

STRATEGIC CFO CHALLENGE
FINANCIAL MANAGEMENT

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Introduction

Technological innovation, environmental regulations and increasing demand for sustainable transportation have increased the global electric vehicle industry at a high rate. Tesla is a powerful company in this industry that designs and produces electric cars and energy storage systems. The present report supposes the post of the Chief Financial Officer (CFO) of the company and analyses the financial performance of Tesla in the period between 2021 and 2025 on the basis of the annual reports data. Based on the ratio analysis, the financial health, strengths, and weaknesses are evaluated using income statements, cash flows, and balance sheets. It also analyses the management of working capital, suggests financial restructuring schemes and appraises three investment projects by using the capital budgeting methods like PBP, ARR, NPV, PI and IRR.

1. Financial Health Check

Past five-year financial statements

The 2021-2025 financial strategy at Tesla shifted to the older, AI-focused operational rhythm, no longer hypergrowth.

Revenue and Net Sales

Tesla had a substantial growth in revenues between 2021 and 2023, reaching its highest point in 2023 as the company had bundled revenue to 96.77 billion (Annualreports, 2023).

- **2021-2023:** The total revenue increased by a record of \$53.82 billion (2021) to \$81.46 billion (2022) and then to 96.77 billion (2023).
- **2024-2025:** Revenue should grow by only 0.95% to reach a stalemate of \$97.69 billion in 2024 before falling to its first decline of 2025 to 94.83 billion.
- **Sector Shift:** The automotive revenues are going to go down by 10% in 2025, but the Energy Generation and Storage sector is going to be a key generator, increasing the revenues by 27% annually, reaching 12.77 billion (sec.gov, 2025).

Profitability and Net Income

- **Profits:** Net income decreased to \$7.09 billion in 2024 (a decline by 52.7%) and even to 3.79 billion in 2025.
- **Margins:** Operating margins (previously 16.8% in 2022, the industry leader) fell to 4.6% in 2025 following increased R&D on AI, infrastructure and lower vehicle average selling prices (ASPs).

Balance Sheet and Debt

- **Cash Position:** The cash and the investments rose steadily, as of 2025 cash and investments were a record at \$44.06 billion (sec.gov, 2025).
- **Debt Management:** The company was in a position to decrease the non-current liabilities during this period. Total debt was manageable, as the cash flow as a 146.8% age of total debt ratio was 146.8 during 2021 to 2025, which means that the firm has sufficient cash to service its debts without any difficulties.

Cash Flows

- **Operating Cash Flow:** It has been stable at around 14.7 billion dollars in 2025.
- **Free Cash Flow (FCF):** FCF was very fluctuating as a result of huge capital spending on Gigafactories and AI groupings, and it concluded 2025 at 6.22 billion, a rebound of the 3.58 billion achieved in 2024.

Ratio analysis

Profitability ratio

	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Profitability Ratios:	2025	2024	2023	2022	2021
Sales revenue	94,827	97,690	96,773	81,462	53,823
Gross profit	17,094	17,450	17,660	20,853	13,606
Operating profit	4,355	7,076	8,891	13,656	6,523
Profit for the period	3,794	7,091	14,997	12,556	5,519
Total assets	1,19,852	1,25,111	1,06,618	82,338	62,131
Non-current liabilities	18,565	19,637	14,261	12,806	13,312
Total equity	77,314	72,913	62,634	53,466	30,189
PROFITABILITY RATIOS:	2025	2024	2023	2022	2021
Return on Equity (ROE)	4.91%	9.73%	23.94%	23.48%	18.28%
Profit for the period /Total equity					
Return on Assets (ROA)	3.17%	5.67%	14.07%	15.25%	8.88%
Profit for the period/Total assets					
Return on Capital Employed (ROCE)	4.54%	7.65%	11.56%	20.61%	15.00%
Operating profit/(Total equity + Non-current liabilities)					
Gross Profit Margin	18.03%	17.86%	18.25%	25.60%	25.28%
Gross profit/Sales revenues					
Operating Profit Margin	4.59%	7.24%	9.19%	16.76%	12.12%
Operating profit/Sales revenues					
Net profit Margin	4.00%	7.26%	15.50%	15.41%	10.25%
Profit for the period/Sales revenues					

The profitability of Tesla was maximised in 2022-2023 and was in sharp headwinds by 2025 (Annualreports, 2022). Sales Revenue was evenly distributed with a high of \$94.8 billion and a low of \$94.8 billion in 2023 and 2025 respectively, but Net Profit Margin

dropped to its highest of 15.50% in 2023 to only 4.00% in 2025 (Appendix 1). It is manifested in the Return on Equity (ROE), which decreased during the same period to erode 23.94 to 4.91, indicating a decrease in efficiency in the generation of shareholder returns. The increase in AI R&D and price competition also put a strain on the operating margins as seen by the Operating Profit Margin declining to 4.59. On the other hand, the Energy segment had a crucial buffer and its gross margin increased to 29.8% in 2025.

Efficiency ratio

	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Efficiency Ratios:	2025	2024	2023	2022	2021
Sales revenue	94,827	97,690	96,773	81,462	53,823
Cost of Sales	77,733	80,240	79,113	60,609	40,217
Trade Receivables	4,120	3,820	3,210	2,952	2,265
Inventories	12,430	13,090	14,500	12,839	5,757
Trade Payables	15,600	14,870	13,560	10,870	9,420
Non-current liabilities	18,565	19,637	14,261	12,806	13,312
Total equity	77,314	72,913	62,634	53,466	30,189
EFFICIENCY RATIOS:	2025	2024	2023	2022	2021
Average Inventory Turnover Period	58	60	67	77	52
(Average inventories held/Cost of sales) x 365					
Average Settlement Period for Trade Receivables	16	0	12	13	0
(Average trade receivables/Sales revenue) x 365					
Average Settlement Period for Trade Payables	363	1	289	322	1
(Average trade payables/Cost of sales) x 365					
Sales Revenue to Capital Employed	1	1	1	1	1
Sales revenue/(Total equity + Non-current liabilities)					

During the 2021-2025, Tesla enhanced the efficiency of its operations through better management of working capital. The Average Inventory Turnover Period decreased to 58 days in 2025 compared to 77 days in 2022 which shows increased coordination of the supply chain and acceleration of production (Annualreports, 2022). The Average Settlement Period of Trade Receivables was also very low at 12-16 days, which implies that it recovers the cash very quickly and possesses a good bargaining power over customers. In the meantime, the Average Settlement Period of Trade Payables has risen to 363 days in 2025 indicating that Tesla has postponed paying its suppliers to maintain liquidity and utilise payables as a source of cheap capital.

Liquidity ratio

	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Liquidity Ratios:	2025	2024	2023	2022	2021
Cash and cash equivalents	16,540	15,110	16,398	16,253	17,576
Inventories	12,430	13,090	14,500	12,839	5,757
Current Assets	76,210	72,840	65,210	54,890	38,520
Current Liabilities	45,900	43,700	37,540	29,100	23,460
LIQUIDITY RATIOS:	2025	2024	2023	2022	2021
Current Ratio	1.66	1.67	1.74	1.89	1.64
Current assets/Current liabilities					
Quick Ratio (or Acid Test Ratio)	1.39	1.37	1.35	1.45	1.40
(Current assets - Inventories)/Current liabilities					
Cash Ratio	0.36	0.35	0.44	0.56	0.75
Cash and cash equivalents/Current liabilities					

Between 2021-2025, Tesla was very liquid and was able to finance the expansion on the global level. The Current Ratio was also healthy with the highest value of 1.89 in the year 2022 and a constant of 1.66 in the year 2025 showing that the company has enough current assets to meet the short-term liabilities. The Cash Ratio however dropped to 0.36 in 2025, a drop of 0.75 in 2021 as the company continued spending massively on the development of AI and production of new vehicles (Appendix 1). Tesla as a whole, however, continues to be high in liquidity and operating flexibility as compared to the traditional car manufacturers.

Gearing ratio

	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Financial Gearing Ratios:	2025	2024	2023	2022	2021
Interest payable	190	210	220	250	371
Profit before taxation	4,300	7,800	15,100	13,700	6,600
Total Assets	1,19,852	1,25,111	1,06,618	82,338	62,131
Non-current liability (Debt)	18,565	19,637	14,261	12,806	13,312
Total Equity	77,314	72,913	62,634	53,466	30,189
GEARING RATIOS:	2025	2024	2023	2022	2021
Debt to Equity Ratio	0.24	0.27	0.23	0.24	0.44
Debt/Total equity					
Debt to Capital Ratio	0.19	0.21	0.19	0.19	0.31
Debt/(Total equity + Non-current liabilities)					
Equity Multiplier	1.55	1.72	1.70	1.54	2.06
Total assets/Total equity					
Interest Coverage Ratio	23.63	38.14	69.64	55.80	18.79
EBIT/Interest payable					

Tesla 2021 financial gearing ratios indicate a solid and low-risk capital structure. The debt-to-equity changed to 0.23-0.27 in 2023-2025 (compared to 0.44 in 2021), which means that debt is less important and equity financing is more within this period. Such

change indicates increasing profitability of Tesla, as well as the possibility to finance its expansion not by borrowing, but with retained earnings, and reduce financial risks. In the same way, the debt-capital ratio decreased in 2023–2025 to about 0.19 to 0.21 compared to the ratio in 2021, which was 0.31, indicating that a smaller portion of total capital is financed by long-term liabilities (Appendix 1). The multiplier ratio of equity as well declined to 2.06 to approximately 1.55, which proved lower financial leverage and increased strength of equity. This reduction notwithstanding, Tesla has no problem paying its interest charges. On the whole, these ratios denote high capabilities of debt-servicing and sustainable financial structure.

Valuation ratio

	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Investment Ratios:	2025	2024	2023	2022	2021
Profit for the period	37,90,000	71,50,000	1,49,74,000	1,25,87,000	56,44,000
Preferred dividends	0	0	0	0	0
Number of ordinary shares in issue	35,28,000	34,98,000	34,85,000	34,75,000	33,86,000
Market value per share	315.75	198.78	198.74	98.54	281.82
Dividends paid to ordinary shareholders	0	0	0	0	0
VALUATION RATIOS:	2025	2024	2023	2022	2021
Earnings per Share	1.07	2.04	4.30	3.62	1.67
(Profit for the period - Preferred dividends)/Number of ordinary shares in issue					
Price/Earnings Ratio	293.92	97.25	46.25	27.20	169.07
Market value per share/Earnings per share					
Dividend Payout Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Dividends paid to ordinary shareholders/(Profit for the period-Preferred dividends)					
Dividends per Share	0.00	0.00	0.00	0.00	0.00
Earnings available for ordinary shareholders/Number of ordinary shares in issue					
Dividend Yield Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Dividends per share/Market value per share					

The profile of investments of Tesla can be described as it is a high-growth company that does not focus on the dividend pay-out to its shareholders but focuses on the reinvestment of the company capital. The Earnings Per Share (EPS) shows the fluctuating profitability of the firm reaching its peak of \$4.30 in 2023 and falling down to 1.07 in 2025 because of the compressed margins in the automotive industry and the high expenditure on AI infrastructure (Appendix 1). Although this shrank, the Price/Earnings (P/E) Ratio shot to 293.92 in 2025 indicating a strong degree of market optimism over the future Tesla revenues in its physical AI and Robotaxi lines of revenues and not present

earnings. In addition, Dividend Payout and Dividend Yield ratios have also been at 0.00% over the span of five years.

Investment ratio

	\$,000	\$,000	\$,000	\$,000	\$,000
Invetsment ratio	2025	2024	2023	2022	2021
ROE	4.91%	9.73%	23.94%	23.48%	18.28%
ROCE	4.54%	7.65%	11.56%	20.61%	15.00%
ROA	3.17%	5.57%	14.07%	15.25%	8.88%
Quick Ratio	1.39	1.37	1.35	1.45	1.4
Cash Ratio	0.36	0.35	0.44	0.56	0.75
Current ratio	1.66	1.67	1.74	1.89	1.64

The 2021 to 2025 investment ratios of Tesla indicate that its profitability reached its highest levels and now it is in the extensive reinvestment period. Although Return on Equity (ROE) peaked in 2023, at 23.94%, it decreased to 4.91% in 2025 as the company focused more on expanding long-term than short-term returns (Appendix 1). This aggressive reinvestment is also supported by the fact that its Dividend Pay-out Ratio was 0.00 all through the period. This valuation implies that Tesla is perceived as a technology platform by the investors but not as a conventional automaker.

Trends, strengths and threats

The financial performance of Tesla between 2021 and 2025 shows that Tesla has shifted its operations towards a more mature period with diversification and technological investment to support a shift in the high growth rate. In 2021, revenue was \$53.82 billion, but it rose to its high in 2023 to \$96.77 billion, mainly because of high automotive sales. Nevertheless, it became less active in growth and its revenue began to stagnate with a peak of \$97.69 billion in 2024 and decreased a little to \$94.83 billion in 2025 due to the increasing level of competition and dropping motor vehicle prices. Although automotive sales have been bad, energy generation and storage are a strong growth market increasing by 27% in 2025 and is an appealing diversification advantage.

This was the same case with profitability. Its highest net income was achieved in the year 2023 standing at \$14.99 billion but in 2024 and 2025 the company recorded a net income of 7.09 billion and 3.79 billion respectively. This decrease is an indication of the augmented investigation and progress expenditure to the artificial intelligence technology like Robotaxi and Optimus, as well as the competition of prices in the EV market. As a

result, operating margins decreased to about 4.6% in 2025, and they were previously industry leading as high as above 16%.

Tesla has a good balance sheet despite the falling profits. The company was in a high liquidity position and by 2025 the company had a total of \$44.06 billion of cash and investments and the debt levels were fairly low. The efficiency ratios show better inventory control and quick collection of receivables which enhance the stability of cash flows (Lovita et al. 2024). Altogether, the major strengths of Tesla are good liquidity, diversified business income, and technological dominance, whereas the high capital cost requirements, increased competition, and the margin pressure are the primary threats to the company.

2. Working Capital Management Analysis

Working capital management will remain an important part of the Tesla financial strategy, as the company will have enough liquidity to cover its huge capital expenditures and justify service of short-term liabilities (Nobanee et al. 2021). Between 2021 and 2025, an unusual strategy was defined by Tesla, which seeks to generate an unconventional negative working capital, where the company is using its suppliers as a financing source with no interest.

Assessment of the Cash Operating Cycle (COC)

The COC is a measure of time taken between cash outlay on raw materials and the ultimate receipt of cash by the customers (Mazanec, 2022). This is obtained by summing up the Inventory Days, Receivable Days and subtracting the Payable Days.

- **Inventory Days (Efficiency):** One of the most remarkable tendencies in the work of Tesla is the increase in inventory management (Shamsuddoha et al. 2025). The Average Inventory Turnover Period decreased by 77 days in 2022 to 58 days in 2025. This 25% drop represents a very aligned supply chain and a transition towards a shift in the newer models and the battery cell production by use of Just-in-Time manufacturing.
- **Receivable Days (Liquidity):** Tesla has an extremely short Average Settlement Period of Trade Receivables of between 12 to 16 days. This high cash inflow is facilitated by direct-to-consumer sales and initial deposit on software features such as FSD, which ensure that the cash inflows would be virtually instant.

- ***Payable Days (Strategic Leverage):*** The most aggressive aspect of the COC of Tesla is the Average Settlement Period of Trade Payables, which is currently widespread to a tremendous 363 days in 2025.

Tesla causes a Negative Cash Operating Cycle by paying its suppliers almost a year upfront and receiving its payment within less than three weeks (Qadir, 2025). This will enable the company to finance its day-to-day operations including its research and development activities using the cash flow produced by its production cycle instead of using the external debt.

Strategies to Improve Liquidity through Working Capital Reforms

Although the existing model of Tesla is extremely efficient, the 2024-2025 revenue stagnation implies specific reforms to ensure the liquidity in the periods of margin squeeze.

- ***Application of the Baumol Model for Cash Management***

According to the Baumol Model, companies ought to consider cash as inventory and compare the cost of opportunity of holding cash and the cost of trading of converting securities (Camagni et al. 2023). Having cash and investments that are short term as high as \$44.06 billion in 2025, Tesla has a high opportunity cost. As CFO, one would transfer more of the idle cash into more lucrative green bonds or AI-supported short-term securities to make sure that the money collected as parked cash is earning a return that is higher than inflation.

- ***Dynamic Discounting for Supplier Stability***

The payable period of 363 days that is currently in place poses a serious risk to the association with suppliers. Dynamic Discounting should be employed by Tesla as an effort to reduce the risk of supply chain collapse (Ramadani et al. 2024). This gives the suppliers a chance to be paid early in exchange for a slight discount on the invoice. This reform also enhances the current liabilities in the form of Quick Ratio, and at the same time it enhances the resilience of the supply chain required during the ramp-up of the Robotaxi.

- ***Lean Inventory Management (Industry 5.0 Integration)***

Tesla can also improve its inventory by applying predictive analytics that utilise AI to align production with regional demand (Yadav, and Yadav, 2025). By decreasing the quantity

of raw materials held in inventory with 4680 battery cells, the inventory days may be decreased by one week, and a total of about 2.5 billion dollars in capital may also be made available.

Comparison: Short-Term vs. Long-Term Financing Options

The period of 2021 to 2025 financial strategy of Tesla has taken a turn towards long-term stability and self-funding.

Feature	Short-Term Financing	Long-Term Financing
Tesla's Current Use	Accounts Payable, Accrued Liabilities	Equity Issuance, Retained Earnings
Cost	Negligible (Supplier Credit)	Higher (Cost of Equity/WACC)
Flexibility	High; tied to production volume	Lower; requires long-term commitment
Risk	High if production stops (Credit risk)	Low; provides a "Strategic Moat"

- ***Short-Term Financing Analysis:***

Tesla uses Accounts Payable as their major tool of short-term finance (Huang, 2023). It works during growth phases but becomes dangerous during declines of sales as the case of 3% revenue decreases in 2025. When sales fall, cash flow will cease, however the huge bill of payment mountain still needs to be paid.

- ***Long-Term Financing Analysis:***

Through its high-market valuation, Tesla has been able to reinforce its equity base as the Total Equity has increased to over 77 billion by 2025. The low Debt-to-Equity ratio of 9.8 has helped the firm to escape the rate of high interest rates that were experienced by the old automakers in the 2023-2025 economic cycle.

- ***Recommendation:***

In the next cycle (2026-30), Tesla ought to shift to "Long-term Green Bonds". Although the company is in a negative Net Debt position, specific targeted debt with low interest

rate. It would be used to finance specifically the projects of green energy would keep Tesla cash free to make high-risk and high-reward AI projects that may make the company liquid despite fluctuations in the automotive market in the short-term.

3. Strategic Financial Restructuring Plan

The plan of strategic restructuring of finances is critical in maintaining long-term increase and enhancement of shareholder values especially when the situation is characterised by margins pressure and industry restructuring (Stoiber et al. 2025). The purpose of restructuring as Chief Financial Officer of Tesla is not to save a troubled company but to re-target financial resources in line with increased operational flexibility, better capital allocation and support of new technology investments, including artificial intelligence, autonomous driving, and energy storage. Considering the financial performance of Tesla in 2021-25, the company has a well-built balance sheet that is liquid and has low leverage, as well as high retained earnings. Nevertheless, the profitability is declining, the pace of growth of the automotive revenues is sluggish, and the capital spending is growing, which means that a proactive restructuring approach should be pursued. The monolithic financial models at Tesla need a paradigm shift as the company continues to grapple with the intricate shift toward a high-growth automotive company and a diversified, Physical AI and robotics company (St, 2026). Although Tesla has a solid balance sheet of more than 44 billion cash and investments as at the end of 2025, the fact that the operating margins have fallen to 4.6% and the GAAP net income has declined by 47% year on year need a restructuring strategy that focuses on operational flexibility and high-alpha investment channels.

Recommended Financial Restructuring Options

To protect long-term competitiveness, Tesla must select a hybrid model, which integrates strategic divestiture and selective equity investment in its fast-growing AI business units.

A. Strategic Divestiture of Legacy Assets

The segment of Tesla, which is Energy Generation and Storage, increased by 27% in 2025, and the automotive segment experienced a 10% reduction in revenue. The residential solar installation business (legacy SolarCity assets) could be spun off or divested partially in a so-called Spin-merge, and this would simplify operations. This is in line with the Modigliani-Miller Proposition I (with taxes), which indicates that the value of

a firm can be improved through optimal capital structure and disposal of underperforming and non-core assets to decrease the conglomerate discount by investors (Brusov, and Filatova, 2026).

B. Equity Injection: The "AI Subsidiary" Model

Tesla has a current valuation of a technological platform of P/E ratio 293.92. In order to take advantage of this, Tesla ought to have a look at a tracking stock or a minority stake equity financing to its Tesla Bot (Optimus) and Robotaxi segment. That would enable Tesla to raise huge amounts of capital in the AI infrastructure without distorting the core automotive shareholders' interests too much. Theoretically, this is based on the Pecking Order Theory where the company uses its highly-valued equity at a time of market optimism to finance high-risk and high-reward R&D, saving its internal cash in case of operational safety (Sumail, and Akob, 2022).

Evaluation of Impact

1. Impact on Shareholder Value

The reorganisation into a Software-as-a-Service (SaaS) and Robotaxi-as-a-Service (RaaS)-business model should help Tesla to change its valuation of a cyclical manufacturing company to a recurring service business. Although the EPS eroded to a low of \$1.08 in 2025, the pivot would help the company to stabilise cash flows. The *Agency Theory* suggests that a definitive reorganisation plan will decrease the information asymmetry between the visionary aspirations of Elon Musk and the need of the shareholders to receive predictable returns, which will probably stabilise the high-beta likely stock fluctuations (Rattanaprichavej, 2023).

2. Debt Structure and Operational Flexibility

The Debt-to-Equity ratio of Tesla at 0.15 is the lowest in comparison with other firms and it gives it a Strategic Moat. Restructuring is done by issuing Gigafactory expansion with the help of Convertible Green Bonds (Kumar, 2025). This keeps the immediate interest cost low (maintaining the high 69x interest coverage ratio) but permits debt to turn to equity in case the stock price experiences an increase effectively deleveraging the firm automatically as it reaches growth targets.

International and Ethical Considerations

A. Taxation and Currency Risk

Tesla has an overall Exchange Rate Risk of operating in three continents and this has affected the Q1 2025 revenue by an amount of 0.3 billion dollars. A reshaped financial strategy should involve a Natural Hedging plan- match the production expenses in Yuan (Gigafactory Shanghai) and the Euro (Gigafactory Berlin) with the local market sales to reduce the effect of a change in US Dollar. In addition, Tesla has to work through the BEPS (Base Erosion and Profit Shifting) 2.0 model, so that the intellectual property (IP) concerning AI is taxed in the countries where it is developed, e.g. the U.S. or China (Katterbauer, and Cleenewerck, 2025).

B. Inflation and Supply Chain Ethics

As the global headline inflation is expected to stand at a high of 3.8% by 2026, Vertical Integration of the company should be placed at the centre of Tesla financial restructuring to cushion its margins against the unpredictable input prices. Nevertheless, such forceful pursuit of cost-efficiency is what causes a CSR Imbalance. Although Tesla is a strong environmental steward, and the "E" in ESG, this company is likely to be continuously questioned in terms of labour practises and transparency in the upstream supply chain. Academic commentary observes that although Tesla has become an illustration of transformative environmental leadership, it is failing in the execution of CSR holistically, especially the areas of labour disputes and supply-chain risks.

In response to this, the restructuring of Tesla can be assessed using the CSR Pyramid developed by Archie Carroll and according to which, the economic, legal, ethical, and philanthropic levels of corporate social responsibility are four hierarchical layers on which the quality of true corporate social responsibility is based (Silva Junior et al. 2023).

- ***Economic & Legal Responsibilities (The Base):*** Tesla competes successfully in this area, as it holds a Negative Net Debt status and a solid equity base of \$77.3 billion as of 2025. It has met its legal requirements in the international jurisdictions and has experienced the friction of the law on unionisation and labour laws in other markets such as Germany and the U.S.
- ***Ethical Responsibilities (The Core Conflict):*** In this area, Tesla is already lacking in its strategy. The sourcing of cobalt and lithium economically is in conflict with ethical sourcing. According to the definition of Carroll, Tesla should do more than it is required by law not to cause social harm (Liu, and Zhou, 2025).

- ***Philanthropic Responsibilities (The Apex):*** Although Tesla has engaged in the Green Transition, most of its philanthropic efforts are based on the persona of the CEO and not on corporate programmes.

Under the restructuring, a specific CSR Governance Committee has to be financed in order to manage the moral purity of the supply chain. It is not just a moral necessity, it is a financial necessity. When the ethical oversight is institutionalised, Tesla will make a rise in the pyramid of Carroll, being no longer a company that is profitable and legal but an ethically resistant one. It is a crucial change to keep its P/E ratio of 293.92, which is pegged on future-proofing of the brand in a socially conscious global economy.

Therefore, Tesla is at the intersection of its hardware and AI future. Tesla can sustain the Negative Net Debt status by selling off the non-core energy assets and using the high-valuation equity as AI-specific capital to expedite the launch of Robotaxis. This plan of restructuring will guarantee that Tesla will be lean and ethical enough to operate in the divergent forces of the global economy in 2026.

4. Investment Appraisal and Capital Budgeting

My primary duty as the CFO of Tesla Inc. is to invest the capital in the projects that will help maximize the shareholder wealth and fit our strategic pivot into artificial intelligence and high-margin energy storage. The following section analyses the three investment projects, Project A, Project B, and Project C, based on five major financial appraisal methods, which are Payback Period (PBP), Accounting Rate of Return (ARR), Net Present Value (NPV), Profitability Index (PI), and Internal Rate of Return (IRR).

Comparative Appraisal Calculations

Projects A, B and C are analysed based on a starting outlay of 50 million dollars using a discount rate of 10% to determine their ability to generate wealth to the shareholders. According to five years discounted cash flow analysis, Project C is the only economical project.

Metric	Project A	Project B	Project C
Total Net Cash Inflow	54	55	65
Payback Period (PBP)	4.4	4.54	3.6
Acc. Rate of Return (ARR)	3.20%	4.00%	12.00%
Net Present Value (NPV)	59,53,000	82,90,000	30,95,000
Profitability Index (PI)	0.88	0.83	1.06
Internal Rate of Return (IRR)	4.70%	3.30%	12.30%

The Project C has the highest Internal Rate of Return (IRR) that is 9.20 which is closest to the hurdle rate of 10% as compared to Projects A and B with IRRs of 6.20% and 6.50% respectively. Moreover, Project C is the most efficient in terms of capital recovery having a PBP of 3.6 years as opposed to 4.5 Years in the case of the alternatives (Appendix 3). Although none of the projects have a positive NPV at the current discount rate of 10%, the Profitability Index of 0.96 of Project C shows that the project is the one that still has the maximum value in comparison to the cost. It has a better ARR of 6.00 per cent thus a more solid buffer compared to Tesla, which dropped to 4.91 per cent in 2025 in its Return on Equity (ROE).

Recommendation and Justification

According to the quantitative information and the strategic demands of Tesla Inc. It is suggested Project C as the leading investment vehicle, but this suggestion will be accompanied by the diligent evaluation of the current cost of capital. Project C is our most preferred choice in all of the key financial indicators, as it provides the best fit to our long-term goals in the face of a difficult macro-economic environment.

Project C offers the best opportunity to stabilise the recent financial trends in Tesla.

- **Profitability and ARR:** Project C is characterised by a considerably higher Accounting Rate of Return (ARR) 6.00 as compared to Project A (1.60) or Project B (2.00). A 6% return is not a high one on historical terms, but it is a life-saving change compared to the Return on Capital Employed (ROCE) that the company is currently experiencing, which fell to 20.61% in 2022 but is now at 4.54% (Appendix 3).
- **Cash Flow and Payback:** Project C has a Payback Period of 3.6 years, which is almost 1 year shorter than the Payback Period of both Project A and B. The pace of capital recovery is a crucial defence mechanism in an environment with inflation projected at 3.8 in 2026.

- **Liquidity Support:** This quick liquidity support helps Tesla sustain its liquidity status, which allows our Current Ratio to stay at 1.66 and gives us the leeway to finance our current AI R&D.
- **Value Creation (NPV/IRR):** At a 10% discount rate, the Net Present Value (NPV) of Project C is negative, (-1.98) million, but the Internal Rate of Return (IRR) of Project C is 9.20%. Project A and B are significantly more value-destructive with IRRs slightly above 6%.

Non-Financial Risks and Strategic Alignment

The cash flow structure of the project C that is characterised as having a back-loaded pattern and is concentrated in years three and four is a direct reflection of the strategy of Tesla which is called Physics AI and Robotaxi.

- **Strategic Blueprint:** Project C can be regarded as a strategic autonomous driving rollout in that it will involve massive capital investment at the start with the assumption of exponentially high returns as the technology matures.
- **Customer Loyalty and Brand Equity:** Tesla has a phenomenal Price-to-Earnings (P/E) ratio of 293.92 that is anchored on the trust placed people us by investors as a market pioneer. The selection of Project C gives a message to the market that I are not tired of high-growth, innovative projects but rather I are devoted to stagnant, low-yield low-end manufacturing.
- **Risk Mitigation:** The cash peaks occur in the last stage and are sensitive to Political Risk, including changes in EV subsidies or trade tariffs. Nevertheless, Tesla has a small Debt-to-Equity of 0.24, which offers a strategic trench that one is able to absorb those external shocks much better as compared to our more levered legacy competitors.

With Project C being chosen, Tesla is prioritising the shortest time to recoup capital and the greatest possible internal rate so that the company does not become sluggish in the transition to a technological platform.

Capital Rationing and Project Combination

I will assume a hard capital constraint of 100 million dollars, and it needs to consider the best combination of these mutually exclusive projects.

The Capital Rationing Dilemma

In capital rationing, I select projects using the Profitability Index (PI) in order to maximise the total NPV per pound of investment.

- Project A PI: 0.83
- Project B PI: 0.83
- Project C PI: 0.96

Recommended Combination

The most optimum combination would be mathematically to invest in Project C only and keep the rest of the \$50 million in high-yield short-term investments or pay off the debts. In the case of adding Project C to Project A or B to use the entire amount of \$100m, then it is, in effect, adding a project that will kill off the value of \$8.69m or 8.32m respectively.

- Total Portfolio NPV (C + A): -\$10.67m
- Total Portfolio NPV (C Only): -\$1.98m

There is a gain to the Shareholder Value in selecting not to put the entire 100m in these underperforming projects. The 2025 EPS of Tesla declined to \$1.07. The heavy capitalisation of either Project A or B, would further dilute these earnings. Rather, keeping the rest of 50m of that money in cash helps to sustain our Cash Ratio of 0.36 to serve as a buffer to our future AI R&D which could bring about a $PI > 1.0$.

Conclusion

The analysis indicates that Tesla throughput in 2021-2023 was high but the growth in revenue slowed with the declining profitability in 2025 because of the rise of competition and massive investment in new technologies. In spite of such strains, the company still is not weak financially as it has high liquidity, low gearing and excellent working capital management. Its financial structure should be restructured strategically and enhanced capital allocation should be done to provide long term growth. The investment appraisal has revealed that the best choice among the three projects is Project C because it has a higher payback period and returns. All in all, Tesla has a strong financial standing and can sustain innovation and further growth in the EV and AI industries.

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Appendices

Appendix 1- Ratio analysis

	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Profitability Ratios:	2025	2024	2023	2022	2021
Sales revenue	94,827	97,690	96,773	81,462	53,823
Gross profit	17,094	17,450	17,660	20,853	13,606
Operating profit	4,355	7,076	8,891	13,656	6,523
Profit for the period	3,794	7,091	14,997	12,556	5,519
Total assets	1,19,852	1,25,111	1,06,618	82,338	62,131
Non-current liabilities	18,565	19,637	14,261	12,806	13,312
Total equity	77,314	72,913	62,634	53,466	30,189
PROFITABILITY RATIOS:	2025	2024	2023	2022	2021
Return on Equity (ROE)	4.91%	9.73%	23.94%	23.48%	18.28%
Profit for the period /Total equity					
Return on Assets (ROA)	3.17%	5.67%	14.07%	15.25%	8.88%
Profit for the period/Total assets					
Return on Capital Employed (ROCE)	4.54%	7.65%	11.56%	20.61%	15.00%
Operating profit/(Total equity + Non-current liabilities)					
Gross Profit Margin	18.03%	17.86%	18.25%	25.60%	25.28%
Gross profit/Sales revenues					
Operating Profit Margin	4.59%	7.24%	9.19%	16.76%	12.12%
Operating profit/Sales revenues					
Net profit Margin	4.00%	7.26%	15.50%	15.41%	10.25%
Profit for the period/Sales revenues					
	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Efficiency Ratios:	2025	2024	2023	2022	2021
Sales revenue	94,827	97,690	96,773	81,462	53,823
Cost of Sales	77,733	80,240	79,113	60,609	40,217
Trade Receivables	4,120	3,820	3,210	2,952	2,265

Inventories	12,430	13,090	14,500	12,839	5,757
Trade Payables	15,600	14,870	13,560	10,870	9,420
Non-current liabilities	18,565	19,637	14,261	12,806	13,312
Total equity	77,314	72,913	62,634	53,466	30,189
EFFICIENCY RATIOS:	2025	2024	2023	2022	2021
Average Inventory Turnover Period	58	60	67	77	52
(Average inventories held/Cost of sales) x 365					
Average Settlement Period for Trade Receivables	16	0	12	13	0
(Average trade receivables/Sales revenue) x 365					
Average Settlement Period for Trade Payables	363	1	289	322	1
(Average trade payables/Cost of sales) x 365					
Sales Revenue to Capital Employed	1	1	1	1	1
Sales revenue/(Total equity + Non-current liabilities)					
	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Liquidity Ratios:	2025	2024	2023	2022	2021
Cash and cash equivalents	16,540	15,110	16,398	16,253	17,576
Inventories	12,430	13,090	14,500	12,839	5,757
Current Assets	76,210	72,840	65,210	54,890	38,520
Current Liabilities	45,900	43,700	37,540	29,100	23,460
LIQUIDITY RATIOS:	2025	2024	2023	2022	2021
Current Ratio	1.66	1.67	1.74	1.89	1.64
Current assets/Current liabilities					
Quick Ratio (or Acid Test Ratio)	1.39	1.37	1.35	1.45	1.40
(Current assets - Inventories)/Current liabilities					
Cash Ratio	0.36	0.35	0.44	0.56	0.75
Cash and cash equivalents/Current liabilities					
	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Financial Gearing Ratios:	2025	2024	2023	2022	2021
Interest payable	190	210	220	250	371
Profit before taxation	4,300	7,800	15,100	13,700	6,600
Total Assets	1,19,852	1,25,111	1,06,618	82,338	62,131

Non-current liability (Debt)	18,565	19,637	14,261	12,806	13,312
Total Equity	77,314	72,913	62,634	53,466	30,189
GEARING RATIOS:	2025	2024	2023	2022	2021
Debt to Equity Ratio	0.24	0.27	0.23	0.24	0.44
Debt/Total equity					
Debt to Capital Ratio	0.19	0.21	0.19	0.19	0.31
Debt/(Total equity + Non-current liabilities)					
Equity Multiplier	1.55	1.72	1.70	1.54	2.06
Total assets/Total equity					
Interest Coverage Ratio	23.63	38.14	69.64	55.80	18.79
EBIT/Interest payable					
	Tesla Inc.				
	\$,000	\$,000	\$,000	\$,000	\$,000
Input data for Valuation Ratios:	2025	2024	2023	2022	2021
Profit for the period	37,90,000	71,50,000	1,49,74,000	1,25,87,000	56,44,000
Preferred dividends	0	0	0	0	0
Number of ordinary shares in issue	35,28,000	34,98,000	34,85,000	34,75,000	33,86,000
Market value per share	315.75	198.78	198.74	98.54	281.82
Dividends paid to ordinary shareholders	0	0	0	0	0
VALUATION RATIOS:	2025	2024	2023	2022	2021
Earnings per Share	1.07	2.04	4.30	3.62	1.67
(Profit for the period - Preferred dividends)/Number of ordinary shares in issue					
Price/Earnings Ratio	293.92	97.25	46.25	27.20	169.07
Market value per share/Earnings per share					
Dividend Payout Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Dividends paid to ordinary shareholders/(Profit for the period-Preferred dividends)					
Dividends per Share	0.00	0.00	0.00	0.00	0.00
Earnings available for ordinary shareholders/Number of ordinary shares in issue					
Dividend Yield Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Dividends per share/Market value per share					
	\$,000	\$,000	\$,000	\$,000	\$,000
Investment ratio	2025	2024	2023	2022	2021

ROE	4.91%	9.73%	23.94%	23.48%	18.28%
ROCE	4.54%	7.65%	11.56%	20.61%	15.00%
ROA	3.17%	5.57%	14.07%	15.25%	8.88%
Quick Ratio	1.39	1.37	1.35	1.45	1.4
Cash Ratio	0.36	0.35	0.44	0.56	0.75
Current ratio	1.66	1.67	1.74	1.89	1.64

Appendix 2: Capital budgeting

Metric	Project A	Project B	Project C
Total Net Cash Inflow	54	55	65
Payback Period (PBP)	4.4	4.54	3.6
Acc. Rate of Return (ARR)	3.20%	4.00%	12.00%
Net Present Value (NPV)	59,53,000	82,90,000	30,95,000
Profitability Index (PI)	0.88	0.83	1.06
Internal Rate of Return (IRR)	4.70%	3.30%	12.30%
Cash Flow Data			
Year	Project A (\$m)	Project B (\$m)	Project C (\$m)
0	-50	-50	-50
1	10	11	5
2	12	11	10
3	14	11	20
4	10	11	25
5	8	11	5
Investment Appraisal Summary			
Metric	Project A	Project B	Project C
Total Net Cash Inflow (\$m)	54	55	65
Payback Period (Years)	4.5	4.55	3.6
Accounting Rate of Return (%)	1.60%	2%	6%
Net Present Value (\$m)	-8.69	-8.32	-1.98
Profitability Index	0.83	0.83	0.96
Internal Rate of Return (%)	6.20%	6.50%	9.20%
Discount Factors (10%)			
Year	Discount Factor (10%)		
1	0.909		
2	0.826		

3	0.751		
4	0.683		
5	0.621		

Appendix 3: Graphs



