

Tesla Motors

Introducing 2011 Quarterly Estimates

With this note, we introduce 2011 quarterly EPS estimates for TSLA – 1Q11: -\$0.52; 2Q11: -\$0.53; 3Q11: -\$0.53 and 4Q11: -\$0.54. Our 2011 and 2012 EPS estimates remain unchanged following yesterday's revisions at -\$2.14 and -\$1.56, respectively. We maintain Dec-2011 price target of \$30, which we continue to derive on a DCF valuation.

Overweight

TSLA, TSLA US

Price: \$24.73

Price Target: \$30.00

Automobile Manufacture

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Price Performance



Tesla Motors, Inc. (TSLA;TSLA US)

| | 2010A | 2011E | 2012E | 2013E | 2014E | 2015E |
|-------------------|--------|--------|--------|-------|-------|-------|
| EPS Reported (\$) | | | | | | |
| Q1 (Mar) | | (0.52) | | | | |
| Q2 (Jun) | | (0.53) | | | | |
| Q3 (Sep) | (0.37) | (0.53) | | | | |
| Q4 (Dec) | (0.47) | (0.54) | | | | |
| FY | (2.54) | (2.14) | (1.56) | 1.45 | 1.15 | 3.10 |

Source: Company data, J.P. Morgan estimates.

Company Data

| | |
|-----------------------|---------------|
| Price (\$) | 24.73 |
| Date Of Price | 16 Feb 11 |
| 52-week Range (\$) | 36.42 - 14.98 |
| Mkt Cap (\$ mn) | 2,330.56 |
| Fiscal Year End | Dec |
| Shares O/S (mn) | 94 |
| Price Target (\$) | 30.00 |
| Price Target End Date | 31 Dec 11 |

See page 3 for analyst certification and important disclosures.

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Valuation

We derive our \$30 Dec-11 price target using DCF analysis (11.5% discount rate, 4% terminal growth, exclusive of 2011 burn). Our price target reflects a price/sales multiple of 1.4x, which is in line with the 1.5x average 2012E p/sales of A123, Ener1, BYD, discounted one year as we apply it to Tesla's 2013 sales. However, our \$30 target does imply a somewhat lofty 27x P/E on tax rate-adjusted 2013E EPS (versus its current multiple of 21x), although implied P/E is 17.1x if 10% EBIT margin is used (our margin forecast may be conservative at least in the initial years (guidance is 14-16%)). Since its 2003 start, Tesla has been singularly focused on developing pure electric vehicles (EVs). We think EVs and plug-in hybrids (PHEVs) both hold strong long-term promise given tightening environmental regulations and an increasingly green global consumer. Maintain Overweight.

Risks to Price Target and Rating

Downside risks: (1) Established luxury carmakers introduce competing vehicles that eventually prove performance and cost competitive to Tesla's technology. Audi, for example, is targeting a 2012 launch of its E-tron EV ultra luxury sports car, and Mercedes and Porsche have pure EV sports car plans in the works as well. (2) The manufacturing ramp of Model S is delayed notably. (3) Model S sales start cannibalizing Roadster sales. (4) Elon Musk (CEO) is a key executive whose loss to the company could potentially be fairly detrimental (he has a history of moving on once companies become successful). We see him as a visionary who drives Tesla to high technical and commercial targets.

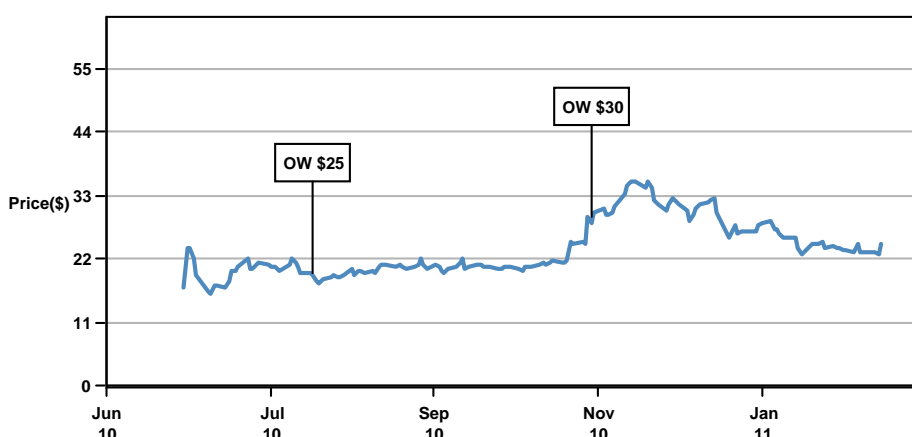
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Tesla Motors (TSLA) Price Chart



| Date | Rating | Share Price (\$) | Price Target (\$) |
|-----------|--------|------------------|-------------------|
| 09-Aug-10 | OW | 19.59 | 25.00 |
| 10-Nov-10 | OW | 29.36 | 30.00 |

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 09, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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