

AUTOMOTIVE

Tesla moves from automotive to energy with solar power acquisition offer

June 23, 2016



Tesla Model X

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U.S. electric automaker Tesla Motors is transitioning from an automotive brand to a more expansive sustainable energy brand.

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The brand has made an offer to acquire SolarCity, an energy provider that designs, finances and installs solar power systems. The vertical integration of clean energy runs contra to the strategy of other automotive brands and signals a different kind of market outlook for Tesla.

"The reason this happened is pretty simple and straightforward: SolarCity was unable to raise more money on its own, so it was going to go under unless it was acquired," said **Lauren Fix**, automotive expert, Lancaster, NY. "All the talk about 'synergies' is just a smokescreen."

"New York State gave a plant, fixtures and everything to SolarCity for free; all they had to do was supply components and hire local workers," she said. "Interestingly, the plant is still sitting idle, but New York State gave away tax payers dollars, gave away land, no taxes, no utilities and everything else."

"If the companies merge, there will be a \$5 billion total loss combined. That's why the stock fell dramatically last night."

New frontiers

On June 20, Tesla made an offer to acquire all outstanding SolarCity shares in exchange for Tesla common shares at a ratio of 0.122-0.131 shares of Tesla stock per SolarCity share. The ratio amounts to 21-30 percent more than the price of SolarCity shares at closing time.

Although Tesla is known primarily for its electric automobiles, it has extended beyond the sector in the past. In March 2015, Tesla debuted the Powerwall and Powerpack, which harness excess power from the grid and increased the capacity for solar consumption ([see story](#)).



Tesla Powerwall

Recognizing the sun as the most sustainable energy source available, Tesla's acquisition offer positions it as an energy solutions brand rather than simply an automaker. If the acquisition is complete, Tesla claims it will be the first company in the world offering end-to-end clean energy products.

Tesla notes that those interested in electric cars or Powerwall would naturally be interested in solar energy, and vice-versa. Tesla stores will also increase exposure to SolarCity products, benefiting both parties.

Although its high price tag initially led Tesla to present itself as a luxury brand, its continued innovations are taking it beyond the initial market.

The Tesla Model 3 is expected to reach the market in late 2017 with a \$35,000 price tag. The sales target of 500,000 a year is 10 times the production rate of the Model S, whose price tag is currently more than double the impending Model 3.



Tesla Model 3

Yet Tesla has rarely had a profitable quarter, and in the first quarter of 2016 it posted a loss of \$282 million. CEO Elon Musk has long maintained that an affordable, mass-market electric vehicle has been his goal, but the lowered price tag and increased manufacturing costs have generated skepticism.

Mr. Musk's reasoning is that by necessity - both economic and consumer demand - all vehicles will be electric, and all automakers will have to pour capital into that transition. By being first to the market, Tesla is taking the steps necessary today to ensure profitability tomorrow.

By extension, establishing a presence more generally in sustainable energy allows Tesla to establish a loyal consumer base before competitors emerge.

Despite Mr. Musk's confidence and mounting pressure for businesses and individuals alike to go green, shareholders were not pleased with news of the acquisition offers. As of press time, the brand's stock has dropped nearly 9 percent.



Tesla Model S

Stockholders who thought they were banking on eventual adaptation of electric vehicles - a sentiment that fewer and fewer are able to deny each day - were likely less pleased at the prospect of more broad-based sustainable energy, particularly as conversations about alternative energy sources are marginal at best.

Automotive shuffle

Despite the vertical integration and entrance into the mass market, Tesla is maintaining its roots in luxury, perhaps hoping to turn influential consumers into loyal clientele.

Tesla is innovating the traditional dealership format through a retail placement at a Nordstrom store in Los Angeles. The first of its kind Tesla Gallery at Nordstrom The Grove showcases the brand's Model X SUV in a 400-square-meter boutique within the store's menswear department. With its debut timed for Father's Day weekend, the space is designed as a venue for low-pressure exploration of Tesla rather than a direct point-of-sale ([see story](#)).

Tesla plans to venture into more Nordstrom's throughout the country, an unusual outlet for those tied to the automotive sector. In addition to keeping ties to the luxury industry, mall and retail placement could provide a better outlet for Tesla to show off and sell its non-automotive merchandise.

While Tesla is venturing outside automobiles, competitors are finding ways to adapt to the sector's future beyond the demand for electric vehicles.

German automaker BMW is extending its commitment to mobility with the new ReachNow brand.

ReachNow, launched in Seattle on April 12, is the American counterpart to the growing European "DriveNow" brand, offering on-demand mobility to metropolitan dwellers. Supplementing its traditional model with a move into the mobility sector will help BMW remain a major player in the automotive industry among a larger group of consumers ([see story](#)).

"The Tesla conference call this morning is amazing: 'High school physics' is all it takes to figure out why factories are so inefficient," Ms. Fix said. "'Why is the assembly line moving so slow? Why not just have an assembly line that moves 100 times faster, such as 10 yards per second?"

"'Why is there so much air inside the factory? Why not fill up the empty air with concurrent assembly lines, somewhere between the floor and the ceiling? That would mean that you could add at least four or so assembly lines in the same space. Maybe 10.'"

"And it doesn't take any cash to do this? The future is not as bright as Elon Musk is presenting to us."