

Tesla turns surprise profit of \$143M

Revenue fell for 1st time since the Model S debuted in 2012

By Breana Noble
(excerpt)

Tesla Inc. turned a surprise profit in the third quarter of 2019, even as the Silicon Valley electric-vehicle company's revenue fell for the first time since 2012 when the Model S sedan began production.

Investors reacted positively. The automaker's stock rose nearly 20% in post-market trading Wednesday night. Shares were down 24% year to date at close.

In an update to shareholders, Tesla said it posted net income of \$143 million in July, August and September, a 41% decline from last year on \$6.3 billion in revenue, an 8% decline. The vast majority of the cars Tesla is selling are Model 3 sedans, which start at less than half the cost of the lowest-priced Model S luxury car or Model X SUV. But its vehicle gross margins rose to nearly 23% as its operating expenses fell.

"Quarter three was obviously a strong quarter with record deliveries," CEO Elon Musk said on a conference call. "We made great strides in controlling costs and shifted back to profitability while generating strong cash flow."

The company reaffirmed it is "highly confident" in exceeding 360,000 deliveries in 2019. It delivered a record more than 97,000 vehicle to customers in the third quarter, but it fell short of its six-digit target. To meet its year-long guidance, it would need to deliver 105,000 vehicles in the final three months of the year.

Tesla, however, this month began trial production at its new \$2 billion assembly plant in Shanghai. In April, the automaker said it aims to produce 1,000 vehicles per week in China by the end of the year. But the plant comes online as new electric vehicle sales in the world's largest market have fallen year-over-year over the past three months after the country decreased subsidies in June.

"Tesla believes it will begin production of its Model 3 in Shanghai this month, but the timing could not be worse given the broad weakness in China's auto market," noted David Kudla, chief investment strategist for Mainstay Capital Management LLC, in a statement ahead of the earnings release.

Musk also confirmed a second building at the Shanghai "Gigafactory 3" site will be used to build batteries and modules. The company will announce the site for a European plant before the end of the year, Musk added. ...

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