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Tesla debuts \$35,000 Model 3, sees loss in first quarter

By Alexandria Sage
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SAN FRANCISCO (Reuters) - Tesla Inc said on Thursday it would not be profitable in the first quarter, as it offered for the first time a \$35,000 version of its Model 3 sedan and said its global sales would now be online-only, steps designed to increase demand and cut overhead costs for the electric vehicle maker.

Chief Executive Elon Musk's warning on profit during a conference call with members of the media, which did not include Reuters, contrasted with Tesla's statements last month that it was expecting a "very small" net profit in the first quarter.

Shares of Tesla fell 3.4 percent after hours. Investors have voiced concerns about whether Tesla would be able to maintain profit margins through cost cutting - such as recent layoffs - as it reduces prices of its newest vehicle.

Still, the price drop could quell concerns from some analysts that demand for the higher-priced versions of the Model 3 was beginning to dry up in the United States, especially after a federal tax credit was cut in half this year. ...

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A \$35,000 Model 3 is a major shot in the arm for Tesla sales during a period of major challenges, including deliveries of the Model 3 to Europe and China and construction of a factory in Shanghai.

Musk declined to answer a question on what the profit margins of the \$35,000 vehicle would be, according to the New York Times. Gross margins on the car were above 20 percent in the fourth quarter.

"The margin on the vehicle obviously is going to be very small if there's any margin there at all," said David Kudla, CEO of Mainstay Capital Management, which has a short position in Tesla. ...

... On Friday, Tesla is due to repay a \$920 million convertible bond. Convertible issues give bondholders the right to trade their debt for equity after shares rise over a certain price. Tesla shares are currently about \$40 below the \$359.87 conversion price.

Tesla had \$3.7 billion in cash and cash equivalents at the end of December.