**MEDIA: Television**

**STATION: YFI**

**MARKET: National**

**DATE: 2023-11-16**

**TIME: 3:21 PM ET**

**PROGRAM: Yahoo! Finance Live**

**SUBJECT: Emmanuel Rosner - Goodyear**

**PAGE COUNT: 5**

**JULIE HYMAN, YAHOO:**

Well, there's another stock that we're watching today and that is Goodyear Tire. The shares are extending gains after yesterday it announced a transformation plan that included reducing debt, cutting costs, and the sale of three of its business assets. The company, also announcing its current CEO, Richard Kramer, will retire next year. A search is underway for his replacement. Kramer calling the transformation plan a, “clear path to create a more profitable and focused Goodyear.” And one analyst is seeing major upside from these changes here with more is Emmanuel Rosner, he is Deutsche Bank Lead Auto Tech Analyst. Emmanuel, thank you so much for joining us. So you're looking at these changes as positive for Goodyear. Well, let's be honest here, the tire business is not a glamorous business. What are we going to see as the sort of levers that are going to be most important in that plan and what you heard yesterday?

**EMMANUEL ROSNER, DEUTSCHE BANK:**

Sure thing, thanks for having me. I would say look, Goodyear has been essentially underperforming dramatically even compared to what you described as sort of like a challenging tire business. The margins have been below peers, there's been a tremendous amount of execution issues. What we're basically seeing now is a major turnaround plan with about 1.3 billion dollars of cost being taken out globally. We're also seeing some non-core businesses being divested with 2 billion dollars of potential proceeds. And most critically, perhaps, we're seeing a change in management with a new CEO coming on board and essentially giving more confidence to us and probably to the market that this plan will actually be executed and that there's all this upside. And so you essentially have- it's a very, very idiosyncratic story. It's not about making a call on the tire of the broader economy. It's essentially an under earning, under performing asset, an underperforming stock, which is not a transformative moment where it gets essentially through self-help, you know, improve earnings dramatically, delever the balance sheet and essentially unlock some shareholder value.

**JOSH LIPTON, YAHOO:**

And Emmanuel, when you talk about these potential divestitures here, so the chemical units, the Dunlop brand, the off-the-road equipment tire business, what are those assets worth Emmanuel?

**ROSNER:**

So when you sort of look at what they're divesting, it's probably about 2 billion thousand revenues, a very, very profitable business, about 300 million dollars of earnings or so 400 million of EBITDA. So that's a very meaningful margin. Even if you applied a very conservative five times EBITDA multiple on this, this would probably be worse than at least 2 billion dollars of proceeds in terms of what they would be able to sell it for. This is what the Goodyear was committed to yesterday as part of the plan. Frankly, when you sort of look at the quality of these businesses and the margin profile, it could easily be higher than five times and that would provide some additional upside to these proceeds, therefore to deleveraging and to the equity value creation.

**HYMAN:**

Emmanuel, of course, you don't only cover tire companies, you cover the auto space more broadly. And I want to ask you about Tesla in particular, because I know that you had some investor meetings just a couple of days ago and you came out with a note where you talk about that. Tesla, as you point out, has said things are slowing down a little bit. What is that going to translate to in terms of stock action for Tesla? Is it going to kind of muddle along here for a bit?

**ROSNER:**

So as you mentioned, we were looking to host Tesla as part of our Deutsche Bank Auto Tech Conference last week and they were incredibly candid about this, essentially saying, “Yes, we are in between two high growth periods.” The last five years was high growth based on Model 3 and Model Y. This is mostly maxed out or reaching full potential on the global basis. The next big growth spurt will come from the next generation vehicle, which is probably a little while away, although they wouldn't quantify exactly when this will come. Right now we're somewhere in the middle and that essentially means relatively lower growth. What it essentially means is I think there's downside risk to investor expectations for volume. Next year, the street is calling for about 2.2, 2.3 million units of Tesla vehicles being delivered. We're closer to 2.1. There may even be a potential downside to 2 million units by the time Tesla guides in early 2024. The other, you know, basically, corollary is that there may be somewhat less operating leverage as a result, right? If you don't have much volume growth, you're not going to have that much earnings growth. So I think it's important for investors to understand that we're in this low growth period for Tesla probably for the next couple of years until the next generation vehicle comes out. What happens to the stock will essentially depend on what happens to the multiple. If investors are patient and want to wait for this next generation vehicle, which will be cheaper, could sell in the millions of vehicles, then the multiple will stay high and the stock could still continue to be OK. If people figure out, “OK, look, this is too far out to wait, this may not happen until 2026. Right now there's no earnings.” There's also limited amounts for the next couple of years. There could be some pressure on what is effectively a very high multiple. And that would be then downside risk in the near term, you know, to the Tesla stock. Although again, we think the longer term story is really compelling.

**HYMAN:**

Emmanuel, it's interesting that you're talking about the next generation vehicle. As we're talking about the next generation of the Tesla, the core model, if you will. We're not talking about the Cybertruck and it leads me to ask, you know, I sort of understand what the Cybertruck is about from a coolness, from a tech perspective. What does it do for the company financially, if anything?

**ROSNER:**

So Tesla was actually very, very open about this. The fact that this is going to be an incredibly difficult ramp. These are all new technologies. This is going to be a loss making vehicle for them for at least the first 18 months being both negative from a profitability point of view, as well as generating negative free cash flow. That will be because it's going to be a slow, painful, expensive ramp. It's an expensive vehicle to produce. And obviously, there's a limit to how much they can essentially, you know, charge for it. So this will actually be negative for their cost and negative for their profitability probably through, you know, early 2025. And then the question is after that, how good of a job did they do at lowering the cost and maintaining sort of like a high price for this vehicle? But you're absolutely right. In terms of the longer term direction for Tesla, Cybertruck is largely not that important. This is almost like a side sort of pet project or side vehicle, which will fit a niche, sort of like a need of 250,000 units. The big, big game changer for Tesla is essentially the next generation or Model 2, or “Robo-Taxi”, however you want to call it. But this would be a much cheaper vehicle, $20,000 to produce, $25,000 starting price. And it would be something that could be sold globally, produced globally, and sold globally in the millions. That's the main big next earnings growth driver, but it's probably at least a couple of years out.

**LIPTON:**

And Emmanuel, I want to ask you to know Elon Musk was apparently at this banquet to welcome Xi Jinping. He was of course in San Francisco to meet with President Biden. When you think about China, how much of an opportunity Emmanuel is that for Tesla? Because of course, there's a ton of competition there, including the homegrown teams like BYD.

**ROSNER:**

Yeah. In the near term, it's a very limited opportunity for Tesla because Tesla is already operating at max capacity in Shanghai. They produce and sell about a million units a year, which is as much as this factory can actually produce. And so there's a very limited amount of growth. If there's any growth at all at Tesla over the next few years in terms of volume, it would not be from the Chinese factory. It would be from ramping up a little bit of the Austin and Berlin factories. So very limited. Obviously, longer term, by the time they come up with the new, the next generation, this is meant to be a global vehicle and obviously at the $20, $25,000 price point would fit very nicely in some of the most competitive markets like China. And so then China, once again, should be a critical part of their addressable market. But certainly not so much in the near term, and to your point, there's a lot of competition there. This is one of the areas where the pricing is the most challenging as a result. There's a lot of EVs on offer. And so this is not a big part of the near term growth for Tesla.

**HYMAN:**

Emmanuel, good to catch up with you as always. Thanks so much for joining us.

**ROSNER:**

Thanks for having me.