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**JULIE HYMAN, YAHOO:**

All right, it is time now for The Call of the Day, and we are talking again about Tesla. It is getting another bear or at least not as strong a bull on Wall Street, a long time Tesla bull downgrading the stock to “Hold” from “Buy”. Emmanuel Rosner, who is Deutsche Bank Lead U.S. Auto Analyst is joining us now on what was behind that change in perspective. Emmanuel, thank you so much for being here. And it seems like the change in perspective is relatively straightforward here. It's what looks like a pivot away or a de-emphasizing of the lower cost model Tesla, right?

**EMMANUEL ROSNER, DEUTSCHE BANK:**

That is correct, thanks for having me. So I believe that there is a strategic change going on at Tesla right now and this is essentially thesis changing. We've been, even though we've been “Buy” rated, we've been at the forefront of warning investors that near-term conditions are really, really challenging for Tesla, but that you shouldn't really care that much if you're longer-term investors because around the corner there's this Model 2, the cheaper model coming at a $25,000 price point which could really inflate things back up, volumes, margins, earnings, free cash flow. This would be really the game changer. Now based on multiple media reports, it very much seems like Tesla is no longer working on the Model , instead of splitting all its eggs in the Robotaxi basket. If that's the case, you have a much stronger challenge for much longer than anticipated. There is no turnaround on earnings of free cash flow anytime soon. That basically means that it is much more difficult to remain patient and positive.

**MILES UDLAND, YAHOO:**

Yeah, Emmanuel, I'm curious just is the challenge here in how long you would need to wait or the amount of uncertainty around this Robotaxi model ever coming through because Tesla has long been, you know, a story that investors have had to have a lot of hope in, but I'm wondering, are we testing the limits of that at this point?

**ROSNER:**

Yeah, so in our discussion with investors, I think people usually, especially long-term investors, they're excited about the concept of Robotaxi. It's a good business. It's something that has a potential to me, a meaningfully better business than making cars. It's recurring revenues, it's software revenues, great. The issue is what probability of success can you really attribute to it? What is the timeline for it? And so our sense is, as long as there was a core business, which is essentially the dominant EV Maker. And Robotaxis were an optionality on top of it. This was very exciting. This was essentially the crux of the bull thesis. You have a successful EV maker which could really become dominant and then look at what they're doing on the Robotaxi side. Now essentially what seems to be happening in terms of strategy is, “We're no longer focusing on making EVs. We're no longer focusing on making them affordable. We're betting the entire company on Robotaxi”. There's no new consumer model coming. As a result, the current business is essentially fading. It's melting. You are putting all your eggs in that Robotaxi basket. That is extremely risky. It is extremely risky for investors in terms of profile. It is also probably way past most people's investment and horizons in terms of monetizing it. So I guess the short answer is: it's both. It's much higher risk and it's also way too far out.

**HYMAN:**

Emmanuel, what do you think we're going to learn on August 8th at this Robotaxi event? Because to your point, there's not going to be an actual introduction on the product that is imminent, right? So what then does that event do for Tesla?

**ROSNER:**

It's a great question. My guess is because they've been working to a certain extent on Model 2 up until now, they will still be showing a product. It may actually very much look like a Model 2 just without a steering wheel. And so this would be the concept. And then maybe we'd also learn some sort of timeline around which Tesla could deploy a pilot program in some geography. So call it, I don't know, a hundred or a thousand of them that will be essentially pilot testing the Robotaxi business in one geography based on some agreement with the local authority. So I think we'll probably learn about, okay, what will be the first form factor of it? What could be a timeline for at least initial deployment? What we will not learn is, how long will it take to really have that in terms of mass production? What will be the cost of it? And really when could that really become a real business? I think these will probably remain open questions. And in our view, there's such large challenges operationally or from a regulatory point of view, or even from a technology point of view, which are probably the biggest challenges overall; that we're talking about multiple years out. And if this is the core business, as opposed to EV, being the core business, and this being sort of like the cherry on top, this is extremely worrisome.

**UDLAND:**

And Emmanuel, just in terms of Tesla's story overall, does this remind you of all of that ‘18, ‘19 period where we saw the stock come down? I think 50% something in that order. And there was sort of a reset in what the growth, what the path forward for the company would be at that point, they're coming off, you know, going private, not going private, et cetera, et cetera. And just how do you make sense of what is ultimately still a battleground stock, despite being, you know, what, 10th, 12 biggest companies in the S&P 500?

**ROSNER:**

Yeah. So look, I think that “a battleground stock” is probably still fair. I think investors are trying to figure out why there is this change in strategy? Is it good, is it bad? I think faster money generally is pretty negative, but longer term investors have generally stuck with it. Here is what really, truly worries us. In the end, the valuation of a stock is a function of earnings and a function of multiple. From an earnings point of view, if there's no Model 2 coming, the earnings you're seeing this year around like $2.00 of EPS or so, that is the best that it gets over the next probably five years, maybe even till the end of the decade. There is no inflection point. It will not get better. It's the same old lineup, which will just get less and less competitive. So more price pressure, more volume declines, they will not earn more than $2.00. So then you're like, “Okay, but is there a Robotaxi, you know, earnings coming on top?” We don't know, it could take years, it could take a lot of time to scale this up, to fix the technology and scale this up. So earnings probably are what it is. So the question is, what multiple do you pay on this? Well, if it was a traditional automaker, or even successful automakers, it wouldn't be anywhere near in the way the current multiple is. The reason we're downgrading to “hold”, applying still a punchy multiple is because of that Robotaxi optionality. So something has got to give more than likely earnings are not probably going to grow for the foreseeable future if Model 2 is gone. Robotax is what probably keeps that multiple high. It's hard to see how this would create value from the current stock price. So all in, still a lot of uncertainty, the reporting earnings next week, we’ll want to understand why this change in strategy? What are they seeing internally about Robotaxis that gets them excited? Maybe that's what sort of possibly, you know, keeps the stock where it is, but generally speaking, we very much worry that long-term investors who have been supportive of the stock will basically say, “Look, we loved the Robotaxi as long as this was optionality. Now that this is essentially the core business, this is a completely different risk profile and time horizon than what we had been investing in”, and started making their way for the exit.

**UDLAND:**

All right, Emmanuel Rosner with Deutsche Bank. Thanks so much for the time.

**ROSNER:**

Thanks for having me.