

**Tesla Motors, Inc.****(TSLA: NNM; \$29.48)****Sell | Target: \$19**

May 27, 2011

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12-month Price Target:	\$19
Current Price:	\$29.48
Shares Outstanding (M):	95.2
Institutional Holdings:	19%
Market Cap (M):	\$2,806.1
EV (M):	\$2,804.8
EV/EBITDA:	NM
52-wk Range:	\$14.98-\$36.42
Avg. Daily Vol. (000):	1,217
Dividend:	NA
Price/Book Value:	16.7x
Book Value/sh:	\$1.76

Financials

FYE Dec		2010A	2011E	2012E
EBITDA (M):		(\$136.2)	(\$187.2)	(\$113.8)
P/E Ratio:		NM	NM	NM
Revenue (M):	Q1	\$20.8	\$49.0	\$47.9
	Q2	\$28.4	\$53.6	\$49.1
	Q3	\$31.2	\$51.0	\$202.2
	Q4	\$36.3	\$47.7	\$245.8
	Total	\$116.7	\$201.3	\$545.0
EPS:	Q1	(\$1.35)	(\$0.51)A	(\$0.49)
	Q2	(\$1.68)	(\$0.48)E	(\$0.47)
	Q3	(\$0.38)	(\$0.49)E	(\$0.35)
	Q4	(\$0.54)	(\$0.52)E	(\$0.29)
	Total	(\$3.04)A	(\$2.01)E	(\$1.59)

Company Description

Founded in 2003 and headquartered in Palo Alto, CA, Tesla Motors designs, manufactures and sells high performance electric vehicles (EV) and electric powertrain technology including battery packs. Launched in 2008, Tesla's Roadster was the first commercial EV that complied with federal standards with ~ 1,650 vehicles sold through 1Q11. Tesla's next-generation EV called the Model S is set to launch in mid-2012 with extended range features. The company also sells battery packs to Daimler for use in their smart and A-class EVs and recently agreed to jointly develop batteries for Toyota's RAV4 model.

TSLA: THE STORY CHANGES; SELL

- **Capital raise to meet rising capital needs.** As expected Tesla announced it would seek to sell 5.3M shares (~6.1M with over allotment) in a secondary offering. Concurrently, CEO Elon Musk will invest ~\$40M in a private placement of 1.5M shares and Daimler will add another ~\$15-17M from ~577K shares (645K shares with over allotment), which could raise as much as ~\$243M at yesterday's closing price of \$29.48. A successful raise with over allotment would dilute the shares by ~8% but with negative earnings the dilution lowers our forecasted net loss for 2011.
- **The story changes.** As we discussed before the 1Q11 earnings call, we predicted the secondary would come sooner rather than late 2H11 as Tesla's strategy has shifted towards selling more mass market vehicle (Model X) likely at a lower price point. Tesla hopes to introduce a prototype by YE11. We believe Tesla recognizes the limitations of selling one model aimed a niche luxury market and smartly took advantage of market strength to tap the capital markets for its growing capital needs.
- **Raising capex forecasts for 2011-2013.** We have increased our forecasted capex for 2011-2013, by \$50M to \$250M in 2011 and by \$120M in 2012 to \$325M and by \$130M to \$340M in 2013. We are still not convinced Tesla has sufficient capital to fund development of both cars into mass production but we too would take the money if it was available. We continue to believe the secondary is not just for the Model X development but for higher than expected production and design costs along with greater future marketing spend. We still expect the Model S could be delayed 3-6 months but the "story" has shifted to diminish that potential negative.
- **Annual meeting on June 1 certain to be positive; SELL into strength.** We believe the upcoming annual shareholder's meeting on 6/1 could provide a near-term boost as Tesla is a stock investors (especially retail) want to believe will be successful – its "green", the auto prototypes are sexy and Mr. Musk is a successful entrepreneur. However, whispered comparisons of Tesla to Apple are absurdly premature. The new "story" pits Tesla directly against the other auto OEMs that can count on far superior supplier leverage, balance sheets, brands, reach and automobile knowledge. The niche luxury "story" is gone. We would use the anticipated strength from next week's meeting to exit long positions and/or initiate short positions.

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INVESTMENT RISK

Tesla faces intense competition from established auto OEMs, execution risk for Model S, lack of widespread EV adoption, potential reduction in government support and continued operating losses.

VALUATION METHODOLOGY

We value TSLA using 3 metrics - EV/S, EV/EBITDA and a 5-year DCF. Our \$19 target price is the average relative multiples and our DCF - using 15x terminal EBITDA multiple and 14% WACC.



Figure 1: Tesla Motors, Inc.: HISTORICAL AND PROJECTED INCOME STATEMENT

\$M	2010A					2011E					2012E				
	1Q Mar-10	2Q Jun-10	3Q Sep-10	4Q Dec-10	2010A YEAR	1QA Mar-11	2QE Jun-11	3QE Sep-11	4QE Dec-11	2011E YEAR	1Q Mar-12	2Q Jun-12	3Q Sep-12	4Q Dec-12	2012E YEAR
Automotive Revenues	\$20.6	\$24.0	\$23.4	\$29.2	\$97.1	\$33.6	\$33.1	\$27.9	\$24.1	\$118.8	\$21.3	\$20.0	\$188.6	\$232.1	\$462.0
Battery Packs, Develop. Service Revenue	0.2	4.4	7.9	7.1	19.7	15.4	20.5	23.2	23.5	82.6	26.6	29.2	13.5	13.7	83.0
Total Revenues	\$20.8	\$28.4	\$31.2	\$36.3	\$116.7	\$49.0	\$53.6	\$51.0	\$47.7	\$201.3	\$47.9	\$49.1	\$202.2	\$245.8	\$545.0
YoY Growth	0%	5%	-31%	95%	4%	136%	89%	63%	31%	72%	-2%	-8%	296%	416%	171%
QoQ Growth	12%	36%	10%	16%		35%	9%	-5%	-7%		1%	2%	312%	22%	
Cost of Sales - Auto	17.0	22.1	21.9	25.0	86.0	31.0	32.6	30.3	28.1	122.0	26.6	26.5	168.3	208.4	429.8
Cost of Sales - Batteries, Develop. Services	0.1	1.9	2.5	1.6	6.0	4.0	6.1	7.4	7.5	25.1	8.5	9.3	4.2	4.1	26.1
Total COGS	17.0	22.1	21.9	25.0	86.0	31.0	32.6	30.3	28.1	122.0	26.6	26.5	168.3	208.4	429.8
Gross Profit	3.9	6.3	9.3	11.3	30.7	18.0	21.0	20.8	19.6	79.4	21.3	22.6	33.9	37.4	115.2
R & D	13.3	15.4	26.7	37.6	93.0	41.2	45.0	45.9	45.3	177.4	36.9	34.4	32.3	29.5	133.1
S G & A	16.6	22.2	20.4	25.3	84.6	24.2	26.8	28.6	31.5	111.1	34.5	35.9	36.4	36.9	143.6
Total Operating Expenses	29.9	37.6	47.1	63.0	177.6	65.4	71.8	74.5	76.8	288.5	71.4	70.2	68.7	66.4	276.7
EBIT	(26.0)	(31.4)	(37.8)	(51.6)	(146.8)	(47.3)	(50.8)	(53.8)	(57.1)	(209.1)	(50.1)	(47.6)	(34.9)	(28.9)	(161.5)
EBITDA	(23.9)	(28.9)	(34.7)	(48.8)	(136.2)	(43.8)	(46.5)	(47.5)	(49.3)	(187.2)	(39.7)	(36.2)	(22.4)	(15.5)	(113.8)
EBITDA Margin	-115%	-102%	-111%	-134%	-117%	-89%	-87%	-93%	-103%	-93%	-83%	-74%	-11%	-6%	-21%
Interest & Other Income, Net	(3.4)	(7.1)	3.0	0.3	(7.3)	(1.4)	0.7	2.0	1.7	2.9	(1.6)	(2.6)	(2.6)	(2.4)	(9.2)
Pretax Income	(29.4)	(38.5)	(34.9)	(51.4)	(154.2)	(48.8)	(50.1)	(51.8)	(55.4)	(206.1)	(51.7)	(50.2)	(37.5)	(31.3)	(170.7)
Taxes	0.1	0.0	0.1	(0.0)	0.2	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.1
Tax Rate	-0.4%	0.0%	-0.2%	0.1%	-0.1%	-0.3%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
GAAP Net Income	(29.5)	(38.5)	(34.9)	(51.4)	(154.3)	(48.9)	(50.1)	(51.8)	(55.4)	(206.3)	(51.7)	(50.3)	(37.5)	(31.4)	(170.8)
GAAP Net Margin	-142%	-136%	-112%	-142%	-132%	-100%	-94%	-101%	-116%	-102%	-108%	-102%	-19%	-13%	-31%
GAAP EPS	(\$1.35)	(\$1.68)	(\$0.38)	(\$0.54)	(\$3.04)	(\$0.51)	(\$0.48)	(\$0.49)	(\$0.52)	(\$2.01)	(\$0.43)	(\$0.42)	(\$0.30)	(\$0.24)	(\$1.59)
YoY Growth	-76%	-223%	-73%	53%	-15%	62%	71%	-31%	4%	34%	-15%	-13%	-40%	-54%	21%
QoQ Growth	-17%	-25%	77%	-44%		6%	6%	-2%	-6%		7%	4%	26%	17%	
Chg in Fair Value Warrants	2.3	6.3	(3.1)	(0.6)	5.0	1.4	1.4	1.4	1.4	5.7	1.4	1.4	1.4	1.4	5.7
Amort. Stock Comp. Expense	3.4	6.1	3.8	7.8	21.2	5.9	3.5	3.5	3.5	16.4	4.0	4.0	4.0	4.0	16.0
Pro Forma Net Income	(23.8)	(26.1)	(34.2)	(44.1)	(128.1)	(41.6)	(45.2)	(46.9)	(50.5)	(184.2)	(46.3)	(44.8)	(32.1)	(25.9)	(149.2)
Pro forma EPS	(\$1.09)	(\$1.14)	(\$0.37)	(\$0.47)	(\$2.53)	(\$0.44)	(\$0.44)	(\$0.45)	(\$0.48)	(\$1.80)	(\$0.49)	(\$0.47)	(\$0.35)	(\$0.29)	(\$1.39)
Average Shares Outstanding	21.9	22.9	92.3	94.2	50.7	95.2	103.8	104.8	105.8	102.4	106.5	107.3	108.0	108.8	107.7
Percent of Revenue															
Cost of Sales	81.5%	78.0%	70.2%	68.8%	73.7%	63.2%	60.9%	59.3%	58.8%	60.6%	55.6%	53.9%	83.2%	84.8%	78.9%
Gross Profit	18.5%	22.0%	29.8%	31.2%	26.3%	36.8%	39.1%	40.7%	41.2%	39.4%	44.4%	46.1%	16.8%	15.2%	21.1%
R & D	63.7%	54.3%	85.5%	103.7%	79.7%	83.9%	84.0%	90.0%	95.0%	88.1%	77.0%	70.0%	16.0%	12.0%	24.4%
S G & A	79.7%	78.2%	65.4%	69.9%	72.4%	49.4%	50.0%	56.0%	66.0%	55.2%	72.0%	73.0%	18.0%	15.0%	26.4%
Total Operating Expenses	143.4%	132.5%	150.9%	173.5%	152.1%	133.3%	134.0%	146.0%	161.0%	143.3%	149.0%	143.0%	34.0%	27.0%	50.8%

Source: Company reports and CapStone Investments estimates

Figure 2: Tesla Motors, Inc.: HISTORICAL AND PROJECTED CASH FLOWS AND BALANCE SHEET

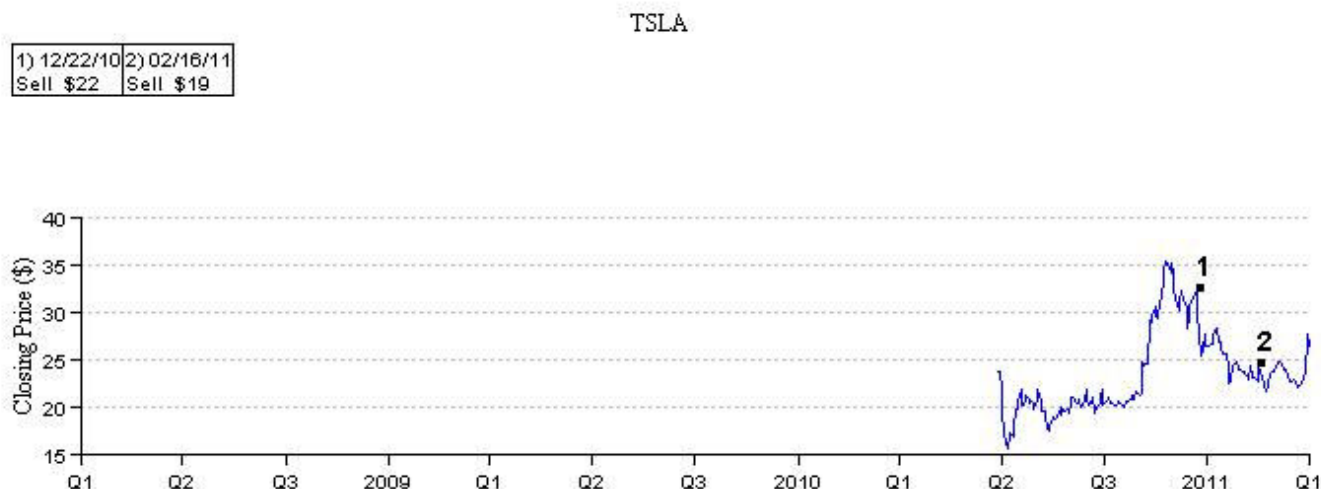
\$M	2010A				2010A	2011E				2011E	2012E				2012E
	1Q Mar-10	2Q Jun-10	3Q Sep-10	4Q Dec-10	YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	YEAR	1Q Mar-12	2Q Jun-12	3Q Sep-12	4Q Dec-12	YEAR
Operating Sources:															
Net Income	(\$29.5)	(\$38.5)	(\$34.9)	(\$51.4)	(\$154.3)	(\$48.9)	(\$50.1)	(\$51.8)	(\$55.4)	(\$206.3)	(\$51.7)	(\$50.3)	(\$37.5)	(\$31.4)	(\$170.8)
Depreciation and Amortization	2.1	2.5	3.1	2.9	10.6	3.5	4.3	6.3	7.9	21.9	10.4	11.4	12.4	13.4	47.7
Total	(27.4)	(36.0)	(31.8)	(48.5)	(143.7)	(45.4)	(45.8)	(45.6)	(47.6)	(184.4)	(41.3)	(38.8)	(25.0)	(17.9)	(123.1)
Change in Working Capital															
Accounts Receivable	(2.4)	(0.5)	(1.6)	1.4	(3.2)	(13.6)	(0.3)	1.0	1.3	(11.6)	(2.7)	(0.5)	(11.7)	(7.2)	(22.1)
Inventories	(5.5)	(1.1)	(10.3)	(3.2)	(20.1)	(5.5)	(1.4)	(8.3)	4.4	(10.8)	2.8	2.8	(1.3)	(3.8)	0.5
Other Current Assets	(0.1)	(1.3)	(8.5)	(4.0)	(13.8)	(3.3)	0.0	0.0	0.0	(3.3)	0.0	0.0	0.0	0.0	0.0
Non-Debt Current Liabilities	2.2	8.5	2.8	12.5	26.0	16.7	(4.6)	(1.1)	(0.9)	10.0	2.1	(9.8)	52.7	31.1	76.0
Total	(5.8)	5.5	(17.6)	6.7	(11.2)	(5.6)	(6.3)	(8.5)	4.8	(15.6)	2.2	(7.5)	39.7	20.1	54.5
Capital Expenditures	5.5	12.2	65.9	18.7	102.2	20.5	75.0	75.0	80.0	250.5	80.0	80.0	80.0	85.0	325.0
Operating Cash Flow	(\$38.7)	(\$42.7)	(\$115.3)	(\$60.5)	(\$257.1)	(\$71.5)	(\$127.1)	(\$129.0)	(\$122.8)	(\$450.4)	(\$119.1)	(\$126.4)	(\$65.4)	(\$82.8)	(\$393.7)
Cash Flow per Share	(\$1.76)	(\$1.86)	(\$1.25)	(\$0.64)	(\$5.07)	(\$0.73)	(\$1.19)	(\$1.20)	(\$1.13)	(\$4.40)	(\$1.09)	(\$1.15)	(\$0.59)	(\$0.74)	(\$3.66)
Non-Operating Activities:	30.6	28.5	164.5	63.5	287.0	72.6	262.9	93.7	93.7	522.9	80.0	130.5	50.0	57.0	317.5
Beginning Cash and Invest.	\$69.6	\$61.5	\$47.3	\$96.6	\$69.6	\$99.6	\$100.7	\$236.4	\$201.1	\$99.6	\$172.0	\$132.9	\$137.0	\$121.7	\$172.0
Net Cash Flow	(8.1)	(14.2)	49.3	3.0	29.9	1.1	135.8	(35.4)	(29.1)	72.4	(39.1)	4.1	(15.4)	(25.8)	(76.2)
Ending Cash and Invest.	\$61.5	\$47.3	\$96.6	\$99.6	\$99.6	\$100.7	\$236.4	\$201.1	\$172.0	\$172.0	\$132.9	\$137.0	\$121.7	\$95.8	\$95.8
Assets															
Cash & Equivalents	\$61.5	\$47.3	\$96.6	\$99.6		\$100.7	\$236.4	\$201.1	\$172.0		\$132.9	\$137.0	\$121.7	\$95.8	
Restricted Cash	0.0	0.0	88.1	73.6		42.9	42.9	42.9	42.9		42.9	42.9	42.9	42.9	
Accounts Receivable	5.9	6.5	8.1	6.7		20.3	20.6	19.6	18.3		21.0	21.5	33.2	40.4	
Inventories	28.6	29.5	39.5	45.2		50.8	52.2	60.6	56.1		53.3	50.5	51.8	55.6	
Prepaid & Other CA	4.5	6.7	8.9	10.8		12.2	12.2	12.2	12.2		12.2	12.2	12.2	12.2	
Total Current Assets	\$100.6	\$90.0	\$241.1	\$235.9		\$226.9	\$364.4	\$336.4	\$301.5		\$262.3	\$264.2	\$261.8	\$247.0	
Operating Lease Vehicles	0.0	0.0	5.7	8.0		9.1	9.1	9.1	9.1		9.1	9.1	9.1	9.1	
Net PP&E	26.9	33.2	37.2	114.6		143.4	195.3	245.3	297.5		327.1	355.6	383.2	412.3	
Goodwill & Intangible Assets	7.5	5.4	57.5	4.9		4.9	4.9	4.9	4.9		4.9	4.9	4.9	4.9	
Other Assets	10.4	19.4	20.1	22.7		22.9	22.9	22.9	22.9		22.9	22.9	22.9	22.9	
Total Assets	\$145.3	\$148.0	\$361.6	\$386.1		\$407.3	\$596.7	\$618.7	\$636.0		\$626.4	\$656.8	\$682.0	\$696.2	
Liabilities															
Accounts Payable	\$18.2	\$25.6	\$27.0	\$29.0		\$49.7	\$43.0	\$39.9	\$37.0		\$35.1	\$23.3	\$74.0	\$103.0	
Accrued Liabilities	7.9	8.4	10.7	20.9		19.8	19.8	19.8	19.8		19.8	19.8	19.8	19.8	
Debt Development Compensation	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Deferred Revenue	6.7	8.1	3.5	4.6		3.8	3.8	3.8	3.8		3.8	3.8	3.8	3.8	
Capital Lease Obligations, Current	0.3	0.3	0.3	0.3		0.3	0.3	0.3	0.3		0.3	0.3	0.3	0.3	
Reservation Payments	26.0	26.2	27.9	30.8		39.4	41.4	43.4	45.4		49.4	51.4	53.4	55.4	
Current Liabilities	\$59.1	\$68.6	\$69.3	\$85.6		\$113.0	\$108.3	\$107.2	\$106.3		\$108.4	\$98.6	\$151.3	\$182.4	
Common Stock Warrant Liability	0.0	16.7	6.7	6.1		7.5	8.5	9.5	10.5		0.0	0.0	0.0	0.0	
Convertible Pfd Stock Warrant Liability	10.4	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Capital Lease Obligations, Non-Current	0.7	0.6	0.6	0.5		0.4	0.4	0.4	0.4		0.0	0.0	0.0	0.0	
Deferred Revenue, less current	1.4	2.1	2.5	2.8		3.1	3.4	3.8	4.1		0.0	0.0	0.0	0.0	
Long-Term Debt - DoE Loan	29.9	45.4	56.6	71.8		102.5	164.4	204.4	274.4		354.4	464.9	464.9	451.9	
Other Long Term Liabilities	3.9	5.0	6.1	12.3		13.1	13.1	13.1	13.1		13.1	13.1	13.1	13.1	
Total Liabilities	\$105.4	\$138.5	\$141.7	\$179.0		\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0	
Total Convertible Pfd Stock	\$319.2	\$319.2	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0	
Series A Convert. Pfd (7.2M shs)	3.5	3.5	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Series B Convert. Pfd (17.5M shs)	12.9	12.9	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Series C Convert. Pfd (35.2M shs)	39.8	39.8	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Series D Convert. Pfd (18.4M shs)	44.9	44.9	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Series E Convert. Pfd (102.8M shs)	135.7	135.7	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Series F Convert. Pfd (27.8M shs)	82.4	82.4	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Total Liabilities & Convert Pfd	\$424.6	\$457.7	\$141.7	\$179.0		\$239.6	\$298.2	\$338.5	\$408.9		\$476.0	\$576.6	\$629.3	\$647.4	
Shareholders' Equity	\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0	
Total Liabilities and Equity	\$3.5	\$3.5	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0	
Key Financial Ratios															
Days Receivable Outstanding	26.0	20.8	23.5	16.9		37.7	35.0	35.0	35.0		40.0	40.0	15.0	15.0	
Inventory Turns	2.4x	3.0x	2.2x	2.2x		2.4x	2.5x	2.0x	2.0x		2.0x	2.1x	13.0x	15.0x	
Days Payable	79.8	82.3	78.8	72.8		92.4	120.0	120.0	120.0		120.0	80.0	40.0	45.0	
Book Value	(\$12.75)	(\$13.51)	\$2.38	\$2.20		\$1.76	\$2.88	\$2.67	\$2.15		\$1.41	\$0.75	\$0.49	\$0.45	
Cash per Share	\$2.81	\$2.06	\$1.05	\$1.06		\$1.03	\$2.28	\$1.92	\$1.63		\$1.25	\$1.28	\$1.13	\$0.88	

Source: Company reports and CapStone Investments estimates

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IMPORTANT DISCLOSURES

Price charts generated by Jovus, Inc



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Company	Disclosure
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