

## Tesla Inc. (TSLA): Implications from shareholder meeting and likely higher tariffs

In this note we frame implications from recent events, including: 1) Tesla's 2024 shareholder meeting on 6/13, where proposals to re-approve Elon Musk's 2018 performance award and to reincorporate in Texas both passed; 2) The US government announced in May 2024 that it will likely increase tariffs on vehicles and lithium-ion batteries made in China, and on June 12th the EU announced an increase in tariffs starting from July 5th for EVs made in China. Specifically:

### 1) Shareholder event reduces near-term key person risk

At Tesla's 2024 shareholder meeting on 6/13, proposals to re-approve Elon Musk's 2018 performance award and to reincorporate in Texas both passed. Elon Musk had previously suggested he was uncomfortable growing Tesla to be a leader in AI & robotics without ~25% voting control per [comments on X](#) and in [Tesla's filings](#), and the 2018 performance award would increase his ownership stake to ~21% from 13%.

**We believe this vote will help to reduce key person risk in the near-term, which is consistent with the move in shares on 6/13/24** (TSLA shares were up 3% vs. the S&P 500 flat). Moreover, we believe investors will expect key AI-related projects to be a focus at Tesla, and these are an important part of Tesla's valuation multiple (as detailed in our [11/13/23](#) report). However, the pay plan is still subject to review in a Delaware court.

To further contextualize key person risk, we show stock reactions around news from other key CEOs on announcements related to retirement plans or departures in Exhibits 1-4.

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**Exhibit 1: Stock performance around Steve Jobs' second leave of absence**

1/18/2011	Day after Steve Jobs 2nd leave of absence announcement	30 days after	1 year after
Apple	(2.2%)	5.2%	26.0%
HP	2.3%	18.5%	17.4%
Dell	0.4%	8.8%	16.2%
Microsoft	1.3%	(5.1%)	(1.5%)

Source: FactSet

**Exhibit 2: Stock performance following Steve Jobs' retirement announcement**

8/24/2011	Day after Steve Jobs retirement announcement	30 days after	1 year after
Apple	0.7%	7.5%	76.1%
HP	0.9%	(14.8%)	(10.2%)
Dell	0.0%	(1.9%)	(23.4%)
Microsoft	0.7%	0.6%	21.5%

Source: FactSet

**Exhibit 3: Stock trading around former Ford CEO Alan Mulally's retirement announcement**

5/1/2014	Day after Alan Mulally retirement announcement	30 days after	1 Year after
Ford	(1.5%)	3.3%	(0.6%)
General Motors	1.2%	(0.9%)	1.5%
Stellantis	(0.7%)	(12.6%)	22.0%

Source: FactSet

**Exhibit 4: Stock trading around former Renault and Nissan CEO Carlos Ghosn**

11/19/2018	Day after Carlos Ghosn arrest	30 days after	1 Year after
Renault	(8.4%)	(7.7%)	(25.4%)
Nissan	(0.4%)	(8.4%)	(32.3%)
BMW	0.6%	(1.0%)	(0.9%)
Mercedes	(0.1%)	(6.4%)	(0.6%)

Source: FactSet

Other updates from the shareholder meeting included: 1) Tesla showed a slide implying 3 future new vehicles (we believe one is robotaxi given Tesla's past commentary); 2) Cybertruck production was 1.3k in a recent week (and could reach 2.5k per week by year-end per Tesla); 3) Elon Musk has approved volume production plans for Semi (we assume for 2026 deliveries per recent media reports); 4) Tesla expects its next inferencing chip for vehicles, Hardware 5 (and now called AI 5) to be ready in 18 months; 5) There are a few Optimus robots deployed in Tesla's factories, and Tesla could have at least 1k and maybe a few thousand in its factories by the end of next year; 6) Tesla continues to invest in the charging network, and could spend \$0.5 bn by year-end.

**2) Tariffs could pressure Tesla's margins**

On 5/14 the Biden administration proposed tariff increases under Section 301 on China-made EVs (to 102.5% from 27.5%, including the 2.5% tariff on all foreign made vehicles imported to the US), and on imported lithium-ion batteries for EVs and battery parts (to 25% from 7.5%, to take effect in 2024). Lithium ion batteries that aren't used for EVs (e.g. for battery storage) would also face an increase in tariffs to 25% in 2026.

Similarly, on 6/12 the European Union announced that it will increase tariffs on EVs imported from China starting 7/5/24 by an incremental 21% in general (on top of the existing 10% tariff), although rates could vary by OEM.

We believe these tariffs would likely impact Tesla especially its margins, as Tesla currently uses LFP batteries made in China for the Standard Range Model 3 in the US, it uses LFP batteries for Megapack, and it makes Model 3 vehicles for the EU in China. While Tesla could seek to adjust its procurement strategy, and the company announced on its website on 6/12/24 that it will likely raise Model 3 prices starting in July in Europe due to the tariff, we show scenarios for potential margin headwinds in the auto business prior to any offsets in Exhibit 5 and Exhibit 6. **Assuming both higher LFP battery import tariffs and tariffs on Model 3 shipments to the EU, we estimate this could**

**impact automotive non-GAAP gross margins by about 75 to 100 bps prior to any offsets, although we do expect Tesla to seek to mitigate this.**

**Exhibit 5: We estimate that the proposed increase on lithium ion battery imports to the US could have a mid-single digit to mid-teens bp impact on Tesla's automotive gross margin, without assuming offsets**

% of US Model 3 deliveries that are Standard Range	Incremental auto gross margin impact (bps) from tariff increase to 25% on LFP EV batteries in US
25%	5
35%	8
45%	10
55%	12
65%	14
75%	16

Source: Company data, Goldman Sachs Global Investment Research, Office of the US Trade Representative

**Exhibit 6: The potential impact (bp) on Tesla's automotive gross margin from higher tariffs on China EV exports into the EU, without assuming offsets**

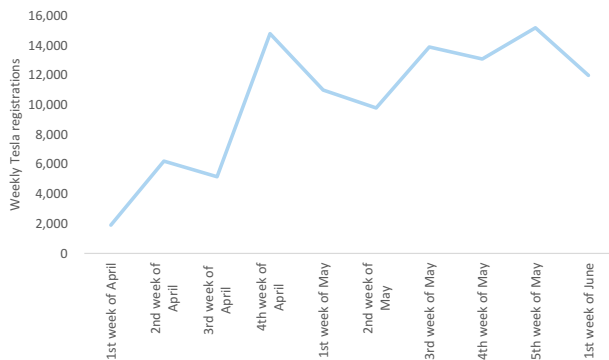
Incremental auto gross margin impact (bps) from higher EU tariffs on EVs imported from China							
Incremental tariff	Quarterly EU Model 3 imports						
	10,000	13,000	16,000	19,000	22,000	25,000	28,000
5%	12	16	20	23	27	31	34
10%	24	32	39	46	54	61	68
15%	37	48	59	70	81	92	103
21%	51	67	82	97	113	128	144
25%	61	79	98	116	134	153	171
30%	73	95	117	139	161	183	205
35%	85	111	137	162	188	214	239
38%	93	121	148	176	204	232	260

Source: Company data, Goldman Sachs Global Investment Research, European Commission

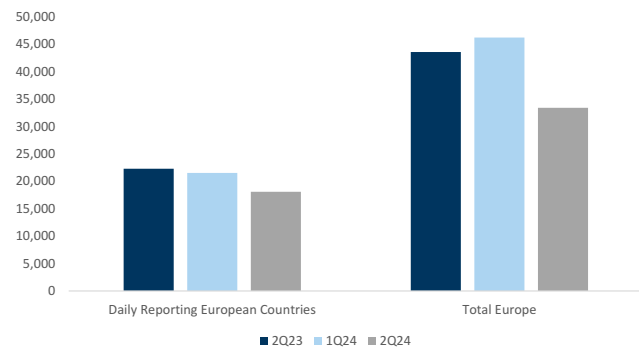
### What's next - market focus likely to shift to more fundamental factors

With the shareholder vote complete, we believe that investor focus will now shift to Tesla's 2Q financial results (including deliveries which we expect to be released in early July) and the robotaxi event on 8/8.

We believe incentives Tesla has utilized during 2Q, including at times 0%/low financing rates in key geographies, has helped vehicle delivery volumes to increase in May/early June compared to April (although we still believe 2Q24 deliveries will be down yoy). Weekly insurance data in China shows a pick up in May (in [Exhibit 7](#)) that we believe was aided by a zero dollar down or 0% financing offer in the region. However, demand in the European market has remained soft based on data through May for the region broadly (and for select countries in June month to date) as shown in [Exhibit 8](#). With the improvement in the China data, we now model 2Q24 global deliveries of 415K (from 400K prior), and we believe a range of 410-430K is reasonable to expect at this stage. Our estimate remains below Visible Alpha Consensus Data at 446k. For the full year, we now model 1.785 mn deliveries (-1% yoy), from 1.775 mn prior with 2Q upside partly offset by the impact of Model 3 tariffs in 2H24, and compared to Visible Alpha consensus at 1.80 mn.

**Exhibit 7: Tesla China weekly insurance registrations for 2Q QTD**

Source: CnEVPost, Goldman Sachs Global Investment Research

**Exhibit 8: Tesla deliveries in Europe quarter to date are tracking lower**

Daily reporting countries are: Denmark, Netherlands, Norway, Spain, Sweden, and the UK

Source: EU-EVs, Goldman Sachs Global Investment Research

While we modestly raised our volume assumption for 2Q24 and 2024 deliveries, we lower our 2024 EPS estimate to \$1.90 including SBC from \$2.00 prior on a lower automotive gross margin to reflect the added incentives. Our 2025/2026E EPS estimates including SBC remain \$3.20/\$4.45. Our estimates excluding SBC are now \$2.40/\$3.75/\$5.00 for 2024/2025/2026.

We maintain our Neutral rating on the stock, and our 12-month price target of \$175 (based on 50X Q5-Q8E EPS). While we continue to believe that Tesla is well positioned for longer-term growth given its strong position in the EV and clean energy markets (which we attribute to factors including its ability to offer full solutions such as charging, storage, software/FSD and services, and with a leading cost structure), we expect weaker market conditions to weigh on earnings in the near to intermediate term.

Key downside risks to our view relate to potentially larger vehicle price reductions than we expect, increased competition in EVs, slower EV demand, delays with products/capabilities like FSD/4680, key person risk, the internal control environment, margins, and operational risks associated with Tesla's high degree of vertical integration. Upside risks include faster EV adoption and/or share gain by Tesla, a stronger macroeconomic environment for new vehicle sales more generally, earlier new product launches than we expect, and an earlier/larger impact from AI enabled products (e.g., FSD, Optimus and robotaxis) than we currently anticipate.

TSLA	12m Price Target: <b>\$175.00</b>	Price: <b>\$182.47</b>	Downside: <b>4.1%</b>			
Neutral	GS Forecast					
	Market cap: \$635.7bn	12/23	12/24E	12/25E	12/26E	
	Enterprise value: \$622.9bn	Revenue (\$ mn) New	96,773.0	99,845.5	121,388.1	142,949.8
	3m ADTV: \$15.5bn	Revenue (\$ mn) Old	96,773.0	99,543.3	121,439.7	142,842.3
	United States	EBITDA (\$ mn)	16,633.0	16,279.1	23,677.6	31,297.1
	Americas Autos & Industrial Tech	EBIT (\$ mn)	8,891.0	7,509.7	12,410.4	17,845.4
	M&A Rank: 3	EPS (\$ New)	2.60	1.90	3.20	4.45
		EPS (\$ Old)	2.60	2.00	3.20	4.45
		P/E (X)	83.5	96.0	57.1	41.0
		Dividend yield (%)	0.0	0.0	0.0	0.0
		Net debt/EBITDA (X)	(0.9)	(0.8)	(0.9)	(1.1)
			3/24	6/24E	9/24E	12/24E
	EPS (\$)	0.34	0.40	0.55	0.60	

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 13 Jun 2024 close.

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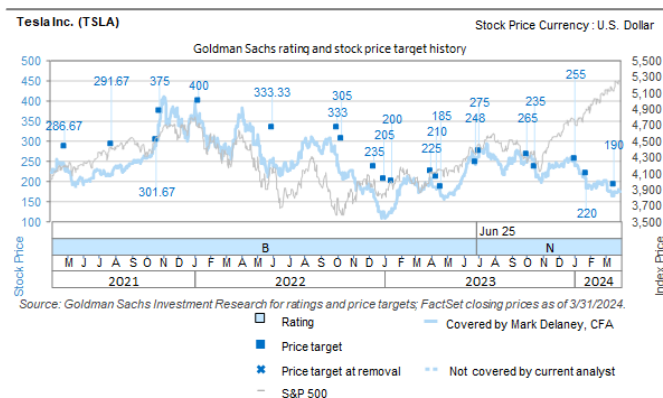
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