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TESLA MOTORS INC. (TSLA)**BUY - \$28.98**

APPLIED TECHNOLOGIES

PLEASE REFER TO DISCLOSURES ON PAGES 4 & 5 FOR IMPORTANT INFORMATION

Secondary Signifies Sooner Start to Model X Design; Reiterate \$40 PT & Buy Rating

Changes: None

Financial Summary*					
Adj. EPS	2010	2011E	2012E	2013E	Price
Mar	-3.26A	-0.44A	-0.51	0.16	12-Month Target
Jun	-3.41A	-0.53	-0.54	0.41	52-Week Range
Sep	-0.37A	-0.54	-0.43	0.38	Diluted Shares ('000)
Dec	-0.47A	-0.52	-0.32	0.14	Market Cap ('000)
FY	-2.53	-2.03	-1.81	1.08	Avg. Daily Vol
					3-5 Yr. Revenue Growth
Revs (\$'000)					3-5 Yr. EPS Growth
Mar	\$20,812A	\$49,030A	\$40,373	\$344,570	Book Value
Jun	\$28,405A	\$49,855	\$40,176	\$512,630	LT Debt / Total Capital
Sep	\$31,241A	\$44,369	\$152,297	\$512,630	Insider Ownership
Dec	\$36,286A	\$34,960	\$274,089	\$347,570	Est. Q2 Reporting Date
FY	\$116,744	\$178,215	\$506,936	\$1,717,401	
Mkt Cap/Rev	24x	15x	5x	2x	

*Column totals might not sum because of rounding and changes in share count, particularly given the recent IPO. Also, Q110 and Q210 EPS estimates and cash estimates are pro-forma adjusted for post-IPO diluted shares outstanding.

Company Update:

Tesla said Wednesday that it plans to offer 5.3MM shares to start development on the Model X crossover SUV. Tesla is also conducting a private placement. CEO Elon Musk will buy 1.5MM shares for about \$40MM. Also, Daimler AG affiliate Blackstar Investco LLC¹ will add to its position with another 577,000 shares, worth about \$15.2MM.

Tesla plans to raise about \$200MM in capital, including the secondary offering and capital infusion from Musk and Daimler/Blackstar.

Analysis:

The capital raise has been well-communicated, so it comes as no surprise. However, the timing is ahead of expectations. The capital raised will primarily be used to accelerate Model X development. The fact that timing is ahead of schedule speaks to Model S progress. Put simply, Tesla has early stage product development employees who are free to work on Tesla's next product now that early stage development of the Model S is complete.

Also surprising to us is the private placement, with the CEO investing an incremental \$40MM in Tesla, which is a positive development.

Finally, we note that no holders are selling concurrently with the offering, which we think is encouraging.

¹ Blackstar Investco LLC is 60% owned by Daimler North America Corporation and 40% owned by Aabar Blackstar Holdings GmbH. It is already an 8% owner of TSLA. Put another way, Daimler is an ~8% owner in TSLA through the Blackstar subsidiary.

Anticipated changes to our model:

The offering does not appear to affect the income statement in the near term. Our model assumes 105MM diluted shares outstanding in Q411, which takes into account the expected secondary offering. Total shares outstanding after the secondary and private placement should be about 104MM, according to the prospectus filed Wednesday.

We assume 25,000 Model S units sold in 2014. We have not modeled in Model X sales, which should obviously boost 2014 revenue and EPS. Tesla plans to reveal a prototype of the Model X crossover by the end of 2011, and sell it commercially in Q4 of 2013. We plan to update our long-term estimates after we receive more information around Model X pricing and input costs.

Capital expenditures will rise related to Model X development for FY11, FY12 and FY13, which will come from the proceeds of the offering. For FY11 and FY12, we'd expected about \$250MM in CapEx; it will now be between \$330MM to \$370MM, according to Tesla's prospectus.

Rating and recommendation:

We reiterate our Buy rating and \$40 price target, which is based on a long-term DCF.

Investment Risks:

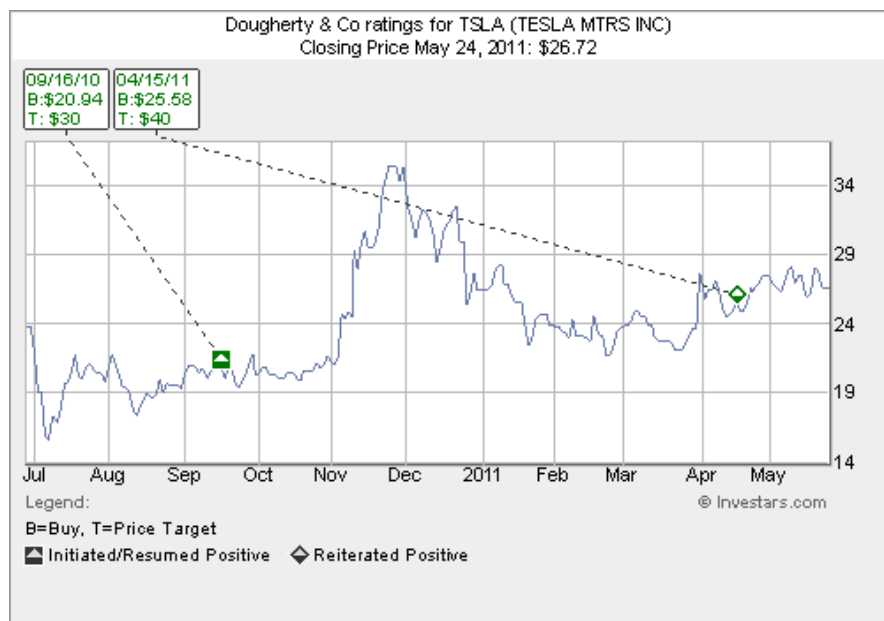
Risks that could prevent Tesla (TSLA) shares from achieving our price target include:

- **Model S Progress Risks** – We believe that not achieving the anticipated roadmap for the Model S platform presents one of the largest risks to the stock. Supplier issues could be a source of delay. Tesla's Roadster, for example, relies on 150 suppliers for 2,000 parts. In the past, supplier delays have stalled progress on the Roadster.
- **Profitability Targets** – Tesla's future profitability depends upon achieving 43% net cost reduction from the Roadster to the Model S. Failure to achieve cost reduction objectives would be detrimental to the company and the stock.
- **CEO Leadership Dependence** – We believe that Tesla has been able to secure a bevy of automotive engineering and design talent. Much of that can be attributed to the leadership and vision of CEO Elon Musk. We don't expect Musk, a serial entrepreneur, to remain at the helm of the company beyond 2014. Contractually, Musk should stay on until the Model S has performed successfully.
- **Withdrawal of Government Support** – Widespread electric vehicle adoption is encouraged by government buyer incentives, government emissions regulations and government grants that support technological advancement and buildout of the charging infrastructure. A deleterious change to the subsidies or support surrounding electric vehicles could create an ethanol-like failure of the concept.
- **Failure of the Electric Vehicle Concept** – Despite the hype, electric vehicles have not proven their success as a concept. Range anxiety is a real obstacle faced by consumers. Advertised ranges are generally overstated. Like internal combustion engines, ranges vary by usage pattern, including speed, acceleration and cabin climate control, and the temperature and climate of the operating environment. This issue is much bigger for electric vehicles than for internal combustion engines, given the existing limits to their ranges. Also, we note that ethanol failed for a variety of reasons, but a key reason was poor consumer adoption at the pump – vehicle range drops up to 20% when fueled by E85. (Tesla has floated the idea of swap pack batteries that can be rented for longer trips. We think that this model is unlikely to take off.)



DOUGHERTY & COMPANY LLC

TESLA	Actual						Estimated					Model S Begins									
	FY 2009	Q1 2010 MAR	Q2 2010 JUN	Q3 2010 SEP	Q4 2010 DEC	FY 2010	Q1 2011 MAR	Q2 2011E JUN	Q3 2011E SEP	Q4 2011E DEC	FY 2011E	Q1 2012E MAR	Q2 2012E JUN	Q3 2012E SEP	Q4 2012E DEC	FY 2012E	Q1 2013E MAR	Q2 2013E JUN	Q3 2013E SEP	Q4 2013E DEC	FY 2013E
Income Statement																					
YOY	659%	-0.4%	5.4%	-31.4%	95.2%	4%	135.6%	75.5%	42.0%	-3.7%	53%	-17.7%	-19.4%	243.2%	684.0%	184%	753.5%	1176.0%	236.6%	26.8%	239%
QOQ		12.0%	36.5%	10.0%	16.1%			1.7%	-11.0%	-21.2%			-0.5%	279.1%	80.0%			48.8%	0.0%	-32.2%	
Auto Sales	111,943	20,585	23,971	23,350	29,172	97,078	33,628	30,855	30,369	20,960	115,813	33,373	33,176	145,297	267,089	478,936	337,570	505,630	505,630	340,570	1,689,401
Development services sales	-	227	4,434	7,891	7,114	19,666	15,402	19,000	14,000	14,000	62,402	7,000	7,000	7,000	7,000	28,000	7,000	7,000	7,000	7,000	28,000
Total Revenue	111,943	20,812	28,405	31,241	36,286	116,744	49,030	49,855	44,369	34,960	178,215	40,373	40,176	152,297	274,089	506,936	344,570	512,630	512,630	347,570	1,717,401
Cost of Auto sales	102,408	16,858	20,266	19,457	23,401	79,982	26,961	27,769	25,814	18,864	99,409	26,699	26,541	128,646	238,488	420,374	260,740	390,537	390,537	263,110	1,304,923
Cost of development svcs	-	102	1,878	2,488	1,564	6,032	4,041	8,550	6,300	6,300	25,191	3,150	3,150	3,150	3,150	12,600	3,150	3,150	3,150	3,150	12,600
Total COGS	102,408	16,960	22,144	21,945	24,965	86,014	31,002	36,319	32,114	25,164	124,600	29,849	29,691	131,796	241,638	432,974	263,890	393,687	393,687	266,260	1,317,523
Gross profit (loss)	9,535	3,852	6,261	9,296	11,321	30,730	18,028	13,535	12,255	9,796	53,615	10,525	10,485	20,501	32,451	73,962	80,681	118,944	118,944	81,311	399,879
GM	9%	19%	22%	30%	31%	26%	37%	27%	28%	28%	30%	26%	26%	13%	12%	15%	23%	23%	23%	23%	23%
R&D	19,282	13,265	15,416	26,698	37,617	92,996	41,162	43,500	43,800	44,300	172,762	43,600	43,600	43,900	44,400	175,500	37,600	37,600	37,600	37,600	150,400
SG&A	42,150	16,585	22,207	20,432	25,349	84,573	24,212	27,000	26,700	26,500	104,412	26,800	26,900	26,700	26,500	106,900	27,000	27,200	27,300	27,400	108,900
Total OpEx	61,432	29,850	37,623	47,130	62,966	177,569	65,374	70,500	70,500	70,800	277,174	70,400	70,500	70,600	70,900	282,400	64,600	64,800	64,900	65,000	259,300
Op profit (loss)	(51,897)	(25,998)	(31,362)	(37,834)	(51,645)	(146,839)	(47,346)	(56,965)	(58,245)	(61,004)	(223,559)	(59,875)	(60,015)	(50,099)	(38,449)	(208,438)	16,081	54,144	54,044	16,311	140,579
OM	-46%	-125%	-110%	-121%	-142%	-126%	-97%	-114%	-131%	-174%	-125%	-148%	-149%	-33%	-14%	-41%	5%	11%	11%	5%	8%
Interest income	159	48	47	100	63	258	40	40	43	31	154	20	37	26	0	82	0	0	0	0	-
Interest expense	(2,531)	(230)	(464)	(298)	-	(992)	-	-	-	-	-	-	(3,506)	(3,694)	(3,881)	(11,081)	(3,881)	(3,881)	(3,881)	(3,881)	(15,525)
Other income (expense)	(1,445)	(3,221)	(6,729)	3,180	187	(6,583)	(1,485)	-	-	-	(1,485)	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax	(55,714)	(29,401)	(38,508)	(34,852)	(51,395)	(154,156)	(48,791)	(56,925)	(58,202)	(60,973)	(224,890)	(59,856)	(63,484)	(53,767)	(42,330)	(219,436)	12,199	50,263	50,163	12,429	125,054
Tax	26	118	9	83	(37)	173	150	131	134	140	555	138	146	124	97	505	2,440	10,053	10,033	2,486	25,011
Net Income (Loss)	(55,740)	(29,519)	(38,517)	(34,935)	(51,358)	(154,329)	(48,941)	(57,055)	(58,335)	(61,113)	(225,445)	(59,993)	(63,630)	(53,890)	(42,427)	(219,941)	9,760	40,210	40,130	9,944	100,043
Adjusted EPS		(3.26)	(3.41)	(0.37)	(0.47)	(2.53)	(0.44)	(0.53)	(0.54)	(0.52)	(2.03)	(0.51)	(0.54)	(0.43)	(0.32)	(1.81)	0.16	0.41	0.38	0.14	1.08
YOY Growth			122%	-37%					-46%	-12%	19%	-17%	-2%	20%	38%	11%	131%	175%	189%	142%	160%



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