#)
[ABB teams up with Northvolt on Europe's biggest battery plant](#)
[Chinese Battery Maker to Open Factory Next to Swedish EV Plant](#)
[Sokoni aims to be global provider of battery, electric motor, electric control systems](#)
[BMW Group invests 200 million euros in Battery Cell Competence Centre](#)
[BMW Brilliance Automotive opens battery factory in Shenyang](#)
[BMW announces partnership with solid-state battery company](#)
[Toyota promises auto battery 'game-changer'](#)
[VW increase stake in solid-state batteries with \\$100M investment](#)
[Hyundai Motor developing solid-state EV batteries](#)
[Continental eyes investment in solid-state batteries](#)
[Wanxiang is playing to win, even if it takes generations](#)
[UK provides millions to help build more electric vehicle batteries](#)
[Rimac is going to mass produce batteries and electric motors for OEMs](#)
[Elon Musk Has A New Battery Rival \(Romeo Power\) Packed With His Ex-Employees](#)
[Bracing for EV shift, NGK Spark Plug ignites all solid-state battery quest](#)
[ProLogium Technology Will Produce First Next Generation Lithium Ceramic Battery For EVs](#)

Here's Tesla's competition in storage batteries...

[Panasonic](#)
[Samsung](#)
[LG](#)
[BYD](#)
[AES + Siemens \(Fluence\)](#)
[GE](#)

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[Mitsubishi Hitachi](#)
[NEC](#)
[Hitachi Chemical](#)
[Toshiba](#)
[ABB](#)
[Saft](#)
[Johnson Contols](#)
[EnerSys](#)
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[Kokam](#)
[Sharp](#)
[Eaton](#)
[Nissan](#)
[Tevolt](#)
[Kreisel](#)
[Leclanche](#)
[Lockheed Martin](#)
[EOS Energy Storage](#)
[ESS](#)
[UET](#)
[electrIQ Power](#)
[Belectric](#)
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[Stem](#)
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[Primus Power](#)
[Simpliphi Power](#)
[redT Energy Storage](#)
[Murata](#)
[Bluestorage](#)
[Adara](#)
[Blue Planet](#)
[Clean Energy Storage Inc.](#)
[Tabuchi Electric](#)
[Yunicos](#)
[Orison](#)
[Moixa](#)
[Powin Energy](#)
[Nidec](#)

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[Schmid](#)
[24M](#)
[Eelpower](#)
[Ecoult](#)
[Innolith](#)
[LithiumWerks](#)
[Natron Energy](#)

And here's Tesla's competition in charging networks...

[Electrify America: Our Plan](#)
[EVgo Installing First 350 kW Ultra Fast Public Charging Station In The US](#)
[Tritium's First 350-kW DC Fast Chargers Coming To U.S.](#)
[Porsche plans network of 500 fast chargers for U.S.](#)
[ChargePoint To Equip Mercedes Dealerships With 150kw Charging Stations For EQC](#)
[Recargo Ultrafast West Coast Charging](#)
[BMW, Daimler, Ford, VW, Audi & Porsche form IONITY European 350kw Charging Network](#)
[E.ON to have 10,000 150KW TO 350KW EV charging points across Europe by 2020](#)
[Enel kicks off the E-VIA FLEX-E project for the installation of European ultra-fast charging stations](#)
[Europe's Allego "Ultra E" ultra-fast charging network now operational](#)
[Allego & Fortum Launch MEGA-E High Power Charging network for Europe's Metropolitan areas](#)
[ChargePoint Secures \\$240 Million in Additional Funding; \\$500 million raised in total](#)
[UK's Podpoint installing 150kW EV rapid chargers this year; 350kW by 2020](#)
[UK National Grid plans 350kW EV charge point network](#)
[Fastned building 150kw-350kw chargers in Europe](#)
[Deutsche Telekom to build electric car charging network in Germany](#)
[ABB powers e-mobility with launch of first 150-350 kW high power charger](#)
[Shell buys European electric vehicle charging pioneer NewMotion](#)
[BP buys UK's largest car charging firm Chargemaster](#)
[Total planning EV charging points at its French stations](#)
[VW Is Setting Up Electric Car Charging Stations in China](#)

Yet despite all that deep-pocketed competition, perhaps you want to buy shares of Tesla because you believe in its management team. *Really???*

[Elon Musk Settles SEC Fraud Charges](#)
[Elon Musk, June 2009: "Tesla will cross over into profitability next month"](#)
[Tesla SEC Correspondence Shows A Pattern Of Inaccurate, Incomplete & Misleading Disclosures](#)
[Tesla: Check Your Full Self-Driving Snake Oil Expiration Date](#)
[As Musk Hyped and Happy-Talked Investors, Tesla Kept Quiet About a Year-Long SEC Probe](#)
[The Truth Is Catching Up With Tesla](#)
[With Misleading Messages And Customer NDAs, Tesla Performs Stealth Recall](#)
[Who You Gonna Believe? Elon Musk's Words Or Your Own Lying Eyes?](#)
[How Tesla and Elon Musk Exaggerated Safety Claims About Autopilot and Cars](#)
[When Is Enough Enough With Elon Musk?](#)

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[Musk Talked Merger With SolarCity CEO Before Tesla Stock Sale](#)
[Debunking The Tesla Mythology](#)
[Tesla Continues To Mislead Consumers](#)
[Tesla Misses The Point With Fortune Autopilot Story](#)
[Tesla Timeline Shows Musk's Morality Is Highly Convenient](#)
[Tesla Scares Customers With Worthless NDAs, The Daily Kanban Talks To Lawyers](#)
[Tesla: Contrary To The Official Story, Elon Musk Is Selling To Keep Cash](#)
[Tesla: O, What A Tangled Web We Weave When First We Practice To Deceive](#)
[I Put 20 Refundable Deposits On The Tesla Model 3](#)
[Tesla's Financial Shenanigans](#)
[Tesla: A Failure To Communicate](#)
[Can You Really Trust Tesla?](#)
[Elon Musk Appears To Have Misled Investors On Tesla's Most Recent Conference Call](#)
[Understanding Tesla's Potemkin Swap Station](#)
[Tesla's Amazing Powerwall Reservations](#)

So in summary, Tesla is losing a massive amount of money even *before* it faces a huge onslaught of competition (and things will only get worse once it does), while its market cap tops that of Ford and nearly matches GM's despite selling approximately 300,000 cars a year while Ford and GM *make* billions of dollars selling 6 million and 9 million cars respectively. Thus, this cash-burning Musk vanity project is worth *vastly* less than its roughly \$60 billion enterprise value and—thanks to its roughly \$31 billion in debt and purchase obligations—may eventually be worth “zero.”

Elsewhere among our short positions...

We continue (since late 2012) to hold a short position in the Japanese yen via the Proshares UltraShort Yen ETF (ticker: YCS) as Japan [continues to print roughly 5% of its monetary base per year](#) after [nearly quadrupling that base since early 2013](#). In fact, of the world's three largest central banks (the Fed, ECB and BOJ), the BOJ is now [the only one not on a path to tightening](#). One result of this insane policy (in 2018 the BOJ bought approximately 67% of JGB issuance and in 2019 anticipates buying 70%!) is there are [days](#) when no 10-year JGBs trade in the cash market! The [BOJ's balance sheet](#) is now [larger than the entire Japanese economy](#)-- it owns approximately 44% of all government debt and over 75% (!) of the country's ETFs by market value:

Just the interest on Japan's debt consumes 8.9% of its [2019 budget](#) despite the fact that it pays a blended rate of less than 1%. What happens when Japan gets the 2% inflation it's looking for and those rates average, say, 3%? Interest on the debt *alone* would consume nearly 27% of the budget and Japan would have to default! But on the way to that 3% rate the BOJ will try to cap those rates by printing increasingly larger amounts of money to buy more of that debt, thereby sending the yen into its death spiral.

When we first entered this position USD/JPY was around 79; it's currently in the high 108s and long-term I think it's headed a *lot* higher—ultimately back to the 250s of the 1980s or perhaps even the 300s of the '70s before a default and reset occur.

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We continue to hold a short position in the [Vanguard Total International Bond ETF](#) (ticker: BNDX), comprised of dollar-hedged non-US investment grade debt (over 80% government) with a ridiculously low “SEC yield” of 0.94% at an average effective maturity of 9.3 years. As I’ve written since putting on this position in July 2016, I believe this ETF is a great way to short what may be the biggest asset bubble in history, as with Eurozone inflation now printing 1.6% annually these are long-term bonds with significantly *negative* real yields. In mid-December the ECB halted quantitative easing, thereby removing the biggest source of support for those bonds’ bubble prices. Currently the net borrow cost for BNDX provides us with a *positive rebate* of approximately 1.6% a year (more than covering the yield we pay out) and as I see around 5% potential downside to this position (vs. our basis, plus the cost of carry) vs. at *least* 20% (unlevered) upside, I think it’s a terrific place to sit and wait for the inevitable denouement.

And now for the fund’s long positions...

We continue to own [Westell Technologies Inc. \(WSTL\)](#), a telecom equipment maker (primarily small-cell repeaters that should benefit from the looming wave of 5G cellular deployment) that’s in turnaround mode. This company has a 43% gross margin and is roughly cash-flow break-even with over \$1.80/share in cash (and no debt) vs. our \$1.97/share average acquisition cost. **In fact, we bought Westell at an enterprise value of less than 0.07x (i.e. 7% of) revenue!** The “hair” on the company is a long-term decline in revenue (which should halt with the looming 5G deployment), a cash pile that could potentially be squandered on dumb acquisitions (a risk with *all* cash-rich companies) and—perhaps most annoyingly—a dual share class, with voting control held by descendants of the founder. However, the company is *so* cheap on an EV-to-revenue basis that if management can’t start generating meaningful profits it seems primed for a strategic buyer to acquire it. An acquisition price of 1x revenue (on an EV basis) would be around \$4.70/share.

We continue to own [Aerohive Networks \(HIVE\)](#), a cash-flow positive maker of enterprise level wi-fi equipment with a 65% gross margin and a massive amount of net cash on the balance sheet (over \$1.30/share of our \$3.28/share purchase price), for which we paid just a hair over 1x annual gross profit (on an EV basis). Aerohive is a “busted IPO” from 2014, abandoned by the market due to a disappointing lack of revenue growth, but at the price we paid the high-margin revenue is so cheap that—as with many of our long positions—it makes an attractive target for a strategic buyer if the company is unable to grow itself. An acquisition price at an EV of just 1.5x revenue (reasonable for a 65% gross margin company with 29% subscription revenue) would be around \$5.60/share. By way of comparison, Brocade bought Ruckus Networks, Aerohive’s most direct competitor, for around 2.5x revenue in 2016, and although at that time Ruckus was still in “growth mode,” it was earnings & cash-flow negative.

We continue to own [Greenlight Capital Re., Ltd. \(GLRE\)](#), a reinsurance company with a portfolio that mimics the holdings of David Einhorn’s [Greenlight Capital](#) but sells at massive discounts to book value. (I did reduce the position in mid-January after the S&P 500 had rocketed straight up off its December 26th low.) In theory this company could be liquidated tomorrow for approximately 40% more than its January closing price, based on its estimated per-share book values in the \$14s. It’s also a bet on a “comeback” by

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Einhorn, a truly great long-short value investor who (like me!) had his performance crushed by the recent stock bubble. So there are two ways to win here: the gap between the market value and the book value of the company can close and/or its manager's performance can bounce back and its book value will increase (which in itself would undoubtedly be a catalyst to eliminate the discount). (I sold our position in the similar [Third Point Reinsurance Ltd.](#) [TPRE] due to the same market run-up that caused me to cut back on GLRE, as TPRE's discount-to-book was significantly smaller than GLRE's.)

We continue to own the [PowerShares DB Agriculture ETF](#) (ticker: DBA), which I first bought late in 2017 because agricultural products were the most beaten-down sector I could find (the "[DBIQ Diversified Agriculture Index](#)" on which DBA is based is at its lowest level since 2002) that wasn't a "buggy whip" (something on the way to obsolescence) or cyclical from a *demand* standpoint. In November I added to the position, anticipating a bounce following a favorable outcome from U.S. – China trade talks, and I remain confident that a U.S. ag-favorable deal will occur during the current 90-day negotiating period, as Trump is very conscious of the fact that farm states constitute a significant part of his political base and isn't shy about demonstrating that on Twitter:



We continue to own [Aviat Networks, Inc.](#) (ticker: AVNW), a designer and manufacturer of point-to-point microwave systems for telecom companies, which in November [reported](#) a weak Q1 for FY 2019, with revenue up 7.7% year-over-year but, as was pointed out to me by one of our eagle-eyed LPs, that was entirely due to a new GAAP-mandated change in revenue recognition practices from ASC 605 to ASC 606; under the old standard revenue would have been *down* by 11%. Nevertheless, for FY 2019 the company guided to \$255 million of revenue and non-GAAP EBITDA of at least \$12.5 million, and because of its approximately \$332 million of U.S. NOLs, \$10 million of U.S. tax credit carryforwards, \$214 million in foreign NOLs and \$4 million of foreign tax credit carryforwards, Aviat's income will be tax-free for many years; thus, GAAP EBITDA less capex essentially equals "earnings." So if the non-GAAP number will be \$12.5 million and we take out \$1.7 million in stock comp and \$6 million in capex we get \$4.8 million in earnings multiplied by, say, 16 = approximately \$77 million; if we then add in at least \$30 million of expected year-end net cash and divide by 5.43 million shares we get an earning-based valuation of just under \$20/share. However, the real play here is as a buyout candidate; Aviat's closest pure-play competitor, Ceragon (CRNT) sells at an EV of approximately 0.9x revenue, which for AVNW (based on 2019 guidance) would be around \$230 million. If we value Aviat's massive NOLs at a modest \$10 million (due

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to change-in-control diminution in their value), the company would be worth \$240 million divided by 5.43 million shares = around \$44/share.

Thanks and regards,

A handwritten signature in black ink, appearing to read "Mark Spiegel". The signature is written in a cursive, slightly slanted style.

Mark Spiegel