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ELON MUSK: SAVING THE FATE OF TESLA

Arpita Agnihotri and Saurabh Bhattacharya wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Tesla Inc. (Tesla), a company lauded worldwide, experienced a downturn in April 2018 on several metrics, including leadership rating and business outlook (see Exhibit 1). Although the chief executive officer (CEO) of Tesla, Elon R. Musk, had been acclaimed for his vision of revolutionizing the transportation industry globally and replacing public relations with his active involvement on social media, the first two quarters of 2018 were challenging both for Tesla and for Musk personally. Musk not only under-delivered on promises related to the production of the Model 3 vehicle but also raged at the media and insulted financial analysts during public calls, bringing into question his own goodwill and credibility.[[1]](#endnote-1) Industry experts, such as Peter Handal of Dale Carnegie & Associates, commented that Musk’s managerial moves were doing more harm than good.[[2]](#endnote-2) By April 2018, Tesla was spending US$6,500[[3]](#endnote-3) every minute and had had negative free cash flow over the past five quarters; as such, many predicted its bankruptcy (see Exhibit 2). However, Musk claimed that by the second half of 2018, Tesla would make a profit and the company would not need any additional capital until 2019.[[4]](#endnote-4) He announced several initiatives, such as launching semi-autonomous mini-trucks, relaunching the successful Tesla Roadster, and building the world’s largest Gigafactory[[5]](#endnote-5) for production and storage of the lithium-ion batteries required for Tesla’s electric vehicles. These projects maintained investors’ interest in Tesla, resulting in a high valuation of the company, despite its losses.

Some critics felt that Musk was a mere dreamer and a good narrator who knew the art of manipulating investors.[[6]](#endnote-6) By May 2018, short sellers, such as Mark Spiegel of Stanphyl Capital Management, were betting that Tesla was overvalued and would soon take a dive.[[7]](#endnote-7) Tesla met its revised production targets for June 2018; however, due to overall losses and bleak chances for profitability in the near future, even financial analysts, such as David Tamberrino of the Goldman Sachs Group Inc., claimed that Tesla was overvalued at $356 per share in July 2018; Tamberrino argued that the actual value of a Tesla share was $170.[[8]](#endnote-8) Musk replied that the short sellers would soon regret shorting Tesla. In August 2018, Musk announced that he was making Tesla a private company, for which funding had been secured. This increased Tesla’s share prices by 11 per cent, and as a result, short sellers cumulatively took a $1.3-billion mark-to-market loss.[[9]](#endnote-9) However, it soon became clear that no funding had been secured by Tesla. Consequently, some short sellers sued Musk under a class action lawsuit for the losses they had borne. Although Musk wanted Tesla privatized to avoid short-term return pressure from short sellers, some experts claimed that privatization at higher valuation could have helped Musk secure the funding he required to keep his business running.[[10]](#endnote-10) Other experts, such as Erik Gordon, clinical assistant professor at the University of Michigan, claimed that privatization of Tesla was a sign of poor leadership.[[11]](#endnote-11) Had Musk’s managerial actions done more harm than good? Was Musk’s narrative ability responsible for Tesla being overvalued? Should Tesla become a private company?

BACKGROUND of ELON MUSK

Musk was born and raised in Pretoria, South Africa. During his childhood Musk was considered a nerd, as he was always buried in books and computers. In 1998, he completed his education at the University of Pennsylvania. His first business venture was the searchable business directory Zip2, which he sold to Compaq for $307 million in 1999. In the same year, Musk co-founded X.com, a company that facilitated online payments; within two years, X.com merged with PayPal Holdings Inc. In 2001, Musk conceptualized a project called Mars Oasis, with the objective of growing plants on Mars. However, Musk found the price of rockets (about $8 million each) too expensive; thus, in 2002, he decided to launch his own rocket company, Space Exploration Technologies Corp. (SpaceX), with the objective of making Mars colonization a reality by 2022. After three failed launches and with resources remaining for just one more launch, SpaceX was successful in its fourth rocket launch. This launch cost a mere third of the costs incurred by any other agency launching rockets. Due to these significant savings, SpaceX secured a contract for $1.6 billion from NASA in December 2008.

Musk also envisioned saving the Earth by launching low-cost, environmentally friendly self-driving electric cars; thus, in 2003, Tesla Motors Inc.[[12]](#endnote-12) was founded. The first electric vehicle from the Tesla stable was the Roadster. Commercially launched in 2008, the Roadster was not very cost-efficient, at double its estimated price. Subsequently, the Model S, Model X, and Model 3 cars were launched by Tesla in 2012, 2015, and 2017, respectively. To enable his vision of an electric car for the low cost of $35,000, Musk announced the establishment of a Gigafactory plant in Nevada. This was expected to lower the cost of an electric car through innovation and economies of scale in the battery plant. Nevertheless, unlike SpaceX—which occasionally reported profits—Tesla had never reported any profits since its inception.[[13]](#endnote-13)

In 2006, Musk acquired SolarCity Corporation (SolarCity), an energy production and storage company, which eventually merged with Tesla in 2016. Musk also founded an infrastructure and tunnel construction company in 2016, which won a contract from Chicago’s O’Hare International Airport to build a rapid transit link to connect the airport with downtown Chicago. With this, the commute time was expected to shorten from 40 minutes to 12 minutes. The fare was expected to be $25—half of what an Uber Technologies Inc. ride or a cab ride would cost. In 2016, Musk also founded The Boring Company, which designed, planned, and constructed infrastructures and tunnels for mass transportation. Musk had managed several businesses simultaneously—electric cars (Tesla), rocket technology (SpaceX), and energy services (SolarCity)—and was regarded as a “parallel entrepreneur” and a real “Iron Man.”[[14]](#endnote-14)

MUSK THE multi-tasker

Musk’s ability to succeed in different fields, such as aerospace, energy, and software, and to form multi-million-dollar companies in those fields, was attributed to his hard work, ability to visualize the future, and incredible resilience.[[15]](#endnote-15) According to Michael Simmons, founder of Seminal and contributor to *Forbes* columns, Musk’s ability to be an expert in many different areas distinguished him from others.[[16]](#endnote-16) Orit Gadiesh, chairman of Bain & Company, coined the term “expert-generalist” to refer to those people who have “the ability and curiosity to master and collect expertise in many different disciplines, industries, skills, capabilities, countries, and topics,” further applying the learned expertise to their core specialty.[[17]](#endnote-17) During his childhood, Musk read two books per day ranging from science fiction to philosophy and business. This made Musk particularly adept at taking knowledge learned from one field and applying it in other fields. He would first decode what he had learned into fundamental principles, and then reconstruct these fundamental principles in new fields. In an interview, Musk stated that knowledge should be built as a semantic tree, where an individual should first become familiar with fundamentals, or the trunk and branches of the tree, before learning details, represented by the leaves of the tree.[[18]](#endnote-18) Larry Page, CEO of Alphabet Inc., referred to Musk as a model of achievement because of his competency in combining lessons from his different companies.

TESLA MOTORS

Musk founded Tesla with a vision of changing the world. He intended to replace fossil fuel-powered transportation with “clean” vehicles. Musk did not consider Tesla an automobile company but rather a vertically integrated energy company. He aimed to provide sustainable energy sources by selling a battery system that could power solar panels for house roofs, through which consumers could make their own clean energy to power their Tesla cars and store excess energy in Tesla-made batteries. In 2017, Musk dropped the word “Motors” from the firm’s name to emphasize the firm’s mission.[[19]](#endnote-19) With this intent, he acquired SolarCity and established in Nevada the world’s largest factory for the production and storage of lithium-ion batteries. By December 31, 2017, Tesla had 37,543 full-time employees.

Musk also envisioned self-driving cars, which would allow drivers to put their cars on “autopilot” mode. In November 2017, he announced the launch of electric trucks capable of travelling 300–500 kilometres (km) between charges, making them useful for regional shipments. Musk did not want Tesla to be a luxury brand like Ferrari; however, he did want Tesla vehicles to disrupt companies like Ford Motor Company (Ford) and General Motors Company (GM), compelling them to join the automobile transformation journey. He succeeded in this, as these companies began to work on electric- and autonomous-car projects.[[20]](#endnote-20)

Tesla’s first vehicle, the Tesla Roadster, was produced in 2008–2011 and priced at $92,000. The Roadster’s unique value was its ability to go from zero to 100 km per hour in four seconds. However, the car was much slower than Honda Motor Company Ltd.’s S2000 roadster, which was priced at $30,000.[[21]](#endnote-21) Musk himself admitted that the Tesla Roadster was a complete failure.[[22]](#endnote-22)

Musk claimed that Tesla’s competitive advantage would not be in cars but in its completely automated production lines. Musk was confident that Toyota Motor Corporation would learn lean manufacturing lessons from Tesla. However, lean manufacturing experts, such as Jeffrey Liker, professor emeritus of industrial and operations engineering at the University of Michigan, claimed that Tesla would burn billions of dollars in automation and would ultimately be unsuccessful because automated production had not worked in the past for other automobile companies.[[23]](#endnote-23) Tesla cars were still priced beyond the reach of many consumers. While Musk wanted the standard version of Tesla’s Model 3 priced at $35,000, in May 2018 the Model 3 was priced at $78,000.[[24]](#endnote-24) Musk claimed that to make the standard version of Model 3 available at $35,000, a weekly production of 5,000 cars of the premium version would need to be achieved.[[25]](#endnote-25)

Musk was unable to deliver cars at expected production schedules. For instance, the Model 3 had an expected annual production rate of 400,000 vehicles by the end of 2018; however, by April 2018, it had barely reached an annual production rate of 100,000.[[26]](#endnote-26) Musk acknowledged that the delay was a result of over-automating the production line. He accepted his mistake and endeavoured to improve the production rate of the Model 3, spending a great deal of time in the production unit and sometimes even sleeping on the factory floor. As Tesla was unable to achieve its production target for the Model 3 in the first quarter of 2018, Musk announced a new target of 5,000 cars per week, which, in April 2018, was projected to rise to 6,000 cars per week by the end of June 2018. Musk specifically stated that “actual production will move as fast as the least lucky and least well-executed part of the entire Tesla production/supply chain system.”[[27]](#endnote-27) John Shook, an automobile industry veteran, commented on Musk’s approach towards the automobile business, saying, “Everything about Tesla is supposed to be fast, the car, the development process, the launch process.” He further commented that “the idea is we can go fast by leaving out steps, and we’ll just iterate our way to something really good.” According to Shook, this approach could work in the software industry, but not in the automobile industry, where iterations could be very expensive. David Cole, chairman emeritus at the Center for Automotive Research, hinted that Tesla did not follow standard tooling procedures. Automakers often prototyped tooling while designing vehicles, manufacturing some vehicles to test whether the tooling was adequate. Cole mentioned that, in contrast, Tesla took the prototype directly to production. He emphasized, “I think what we’re seeing is a lack of basic manufacturing experience.” News articles in the media also reported that if Musk had listened to industry veterans, he would never have started Tesla in the first place, as the industry in the mid-2000s did not have faith in battery-operated electric cars.[[28]](#endnote-28)

OVERVALUATION OF TESLA

In 2016, Musk convinced consumers to book the Model 3 in advance with a deposit of only $1,000. This resulted in 500,000 advance bookings.[[29]](#endnote-29) Investors began to believe in Musk’s vision; between 2010—when Tesla launched its initial public offering—and 2017, Tesla’s market valuation increased by approximately 1,600 per cent.[[30]](#endnote-30) In the fiscal year (FY) 2016, GM and Ford reported net profits of $9.4 billion and $4.6 billion and deliveries of 10 million and 6.65 million cars, respectively, whereas Tesla reported losses of $800 million and deliveries of 76,000 cars.[[31]](#endnote-31) However, Tesla’s market valuation was higher than either Ford’s or GM’s; in April 2017, Tesla’s market valuation was $51 billion, whereas Ford was valued at $44.8 billion and GM at $50.9 billion.

However, as Musk consistently failed to keep promises on aspects such as delivery schedules and the launch of a mass market electric car for $35,000, analysts began to question whether Tesla stocks were overvalued. By April 2018, as losses soared (see Exhibit 3) and free cash flow declined (see Exhibit 2), analysts such as Jim Chanos of Kynikos Associates and credit rating companies like Moody’s Investors Service (Moody’s) also doubted how long Musk would be able to run Tesla without incurring further debt. Although Musk denied the need for any further capital until 2019, Moody’s predicted that Tesla would need an additional $2 billion to run its business in FY 2018.[[32]](#endnote-32) Some experts predicted bankruptcy for Tesla by the end of 2018. Spiegel called Tesla “a company so landmine-filled that . . . it can implode at any time.”[[33]](#endnote-33) Musk was criticized by the media for his short-term strategies. A Business Insider article called Musk a “short-term thinker who has the crucial skill of changing his story on a dime to suit his audience, thereby generating the illusion of long-term thought.”[[34]](#endnote-34) Brent Goldfarb, an associate professor of management and entrepreneurship at the University of Maryland, cited the storytelling power of Musk as the reason for the overvaluation of Tesla. He also commented that Musk chased too many dreams, moving from electric cars to batteries to solar, and then to self-driving cars and, finally, to semi-autonomous trucks.[[35]](#endnote-35) David Kirsch, associate professor of management and entrepreneurship at Wayne State University, stated that Musk used multiple sporadic announcements “to distract people from the underlying problem, which is [that] the company is not making money.” He added, “Every few months when it looks like the uncertainties are about to be resolved, and that we’re about to actually have a true read on whether the firm is capable of doing what it says it can do and make money, there is a change of story.”[[36]](#endnote-36)

MUSK’S MANAGERIAL STYLE

Musk referred to himself as a “nano-manager,” working long hours and managing Tesla with the same vigour as when launching the Tesla Roadster in 2008. He also claimed to have obsessive-compulsive disorder on product-related issues, stating, “When I see a car or a rocket or spacecraft, I only see what’s wrong. I never see what’s right. It’s not a recipe for happiness.”[[37]](#endnote-37) For instance, three weeks before the first Model S was scheduled for delivery, Musk demanded that the sedans have larger rear tires, as he believed they looked better than the planned tires. This last-minute design change was difficult, as it required complicated adjustments to the anti-lock braking system of the car and carried the risk of shortening the car’s driving range. Despite protests by Tesla engineers, Musk insisted on the design change, which was ultimately carried out smoothly. Commenting on his involvement at even minute levels, Musk stated, “If you are fighting a battle, it’s way better if you are at the front lines. A general behind the lines is going to lose.”[[38]](#endnote-38)

Musk did not hesitate to fire people who do not share his vision. Musk claimed that he never fired someone without any reason or cause, stating that “the issue I’ve had is firing people too late, not too early.”[[39]](#endnote-39) In 2015, Tesla’s chief engineer quit months before the Model S was launched. Musk also fired the chief chassis engineer working on the Model X utility vehicle, citing that he was not a good fit for Tesla. Tesla employees often mentioned that while Musk’s vision and aspirations were inspiring, the hard-charging culture was overly exhausting. According to several sources, Musk’s habit of micromanaging caused projects to overshoot their budgets, often resulting in delays to the production schedule and leaving employees disgruntled. Workers complained that they were constantly pushed to work faster to meet production goals, raising the risk of injury.[[40]](#endnote-40)

MUSK’S ATTENTION TO MEDIA PLATFORMS

Musk was very active on social media, especially Twitter. With approximately 22 million followers by **June 2018, Musk’s individual Twitter account had more followers than Tesla’s Twitter handle and more than the combined followers of Ford, Chevrolet, and Chrysler. Musk tended to use social media as a substitute for press releases rather than as a complementary mass media tool. He often announced news related to his companies first on Twitter and later to the media through press releases. For instance, in July 2016 he tweeted, “**Working on Top Secret Tesla Masterplan, Part 2. Hoping to publish later this week.”[[41]](#endnote-41) Technology fans followed his tweets more than any other press releases or other advertisements released by other automobile companies. Media reports indicated that, compared to other CEOs, Musk was more active on social media, and he interacted and responded to customer queries more frequently on Twitter. According to Christopher Ma, a professor of finance at Stetson University, “Musk was the first person who used tweets to replace the traditional PR [public relations] department.”[[42]](#endnote-42) Musk used Twitter not only as a PR platform but also as a platform for criticism.

When media reports began criticizing Musk and Tesla on delivery issues of the Model 3, car crashes, or high-volume manufacturing of flawed car parts, Musk responded on Twitter by proposing to develop a website to check the credibility and “core truth” of reporters and their articles. He considered naming the website Pravda—the name of a soviet communist newspaper. Commenting on consumer response to media reports, Musk tweeted, “The holier-than-thou hypocrisy of big media companies who lay claim to the truth, but publish only enough to sugarcoat the lie, is why the public no longer respects them.”[[43]](#endnote-43) He also attacked fossil fuel companies when media reports criticized Tesla, tweeting, “Problem is journos are under constant pressure to get max clicks & earn advertising dollars or get fired. Tricky situation, as Tesla doesn’t advertise, but fossil fuel companies & gas/diesel car companies are among world’s biggest advertisers.” Musk criticized short sellers for predicting a fall in Tesla’s stock price. In one tweet he mentioned that “he would torch them [short sellers] with one of the flamethrowers he had made.”[[44]](#endnote-44)

Musk’s aggressiveness in social media sometimes led to problems. In August 2018, Musk tweeted his intention to make the company private, claiming that funding had been secured. This, according to Musk, would lift the “pressure from Wall Street expectations.”[[45]](#endnote-45) In the wake of this announcement, the stock price of Tesla rose to $387.46—an increase of $45.57 over the previous day’s closing price. However, the next few days revealed that funding might not have been completely secured after all. Shareholders criticized Musk for manipulating Tesla’s stock price and ruining the plans of short sellers. A formal inquiry by the U.S. Securities and Exchange Commission (SEC) investigated whether Tesla had actually achieved funding or if the move had been made to manipulate the stock market.[[46]](#endnote-46) Short sellers, such as Kalman Isaacs, filed a class action lawsuit against Musk for making materially false and misleading statements aimed at market manipulation.[[47]](#endnote-47) Members of Tesla’s board of directors suggested that Musk should stop tweeting and instead focus on making cars or launching rockets. Despite this advice and scrutiny from the SEC, Musk declined to leave Twitter, commenting, “Why would I?”[[48]](#endnote-48)

Musk had also used Twitter as a platform for apology. During the first-quarter earnings call of 2018, Antonio Sacconaghi, an analyst with Sanford C. Bernstein & Co., asked Deepak Ahuja, Tesla’s chief financial officer, a question concerning Tesla’s future finances; Musk interrupted and said, “Excuse me. Next. Boring bonehead questions are not cool.” When Joseph Spak, an analyst with RBC Capital Markets, asked about Model 3 reservations, Musk responded, “These questions are so dry. They’re killing me.” Immediately following this, Musk interacted with a young retail investor over YouTube for 25 minutes, during which no questions were asked about Tesla’s financial health. A Morgan Stanley analyst referred to Musk’s responses on the earnings call as the “most unusual call” in his 20 years of experience.[[49]](#endnote-49) One critic also called it “easily the most bizarre Muskian performance yet.” Musk’s remarks resulted in a 6-per-cent drop in share prices.[[50]](#endnote-50) In May, Musk apologized on Twitter for not answering financial questions in classic fashion, but he also explained his stance: “The reason the Bernstein question about CapEx was boneheaded was that it had already been answered in the headline of the Q1 [first quarter] newsletter he received beforehand, along with details in the body of the letter.”[[51]](#endnote-51) In response to the ignorance of another analyst’s question, Musk tweeted, the “reason [the] RBC question about Model 3 demand is absurd is that Tesla has roughly half a million reservations, despite no advertising & no cars in showrooms. Even after reaching 5k/week production, it would take 2 years just to satisfy existing demand even if new sales dropped to 0.”[[52]](#endnote-52)

In a July 2018 rescue operation aimed at saving the lives of young soccer players trapped inside a cave in Thailand, British rescuer Vern Unsworth declined to use a mini-submarine developed by SpaceX to aid the rescue mission, prompting Musk to call him a “pedo” over Twitter. This took the social media world by storm, with many users asking him to withdraw the comment. Musk did not withdraw the comment but rather reinforced it with the statement, “bet ya a signed dollar it’s true.”[[53]](#endnote-53) After Unsworth considered legal action against him, Musk apologized.

MUSK ON PRIVATIZATION

In August 2018, Musk revealed in a tweet that Tesla privatization funding was secured. In a later interview, he mentioned that while he had had talks in July 2018 with a Saudi Arabian investment group that showed interest in Tesla, funding was not formally secured;[[54]](#endnote-54) he stated his desire to privatize Tesla if funding were secured. In an internal memo to employees, Musk mentioned that his firm SpaceX was “far more operationally efficient [than Tesla], and that is largely due to the fact that it is privately held.”[[55]](#endnote-55) He argued that being a public company “puts enormous pressure on Tesla to make decisions that may be right for a given quarter, but not necessarily right for the long-term.”[[56]](#endnote-56) To privatize Tesla, Musk, who owned 20 per cent of Tesla’s shares, needed to raise more than $50 billion to buy out other shareholders. With this added to Tesla’s existing $10-billion debt, the move to privatize would have represented one of history’s largest leveraged buyouts.[[57]](#endnote-57) However, the issue of Tesla’s privatization also raised questions surrounding Musk’s leadership qualities. Saikat Chaudhari, a professor of management at Wharton University of Pennsylvania, asked, “Is this the way to lead a company, especially when it faces [severe] challenges?”[[58]](#endnote-58)

LAWSUITS AND ALLEGATIONS AGAINST MUSK AND TESLA

Adam Williams, a former Tesla employee who was fired from the company, claimed in April 2018 that Tesla knowingly sold defective cars to customers and that when he reported the incident he was demoted to store manager and eventually terminated. Williams argued that defect repair would have cost the firm immensely, thus Tesla sold the vehicles as “used” or labelled as “demo/loaner” vehicles. Tesla denied the allegations made by Williams. In October 2017, the United Automobile Workers complained to the National Labor Relations Board that Tesla employees were fired when they had attempted to unionize. In response to this complaint, Musk stated that the “only known union person fired was a guy who repeatedly threatened non-union supporters verbally & on social media & lied about it.”[[59]](#endnote-59)

In April 2018, a class action lawsuit was filed against Musk for the charges of misleading investors in May 2017 concerning Model 3 production. In May 2017, Musk reassured investors that production of the Tesla Model 3 was on track and that the company would be able to attain the production target of 5,000 models per week by the end of 2017. However, from May 2017 onwards, production and supply chain problems persisted; according to shareholders, despite knowing these facts, Musk still made claims of mass production. When Musk made these claims, Model 3 vehicles were being assembled by hand at Tesla’s Fremont, California, facility. Fully automated production lines were not functional—though the world was being informed that they were. As far back as 2016, executives responsible for the planning and building of the Model 3 had presented Musk with evidence that it would be impossible for Tesla to mass produce the Model 3 by the end of 2017. When *The* *Wall Street Journal* published an article on these issues in October 2017 based on eyewitness accounts, Tesla stocks fell by 3.91 per cent, damaging the wealth of investors.[[60]](#endnote-60)

In January 2018, the Tesla board approved Musk’s announcement that he would not take compensation. However, in June 2018, shareholders filed another lawsuit demanding that the board be reconfigured to protect investors. The lawsuit sought class action status. According to shareholders, board members were corporate waste, and Musk’s salary was unjustified. The complaint specifically claimed that Musk’s “compensation plan is so large it dwarfs the pay package of every other public company CEO.” However, Tesla claimed that this was the case only when Tesla’s market value had increased to the extent that it became one of the world’s most valued companies.[[61]](#endnote-61)

THE ROAD AHEAD

Musk’s inability to both meet timely production targets and launch an affordable standard version of the Model 3, his bankruptcy predictions, issues of overvaluation, and the potential privatization of the company left stakeholders wondering about the future of Tesla. As Musk continued his efforts to lower the cost of electric cars, some investors sued him for over-promising and under-delivering, while some media reports credited him for following his revolutionary vision for the automobile industry.[[62]](#endnote-62) Journalist Dylan Byers of the Cable News Network credited Musk for his vision but also mentioned challenges, stating, “Musk is a long-term thinker in a short-term world, but his runway is running out.”[[63]](#endnote-63)

The Tesla board of directors began to search for a “second-in-command”—an executive who could share some of Musk’s workload. In response, Musk asked, “Is there someone who can do the job better? They can have the reins right now.”[[64]](#endnote-64) Musk’s rampant tweets had put his personal credibility at stake—something that could ultimately influence the valuation of Tesla. While Musk claimed that Tesla would profit in the second half of 2018, Chanos, a Tesla short seller, said of Tesla’s restructuring, “It is never a good sign when almost all your senior executives are leaving with the stock price at a high,” further commenting that “that’s telling you there’s something wrong. And I don’t know what it is, but almost all the senior executives at Tesla see something and are leaving stock option packages on the table.”[[65]](#endnote-65)

With largely positive reviews for the Model 3 and a large advance booking in hand, Musk claimed in June 2018 that the Model 3 was not only the bestselling electric vehicle but also likely to become the bestselling mid-size sedan in the United States.[[66]](#endnote-66) With total estimated sales of 16,000, in July 2018 Tesla crushed its competition of small and mid-size luxury cars. Whether Tesla would be able to capitalize on the excitement generated by the Model 3 could determine if it would be able to profit and avoid bankruptcy. As a company on the verge of bankruptcy, had Tesla been—as the critics said—overvalued due to Musk’s talent for narration? Would Musk benefit if he were able to take Tesla private?

EXHIBIT 1: TESLA EMPLOYEES’ perceptions OF TESLA AND ITS CEO on GLASSDOOR.COM

|  |  |  |
| --- | --- | --- |
| **End of Month** | **Positive Rating of Tesla CEO by Employees (%)** | **Positive Rating of Tesla Business Outlook by Employees (%)** |
| June, 2017 | 91 | 66 |
| July, 2017 | 89 | 63 |
| August, 2017 | 89 | 64 |
| September, 2017 | 89 | 63 |
| October, 2017 | 86 | 62 |
| November, 2017 | 84 | 59 |
| December, 2017 | 84 | 59 |
| January, 2018 | 84 | 58 |
| February, 2018 | 84 | 59 |
| March, 2018 | 86 | 59 |
| April, 2018 | 84 | 58 |
| May, 2018 | 85 | 57 |

Note: CEO = chief executive officer

Source: [Joshua Fruhlinger](https://media.thinknum.com/articles/author/jfruhlinger/), “Tesla Employees' Confidence in Elon Musk Is Slipping,” Thinknum, May 7, 2018, accessed August 24, 2018, https://media.thinknum.com/articles/tesla-employees-ratings-of-elon-musk-erode-as-company-struggles/.

EXHIBIT 2: TESLA QUARTERLY CASH FLOW STATEMENT, 2017–2018 (US$ MillionS)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Mar 18** | **Dec 17** | **Sep 17** | **Jun 17** | **Mar 17** |
| Cash and Cash Equivalents at the Beginning of the Year | 3,367.91 | 3,530.03 | 3,035.92 | 4,006.59 | 3,393.22 |
| Net Cash Provided in Operating Activities | −398.38 | 509.89 | −300.56 | −200.17 | −69.81 |
| Net Increase/Decrease in Cash and Cash Equivalents | −755.35 | −166.14 | 486.01 | −1,031.85 | 647.22 |
| Cash and Cash Equivalents at the End of the Year | 2,665.67 | 3,367.91 | 3,530.03 | 3,035.92 | 4,006.59 |

Source: “Tesla, Inc. Cash Flow Statement,” D&B Hoovers, accessed August 28, 2018, www.hoovers.com.

EXHIBIT 3: TESLA INCOME STAtEMENT, 2013–2017

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Financial Items** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Revenue | 11,758.75 | 7,000.13 | 4,046.03 | 3,198.36 | 2,013.50 |
| Cost of Goods Sold | 9,536.26 | 5,400.88 | 3,122.52 | 2,316.69 | 1,557.23 |
| Operating Income | −1,632.09 | −667.34 | −716.63 | −186.69 | −61.28 |
| Operating Margin (%) | -13.88 | −9.53 | −17.71 | −5.84 | −3.04 |
| Total Net Income | −1,961.40 | −674.91 | −888.66 | −294.04 | −74.01 |

Note: All amounts are in US$ millions except operating margin.

Source: “Tesla, Inc. Income Statement,” D&B Hoovers, accessed August 28, 2018, www.hoovers.com.

Endnotes

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2. Alex Davies, “How Elon Musk Is Revolutionizing Two Major Industries at the Same Time,” Business Insider, March 13, 2013, accessed August 19, 2018, www.businessinsider.com/how-elon-musk-overcomes-challenges-2013-3. [↑](#endnote-ref-2)
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