

May 4, 2011

Tesla Motors Inc.

They Just Keep Delivering, with Credibility Improving

Tesla 1Q11 operating results were stronger than we expected with Model S reservations and key milestones on track. The key feature of the quarter was strong revenue (14% higher than our forecast) and gross margin (37% vs. our 31% estimate). Cash consumption was also better than we expected, with Tesla consuming \$64mm vs. our expectations of \$83mm burn. However, this was mainly due to capex that was around one-half our forecast and should catch-up through the remainder of the year. Tesla raised its full year revenue guidance by \$10m (approx 6%). Model S reservations are running at a clip of 300 per month, more than double our expectations.

Key 1Q11 numbers:

- **Revenues.** \$49mm vs. MSe \$43mm and cons. \$43mm. A 14% beat. The revenue beat was split between Roadster revenue and Powertrain, while Development Services was in line. Roadster revenue per unit was roughly 10% higher than we expected.
- **Operating loss (US GAAP).** Came to (\$47mm) vs. MSe (\$54mm) driven by gross margin and lower SG&A. Stock-based comp was slightly lower than we expected, implying better cash earnings quality.
- **EPS (US GAAP).** (\$0.51) vs. MSe (\$0.57).
- **Net Debt.** Net debt came to \$2mm vs. MSe \$31mm, driven by free cash flow of negative \$64mm that was stronger than expected vs. MSe \$83mm cash burn. Gross liquidity stood at \$506mm vs. \$566mm at the start of the year and our end-of year forecast of \$362mm.

2011 Outlook: Tesla seems on track on all its milestone fronts, with its 15 Model S alpha builds complete and a beta build on track for completion by end-of-summer and ready for journalists to drive. **Likely direction of consensus estimates: modestly positive.** This is a decent beat with good quality results and an optimistic FY outlook that could trigger some relief for the stock.

Morgan Stanley & Co. Incorporated **Adam Jonas, CFA**
Adam.Jonas@morganstanley.com
+1 212 761 1726

Joshua Paradise, CFA
Joshua.Paradise@morganstanley.com
+1 212 761 4014

Ravi Shanker
Ravi.Shanker@morganstanley.com
+1 212 761 6350

Yejay Ying
Yejay.Ying@morganstanley.com
+1 212 761 7096

Key Ratios and Statistics

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

Shr price, close (May 4, 2011)	\$26.69
Mkt cap, curr (mm)	\$2,540
52-Week Range	\$36.42-14.98

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Exhibit 1

TSLA 1Q11 Performance Snapshot

Consolidated Snapshot (\$ mm)	1Q11P	MS Est	1Q10	vs. Est.	vs. LY
Revenues	49	43	21	12.8%	135.6%
<i>Growth Rate</i>	10.7%	10.7%	NM		
COGS	31	30	17	3.4%	82.8%
Gross Profit	18	13	4	33.8%	368.0%
<i>Gross Margin</i>	36.8%	31.0%	18.5%		
Research and Development	41	38	13	9.8%	210.3%
<i>R&D/Sales</i>	84.0%	86.3%	63.7%		
SG&A	24	30	17	-19.3%	46.0%
<i>SG&A/Sales</i>	49.4%	69.0%	79.7%		
Stock-based Compensation	6	7	3	-12.2%	75.0%
<i>% of Operating Expense</i>	10.0%	10.0%	11.3%		
Operating Profit (GAAP)	(47)	(54)	(26)	NM	NM
<i>Operating Margin</i>	-96.6%	-124.3%	-124.9%		
Operating Profit (Non-GAAP excl. Stock Comp)	(41)	(47)	(23)	NM	NM
<i>Operating Margin</i>	7.3%	7.3%	5.8%		
Pre-tax Income	(49)	(55)	(29)	NM	NM
Provision for income taxes	0	-	0	NM	27.1%
<i>Tax Rate</i>	-0.3%	-	-0.4%		
Ongoing Net Income	(49)	(55)	(30)	NM	NM
Extraordinary gains (charges)	-	-	-	NM	NM
Reported Net Income	(49)	(55)	(30)	NM	NM
Diluted EPS (Reported)	(0.51)	(\$0.57)	\$0.00	NM	NM
Diluted EPS (GAAP)	(0.51)	(\$0.57)	(\$4.04)	NM	NM
Diluted EPS (Non-GAAP excl. Stock Comp)	(0.45)	(\$0.50)	(\$3.58)	NM	NM

Source: Company data, Morgan Stanley Research

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(as of April 30, 2011)

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

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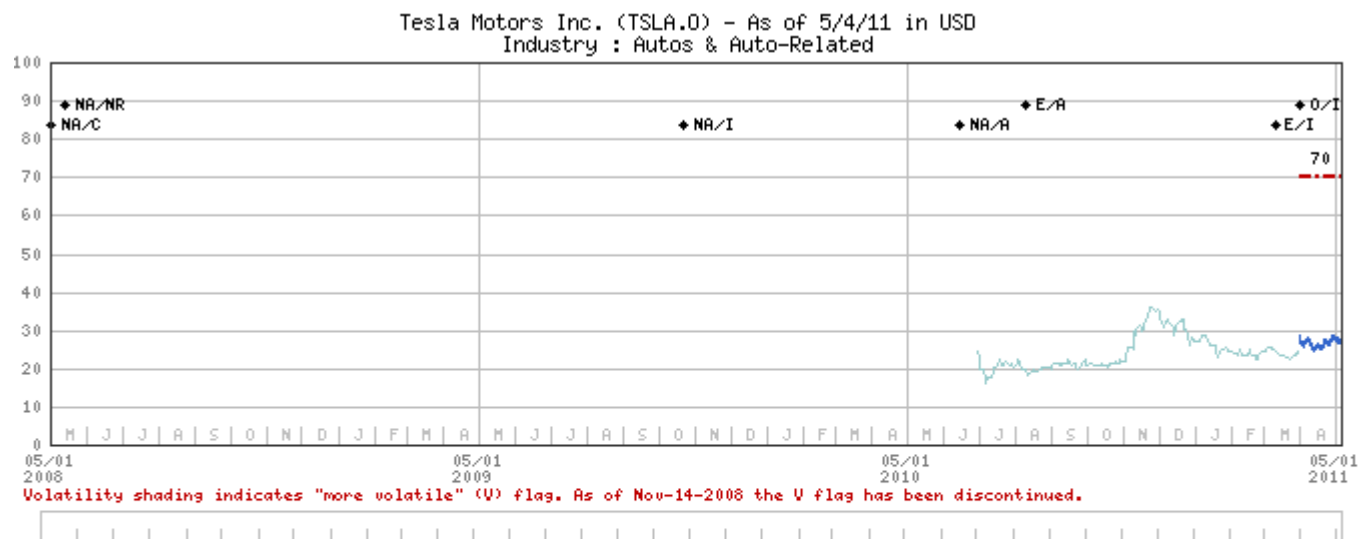
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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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)
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The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage: Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (05/04/2011)
Adam Jonas, CFA		
Ford Motor Company (F.N)	O (10/04/2010)	\$15.15
General Motors Company (GM.N)	O (12/28/2010)	\$33.04
Tesla Motors Inc. (TSLA.O)	O (03/31/2011)	\$26.69
Ravi Shanker		
AutoNation Inc. (AN.N)	U (03/10/2011)	\$34.39
BorgWarner Inc. (BWA.N)	O (10/22/2009)	\$74.33
Cooper Tire & Rubber Company (CTB.N)	O (03/16/2010)	\$25.59
Goodyear Tire & Rubber Company (GT.N)	O (03/10/2011)	\$17.59
Group 1 Automotive, Inc (GPI.N)	U (10/22/2009)	\$41.73
Johnson Controls, Inc. (JCI.N)	O (06/14/2010)	\$39.7
Lear Corporation (LEA.N)	U (09/23/2010)	\$50.33
Magna International Inc. (MGA.N)	U (03/10/2011)	\$51.39
Meritor Inc (MTOR.N)	O (09/23/2010)	\$16.72
Penske Automotive Group, Inc (PAG.N)	U (10/22/2009)	\$21.81
TRW Automotive Holdings Corp. (TRW.N)	O (09/10/2010)	\$56.15
Tenneco Inc. (TEN.N)	U (09/23/2010)	\$43.08

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