

Tesla shares plunge 11% despite record deliveries

By Breana Noble
(excerpt)

Tesla Inc. lost \$408 million in the second quarter of 2019, worse than Wall Street expectations, despite record deliveries.

Stocks of the Silicon Valley electric-vehicle company fell 11% in after-hours trading on the news.

Tesla on Wednesday said in a letter to shareholders the loss was on revenue of \$6.3 billion, a 59% increase year-over-year. Although Tesla delivered a record 95,356 vehicles in April, May and June after it launched the Model 3 sedan in China and Europe in the first quarter, its older, pricier models S and X are showing their age. That's leading to tighter profit-margins, and puts into question the sustainability of its business strategy.

Tesla CEO Elon Musk, however, said Wednesday the greater opportunity is in the Model 3 sedan and Model Y compact-crossover, which is expected to be introduced in fall 2020 with a larger profit-margin than the Model 3.

"There's probably too much focus on X and S," Musk said. The X and S are "great products but from a volume standpoint, they're not all that important in the long term."

Musk said the company likely will about break-even in the third quarter as it focuses on delivering more cars, expanding capacity and generating cash. It maintained its guidance for the year to deliver 360,000 to 400,000 vehicles. But just to hit the low end of the

spectrum, the automaker will have to push out 200,000 vehicles in the second half of the year.

Deliveries for the Model S luxury sedan and Model X sports utility vehicle dropped 21% year-over-year in the second quarter. Neither has seen a major refresh since the Model S debuted in 2012 and the Model X in 2015. That leaves them behind the Model 3 with slower-charging and less-efficient batteries. ...

... The S and X models sell for about double the cost of the Model 3. That sticker-tag gap is growing as Tesla dropped the starting price of the Model 3 earlier this month to \$38,990, after a decrease in a federal tax cut that has defrayed the costs of its electric cars. Meanwhile, the company removed the standard versions of the S and X and hiked their prices. The cheapest version of the Model S is \$79,990.

"We find the price hike very peculiar, as these particular Models are due for a refresh as opposed to the 'minor ongoing changes' that Elon has communicated to investors," David Kudla, chief investment strategist at Mainstay Capital Management, said ahead of earnings.

Musk emphasized the company has made improvements to the Model X and S, including new drivetrains, upgraded suspensions and software updates. Since their launches, however, neither has undergone a major revamp in battery technology, interior upgrades or sheet-metal styling. ...

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