

# Tesla signals more price cuts despite margin damage

DANA HULL & SEAN O'KANE  
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**ELON MUSK INDICATED** Tesla will keep cutting prices to stoke demand even after markdowns early this year took a significant toll on profitability.

Tesla's operating margin shrank to 11.4% in the first quarter, a roughly two-year low, after the company marked down its electric vehicles in January and March.

Musk has done several more rounds of price cuts already this month and said he's comfortable making less money on each car sold.

"We've taken a view that pushing for high volumes and a larger fleet is the right choice here versus a lower volume and higher margin," the chief executive officer told analysts late Wednesday.

He and Chief Financial Officer Zachary Kirkhorn walked back an automotive margin forecast for the year and cautioned repeatedly that economic conditions are uncertain.

Tesla's discounts have been dramatic both in scale and time span — it's dropped the starting price of the Model Y by 29% in just over three



## OPERATING MARGIN SHRINKS TO 11.4%

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months. While Tesla remains the top seller of EVs and is in the rare position of manufacturing them profitably at scale, its growth has slowed dramati-

cally as borrowing costs rise and more automakers roll out competitive plug-in models.

Tesla's automotive gross margin

excluding sales of regulatory credits dipped to 19% for the quarter, below the 20% threshold Kirkhorn said three months ago the company expected to stay above this year.

Kirkhorn added that shrinking margin will only be cause for concern if it cuts into Tesla's ability to reinvest in future product.

"We have a lot of space before that becomes something we have to revisit," he said.

Tesla remains ahead of other automakers in return on sales: In 2022, General Motors reported an operating margin of 6.6%, while Ford Motor's was 4%.

Revenue rose 24% to \$23.33 billion in the first quarter, in line with analysts' average estimate of \$23.35 billion. Profit excluding some items fell to 85 cents a share, just shy of consensus for 86 cents, and free cash flow slumped to a two-year low of \$441 million.

Tesla reiterated that its output this year will meet previous guidance for a compound average growth of 50% over multiple years, saying it's on track to make at least 1.8 million vehicles this year. —BLOOMBERG