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May 26, 2011

Stock Rating  
**Overweight**

Industry View  
**In-Line**

## Tesla Motors Inc.

### Bring on the X: Capital Raise Lowes Risk Profile

**Tesla announced plans to sell 8.2 million shares to raise \$190-240 million** depending on pricing and underwriter options. The capital raise itself is no surprise — management had indicated plans to raise \$150 million in 2H11 — but we view the larger size and Daimler's participation as incremental positives. Proceeds will help Tesla execute on the Model X launch and expand the distribution footprint — yet another critical step to becoming America's Fourth Automaker.

**Daimler and CEO Elon Musk will participate in the offering.** In addition to the 5.3 million shares in the offering (6.1m with the greenshoe), Tesla CEO Elon Musk will purchase 1.5m shares and Daimler affiliate Blackstar Investco will purchase 577,000 shares. Daimler's continued investment, now at a much higher valuation, further validates Tesla's competitive position.

**Capital raise helps de-risk the story.** The biggest risk for Tesla is exhausting available liquidity before they can ramp volume production. By raising \$40-90 million more than the \$150 million we had in our model, we estimate Tesla could withstand an additional 3-6 month delay in Model S. Management intends to use the proceeds to accelerate development of the Model X crossover SUV. The company plans to show a prototype of the Model X by the end of 2011, with commercial introduction by 4Q13, around 2 quarters earlier than we forecast. Management reiterated Model S deliveries are on track for mid-2012. Tesla provided capex guidance through the next 7 quarters that implies 2012 spending around \$50m higher than our forecast, consistent with its plans for an earlier model X launch than we have expected.

**Bottom line: Securing new permanent capital helps improve Tesla's growth prospects while managing risk at the same time.** Our valuation is based on longer-term developments for top-line growth, but the small wins are adding up fast. A successful capital raise would remove the biggest near-term risk.

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### Key Ratios and Statistics

**Reuters: TSLA.O Bloomberg: TSLA US**  
**Autos & Auto-Related** / United States of America

Shr price, close (May 25, 2011)	\$28.98
Mkt cap, curr (mm)	\$2,782
52-Week Range	\$36.42-14.98

### Recent Reports

Title	Date
Global Auto Monitor Adam Jonas, CFA / Noriaki Hirakata, CFA / Stuart Pearson, CFA / Kate Zhu, CFA / Sangkyoo Park / Binay Singh / Jeremy C Chen	May 19, 2011
Global Solar: No pick-up in Italy, but Germany showing signs of life Smittipon Srethapramote / Joshua Paradise, CFA / Timothy Radcliff / Andrew Humphrey / Allen D Wells, CFA	May 19, 2011
Johnson Controls, Inc.: Quick Comment: Saft JV Split Could Signal More Aggressive Li-Ion Ravi Shanker / Adam Jonas, CFA / Yejay Ying	May 18, 2011
Cree, Inc.: Lightfair Day 1: Pricing Pressure Moderating; Incrementally Posi Joshua Paradise, CFA / Smittipon Srethapramote / Timothy Radcliff	May 18, 2011
EnerNoc, Inc.: PJM Auction Results Mixed: Volumes Grow, Prices Fall Joshua Paradise, CFA / Smittipon Srethapramote / Timothy Radcliff	May 16, 2011

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Tesla Motors Inc.



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(as of April 30, 2011)

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May 26, 2011  
Tesla Motors Inc.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1172</b>	<b>41%</b>	<b>470</b>	<b>48%</b>	<b>40%</b>
<b>Equal-weight/Hold</b>	<b>1158</b>	<b>41%</b>	<b>386</b>	<b>39%</b>	<b>33%</b>
<b>Not-Rated/Hold</b>	<b>114</b>	<b>4%</b>	<b>20</b>	<b>2%</b>	<b>18%</b>
<b>Underweight/Sell</b>	<b>384</b>	<b>14%</b>	<b>102</b>	<b>10%</b>	<b>27%</b>
<b>Total</b>	<b>2,828</b>		<b>978</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

## Analyst Industry Views

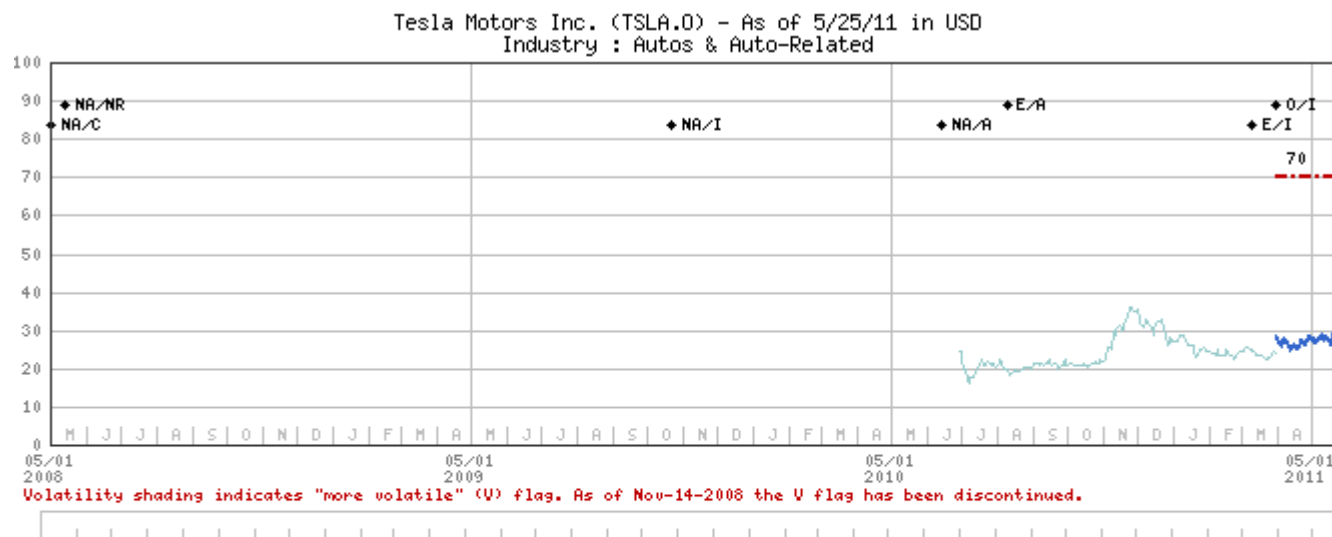
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

## Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 5/1/08 : NA/C; 5/13/08 : NA/NR; 10/22/09 : NA/I; 6/14/10 : NA/A; 8/9/10 : E/A;  
3/10/11 : E/I; 3/31/11 : O/I  
Price Target History: 8/9/10 : NA; 3/31/11 : 70

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
Stock and Industry Ratings (abbreviations below) appear as + Stock Rating/Industry View  
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

May 26, 2011  
Tesla Motors Inc.

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Tesla Motors Inc.

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## Industry Coverage: Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (05/25/2011)
<b>Adam Jonas, CFA</b>		
Ford Motor Company (F.N)	O (10/04/2010)	\$14.58
General Motors Company (GM.N)	O (12/28/2010)	\$31.27
Tesla Motors Inc. (TSLA.O)	O (03/31/2011)	\$28.98
<b>Ravi Shanker</b>		
AutoNation Inc. (AN.N)	U (03/10/2011)	\$33.83
BorgWarner Inc. (BWA.N)	O (10/22/2009)	\$70.04
Cooper Tire & Rubber Company (CTB.N)	O (03/16/2010)	\$23.15
Goodyear Tire & Rubber Company (GT.N)	O (03/10/2011)	\$17.11
Group 1 Automotive, Inc (GPI.N)	U (10/22/2009)	\$38.23
Johnson Controls, Inc. (JCI.N)	O (06/14/2010)	\$37.85
Lear Corporation (LEA.N)	U (09/23/2010)	\$49.69
Magna International Inc. (MGA.N)	U (03/10/2011)	\$48.77
Meritor Inc (MTOR.N)	O (09/23/2010)	\$15.63
Penske Automotive Group, Inc (PAG.N)	U (10/22/2009)	\$19.92
TRW Automotive Holdings Corp. (TRW.N)	O (09/10/2010)	\$54.97
Tenneco Inc. (TEN.N)	U (09/23/2010)	\$40.34

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\* Historical prices are not split adjusted.