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Tesla Motors, Inc.

(TSLA: NNM; $29.48)

Sell | Target: $19

May 27, 2011

Carter Driscoll, CFA / 973-821-4330 /
carter@capstoneinvestments.com

Company Statistics

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.

FOR INSTITUTIONAL CONSIDERATION ONLY.
FOR REQUIRED DISCLOSURES, INCLUDING ANALYST CERTIFICATION, PLEASE REFER TO THE IMPORTANT DISCLOSURES STARTING ON PAGE 5 OF THIS REPORT.

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					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
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	
Defd 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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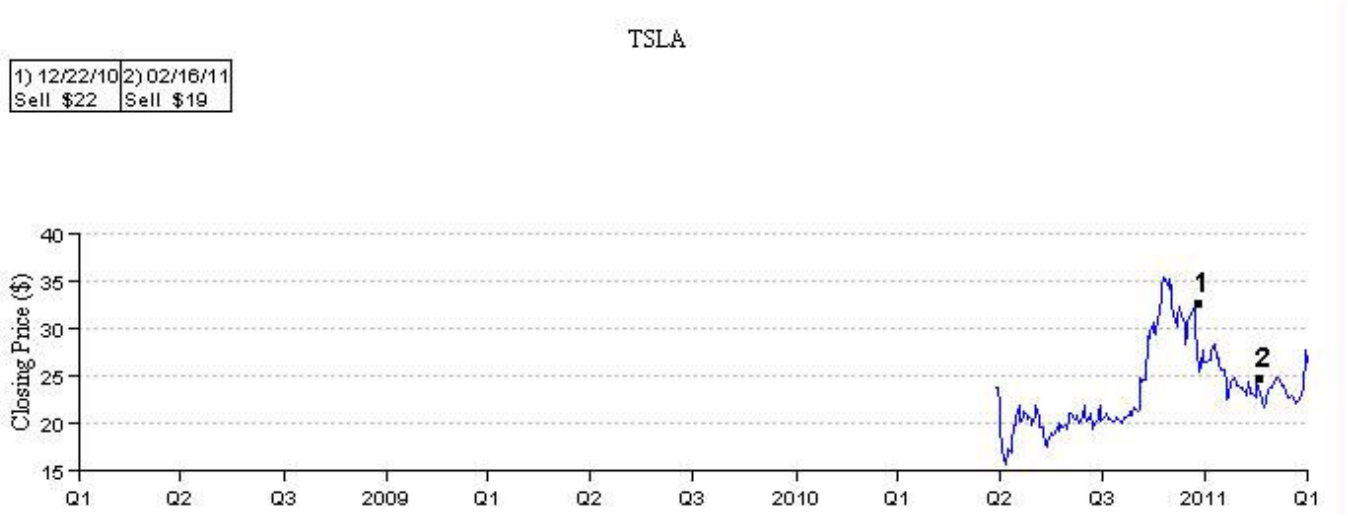

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Company	Disclosure
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Tesla Motors

Deal Size Not Surprising; Daimler Signals Confidence in Tesla - ALERT

Overweight

TSLA, TSLA US
Price: $28.98

25 May 2011

Automobile Manufacture

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J.P. Morgan Securities LLC

Tesla yesterday filed to do a follow-on equity offering that seems likely to raise about low-$200MM in proceeds. The deal size is largely in line with our expectations (perhaps not as big as some may have worried). It is encouraging to see CEO Musk and Daimler buy in the offering (Daimler's goal was to not be diluted). Offering proceeds will be used primarily to accelerate the commercial launch of Model X vehicle (crossover variant of Model S), which is now expected to be have customer deliveries in 4Q:13, about 1.5 years after deliveries start for the Model S, also largely in line with JPM expectations.

- **Offering details:** TSLA is planning to sell 7.4MM shares, including private placements to the CEO and Daimler, and a potential overallotment to underwriters. 5.3MM shares will be directly sold to the public, and underwriters will have an option to buy an additional 0.795MM shares. The CEO, Elon Musk, will purchase 1.5MM shares in a private placement (largely repurchasing the shares he sold initially during the IPO) – his current 29.1% stake in TSLA is likely to be diluted only modestly (to ~28.5%). Daimler's investment arm, Blackstar Investco LLC, will maintain its ownership stake (7.8%) in the company by purchasing an additional 0.577MM shares (0.6MM shares including overallotment). Daimler's choice to not be diluted is a healthy vote of confidence in Tesla's prospects and in the two companies' commercial ties. On the other hand, Toyota (with 3%+ stake in TSLA) and Panasonic (~1.5% stake) chose to not buy additional shares as part of this offering (as a result, their respective stakes will be slightly diluted), but they are also not selling any of their existing shares.

- **Size of the offering not very surprising:** 7.4MM shares sold at yesterday's close would hypothetically raise about ~$215MM gross, expected to be used to fund Model X development and likely some production shift capacity expansion. At a high level, the deal size would seem to reaffirm that the Model X's engineering/development cost is expected to be considerably less than the Model S's (~$150MM vs. ~$500MM), due to platform/powertrain sharing, and that the Model S is not incurring any material cost over-runs.

Please click below for our last note discussing likelihood of equity offering:
Tesla Motors: 1Q Revenue and Margin Upside; Model S Bookings Grow; Equity Deal Likely

See page 2 for analyst certification and important disclosures.

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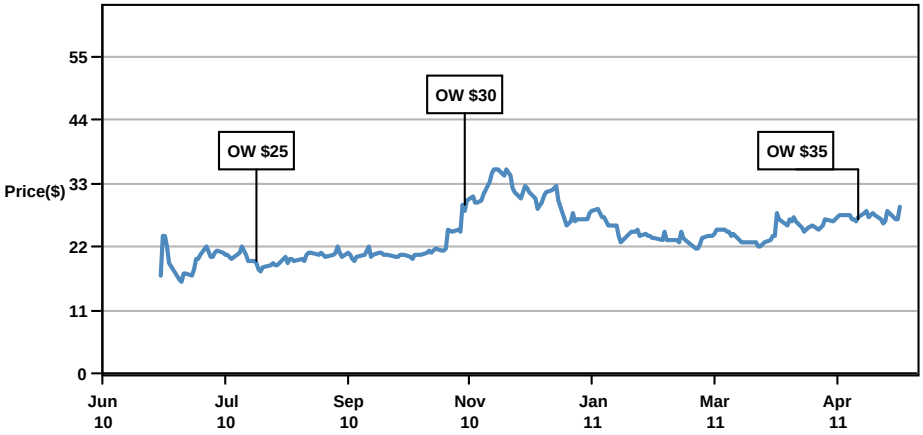
Tesla Motors (TSLA) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
09-Aug-10	OW	19.60	25.00
10-Nov-10	OW	29.36	30.00
05-May-11	OW	26.69	35.00

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.
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IB clients*	50%	45%	33%
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IB clients*	70%	62%	56%

*Percentage of investment banking clients in each rating category.
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Request your ballot.

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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(as of April 30, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	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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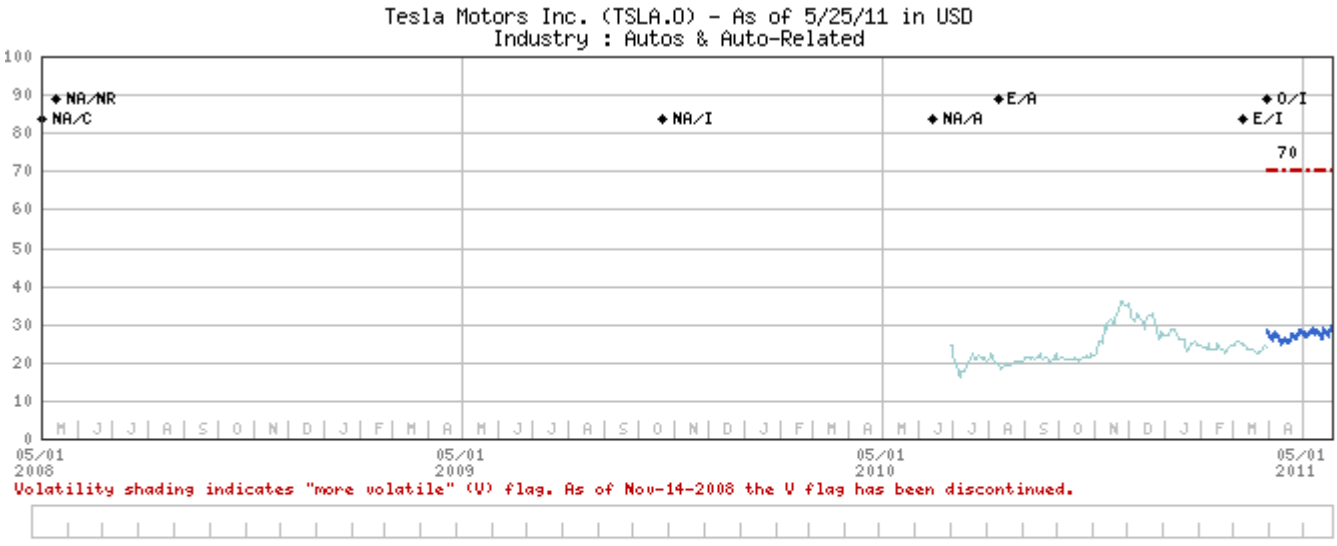
Stock Price, Price Target and Rating History (See Rating Definitions)



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)

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Industry Coverage:Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (05/25/2011)
Adam Jonas, CFA		
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
Ravi Shanker		
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

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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May 26, 2011

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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
Mar	-3.26A	-0.44A	-0.51	0.16
Jun	-3.41A	-0.53	-0.54	0.41
Sep	-0.37A	-0.54	-0.43	0.38
Dec	-0.47A	-0.52	-0.32	0.14
FY	-2.53	-2.03	-1.81	1.08
Revs ($'000)				
Mar	$20,812A	$49,030A	$40,373	$344,570
Jun	$28,405A	$49,855	$40,176	$512,630
Sep	$31,241A	$44,369	$152,297	$512,630
Dec	$36,286A	$34,960	$274,089	$347,570
FY	$116,744	$178,215	$506,936	$1,717,401
Mkt Cap/Rev	24x	15x	5x	2x

Price	$28.98
12-Month Target	$40.00
52-Week Range	$14.98-$36.42
Diluted Shares ('000)	95,187
Market Cap ('000)	$2,758,519
Avg. Daily Vol	741,838
3-5 Yr. Revenue Growth	20%+
3-5 Yr. EPS Growth	20%+
Book Value	$1.76
LT Debt / Total Capital	38%
Insider Ownership	57%
Est. Q2 Reporting Date	Aug '11

*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 LLC[1] 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.

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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.)

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	Actual							Estimated						Model S Begins							
TESLA	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 svs	-	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	37,800	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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Dougherty & Co Current Ratings Distribution	
Rating	**% Total**
Buy	66.94
Neutral	31.4
Sell	1.65

Percent of research companies within each of the three rating categories (Buy, Neutral, Sell) for which Dougherty & Company LLC has provided investment banking services within the last 12 months: Buy = 9%; Neutral = 3%; Sell = 0%.

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26 May 2011 - 10:02:02 AM EDT

COMPANY ALERT

Tesla Motors

Inclusion of CEO and Daimler in TSLA offering a positive

Company Update

Hold

Reuters:TSLA.OQ Exchange:NMS Ticker:TSLA

Price (USD)	**28.98**
Price target	**24.00**
52-week range	**35.47 - 15.80**
Market Cap (USD)	**2,907.3**
Shares outstanding (m)	**100.3**
Free float (%)	**100**
Volume (25 May 2011)	**1,580,712**
S&P 500 INDEX	**1,320.47**

FYE 12/31	2010A	2011E	2012E
1Q EPS	–	–	–
2Q EPS	–	–	–
3Q EPS	–	–	–
4Q EPS	–	–	–
FY EPS (USD)	-2.55	-1.93	-0.96
P/E (x)	–	–	–

* Includes the impact of FAS123R requiring the expensing of stock options.

Tesla Motors filed an S-1 yesterday, announcing a 5.3MM share public offering and a concurrent private placement to Daimler (644.5k shares) and CEO Elon Musk (1.5MM shares). Assuming exercise of the 795k share green-shoe, total proceeds would be $239MM at yesterday's close. On current diluted shares of approx 104MM, the offering represents 8% dilution. TSLA has mentioned the potential for an approximate $100MM raise on its last two conference calls, so the offering should not be a surprise. The inclusion of CEO Musk (current 26% holder) and Daimler (current 7.2% holder) was unexpected, and we see this as a significant sign of confidence in the outlook. Our current forecast (prior to this offering) had cash levels getting relatively low by the time the Model S launches in mid-2012, so we see a proactive offering as a positive from a risk standpoint, as well as potentially enabling an acceleration of future product launches. For example, Tesla is projecting the Model X (a crossover vehicle off the Model S platform) to begin production in 4Q13, one year earlier than we had originally modeled. Proforma for this offering, we estimate enterprise value of $3.45 bn, including equity value of $3.26 bn (~112.5MM proforma diluted shares at yesterday's close) and 2012YE net debt of $185MM (fully drawn DOE loan of $465MM less $281MM of cash). This is 10.8x / 8.1x our 2013 / 2014 EBITDA estimates of $319MM / $424MM. On a P/E basis (with earnings adjusted for a normalized 25% tax rate), the equity is trading at 17.5x / 12.5x 2013 / 2014 net income. We maintain our Hold rating and $24 price target for TSLA.

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The Institutional Investor 2011 All-America Research Team Survey is now open for voting. We would appreciate your vote as part of the feedback that helps us understand who you value and align our research offering with your needs.

Request your ballot.

May 10, 2011

Stock Rating
Overweight

Industry View
In-Line

Tesla Motors Inc.

The Small Wins Matter

Tesla met or beat expectations on just about every key operating metric, milestone and guidance point the market could focus on for Q1. Revenues beat by 14%, gross margins improved to 37% vs. 31% last quarter. They lost less money and they burned less cash than we expected. We'd note the cash flow was helped by capex that was 1/2 our estimate, and this should catch-up through the rest of the year. Importantly - Model S reservations are running at around 300 per month, more than double our expectations.

Tesla aims to have a Model S beta build by the end of the summer that can be properly thrown around a test track by journalists. *We recommend investors own this stock before that happens.* Other catalysts include accelerating Model S reservations, new store openings and the presentation of the Model X prototype by the end of the year. While impossible to model, these are real catalysts that we think can move this stock.

Raising estimates through 2012. $70 price target unchanged. We have made some adjustments to our model following the better than expected 1Q result. For 2011, our revenue expectation rises to $184m from $171m previously, just inside the high end of management's range of $170m to $185m. Our revenues are based on 570 units of Roadster, $46m of powertrain sales and $60m of development services sales. Our US GAAP EPS improves to ($2.10) from ($2.33) previously, based on rest-of-year losses slightly higher than the 1Q run-rate. Despite the low level of capex in 1Q, we expect Tesla full-year capex to reach $195m (near the low-end of the company's $190m to $215m target). Our 2012 EPS improves to ($2.28) from ($2.80) previously on changes to the timing of SG&A and R&D expenses vs. our previous forecasts. Our free cash flow (and gross liquidity) est. improve slightly.

Bottom line: Since their IPO, these guys just keep delivering on multiple fronts. Our $70 target is clearly based on far longer-term developments for top-line growth, but it all starts with these small but very important wins. $70 PT offers 151% upside, on revenue est. roughly 3x consensus in the out years. On our forecasts, Tesla's biggest financial challenge comes in 2013 when gross liquidity falls to $156m.

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Key Ratios and Statistics

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

Price target	**$70.00**
Shr price, close (May 9, 2011)	$27.91
Mkt cap, curr (mm)	$2,679
52-Week Range	$36.42-14.98

Fiscal Year ending	**12/10**	**12/11e**	**12/12e**	**12/13e**
ModelWare EPS ($)	**(3.04)**	**(2.10)**	**(2.28)**	**(0.64)**
Prior ModelWare EPS ($)	**-**	**(2.33)**	**(2.80)**	**(0.75)**
P/E	**NM**	**NM**	**NM**	**NM**
Consensus EPS ($)§	**(2.53)**	**(2.05)**	**(1.52)**	**1.30**
Div yld (%)	-	-	-	-

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates

Quarterly ModelWare EPS

Quarter	2010	2011e Prior	2011e Current	2012e Prior	2012e Current
Q1	(4.04)	-	(0.51)a	(0.61)	(0.61)
Q2	(5.04)	(0.56)	(0.51)	(0.62)	(0.66)
Q3	(0.38)	(0.59)	(0.55)	(0.47)	(0.55)
Q4	(0.54)	(0.60)	(0.52)	(0.41)	(0.47)

e = Morgan Stanley Research estimates, **a =** Actual company reported data

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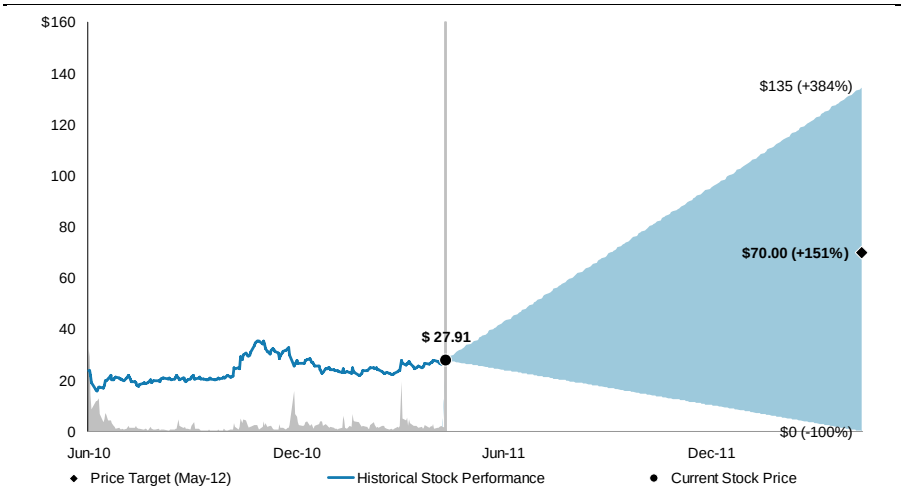
For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Risk-Reward Snapshot: Tesla Motors (TSLA, OW, PT $70)

There are few things in business as risky as starting an auto company – especially one that relies on entirely new technology that is not likely to be competitive vs. the established internal combustion engine for more than a decade. However, conditions are ripe for new entrants and we believe Tesla can be a significant volume player in the auto industry. We believe the market for xEVs (plug-in-hybrids or PHEVs and pure EVs) is underestimated as rising oil prices and government support accelerate the shift away from the internal combustion engine. This shift has made room for entirely new players to join the ranks of currently entrenched OEMs, and has afforded Tesla the opportunity to establish itself as America's fourth automaker. The biggest risk remains Tesla's own execution of its plan. Despite its extremely risky profile, the 151% upside to our base case $70 price target is enough to justify an Overweight rating.



Source: FactSet (historical share price data), Morgan Stanley Research estimates

We argue Tesla cannot be valued on near-term multiple metrics like traditional auto companies given that we expect Tesla to multiply revenues by more than 20x from 2010 to 2015, by more than 80x by 2020 and over 160x by 2025. We have thus chosen a 15-year time horizon for our DCF which captures the full utilization of Tesla's manufacturing capacity in Fremont, the full maturation of the Model S, Model X (and top-hat derivatives) and also the ramp up of its mass market electric vehicle (the Gen 3). We have applied a 12% WACC with a range of 10% to 14%. The terminal value accounts for around 60% to 70% of the total DCF value across the range of methodologies we have applied to arrive at our $70 PT.

Bull Case $135	**Production far beyond Fremont.** Global car market runs at 3.4% CAGR through 2025. Global xEV penetration at 7% by 2020 and 21% by 2025. Tesla EV share peaks at 11% and >8% long term. Pricing similar to base case. Mix stable over time due to higher contribution from Model S and Model X and higher content uptake on Gen 3. Break-even OP reached in 2013, OP margin peak at 23%, normalize at just under 20%.
Base Case $70	Significant EV player, fully utilizes Fremont. Global car market runs at 3.2% CAGR through 2025. Global EV penetration at 5.5% by 2020 and 15% by 2025. Tesla xEV share peaks at <4% and runs at 2.5% long term. Pricing grows slightly - up in the early years, down in the later years. Mix driven down over time by growth in mass market with Gen 3 dominating the volume. Break-even OP reached in early 2014, OP margins peak at 17%, normalize at 13%.
Bear Case $0	Cash burn exceeds available liquidity by 2013/2014. Global car market runs at 1.9% CAGR through 2025. Global xEV penetration at 2.5% by 2020 and 6.2% by 2025. Delays to Model S lead to cost overruns not adequately funded by additional capital sources. A not uncommon outcome for many new technology start-ups.

Why Overweight?

- We forecast grid-enabled vehicles (plug-in hybrids and pure electric vehicles) will comprise 5.5% of global car sales by 2020 and 15% by 2025.
- A high oil price helps sway both consumer and political forces to support widespread electrification of the automotive fleet.
- No attachments to the established belt-driven internal combustion technology allows 100% focus on new technological challenges.
- Strategic cooperation and ownership relationships with Daimler, Toyota and Panasonic lend credibility and validation to Tesla's strategy.
- Acquisition of former NUMMI facility from Toyota enables manufacturing scale to be a high volume producer.

Key Investment Risks

- Missteps in the execution of the Model S sedan (and derivatives) could jeopardize the ability of Tesla to participate in the mass EV market.
- Evolution of cost and performance of battery technology vs. ever-improving internal combustion engines.
- Stiff competition from other OEMs as they develop their own xEVs.
- Significant long-term government coordination required to provide incentives to foster the application of new battery technologies, consumer taste and grid infrastructure necessary for EV adoption.
- Significant delays to Model S and inability to raise new equity could challenge min. liquidity thresholds.

Current Valuation

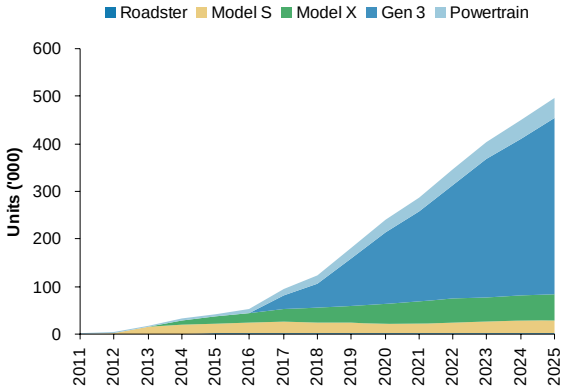
- Tesla trades on 109% EV/Sales and 8.9x EBITDA on our 2015 estimate. Tesla trades at 18.5x 2015e P/E and 4.0x 2020e P/E.

Potential Catalysts

- Strategic tie-ups, Model S milestones, quarterly results, estimated 2H capital increase.

Tesla Market Position and Strategic Snapshot

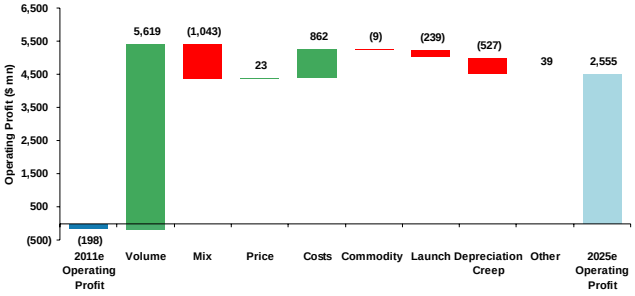
Tesla unit volume by model line, 2011 to 2025e



Tesla Liquidity vs. Cash Burn through 2015e ($mm)

	2010	2011E	2012E	2013E	2014E	2015E
Liquidity vs. Burn Profile						
Cash	100	153	157	156	226	226
Restricted Cash	74	0	0	0	0	0
Undrawn DOE Loan	393	209	16	0	0	91
Other	0	0	0	0	0	0
End-of-Period Liquidity	**566**	**362**	**173**	**156**	**225**	**317**
Beginning-of-Period Liquidity		566	362	173	156	225
Free Cash Flow (Burn)		-354	-189	-17	69	92
Capital Increase		150	0	0	0	0
End-of-Period Liquidity	**566**	**362**	**173**	**156**	**225**	**317**

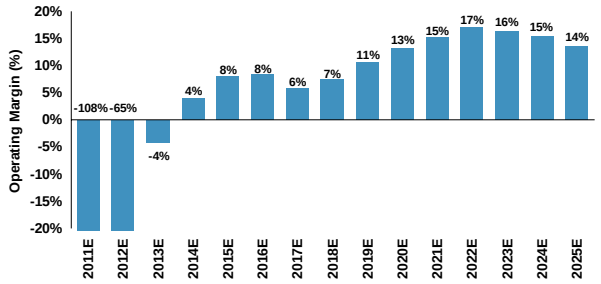
Tesla Operating Profit Bridge, 2011 to 2025e ($m)



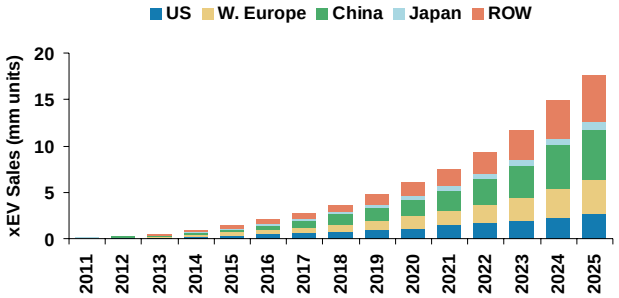
Tesla: DCF Sensitivity to WACC and EV/EBITDA ($)

WACC \ EV/EBITDA	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0
6.0%	95	108	120	132	144	156	168	180	192
8.0%	74	83	93	102	111	120	129	139	148
10.0%	58	65	72	79	86	93	100	107	114
12.0%	45	51	56	61	**67**	**72**	78	83	88
14.0%	36	40	44	48	52	56	60	65	69
16.0%	28	31	34	38	41	44	47	50	54
18.0%	22	24	27	29	32	34	37	39	42
20.0%	17	19	21	23	25	27	29	31	33
22.0%	13	15	17	18	20	21	23	24	26
24.0%	10	12	13	14	15	16	18	19	20
26.0%	8	9	10	11	12	13	14	15	16

Tesla: Operating Margin, 2011e to 2025e (%)



Global EV Sales Penetration by through 2025



e = Morgan Stanley Research estimates

Source: Company data, FactSet, Morgan Stanley Research

Key catalysts to watch out for

How do we get there? Our recent Tesla upgrade "America's Fourth Automaker" (March 31, 2011) is based on top-line assumptions that are >3x above consensus longer-term. Investors are asking us what is the path to unlock value nearer-term? We identify six catalysts that we believe can move the stock in 2011:

(1) Capital raise: we estimate that Tesla's gross liquidity bottoms at $156m in 2013, after a $150m equity raise, which we model in 2H11. A key positive catalysts could be the completion of a sufficient capital raise to diminish concerns that Tesla would have insufficient capital to produce and ship the Model S, fund the design of the Model X, and build a distribution network. Without the capital raise, we believe Tesla would have to slow expansion plans.

We would also view as an incremental positive if strategic partners Daimler, Toyota or Panasonic invest additional capital. Note that foreign entities would have to file Hart–Scott –Rodino (HSR) if their investment exceeded $66m.

(2) Oil price moves. On our calculations, a $10 rise in global oil prices is worth ~5% to Tesla shares. A $1 move in US gas prices is worth 13% to Tesla shares as higher gas prices increase the attractiveness of electric vehicles and reduce the payback period. Tesla offers a hedge against rising oil prices, the function of an EV costing around 3 cents per mile of electric energy usage vs. around 15 cents per mile for a typical internal combustion vehicle. The typical US driver buys 480 gallons of gas per year. The burden of a $1 increase in gas price has an NPV cost of $3,500, equal to 25 to 30% of the cost of a 100-mile-range EV battery ($12,500). Seen another way, $1 rise in gas price reduces the payback period of an EV battery from 9.5 to 6.9 years at $500 per KWh and 25mpg for internal combustion engine.

(3) Powertrain wins. Daimler currently uses Tesla's battery packs and chargers in electric versions of the Smart ForTwo and the A-class. Toyota plans to use Tesla's entire electric powertrain including the motor, battery pack, power management system, and charger in a new electric version of the RAV4 small SUV, which Tesla is developing with Toyota. Toyota is paying Tesla $69m over 5 quarters for development of the RAV4 powertrain, accounting for 35% of 2011e revenues. To date, the anticipated volumes on the Daimler and Toyota powertrain agreements are small, typically below 2,000 units, but they serve as validation of Tesla's technology. Higher volumes and/or additional OEM agreements would be a significant positive catalyst.

(4) Further detail on upcoming models, esp. the Gen 3: We expect TSLA could show a concept version of its Model X crossover as early as the LA Auto Show this November. We believe any glimpse into the future model pipeline at TSLA could soothe investor fears about over-reliance on the Model S. This is especially true of the "Gen 3," a lower-priced higher volume Tesla which we forecast to launch in 2017 with 30,000 units, and grow to 370,000 units by 2025, accounting for over 80% of Tesla's vehicle volumes. TSLA itself has made few public statements about the Gen 3 and we believe most analyst models reflect little value. There is significant skepticism that battery costs will come down quickly enough to sell an electric vehicle around $30,000. If management starts sharing more details about the Gen 3 with investors, the market could start to incorporate Gen 3 volumes into forecasts, potentially driving upside in the shares.

If we exclude Gen 3 from our forecast, our DCF-based value and our 2025 EPS would each be 55% lower; our DCF without Gen 3 falls to $32 per share and our EPS in 2025 falls to $5.85. As management starts planning the Gen 3, and the market starts to incorporate Gen 3 volumes into forecasts, we see upside to the shares.

(5) Road test reports of the Model S could be on newsstands as early as 4Q11. A positive review would reduce skepticism that deliveries will begin on time in mid-2012 and would likely increase the pace of reservations. We forecast that by the time Model S production begins, Tesla will have over 6,500 reservations, creating a backlog of nearly six months of production.

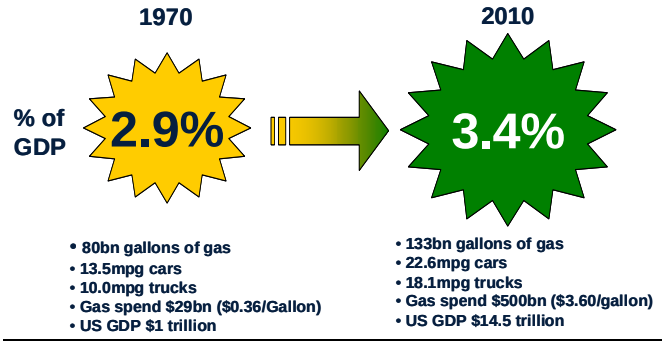
We don't expect Tesla to hit $70 overnight, nor in a straight line. Our forecasts and valuation approach are radically different from the prevailing view. Our thesis requires a combination of near-term execution and long-term industry developments to come to fruition.

The ultimate hedge against higher oil?

The political push for EVs: Governments worldwide have a strategic interest in reducing transportation dependence on foreign oil. The statistics speak for themselves. At $3.60 per gallon, Americans spend roughly $0.5 trillion on gasoline for personal transport each year. This amount accounts for approximately 3.4% of US GDP. Personal transport accounts for the largest portion of the $1tn in total US oil demand (half of which is imported). By comparison, the 2010 US Department of Education annual budget was approximately $50bn. Such an enormous dependence of the US economy on foreign oil alone creates a great incentive for the Federal government to have a hand in creating conditions for grid-enabled-vehicles to thrive. The incentive to create green manufacturing jobs is augmented by sluggish growth and high unemployment.

Exhibit 1

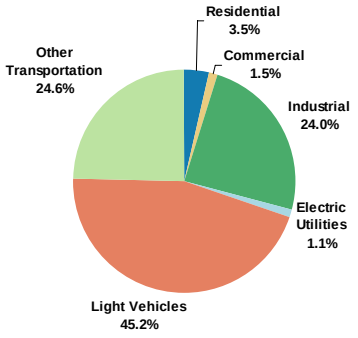
US economy, environment and national security threatened by dependence on oil (gas spend/GDP)



Source: US Transportation Energy Book, Morgan Stanley Research.

Exhibit 2

Light vehicles for personal use accounts for nearly ½ of US oil consumption



Source: US Transportation Databook, Morgan Stanley Research.

The key impediment for EVs: Battery costs are too high and today's cars are too good. While the initial uptake of xEVs will be driven by early adopters, long-term demand will depend on whether xEVs can become financially viable. Viability can be defined as (1) upfront cost premium: if the cost of entry is too high, operating cost savings will not even matter. It is encouraging to see many initial EV launches in the $25-50k range before radical technology breakthroughs. (2) ability to reach breakeven vs. running cost savings.

Prevailing gasoline prices and fuel economy of internal combustion engine will significantly influence the payback period for xEVs. All else equal, a $1 increase in gas price per gallon would reduce the payback period of purchasing an xEV by roughly 2.5 years. Each 5mpg increase in ICE fuel economy extends the payback by >2 years.

A $1 rise in US gas price could be worth 13% to Tesla's share price. Each $1 of gas price per gallon is a projected $103bn annual operating cost increase to light vehicle consumers in the United States based on our projection of gasoline consumption for personal transport by 2025. Assuming 15% of this burden shifts to xEVs with Tesla taking a 6% share of the US xEV market adds $233m of incremental EBITDA by 2025 and $3.40 per Tesla share.

Exhibit 3

US gasoline analysis – sensitivity to Tesla value

Annual gasoline usage for personal transport (bn gallons)	138
2025 projected gasoline usage for persaonal transport (bn gallons)	103
Gasoline price ($)	3.95
Annual US gasoline expenditure for light vehicles ($bn)	409
Gas price increment ($)	1.00
Burden of $1 move in gas price on light vehicle consumers (bn)	103
% of burden moving to xEV demand	15%
Value of burden moving to xEV demand ($bn)	15.5
Tesla share of US xEV market by 2025 (%)	6.0%
Value of incremental Tesla sales in 2025 ($mm)	931
Incremental margin on Tesla sales (%)	25%
Incremental EBITDA for Tesla ($m)	233
2025 EBITDA multiple (x)	8.5
Additional terminal value ($m)	1,978
WACC (%)	12%
PV of additional terminal value ($mm)	361
Tesla shares outstanding (m)	107
Increased value per Tesla share ($)	3.4
Tesla share price ($)	28
% of current Tesla Share price (%)	12%

Source: Company data, Morgan Stanley Research

How do you value Tesla?

Market View: Heavily sentiment driven. Take a 3 to 5 year view based on execution of 'milestones' like Roadster sales and Model S launch deliverables. Tough to take a long-term view.

Our view: Must take a long-term view to value Tesla. The company either succeeds as a high-volume EV player or may ultimately not be viable as a stand-alone company.

We value Tesla on a 15-year DCF: At some level, Tesla is an exercise in investment fundamentalism – you either believe in the wide spread adoption of electric vehicles, or you don't. Clearly, we believe in the adoption of electric vehicles as an increasingly viable competitor to the internal combustion engine. However, even in our more optimistic scenarios, we have to allow for the gradual ramp-up of xEV penetration through at least 1 or 2 engineering cycles, particularly given the early stage development of applied battery technology, as well as the radical changes required to the regulatory environment, the electric utility industry and consumer perceptions.

At the current price, Tesla valuation does not begin to make sense until 2015. That is, unless you think 15.4x 2014e EBITDA is cheap - which we do not. Tesla currently trades at more than 2x 2013e EV/Sales. We'd have to roll forward to 2015 before the first "reasonable" P/E multiple of 18.5x. On our forecast, by 2016 Tesla will have achieved an essentially debt-neutral position and an EV/EBITDA multiple (on today's balance sheet) of 7.0x. Interpolating through our 15-year DCF, we believe the current Tesla price assigns the company a viable 4%-type share of an emerging/niche EV market who's long term independence may be questioned. Among any number of scenarios, we believe the current price discounts Tesla sales reaching 100 to 150k units with operating margins peaking at 12% and normalizing at 5.5%, roughly one-third the company's long term OP margin target of 15%.

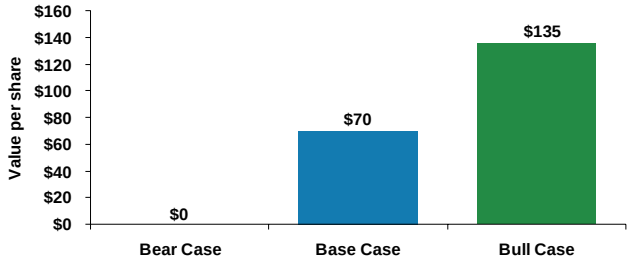
Our valuation on near term earnings figures looks even more expensive. On our forecasts, Tesla equity is worth roughly $7.5bn, an amount roughly equal to a level of sales we expect Tesla to achieve by 2019. On any valuation metric one would use to value a traditional auto company over a typical earnings horizon of 2 to 3 years, Tesla will appear anything but cheap.

Our DCF valuation is highly sensitive to a number of key variables:

- **Discount rate.** Every 200bps of discount rate is worth roughly $20 to Tesla's share price around the 12% level we have applied. In its most recent employee stock option pricing exercise (June 9th, 2010), Tesla applied a range of discounts from 14.5% to 20.0%, trending down from the 30% to 40% range applied in 2008 and early 2009.
- **EV/EBITDA multiple.** Each 1 turn of EV/EBITDA multiple is worth around $6 of Tesla share price at the 12% WACC level.
- We can account for Tesla's current market cap with our cash flow from 2011 to 2024. This triangulates to the fact that two-thirds of our DCF valuation for Tesla is accounted for by the terminal value.
- In our opinion, the next 3 years will be critical to determining Tesla's long term viability. The following 7 years will determine if Tesla is a winner.

Exhibit 4

Tesla: Valuation by scenario analysis ($)



Source: Morgan Stanley Research

Exhibit 5

Tesla: DCF sensitivity to WACC and EV/EBITDA ($)

		EV/EBITDA								
		4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0
	6.0%	95	108	120	132	144	156	168	180	192
	8.0%	74	83	93	102	111	120	129	139	148
	10.0%	58	65	72	79	86	93	100	107	114
	12.0%	45	51	56	61	67	72	78	83	88
	14.0%	36	40	44	48	52	56	60	65	69
WACC	16.0%	28	31	34	38	41	44	47	50	54
	18.0%	22	24	27	29	32	34	37	39	42
	20.0%	17	19	21	23	25	27	29	31	33
	22.0%	13	15	17	18	20	21	23	24	26
	24.0%	10	12	13	14	15	16	18	19	20
	26.0%	8	9	10	11	12	13	14	15	16

Source: Morgan Stanley Research

Key assumptions behind our 15-year DCF for Tesla. Given the very early-stage time in the company's lifecycle, we believe it is imperative to value Tesla on long-term basis that captures the transformational developments to the top line. We expect Tesla to multiply revenues by over 20x from 2010 to 2015, by more than 80x by 2020 and over 160x by 2025. Needless to say, we argue Tesla cannot be valued on traditional multiple metrics like traditional auto companies. We have chosen a 15-year time horizon for our DCF which captures the full utilization of Tesla's manufacturing capacity in Fremont, the full maturation of the Model S, Model X (and top-hat derivatives) and also the ramp up of its mass market electric vehicle (the Gen 3). We have applied a 12% WACC with a range of 10% to 14%. The terminal value accounts for around 60 to 70% of the total DCF value across the range of methodologies we have applied. We have treated stock-based compensation as a cash expense in the forecast period.

- **Unit volume:** We expect Tesla's unit volumes to grow at a CAGR 47% over the next 15 years. By 2015, we forecast unit volumes of over 42,000, ballooning to almost 500,000 by 2025.
- **Revenues:** We expect revenue to grow at a 40% CAGR over the next 15 years. As Tesla introduces more mainstream models such as the Model S, Model X, and eventually the Gen 3, we forecast average selling price (ASP) will drop 41% from $62,956 in 2010 to $37,451 in 2025.
- **Operating Profit:** We project Tesla to first achieve positive operating profit in 2014, with margins peaking at 17% in 2022.
- **Free Cash Flow:** We project Tesla to first generate positive free cash flow in 2014 and to grow at a 37% CAGR thereafter.

Exhibit 6

Tesla: Summary 15-year DCF Analysis

	FY 2010A	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Unit Volume	1,542	2,420	5,240	18,566	32,976	42,329	53,268	94,786	123,344	181,801	240,194	287,512	346,178	403,221	449,606	496,454
% Growth		*57%*	*117%*	*254%*	*78%*	*28%*	*26%*	*78%*	*30%*	*47%*	*32%*	*20%*	*20%*	*16%*	*12%*	*10%*
Automotive Revenue Per Unit ($)	62,956	51,154	55,606	68,843	67,795	63,016	60,912	48,045	44,313	41,007	39,372	39,143	39,064	37,184	37,270	37,451
% Growth		*-19%*	*9%*	*24%*	*-2%*	*-7%*	*-3%*	*-21%*	*-8%*	*-7%*	*-4%*	*-1%*	*0%*	*-5%*	*0%*	*0%*
Automotive Sales	97	124	291	1,278	2,236	2,667	3,245	4,554	5,466	7,455	9,457	11,254	13,523	14,994	16,757	18,593
Development Service Sales	20	60	60	63	66	69	73	77	80	84	89	93	98	103	108	113
Total Sales	**117**	**184**	**351**	**1,341**	**2,302**	**2,737**	**3,318**	**4,631**	**5,546**	**7,540**	**9,545**	**11,347**	**13,621**	**15,096**	**16,865**	**18,706**
% Growth		*58%*	*91%*	*282%*	*72%*	*19%*	*21%*	*40%*	*20%*	*36%*	*27%*	*19%*	*20%*	*11%*	*12%*	*11%*
EBITDA	**(143)**	**(178)**	**(169)**	**41**	**194**	**336**	**427**	**466**	**642**	**1,083**	**1,569**	**2,070**	**2,710**	**2,932**	**3,075**	**3,102**
% Margin	*-122%*	*-97%*	*-48%*	*3%*	*8%*	*12%*	*13%*	*10%*	*12%*	*14%*	*16%*	*18%*	*20%*	*19%*	*18%*	*17%*
D&A	11	20	61	98	101	116	151	196	228	288	310	346	389	444	492	547
% of Capex	*26%*	*10%*	*72%*	*73%*	*55%*	*42%*	*45%*	*60%*	*82%*	*80%*	*72%*	*71%*	*68%*	*73%*	*73%*	*73%*
EBIT	**(153)**	**(198)**	**(229)**	**(56)**	**93**	**220**	**276**	**270**	**414**	**794**	**1,259**	**1,723**	**2,322**	**2,489**	**2,584**	**2,555**
% Margin	*-131%*	*-108%*	*-65%*	*-4%*	*4%*	*8%*	*8%*	*6%*	*7%*	*11%*	*13%*	*15%*	*17%*	*16%*	*15%*	*14%*
Net Interest Income (Expense)	(1)	(4)	(10)	(13)	(12)	(15)	(7)	7	14	29	51	78	116	156	199	242
Other Income	(7)	(1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax Income	**(161)**	**(204)**	**(240)**	**(69)**	**81**	**205**	**269**	**277**	**428**	**824**	**1,309**	**1,802**	**2,437**	**2,645**	**2,782**	**2,798**
Income Taxes	0	0	0	0	5	12	19	23	55	180	307	429	583	634	667	671
% Effective Rate	*0%*	*0%*	*0%*	*0%*	*6%*	*6%*	*7%*	*8%*	*13%*	*22%*	*23%*	*24%*	*24%*	*24%*	*24%*	*24%*
Net Income	**(161)**	**(204)**	**(240)**	**(69)**	**76**	**193**	**250**	**253**	**373**	**644**	**1,002**	**1,373**	**1,854**	**2,011**	**2,115**	**2,126**
Plus																
After-tax Interest Expense (Income)	1	4	10	13	12	15	7	(7)	(14)	(29)	(50)	(78)	(115)	(156)	(198)	(242)
Depreciation of PP&E	11	20	61	98	101	116	151	196	228	288	310	346	389	444	492	547
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less																
Change in Working Capital	11	2	(42)	(56)	(38)	(19)	(23)	(113)	(60)	(141)	(126)	(99)	(124)	(111)	(146)	(190)
% of Change in Sales		*3%*	*-25%*	*-6%*	*-4%*	*-4%*	*-4%*	*-9%*	*-7%*	*-7%*	*-6%*	*-6%*	*-5%*	*-8%*	*-8%*	*-10%*
Capital Expenditures	40	195	84	134	184	274	332	324	277	362	430	488	572	604	675	748
% of Sales	*34%*	*106%*	*24%*	*10%*	*8%*	*10%*	*10%*	*7%*	*5%*	*5%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unlevered Free Cash Flow	**(201)**	**(377)**	**(211)**	**(37)**	**43**	**69**	**99**	**232**	**370**	**682**	**958**	**1,252**	**1,680**	**1,806**	**1,880**	**1,873**

EBITDA	3,102
Sales	18,706
Net Debt (Cash)	(28)
Tesla Diluted Shares	107

Exit EBITDA High	10.5 x	Exit PPG High	5.0%	Exit P/Sales High	180%
Exit EBITDA Low	6.5 x	Exit PPG Low	2.0%	Exit P/Sales Low	100%

Discount Rate High	14.0%	FY Month of Valuation	4.0	(Beginning of this Month)
Discount Rage Low	10.0%	Month of FY End	12.0	(End of this Month)

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 7

Tesla: DCF Fair Value Analysis Based on Various Terminal Value Methodologies

EV/EBITDA Terminal Value

Exit EBITDA Multiple	6.5			8.5			10.5		
Discount Rate	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*
PV of 1st Year Cash Flow	(273)	(271)	(269)	(273)	(271)	(269)	(273)	(271)	(269)
PV of Cash Flows 2 thru 15	3,563	2,899	2,368	3,563	2,899	2,368	3,563	2,899	2,368
Terminal Value	**20,161**	**20,161**	**20,161**	**26,365**	**26,365**	**26,365**	**32,569**	**32,569**	**32,569**
PV of Terminal Value	4,943	3,789	2,919	6,464	4,955	3,817	7,985	6,121	4,715
Enterprise Value	**8,232**	**6,417**	**5,017**	**9,753**	**7,583**	**5,915**	**11,274**	**8,749**	**6,813**
% Value in Terminus	*60.0%*	*59.1%*	*58.2%*	*66.3%*	*65.3%*	*64.5%*	*70.8%*	*70.0%*	*69.2%*
% Value in Cash Flows	*40.0%*	*40.9%*	*41.8%*	*33.7%*	*34.7%*	*35.5%*	*29.2%*	*30.0%*	*30.8%*

Enterprise Value	**6,417**	**--**	**8,749**
Equity Value Per Share	**60**	**--**	**82**

EV/Sales Terminal Value

Exit EV/Sales Multiple	100%			140%			180%		
Discount Rate	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*
PV of 1st Year Cash Flow	(273)	(271)	(269)	(273)	(271)	(269)	(273)	(271)	(269)
PV of Cash Flows 2 thru 15	3,563	2,899	2,368	3,563	2,899	2,368	3,563	2,899	2,368
Terminal Value	18,706	18,706	18,706	26,189	26,189	26,189	33,671	33,671	33,671
PV of Terminal Value	4,586	3,516	2,708	6,421	4,922	3,791	8,255	6,328	4,874
Enterprise Value	**7,876**	**6,143**	**4,806**	**9,710**	**7,550**	**5,889**	**11,544**	**8,956**	**6,972**
% Value in Terminus	*58.2%*	*57.2%*	*56.3%*	*66.1%*	*65.2%*	*64.4%*	*71.5%*	*70.7%*	*69.9%*
% Value in Cash Flows	*41.8%*	*42.8%*	*43.7%*	*33.9%*	*34.8%*	*35.6%*	*28.5%*	*29.3%*	*30.1%*
Implied Exit EBITDA Multiple	**6.0**			**8.4**			**10.9**		
Implied Perpetual Growth Rate	**1.3%**			**4.1%**			**5.8%**		

Enterprise Value	**6,143**	**--**	**8,956**
Equity Value Per Share	**58**	**--**	**84**

Perpetual GrowthTerminal Value

Perpetual Growth Rate	2.0%			3.5%			5.0%		
Discount Rate	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*
Implied Exit EBITDA Multiple	*8.1*	*6.5*	*5.5*	*10.1*	*7.8*	*6.4*	*13.4*	*9.6*	*7.6*
PV of 1st Year Cash Flow	(273)	(271)	(269)	(273)	(271)	(269)	(273)	(271)	(269)
PV of Cash Flows 2 thru 15	3,563	2,899	2,368	3,563	2,899	2,368	3,563	2,899	2,368
Terminal Value	25,145	20,298	17,066	31,403	24,232	19,791	41,416	29,851	23,424
PV of Terminal Value	6,165	3,815	2,470	7,699	4,554	2,865	10,154	5,610	3,391
Enterprise Value	**9,454**	**6,443**	**4,569**	**10,989**	**7,182**	**4,963**	**13,443**	**8,238**	**5,489**
% Value in Terminus	*65.2%*	*59.2%*	*54.1%*	*70.1%*	*63.4%*	*57.7%*	*75.5%*	*68.1%*	*61.8%*
% Value in Cash Flows	*34.8%*	*40.8%*	*45.9%*	*29.9%*	*36.6%*	*42.3%*	*24.5%*	*31.9%*	*38.2%*

Enterprise Value	**6,443**	**--**	**8,238**
Equity Value Per Share	**61**	**--**	**77**

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Electric Vehicle Projections and Earnings Model

Exhibit 8

Global PHEV + EV Sales Projections (000s)

	2011	2012	2013	2014	2015	2020	2025
PHEV +EV SALES							
US							
PHEV	11	51	90	176	266	574	1,068
EV	7	28	39	59	89	574	1,601
Total	19	79	129	234	355	1,148	2,669
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*29.2%*	*33.1%*	*27.9%*	*26.6%*	*25.3%*	*19.1%*	*15.2%*
W. Europe							
PHEV	19	53	97	180	255	652	1,450
EV	13	29	42	60	85	652	2,174
Total	31	82	139	239	341	1,305	3,624
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*49.1%*	*34.1%*	*30.0%*	*27.2%*	*24.3%*	*21.7%*	*20.7%*
China							
PHEV	6	34	72	136	236	1,160	2,718
EV	4	18	31	45	79	625	2,718
Total	9	52	103	182	315	1,785	5,435
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*65%*	*50%*
% of Global xEV Sales	*14.6%*	*21.8%*	*22.2%*	*20.6%*	*22.5%*	*29.7%*	*31.0%*
Japan							
PHEV	2	11	29	54	77	177	349
EV	1	6	12	18	26	177	524
Total	3	17	41	72	103	355	873
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*4.7%*	*7.0%*	*8.9%*	*8.1%*	*7.4%*	*5.9%*	*5.0%*
ROW							
PHEV	1	6	36	115	215	710	1,975
EV	1	3	15	38	72	710	2,962
Total	2	9	51	153	287	1,421	4,937
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*2.4%*	*3.9%*	*11.0%*	*17.4%*	*20.5%*	*23.6%*	*28.1%*
Global							
PHEV	38	155	324	660	1,050	3,274	7,559
EV	25	84	139	220	350	2,739	9,979
Total	**64**	**239**	**462**	**880**	**1,401**	**6,013**	**17,538**
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*54%*	*43%*

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Cost-benefit methodology behind our xEV model. We have attempted to determine the financial inflection point for operating costs, which is one of the objective factors driving our US xEV demand model. We note that several other factors also drive EV demand, some of which are more subjective including image, political will etc. These subjective factors could be even more influential than the cost factor in determining xEV demand. For our model, we assume the average car drives 12,000 miles/year and gets 25 mpg, and we estimate a weekly gasoline consumption of 8-9 gallons/week. We note that US consumers tend to feel the pain of high gas prices between $3.50-$4 per gallon. This means the average consumer would be comfortable spending no more than $30 per week on gasoline costs. As part of our xEV model, we have tried to maintain the weekly gasoline/electricity spend at $30 per week by substituting more PHEVs and EVs in the car fleet, as gasoline prices get to $5, $6 and higher between now and 2025.

Exhibit 9

Global PHEV + EV Share of Total Market (%)

	2011	2012	2013	2014	2015	2020	2025
PHEV + EV SHARE %							
US							
PHEV	0.1%	0.3%	0.6%	1.1%	1.6%	3.3%	6.0%
EV	0.1%	0.2%	0.2%	0.4%	0.5%	3.3%	9.0%
Total	0.1%	0.5%	0.8%	1.4%	2.1%	6.6%	15.0%
W. Europe							
PHEV	0.1%	0.4%	0.6%	1.1%	1.6%	4.0%	8.7%
EV	0.1%	0.2%	0.3%	0.4%	0.5%	4.0%	13.0%
Total	0.2%	0.5%	0.9%	1.5%	2.1%	8.0%	21.6%
China							
PHEV	0.0%	0.2%	0.4%	0.7%	1.1%	4.1%	8.7%
EV	0.0%	0.1%	0.2%	0.2%	0.4%	2.2%	8.7%
Total	0.1%	0.3%	0.5%	0.9%	1.5%	6.3%	17.5%
Japan							
PHEV	0.0%	0.2%	0.6%	1.1%	1.6%	3.9%	8.0%
EV	0.0%	0.1%	0.3%	0.4%	0.5%	3.9%	12.0%
Total	0.1%	0.4%	0.8%	1.5%	2.1%	7.9%	20.1%
ROW							
PHEV	0.0%	0.0%	0.1%	0.3%	0.6%	1.7%	4.3%
EV	0.0%	0.0%	0.0%	0.1%	0.2%	1.7%	6.4%
Total	0.0%	0.0%	0.2%	0.4%	0.8%	3.4%	10.7%
Global							
PHEV	0.0%	0.2%	0.4%	0.7%	1.1%	3.0%	6.5%
EV	0.0%	0.1%	0.2%	0.2%	0.4%	2.5%	8.6%
Total	0.1%	0.3%	0.5%	0.9%	1.5%	5.5%	15.1%

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 10

Global PHEV + EV Parc Analysis

	2011	2012	2013	2014	2015	2020	2025
PHEV + EV PARC							
US	19	98	225	455	802	4,587	13,814
W. Europe	31	112	249	484	816	4,924	16,663
China	9	61	162	341	649	5,883	23,226
Japan	3	20	60	131	232	1,386	4,361
ROW	2	11	61	213	495	4,673	20,056
Global	**64**	**301**	**757**	**1,623**	**2,994**	**21,452**	**78,120**
% Change		*371.4%*	*151.4%*	*114.4%*	*84.5%*	*36.3%*	*26.0%*
PHEV + EV PARC SHARE %							
US	0.0%	0.0%	0.1%	0.2%	0.3%	1.7%	4.8%
W. Europe	0.0%	0.0%	0.1%	0.2%	0.3%	1.9%	6.1%
China	0.0%	0.1%	0.2%	0.3%	0.5%	2.9%	8.4%
Japan	0.0%	0.0%	0.1%	0.2%	0.3%	1.9%	6.0%
ROW	0.0%	0.0%	0.0%	0.1%	0.1%	1.1%	4.0%
Global	**0.0%**	**0.0%**	**0.1%**	**0.2%**	**0.3%**	**1.7%**	**5.5%**
TOTAL VEHICLE SALES							
US	14,000	15,000	16,033	16,645	17,136	17,488	17,788
W. Europe	14,345	14,863	15,620	16,190	16,125	16,263	16,743
China	15,845	17,372	18,711	20,125	21,451	28,335	31,128
Japan	4,742	4,783	4,862	4,876	4,814	4,498	4,346
ROW	27,904	30,827	33,023	35,080	37,065	42,378	46,070
Global	**76,836**	**82,844**	**88,249**	**92,916**	**96,592**	**108,963**	**116,075**
% Change		*7.8%*	*6.5%*	*5.3%*	*4.0%*	*1.2%*	*1.0%*
TOTAL VEHICLE PARC							
US	247,046	248,944	251,728	254,954	258,486	274,686	288,568
W. Europe	238,502	240,697	243,500	246,706	249,690	262,513	274,281
China	82,091	93,524	105,532	118,149	131,256	203,860	276,161
Japan	75,395	75,367	75,415	75,474	75,471	74,645	73,000
ROW	311,523	321,809	333,542	346,504	360,555	437,494	506,186
Global	**954,557**	**980,340**	**1,009,717**	**1,041,787**	**1,075,457**	**1,253,196**	**1,418,196**
% Change		*2.7%*	*3.0%*	*3.2%*	*3.2%*	*2.9%*	*2.3%*

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 11

Internal Combustion Engine Share of Auto Market

	2011	2012	2013	2014	2015	2020	2025
ICE Sales Share %							
US	99.9%	99.5%	99.2%	98.6%	97.9%	93.4%	85.0%
W. Europe	99.8%	99.5%	99.1%	98.5%	97.9%	92.0%	78.4%
China	99.9%	99.7%	99.5%	99.1%	98.5%	93.7%	82.5%
Japan	99.9%	99.6%	99.2%	98.5%	97.9%	92.1%	79.9%
ROW	100.0%	100.0%	99.8%	99.6%	99.2%	96.6%	89.3%
Global	99.9%	99.7%	99.5%	99.1%	98.5%	94.5%	84.9%
ICE PARC Share %							
US	100.0%	100.0%	99.9%	99.8%	99.7%	98.3%	95.2%
W. Europe	100.0%	100.0%	99.9%	99.8%	99.7%	98.1%	93.9%
China	100.0%	99.9%	99.8%	99.7%	99.5%	97.1%	91.6%
Japan	100.0%	100.0%	99.9%	99.8%	99.7%	98.1%	94.0%
ROW	100.0%	100.0%	100.0%	99.9%	99.9%	98.9%	96.0%
Global	100.0%	100.0%	99.9%	99.8%	99.7%	98.3%	94.5%
ICE SALES							
US	13,981	14,921	15,904	16,411	16,781	16,340	15,119
W. Europe	14,313	14,781	15,481	15,951	15,785	14,959	13,120
China	15,836	17,320	18,609	19,943	21,136	26,550	25,693
Japan	4,739	4,766	4,821	4,804	4,711	4,143	3,474
ROW	27,902	30,817	32,972	34,926	36,778	40,958	41,133
Global	**76,772**	**82,605**	**87,786**	**92,036**	**95,191**	**102,950**	**98,537**
% Change		*7.6%*	*6.3%*	*4.8%*	*3.4%*	*0.0%*	*-1.5%*
ICE PARC							
US	247,027	248,846	251,503	254,499	257,683	270,099	274,753
W. Europe	238,471	240,584	243,252	246,222	248,874	257,589	257,618
China	82,081	93,463	105,370	117,808	130,607	197,977	252,935
Japan	75,392	75,347	75,355	75,343	75,239	73,259	68,639
ROW	311,521	321,798	333,480	346,291	360,060	432,821	486,130
Global	**954,493**	**980,039**	**1,008,960**	**1,040,164**	**1,072,463**	**1,231,744**	**1,340,076**
% Change		*2.7%*	*3.0%*	*3.1%*	*3.1%*	*2.4%*	*1.2%*

Source: Company data, Morgan Stanley Research

Exhibit 12

Tesla: Quarterly Revenue Driver Analysis, 2009-2012e

Revenues	FY 2009	FY 2010	1Q11P	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Unit Volume												
Roadster	840	567	145	145	140	140	570	120	100	80	40	340
Growth		*-32.5%*	*15.1%*	*2.8%*	*-7.3%*	*-6.0%*	*0.5%*	*-17.2%*	*-31.0%*	*-42.9%*	*-71.4%*	*-40.4%*
Model S	-	-	-	-	-	-	-			750	1,250	2,000
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	975	450	450	450	500	1,850	650	700	750	800	2,900
Growth			*328.6%*	*125.0%*	*87.5%*	*16.3%*	*89.7%*	*44.4%*	*55.6%*	*66.7%*	*60.0%*	*56.8%*
Total Units	**840**	**1,542**	**595**	**595**	**590**	**640**	**2,420**	**770**	**800**	**1,580**	**2,090**	**5,240**
Growth												
Revenue/Unit ($000s)												
Roadster	133,251	133,437	139,503	137,324	136,356	135,383	137,164	135,318	134,578	134,992	134,029	134,872
Growth		*0.1%*	*-2.9%*	*1.0%*	*13.0%*	*0.0%*	*2.8%*	*-3.0%*	*-2.0%*	*-1.0%*	*-1.0%*	*-1.7%*
Model S	-	-	-	-	-	-	-			89,000	89,000	89,000
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	21,968	29,778	24,720	22,439	21,977	24,654	28,289	23,484	21,317	20,878	23,282
Growth			*-5.0%*	*3.0%*	*5.0%*	*5.0%*	*12.2%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.6%*
Total Revenue/Unit	**133,265**	**62,956**	**56,518**	**52,161**	**49,470**	**46,784**	**51,154**	**44,969**	**37,371**	**59,201**	**63,786**	**55,606**
Growth												
Revenues												
Roadster	112	76	20	20	19	19	78	16	13	11	5	46
Growth		*-32.4%*	*11.8%*	*3.9%*	*4.8%*	*-6.0%*	*3.3%*	*-19.7%*	*-32.4%*	*-43.4%*	*-71.7%*	*-41.3%*
Model S	-	-	-	-	-	-	-	-	-	67	111	178
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	21	13	11	10	11	46	18	16	16	17	68
Growth			*438.2%*	*131.8%*	*96.9%*	*22.1%*	*112.9%*	*37.2%*	*47.8%*	*58.3%*	*52.0%*	*48.0%*
Total Automotive Revenues	**112**	**97**	**34**	**31**	**29**	**30**	**124**	**35**	**30**	**94**	**133**	**291**
Growth		*-13.3%*	*63.4%*	*29.5%*	*25.0%*	*2.6%*	*27.5%*	*3.0%*	*-3.7%*	*220.5%*	*345.2%*	*135.4%*
Developmental Services Sales	**-**	**20**	**15**	**15**	**15**	**15**	**60**	**15**	**15**	**15**	**15**	**60**
Growth			*NM*	*238.3%*	*90.1%*	*110.9%*	*207.1%*	*NM*	*0.0%*	*0.0%*	*0.0%*	*-0.7%*
Total Tesla Revenue	**112**	**117**	**49**	**46**	**44**	**45**	**184**	**50**	**45**	**109**	**148**	**351**
Growth		*4.3%*	*135.6%*	*62.1%*	*41.4%*	*23.9%*	*57.8%*	*1.2%*	*-2.5%*	*145.6%*	*230.0%*	*90.8%*

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Exhibit 13

Tesla: Consolidated Quarterly Income Statement, 2009 to 2012

Income Statement	FY 2009	FY 2010	1Q11P	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Revenues												
Automotive	112	97	34	31	29	30	124	35	30	94	133	291
Growth		*-13.3%*	*15.3%*	*-7.7%*	*-6.0%*	*2.6%*	*27.5%*	*15.6%*	*-13.7%*	*212.9%*	*42.5%*	*135.4%*
Development services	-	20	15	15	15	15	60	15	15	15	15	60
Growth			*116.5%*	*-2.6%*	*0.0%*	*0.0%*	*207.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-0.7%*
Total Revenues	**112**	**117**	**49**	**46**	**44**	**45**	**184**	**50**	**45**	**109**	**148**	**351**
Growth		*4%*	*35.1%*	*-6.1%*	*-4.0%*	*1.7%*	*57.8%*	*10.4%*	*-9.5%*	*141.7%*	*36.6%*	*90.8%*
Total Cost of Revenues	**102**	**86**	**31**	**27**	**27**	**27**	**114**	**35**	**33**	**84**	**113**	**265**
Growth												
Total Gross Profit	**10**	**31**	**18**	**19**	**17**	**18**	**70**	**15**	**12**	**25**	**35**	**87**
Gross Margin	*8.5%*	*26.3%*	*36.8%*	*41.1%*	*38.2%*	*39.2%*	*38.0%*	*30.0%*	*25.8%*	*23.1%*	*23.6%*	*24.6%*
Research and Development	19	93	41	42	41	40	164	42	42	42	42	168
R&D/Sales	*17.2%*	*79.7%*	*84.0%*	*91.2%*	*92.8%*	*89.0%*	*89.1%*	*84.6%*	*93.5%*	*38.7%*	*28.3%*	*47.8%*
SG&A	42	85	24	25	27	28	104	34	36	38	40	148
SG&A/Sales	*37.7%*	*72.4%*	*49.4%*	*54.3%*	*61.1%*	*62.3%*	*56.6%*	*68.5%*	*80.2%*	*35.0%*	*27.0%*	*42.1%*
Stock-based Compensation	1	21	6	7	7	7	26	8	8	8	8	32
% of Operating Expense	*2.3%*	*11.9%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*9.8%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Operating Profit (GAAP)	**(52)**	**(147)**	**(47)**	**(48)**	**(51)**	**(50)**	**(198)**	**(61)**	**(66)**	**(55)**	**(47)**	**(229)**
Operating Margin	*-46.4%*	*-125.8%*	*-96.6%*	*-104.5%*	*-115.6%*	*-112.1%*	*-107.7%*	*-123.1%*	*-147.9%*	*-50.7%*	*-31.7%*	*-65.3%*
Operating Profit (Non-GAAP excl. Stock Comp)	**(50)**	**(126)**	**(41)**	**(41)**	**(44)**	**(44)**	**(172)**	**(54)**	**(59)**	**(47)**	**(39)**	**(198)**
Operating Margin	*-45.1%*	*-107.7%*	*-84.5%*	*-89.9%*	*-100.3%*	*-96.9%*	*-93.5%*	*-107.8%*	*-130.5%*	*-43.3%*	*-26.1%*	*-56.3%*
Interest income	0	0	0	0	0	0	0	0	0	0	0	1
Rate		0.14%	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.1%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.4%*
Interest expense	3	1	-	1	2	2	5	2	3	3	3	11
Rate		1.4%	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*1.8%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*2.5%*
Other income (expense), net	(1.4)	(6.6)	(1.5)	-	-	-	(1.5)	-	-	-	-	-
Pretax Profit	**(56)**	**(154)**	**(49)**	**(49)**	**(53)**	**(52)**	**(204)**	**(63)**	**(69)**	**(58)**	**(50)**	**(240)**
Pretax Margin	*-49.8%*	*-132.0%*	*-99.5%*	*-106.9%*	*-119.0%*	*-116.1%*	*-110.9%*	*-127.3%*	*-153.3%*	*-53.2%*	*-33.8%*	*-68.3%*
Provision for income taxes	0	0	0	-	-	-	0	-	-	-	-	-
Effective Tax Rate	*0.0%*	*-0.1%*	*-0.3%*	*0.0%*	*0.0%*	*0.0%*	*-0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Ongoing Net Income	**(56)**	**(154)**	**(49)**	**(49)**	**(53)**	**(52)**	**(204)**	**(63)**	**(69)**	**(58)**	**(50)**	**(240)**
Extraordinary gains (charges)												
Reported Net Income	**(56)**	**(154)**	**(49)**	**(49)**	**(53)**	**(52)**	**(204)**	**(63)**	**(69)**	**(58)**	**(50)**	**(240)**
Basic Weighted Average Shares	7	51	95	96	96	100	97	104	105	105	106	105
Diluted Weighted Average Shares	7	51	95	96	96	100	97	104	105	105	106	105
Basic EPS		(3.04)	(0.51)	(0.51)	(0.55)	(0.52)	(2.10)	(0.61)	(0.66)	(0.55)	(0.47)	(2.28)
Diluted EPS Reported		(3.04)	(0.51)	(0.51)	(0.55)	(0.52)	(2.10)	(0.61)	(0.66)	(0.55)	(0.47)	(2.28)
Diluted EPS (GAAP)	**(7.94)**	**(3.04)**	**(0.51)**	**(0.51)**	**(0.55)**	**(0.52)**	**(2.10)**	**(0.61)**	**(0.66)**	**(0.55)**	**(0.47)**	**(2.28)**
Diluted EPS (Non-GAAP excl. Stock Comp)	**(7.73)**	**(2.63)**	**(0.45)**	**(0.44)**	**(0.47)**	**(0.45)**	**(1.83)**	**(0.53)**	**(0.58)**	**(0.47)**	**(0.40)**	**(1.98)**

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 14

Tesla: Consolidated Quarterly Balance Sheet, 2009-2012e

Balance Sheet	FY 2009	FY 2010	1Q11P	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Cash & Cash Equivalents	70	100	101	75	48	153	153	117	112	128	157	157
Restricted Cash - Current	-	74	43	21	-	-	-	-	-	-	-	-
Account Receivable	3	7	20	13	12	12	12	14	12	30	41	41
Inventory	23	45	51	37	37	37	37	42	36	101	137	137
Prepaid expenses and other current assets	4	11	12	12	12	12	12	12	12	12	12	12
Total Current Assets	**101**	**236**	**227**	**158**	**110**	**215**	**215**	**185**	**173**	**271**	**346**	**346**
Operating lease vehicles, net	-	8	9	9	9	9	9	9	9	9	9	9
Property and equipment, net	24	115	143	195	249	302	302	333	341	333	325	325
Restricted cash	4	5	5	5	5	5	5	5	5	5	5	5
Other assets	3	23	23	23	23	23	23	23	23	23	23	23
Total Assets	**130**	**386**	**407**	**390**	**397**	**554**	**554**	**554**	**551**	**641**	**709**	**709**
Accounts payable	15	29	55	36	36	36	36	38	36	92	124	124
Accrued liabilities	15	21	14	13	13	13	13	17	16	40	54	54
Deferred development compensation	0	-	7	-	-	-	-	-	-	-	-	-
Deferred revenue	1	5	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, current portion	0	0	-	-	-	-	-	-	-	-	-	-
Reservation payments	26	31	39	42	44	47	47	57	67	77	87	87
Total Current Liabilities	**57**	**86**	**116**	**91**	**93**	**96**	**96**	**112**	**120**	**209**	**266**	**266**
Common stock warrant liability	-	6	8	8	8	8	8	8	8	8	8	8
Convertible preferred stock warrant liability	2	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	1	0	1	1	1	1	1	1	1	1	1	1
Deferred revenue, less current portion	1	3	-	-	-	-	-	-	-	-	-	-
Long-term debt	-	72	102	152	202	252	252	292	342	392	445	445
Other long-term liabilities	3	12	13	13	13	13	13	13	13	13	13	13
Total Liabilities	**65**	**179**	**240**	**265**	**317**	**370**	**370**	**426**	**484**	**623**	**733**	**733**
Total convertible preferred stock	319	-	-	-	-	-	-	-	-	-	-	-
Common Stock	*0*	0	0	0	0	0	0	0	0	0	0	0
Additional paid-in capital	*7*	622	632	638	645	802	802	809	817	825	833	833
Accumulated deficit	*(261)*	(415)	(464)	(513)	(566)	(618)	*(618)*	(681)	(750)	(808)	(858)	*(858)*
Total stockholders' equity (deficit)	(254)	207	168	125	79	184	184	129	67	18	(24)	(24)
Total Liabilities and Equity	**130**	**386**	**407**	**390**	**397**	**554**	**554**	**554**	**551**	**641**	**709**	**709**
check	-	-	-	-	-	-	-	-	-	-	-	-
Total Debt	**-**	**72**	**102**	**152**	**202**	**252**	**252**	**292**	**342**	**392**	**445**	**445**
Net Debt (Cash)	**(70)**	**(28)**	**2**	**78**	**154**	**99**	**99**	**175**	**231**	**264**	**288**	**288**
Net Debt/EBITDA		0.2 x	(0.0 x)	(0.5 x)	(0.8 x)	(0.6 x)	(0.6 x)	(1.0 x)	(1.2 x)	(1.4 x)	(1.7 x)	(1.7 x)

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 15

Tesla: Consolidated Quarterly Cash Flow Statement, 2009-2012e

Cash Flow	FY 2009	FY 2010	1Q11P	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Cash flows from operating activities												
Net Income (Loss)	(56)	(154)	(49)	(49)	(53)	(52)	(203)	(63)	(69)	(58)	(50)	(240)
Depreciation and amortization	7	11	4	4	5	7	20	11	12	19	18	61
Change in fair value of warrant liabilities	1	5	-	-	-	-	-	-	-	-	-	-
Gain on cvt notes and warrants	(1)	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	1	21	6	7	7	7	26	8	8	8	8	32
Inventory write-downs	0	1	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	1	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities	3	(11)	(4)	(3)	3	3	(2)	10	14	8	10	42
Accounts receivable	*(0)*	*(3)*	*(14)*	*8*	*1*	*(0)*	*(6)*	*(1)*	*1*	*(17)*	*(11)*	*(28)*
Inventory	*(8)*	*(20)*	*(6)*	*14*	*(0)*	*(0)*	*8*	*(4)*	*5*	*(64)*	*(36)*	*(99)*
Prepaid expenses and other current assets	*(2)*	*(5)*	*(1)*	-	-	-	*(1)*	-	-	-	-	-
Operating lease assets	-	*(8)*	*(1)*	-	-	-	*(1)*	-	-	-	-	-
Other assets	*(0)*	*(0)*	*(0)*	-	-	-	*(0)*	-	-	-	-	-
Accounts payable	*1*	*(0)*	*26*	*(19)*	*0*	*0*	*7*	*2*	*(2)*	*55*	*33*	*88*
Accrued liabilities	*3*	*13*	*(6)*	*(1)*	*0*	*0*	*(8)*	*4*	*(1)*	*24*	*14*	*41*
Deferred development compensation	*(10)*	*(0)*	*7*	*(7)*	-	-	-	-	-	-	-	-
Deferred revenue	*(1)*	*5*	*(7)*	-	-	-	*(7)*	-	-	-	-	-
Reservation payments	*(22)*	*5*	*3*	*3*	*2*	*3*	*11*	*10*	*10*	*10*	*10*	*40*
Other long-term liabilities	*2*	*4*	*(4)*	-	-	-	*(4)*	-	-	-	-	-
Net cash used in operating activities	**(81)**	**(128)**	**(43)**	**(42)**	**(38)**	**(35)**	**(159)**	**(34)**	**(34)**	**(23)**	**(13)**	**(105)**
Cash flows from investing activities												
Acquisition of Fremont and related assets	-	(65)	-	-	-	-	-	-	-	-	-	-
Purchases of PP&E excl capital leases	(12)	(40)	(20)	(55)	(60)	(60)	(195)	(42)	(21)	(11)	(11)	(84)
Increase in restricted cash in DOE account	-	(74)	31	21	21	-	74	-	-	-	-	-
Increase in other restricted cash	(2)	(1)	(0)	-	-	-	(0)	-	-	-	-	-
Net cash used in investing activities	**(14)**	**(180)**	**10**	**(34)**	**(39)**	**(60)**	**(122)**	**(42)**	**(21)**	**(11)**	**(11)**	**(84)**
Cash flows from financing activities												
Proceeds from issuance of common stock	-	269	-	-	-	150	150	-	-	-	-	-
Proceeds from issuance of cvt preferred	132	-	-	-	-	-	-	-	-	-	-	-
Principal paid on capital leases and other debt	(0)	(0)	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt	-	72	34	50	50	50	184	40	50	50	53	193
Proceeds from cvt notes and warrants	25	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0	1	-	-	-	-	-	-	-	-	-	-
Common stock and loan facility issuance costs	(2)	(4)	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	**155**	**338**	**34**	**50**	**50**	**200**	**334**	**40**	**50**	**50**	**53**	**193**
Net increase in cash and cash equivalents	**60**	**30**	**1**	**(26)**	**(26)**	**105**	**54**	**(36)**	**(5)**	**16**	**29**	**4**
Cash and equivalents at beginning of period	9	70	100	101	75	48	100	153	117	112	128	153
Cash and cash equivalents at end of period	**70**	**100**	**101**	**75**	**48**	**153**	**153**	**117**	**112**	**128**	**157**	**157**
FCF	(93)	(168)	(64)	(97)	(98)	(95)	(354)	(76)	(55)	(34)	(24)	(189)

Drivers	FY 2009	FY 2010	1Q11P	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Depreciation/PP&E		45%	10%	10%	11%	12%	17%	15%	15%	22%	22%	20%
Depreciation/Sales		9.1%	7.2%	7.8%	12.1%	16.7%	10.8%	22.8%	27.8%	17.3%	12.3%	17.3%
Capex/Sales		34.4%	41.8%	119.5%	135.8%	133.5%	106.1%	84.6%	46.8%	9.7%	7.1%	23.9%
Days Receivables		21	38	25	25	25	24	25	25	25	25	42
Days Payables		123	162	120	120	120	115	100	100	100	100	171
Inventory Days' Supply		192	150	125	125	125	120	110	100	110	110	188
Accrued Liabilities		24%	12%	12%	12%	12%	11%	12%	12%	12%	12%	21%
EBIT	-53	-153	-49	-48	-51	-50	-198	-61	-66	-55	-47	-229
EBITDA	-46	-143	-45	-45	-46	-43	-178	-50	-54	-36	-29	-169
LTM												
EBITDA		-143	-161	-170	-184	-178	-178	-183	-192	-183	-169	-169

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 16

Tesla: Annual Revenue Driver Analysis, 2009-2025e

Revenues	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Unit Volume													
Roadster	840	567	570	340	86	800	1,200	1,320	1,386	1,455	1,426	1,141	1,598
Growth		*-32.5%*	*0.5%*	*-40.4%*	*-74.7%*	*830.2%*	*50.0%*	*10.0%*	*5.0%*	*5.0%*	*-2.0%*	*-20.0%*	*5.0%*
Model S	-	-	-	2,000	15,000	18,000	20,700	23,805	26,186	23,567	22,389	21,269	27,626
Growth					*650.0%*	*20.0%*	*15.0%*	*15.0%*	*10.0%*	*-10.0%*	*-5.0%*	*-5.0%*	*5.0%*
Model X	-	-	-	-	-	10,000	15,000	20,000	25,000	30,000	36,000	41,400	54,739
Growth						*NM*	*50.0%*	*33.3%*	*25.0%*	*20.0%*	*20.0%*	*15.0%*	*3.0%*
Gen 3	-	-	-	-	-	-	-	-	30,000	50,000	100,000	150,000	370,000
Growth									*NM*	*66.7%*	*100.0%*	*50.0%*	*12.1%*
Powertrain	-	975	1,850	2,900	3,480	4,176	5,429	8,143	12,215	18,322	21,987	26,384	42,492
Growth			*89.7%*	*56.8%*	*20.0%*	*20.0%*	*30.0%*	*50.0%*	*50.0%*	*50.0%*	*20.0%*	*20.0%*	*10.0%*
Total Units	**840**	**1,542**	**2,420**	**5,240**	**18,566**	**32,976**	**42,329**	**53,268**	**94,786**	**123,344**	**181,801**	**240,194**	**496,454**
Growth													
Revenue/Unit ($000s)													
Roadster	133,251	133,437	137,164	134,872	137,570	103,177	105,241	107,345	109,492	111,682	113,916	116,194	128,288
Growth		*0.1%*	*2.8%*	*-1.7%*	*2.0%*	*-25.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Model S	-	-	-	89,000	80,100	72,090	64,881	66,179	66,840	67,509	68,184	68,866	72,379
Growth					*-10.0%*	*-10.0%*	*-10.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Model X	-	-	-	-	-	80,100	76,095	72,090	64,881	66,179	66,840	67,509	70,952
Growth							*-5.0%*	*-5.3%*	*-10.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*
Gen 3	-	-	-	-	-	-	-	-	30,000	30,600	31,212	31,836	32,473
Growth										*2.0%*	*2.0%*	*2.0%*	*2.0%*
Powertrain	-	21,968	24,654	23,282	18,625	13,038	10,430	10,535	10,640	10,746	10,854	10,962	11,521
Growth			*12.2%*	*-5.6%*	*-20.0%*	*-30.0%*	*-20.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Total Revenue/Unit	**133,265**	**62,956**	**51,154**	**55,606**	**68,843**	**67,795**	**63,016**	**60,912**	**48,045**	**44,313**	**41,007**	**39,372**	**37,451**
Growth													
Revenues													
Roadster	112	76	78	46	12	83	126	142	152	163	162	133	205
Growth		*-32.4%*	*3.3%*	*-41.3%*	*-74.2%*	*597.7%*	*53.0%*	*12.2%*	*7.1%*	*7.1%*	*0.0%*	*-18.4%*	*7.1%*
Model S	-	-	-	178	1,202	1,298	1,343	1,575	1,750	1,591	1,527	1,465	2,000
Growth					*575.0%*	*8.0%*	*3.5%*	*17.3%*	*11.1%*	*-9.1%*	*-4.0%*	*-4.1%*	*6.1%*
Model X	-	-	-	-	-	801	1,141	1,442	1,622	1,985	2,406	2,795	3,884
Growth							*42.5%*	*26.3%*	*12.5%*	*22.4%*	*21.2%*	*16.2%*	*4.0%*
Gen 3	-	-	-	-	-	-	-	-	900	1,530	3,121	4,775	12,015
Growth										*70.0%*	*104.0%*	*53.0%*	*14.4%*
Powertrain	-	21	46	68	65	54	57	86	130	197	239	289	490
Growth			*112.9%*	*48.0%*	*-4.0%*	*-16.0%*	*4.0%*	*51.5%*	*51.5%*	*51.5%*	*21.2%*	*21.2%*	*11.1%*
Total Automotive Revenues	**112**	**97**	**124**	**291**	**1,278**	**2,236**	**2,667**	**3,245**	**4,554**	**5,466**	**7,455**	**9,457**	**18,593**
Growth		*-13.3%*	*27.5%*	*135.4%*	*338.7%*	*74.9%*	*19.3%*	*21.6%*	*40.4%*	*20.0%*	*36.4%*	*26.9%*	*11.0%*
Developmental Services Sales	**-**	**20**	**60**	**60**	**63**	**66**	**69**	**73**	**77**	**80**	**84**	**89**	**113**
Growth			*207.1%*	*-0.7%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Tesla Revenue	**112**	**117**	**184**	**351**	**1,341**	**2,302**	**2,737**	**3,318**	**4,631**	**5,546**	**7,540**	**9,545**	**18,706**
Growth		*4.3%*	*57.8%*	*90.8%*	*281.7%*	*71.6%*	*18.9%*	*21.2%*	*39.6%*	*19.8%*	*35.9%*	*26.6%*	*10.9%*

Source: Company data, Morgan Stanley Research

Exhibit 17

Tesla: Annual Operating Profit Bridge Analysis, 2009-2025e

	FY 2009	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Beginning of period OP			-147	-198	-229	-56	93	220	276	270	414	794	2,584
Volume			20	54	223	260	163	177	646	349	657	605	439
Mix			-9	7	74	-10	-61	-34	-366	-138	-180	-118	27
Pricing			0	0	2	13	12	14	0	23	28	38	-84
Productivity/Structural Costs			18	0	0	40	69	55	33	88	55	128	-135
R&D Delta			-71	-4	-8	-47	-17	-36	-43	-36	-17	-6	-73
SG&A Delta			-20	-44	-42	-63	-48	-57	-133	-86	-102	-161	-147
Commodity Costs			-6	-5	-4	0	0	0	0	0	0	0	0
Launch Costs			0	-37	-35	-40	23	-27	-100	-23	0	0	0
Depreciation Creep			-9	-41	-37	-4	-14	-35	-45	-32	-60	-22	-55
Other			25	39	0	0	0	0	0	0	0	0	0
End of period OP	-52	-147	-198	-229	-56	93	220	276	270	414	794	1,259	2,555
Inputs:													
Units	840	1,542	2,420	5,240	18,566	32,976	42,329	53,268	94,786	123,344	181,801	240,194	496,454
Revenues	112	117	184	351	1,341	2,302	2,737	3,318	4,631	5,546	7,540	9,545	18,706
Revenue/Unit	133,265	62,956	51,154	55,606	68,843	67,795	63,016	60,912	48,045	44,313	41,007	39,372	37,451
Period-over-Period Unit Volume Change (%)			57%	117%	254%	78%	28%	26%	78%	30%	47%	32%	10%
Variable Margin on Volume (%)			30%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Mix Impact per Unit ($)			(3,540)	1,335	3,971	(315)	(1,434)	(631)	(3,860)	(1,120)	(992)	(491)	54
YoY price change (%)			0%	0%	0.5%	1.0%	0.5%	0.5%	0.0%	0.5%	0.5%	0.5%	-0.5%
Productivity/Structural Costs/Sales (%)			15%	0%	0%	3%	3%	2%	1%	2%	1%	2%	-1%
R&D ($)		-74	-71	-4	-8	-47	-17	-36	-43	-36	-17	-6	-73
SG&A ($)		-42	-20	-44	-42	-63	-48	-57	-133	-86	-102	-161	-147
Commodity Impact per Unit ($)			-2,375	-1,000	-200	-	-	-	-	-	-	-	-
Launch Cost/Sales (%)			0%	-20%	-10%	-3%	1%	-1%	-3%	-1%	0%	0%	0%
OP Margin (%)		**-126%**	**-108%**	**-65%**	**-4%**	**4%**	**8%**	**8%**	**6%**	**7%**	**11%**	**13%**	**14%**
Variable OP Margin (%)			*-76%*	*-19%*	*17%*	*16%*	*29%*	*10%*	*-1%*	*16%*	*19%*	*23%*	*-2%*

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Exhibit 18

Tesla: Consolidated Annual Income Statement, 2009-2025e

Income Statement	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Revenues													
Automotive	112	97	124	291	1,278	2,236	2,667	3,245	4,554	5,466	7,455	9,457	18,593
Growth		*-13.3%*	*27.5%*	*135.4%*	*338.7%*	*74.9%*	*19.3%*	*21.6%*	*40.4%*	*20.0%*	*36.4%*	*26.9%*	*11.0%*
Development services	-	20	60	60	63	66	69	73	77	80	84	89	113
Growth			*207.1%*	*-0.7%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Revenues	**112**	**117**	**184**	**351**	**1,341**	**2,302**	**2,737**	**3,318**	**4,631**	**5,546**	**7,540**	**9,545**	**18,706**
Growth		*4%*	*57.8%*	*90.8%*	*281.7%*	*72%*	*19%*	*21%*	*40%*	*20%*	*36%*	*27%*	*11%*
Total Cost of Revenues	**102**	**86**	**114**	**265**	**1,031**	**1,732**	**1,976**	**2,407**	**3,551**	**4,200**	**5,694**	**7,068**	**13,911**
Growth													
Total Gross Profit	**10**	**31**	**70**	**87**	**310**	**569**	**761**	**910**	**1,079**	**1,346**	**1,846**	**2,477**	**4,795**
Gross Margin	*8.5%*	*26.3%*	*38.0%*	*24.6%*	*23.1%*	*24.7%*	*27.8%*	*27.4%*	*23.3%*	*24.3%*	*24.5%*	*25.9%*	*25.6%*
Research and Development	19	93	164	168	176	224	240	276	319	355	373	378	744
R&D/Sales	*17.2%*	*79.7%*	*89.1%*	*47.8%*	*13.2%*	*10.0%*	*9.0%*	*8.5%*	*7.0%*	*6.5%*	*5.0%*	*4.0%*	*4.0%*
SG&A	42	85	104	148	190	253	301	358	491	577	679	840	1,496
SG&A/Sales	*37.7%*	*72.4%*	*56.6%*	*42.1%*	*14.2%*	*11.0%*	*11.0%*	*10.8%*	*10.6%*	*10.4%*	*9.0%*	*8.8%*	*8.0%*
Stock-based Compensation	1	21	26	32	33	38	38	38	49	47	53	49	67
% of Operating Expense	*2.3%*	*11.9%*	*9.8%*	*10.0%*	*9.0%*	*8.0%*	*7.0%*	*6.0%*	*6.0%*	*5.0%*	*5.0%*	*4.0%*	*3.0%*
Operating Profit (GAAP)	**(52)**	**(147)**	**(198)**	**(229)**	**(56)**	**93**	**220**	**276**	**270**	**414**	**794**	**1,259**	**2,555**
Operating Margin	*-46.4%*	*-125.8%*	*-107.7%*	*-65.3%*	*-4.2%*	*4.0%*	*8.0%*	*8.3%*	*5.8%*	*7.5%*	*10.5%*	*13.2%*	*13.7%*
Operating Profit (Non-GAAP excl. Stock Comp)	**(50)**	**(126)**	**(172)**	**(198)**	**(24)**	**131**	**258**	**314**	**318**	**461**	**847**	**1,307**	**2,622**
Operating Margin	*-45.1%*	*-107.7%*	*-93.5%*	*-56.3%*	*-1.8%*	*5.7%*	*9.4%*	*9.5%*	*6.9%*	*8.3%*	*11.2%*	*13.7%*	*14.0%*
Interest income	0	0	0	1	1	2	3	5	5	14	29	51	242
Rate		0.14%	*0.1%*	*0.4%*	*0.8%*	*1.0%*	*1.5%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Interest expense	3	1	5	11	14	14	18	12	(2)	(0)	(0)	(0)	(0)
Rate		1.4%	*1.8%*	*2.5%*	*3.0%*	*3.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Other income (expense), net	(1.4)	(6.6)	(1.5)	-	-	-	-	-	-	-	-	-	-
Pretax Profit	**(56)**	**(154)**	**(204)**	**(240)**	**(69)**	**81**	**205**	**269**	**277**	**428**	**824**	**1,309**	**2,798**
Pretax Margin	*-49.8%*	*-132.0%*	*-110.9%*	*-68.3%*	*-5.1%*	*3.5%*	*7.5%*	*8.1%*	*6.0%*	*7.7%*	*10.9%*	*13.7%*	*15.0%*
Provision for income taxes	0	0	0	-	-	5	12	19	23	55	180	307	671
Effective Tax Rate	*0.0%*	*-0.1%*	*-0.1%*	*0.0%*	*0.0%*	*6.0%*	*6.0%*	*7.2%*	*8.4%*	*12.9%*	*21.9%*	*23.5%*	*24.0%*
Ongoing Net Income	**(56)**	**(154)**	**(204)**	**(240)**	**(69)**	**76**	**193**	**250**	**253**	**373**	**644**	**1,002**	**2,126**
Extraordinary gains (charges)													
Reported Net Income	**(56)**	**(154)**	**(204)**	**(240)**	**(69)**	**76**	**193**	**250**	**253**	**373**	**644**	**1,002**	**2,126**
Basic Weighted Average Shares	7	51	97	105	108	111	114	116	119	122	125	128	145
Diluted Weighted Average Shares	7	51	97	105	108	125	128	131	134	137	141	144	162
Basic EPS		(3.04)	(2.10)	(2.28)	(0.64)	0.69	1.70	2.14	2.12	3.05	5.14	7.82	14.71
Diluted EPS Reported		(3.04)	(2.10)	(2.28)	(0.64)	0.61	1.51	1.91	1.89	2.72	4.58	6.96	13.11
Diluted EPS (GAAP)	**(7.94)**	**(3.04)**	**(2.10)**	**(2.28)**	**(0.64)**	**0.61**	**1.51**	**1.91**	**1.89**	**2.72**	**4.58**	**6.96**	**13.11**
Diluted EPS (Non-GAAP excl. Stock Comp)	**(7.73)**	**(2.63)**	**(1.83)**	**(1.98)**	**(0.33)**	**0.90**	**1.79**	**2.18**	**2.22**	**3.01**	**4.87**	**7.22**	**13.42**

Source: Company data, Morgan Stanley Research

Exhibit 19

Tesla: Consolidated Annual Balance Sheet, 2009-2025e

Balance Sheet	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Cash & Cash Equivalents	70	100	153	157	156	226	226	226	226	703	1,467	2,525	12,113
Restricted Cash - Current	-	74	-	-	-	-	-	-	-	-	-	-	-
Account Receivable	3	7	12	41	55	57	67	82	114	137	186	235	436
Inventory	23	45	37	137	212	332	325	396	584	690	936	1,162	2,287
Prepaid expenses and other current assets	4	11	12	12	12	12	12	12	12	12	12	12	12
Total Current Assets	**101**	**236**	**215**	**346**	**435**	**627**	**630**	**715**	**936**	**1,543**	**2,601**	**3,934**	**14,847**
Operating lease vehicles, net	-	8	9	9	9	9	9	9	9	9	9	9	9
Property and equipment, net	24	115	302	325	362	445	603	784	912	961	1,035	1,154	2,024
Restricted cash	4	5	5	5	5	5	5	5	5	5	5	5	5
Other assets	3	23	23	23	23	23	23	23	23	23	23	23	23
Total Assets	**130**	**386**	**554**	**709**	**834**	**1,108**	**1,270**	**1,536**	**1,885**	**2,541**	**3,673**	**5,125**	**16,908**
Accounts payable	15	29	36	124	226	356	379	462	681	806	1,092	1,356	2,668
Accrued liabilities	15	21	13	54	113	173	198	241	355	420	569	707	1,391
Deferred development compensation	0	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	1	5	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, current portion	0	0	-	-	-	-	-	-	-	-	-	-	-
Reservation payments	26	31	47	87	72	42	17	-	-	-	-	-	-
Total Current Liabilities	**57**	**86**	**96**	**266**	**412**	**572**	**594**	**702**	**1,036**	**1,226**	**1,661**	**2,062**	**4,059**
Common stock warrant liability	-	6	8	8	8	8	8	8	8	8	8	8	8
Convertible preferred stock warrant liability	2	-	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	1	0	1	1	1	1	1	1	1	1	1	1	1
Deferred revenue, less current portion	1	3	-	-	-	-	-	-	-	-	-	-	-
Long-term debt	-	72	252	445	461	461	370	240	(47)	(0)	(0)	(0)	(0)
Other long-term liabilities	3	12	13	13	13	13	13	13	13	13	13	13	13
Total Liabilities	**65**	**179**	**370**	**733**	**894**	**1,054**	**985**	**963**	**1,010**	**1,247**	**1,683**	**2,084**	**4,080**
Total convertible preferred stock	319	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock	*0*	0	0	0	0	0	0	0	0	0	0	0	0
Additional paid-in capital	*7*	622	802	833	866	905	942	981	1,029	1,076	1,128	1,177	1,484
Accumulated deficit	*(261)*	(415)	*(618)*	*(858)*	(927)	(850)	(658)	(408)	(155)	218	862	1,864	11,343
Total stockholders' equity (deficit)	(254)	207	184	(24)	(60)	54	285	573	875	1,294	1,990	3,041	12,828
Total Liabilities and Equity	**130**	**386**	**554**	**709**	**834**	**1,108**	**1,270**	**1,536**	**1,885**	**2,541**	**3,673**	**5,125**	**16,908**
check	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Debt	**-**	**72**	**252**	**445**	**461**	**461**	**370**	**240**	**(47)**	**(0)**	**(0)**	**(0)**	**(0)**
Net Debt (Cash)	**(70)**	**(28)**	**99**	**288**	**305**	**236**	**144**	**14**	**(273)**	**(703)**	**(1,467)**	**(2,525)**	**(12,113)**
Net Debt/EBITDA		0.2 x	(0.6 x)	(1.7 x)	7.4 x	1.2 x	0.4 x	0.0 x	(0.6 x)	(1.1 x)	(1.4 x)	(1.6 x)	(3.9 x)

Source: Company data, Morgan Stanley Research

Exhibit 20

Tesla: Consolidated Annual Cash Flow Statement, 2009-2025e

Cash Flow	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Cash flows from operating activities													
Net Income (Loss)	(56)	(154)	(203)	(240)	(69)	76	193	250	253	373	644	1,002	2,126
Depreciation and amortization	7	11	20	61	98	101	116	151	196	228	288	310	547
Change in fair value of warrant liabilities	1	5	-	-	-	-	-	-	-	-	-	-	-
Gain on cvt notes and warrants	(1)	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	1	21	26	32	33	38	38	38	49	47	53	49	67
Inventory write-downs	0	1	-	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	1	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities	3	(11)	(2)	42	56	38	19	23	113	60	141	126	190
Accounts receivable	*(0)*	*(3)*	*(6)*	*(28)*	*(14)*	*(2)*	*(11)*	*(14)*	*(32)*	*(23)*	*(49)*	*(49)*	*(20)*
Inventory	*(8)*	*(20)*	*8*	*(99)*	*(75)*	*(120)*	*7*	*(71)*	*(188)*	*(107)*	*(246)*	*(226)*	*(271)*
Prepaid expenses and other current assets	*(2)*	*(5)*	*(1)*	-	-	-	-	-	-	-	-	-	-
Operating lease assets	-	*(8)*	*(1)*	-	-	-	-	-	-	-	-	-	-
Other assets	*(0)*	*(0)*	*(0)*	-	-	-	-	-	-	-	-	-	-
Accounts payable	*1*	*(0)*	*7*	*88*	*102*	*130*	*23*	*83*	*219*	*124*	*286*	*264*	*316*
Accrued liabilities	*3*	*13*	*(8)*	*41*	*59*	*60*	*24*	*43*	*114*	*65*	*149*	*137*	*165*
Deferred development compensation	*(10)*	*(0)*	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	*(1)*	*5*	*(7)*	-	-	-	-	-	-	-	-	-	-
Reservation payments	*(22)*	*5*	*11*	*40*	*(15)*	*(30)*	*(25)*	*(17)*	-	-	-	-	-
Other long-term liabilities	*2*	*4*	*(4)*	-	-	-	-	-	-	-	-	-	-
Net cash used in operating activities	**(81)**	**(128)**	**(159)**	**(105)**	**118**	**253**	**365**	**462**	**611**	**708**	**1,126**	**1,487**	**2,930**
Cash flows from investing activities													
Acquisition of Fremont and related assets	-	(65)	-	-	-	-	-	-	-	-	-	-	-
Purchases of PP&E excl capital leases	(12)	(40)	(195)	(84)	(134)	(184)	(274)	(332)	(324)	(277)	(362)	(430)	(748)
Increase in restricted cash in DOE account	-	(74)	74	-	-	-	-	-	-	-	-	-	-
Increase in other restricted cash	(2)	(1)	(0)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(14)**	**(180)**	**(122)**	**(84)**	**(134)**	**(184)**	**(274)**	**(332)**	**(324)**	**(277)**	**(362)**	**(430)**	**(748)**
Cash flows from financing activities													
Proceeds from issuance of common stock	-	269	150	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of cvt preferred	132	-	-	-	-	-	-	-	-	-	-	-	-
Principal paid on capital leases and other debt	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt	-	72	184	193	16	-	(92)	(130)	(287)	47	-	-	-
Proceeds from cvt notes and warrants	25	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0	1	-	-	-	-	-	-	-	-	-	-	-
Common stock and loan facility issuance costs	(2)	(4)	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	**155**	**338**	**334**	**193**	**16**	**-**	**(92)**	**(130)**	**(287)**	**47**	**-**	**-**	**-**
Net increase in cash and cash equivalents	**60**	**30**	**54**	**4**	**(1)**	**69**	**0**	**0**	**0**	**478**	**764**	**1,058**	**2,182**
Cash and equivalents at beginning of period	9	70	100	153	157	156	226	226	226	226	703	1,467	9,930
Cash and cash equivalents at end of period	**70**	**100**	**153**	**157**	**156**	**226**	**226**	**226**	**226**	**703**	**1,467**	**2,525**	**12,113**
FCF	(93)	(168)	(354)	(189)	(17)	69	92	130	287	430	764	1,058	2,182

Drivers	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Depreciation/PP&E		45%	17%	20%	30%	28%	26%	25%	25%	25%	30%	30%	30%
Depreciation/Sales		9.1%	10.8%	17.3%	7.3%	4.4%	4.2%	4.5%	4.2%	4.1%	3.8%	3.3%	2.9%
Capex/Sales		34.4%	106.1%	23.9%	10.0%	8.0%	10.0%	10.0%	7.0%	5.0%	4.8%	4.5%	4.0%
Days Receivables		21	24	42	15	9	9	9	9	9	9	9	9
Days Payables		123	115	171	80	75	70	70	70	70	70	70	70
Inventory Days' Supply		192	120	188	75	70	60	60	60	60	60	60	60
Accrued Liabilities		24%	11%	21%	11%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT	-53	-153	-198	-229	-56	93	220	276	270	414	794	1,259	2,555
EBITDA	-46	-143	-178	-169	41	194	336	427	466	642	1,083	1,569	3,102
LTM													
EBITDA		-143	-178	-169	41	194	336	427	466	642	1,083	1,569	3,102

Source: Company data, Morgan Stanley Research

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Disclosure Section

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Global Stock Ratings Distribution

(as of April 30, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	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**		

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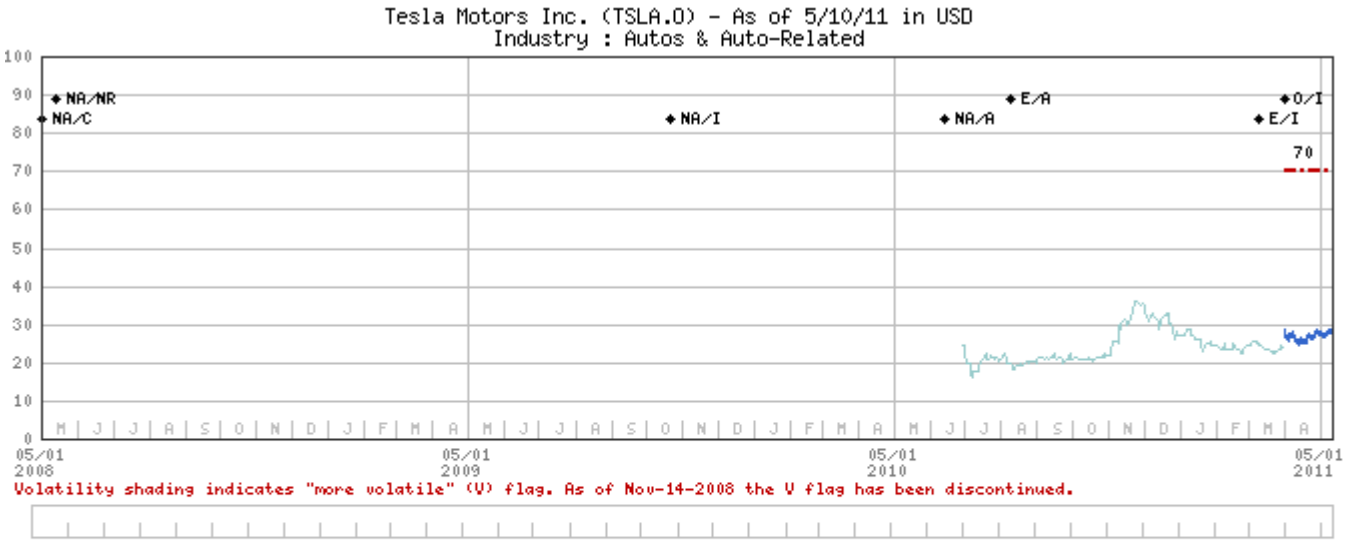
Stock Price, Price Target and Rating History (See Rating Definitions)



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)

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Industry Coverage:Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (05/09/2011)
Adam Jonas, CFA		
Ford Motor Company (F.N)	O (10/04/2010)	$15.08
General Motors Company (GM.N)	O (12/28/2010)	$31.39
Tesla Motors Inc. (TSLA.O)	O (03/31/2011)	$27.91
Ravi Shanker		
AutoNation Inc. (AN.N)	U (03/10/2011)	$34.07
BorgWarner Inc. (BWA.N)	O (10/22/2009)	$77.05
Cooper Tire & Rubber Company (CTB.N)	O (03/16/2010)	$25.64
Goodyear Tire & Rubber Company (GT.N)	O (03/10/2011)	$18.23
Group 1 Automotive, Inc (GPI.N)	U (10/22/2009)	$41.15
Johnson Controls, Inc. (JCI.N)	O (06/14/2010)	$39.74
Lear Corporation (LEA.N)	U (09/23/2010)	$51.55
Magna International Inc. (MGA.N)	U (03/10/2011)	$52.39
Meritor Inc (MTOR.N)	O (09/23/2010)	$17.22
Penske Automotive Group, Inc (PAG.N)	U (10/22/2009)	$21.77
TRW Automotive Holdings Corp. (TRW.N)	O (09/10/2010)	$57.64
Tenneco Inc. (TEN.N)	U (09/23/2010)	$43.22

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North America United States
Consumer Autos & Auto Parts

Deutsche Bank

4 May 2011

Tesla Motors

Reuters: **TSLA.OQ** Bloomberg: **TSLA UN** Exchange: **NMS** Ticker: **TSLA**

Good results, on-track for Model S launch

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Tesla reported adjusted EPS of -$0.44 vs consensus and DB est of -$0.52
Strong revenue ($49.0MM vs DBe of $41.9MM) and 74% margin on Development Svcs rev (i.e. prototype Toyota powertrains) led to an EBIT loss of $41.4MM vs our $48.9MM est. Current earnings aren't important to our long-term view, but are important in terms of near-term cash flow, and we continue to be impressed by the powertrain business and that Roadster vol's and gross margins remain stable. Current cash appears sufficient to bridge the company to cash flow positive, which we expect in early 2013. We maintain Hold rating based on valuation.

On-time Model S launch in mid-2012 appears to be well on-track
The Alpha prototype build was completed in April, approximately 15 months from launch. Based on our knowledge of traditional OEM product development timing, this is on, if not ahead of, schedule. We continue to view the significant amount of in-sourcing (interior plastics, paint, aluminum stamping) as the biggest potential risk to launch timing, but the company expresses confidence in these areas and we are comfortable that they have the personnel in place to garner success. And the order book is strong for the vehicle, as reservations (minimum $5,000 deposit required) are 4,600 (up from 3,400 at 12/31/10) which is not far from the 6,500 units we expect to be produced in 2012.

Some encouraging comments on key variables to long-term earnings
Warranty: Management commented that Roadster warranty spending has remained stable as the vehicle has aged. Additionally, Roadster batteries have continued to perform well, even at 100k miles. Leasing: The luxury sedan segment can have 50%+ leasing penetration, so it is important for Tesla to have an externally-financed leasing program. Management commented that they are in discussions with several banks on this matter, although Tesla will likely have to share some level of vehicle residual risk (at least initially). International Sales: More than 50% of 1Q11 Roadster sales occurred outside the U.S. Our Model S forecast includes an assumption that 50% are sold outside the U.S., which could be particularly beneficial in a weak-dollar environment.

Raising target to $24 from $21.50 on adj'd long-term USD / EUR assumption
We adjusted to $1.30 USD / EUR from $1.20. Every $0.10 change is a ~$3.00 impact to our target price, which is based on a long-term DCF analysis. Key downside risks include execution on the scale up from niche to volume manufacturing and demand / avg trans price assumptions. Upside could be derived from higher-than-expected Model S volumes.

Forecasts and ratios

Year End Dec 31	2010A	**2011E**	2012E
FY EPS (USD)	-2.55	**-2.02**	-1.05
OLD FY EPS (USD)	-2.55	**-2.08**	-1.11
% Change	-0.0%	**-2.4%**	-5.0%
Revenue (USDm)	116.7	**188.0**	719.2

Source: Deutsche Bank estimates, company data

[1] Includes the impact of FAS123R requiring the expensing of stock options.

Forecast Change

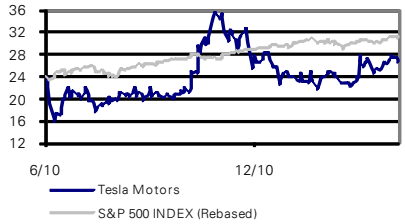
Hold

Price at 4 May 2011 (USD)	**26.69**
Price target	**24.00**
52-week range	**35.47 - 15.80**

Key changes

Price target	21.50 to 24.00	↑	**11.6%**
EPS (USD)	-2.08 to -2.02	↑	**-2.4%**
Revenue (USDm)	174.4 to 188.0	↑	**7.8%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*3.3*	*13.8*	–
S&P 500 INDEX	*1.1*	*2.8*	*14.8*

Stock & option liquidity data

Market Cap (USDm)	2,550.8
Shares outstanding (m)	95.6
Free float (%)	100
Volume (4 May 2011)	1,030,800
Option volume (und. shrs., 1M avg.)	–

Deutsche Bank Securities Inc.

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Model updated:05 May 2011

Running the numbers

North America

United States

Autos & Auto Parts

Tesla Motors

Reuters: TSLA.OQ Bloomberg: TSLA UN

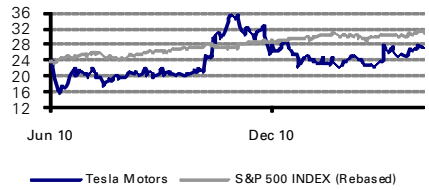
Hold

Price (4 May 11)	USD 26.69
Target price	USD 24.00
52-week Range	USD 15.80 - 35.47
Market Cap (m)	USDm 2,551 EURm 1,714

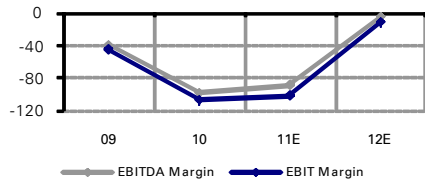
Company Profile

Tesla Motors designs, manufactures, and sells electric vehicles and EV powertrain components. Founded in 2003, the company introduced the first widely available highway-capable electrick vehicle in 2008. They plan to produce a higher-volume product (Model S) in 2012.

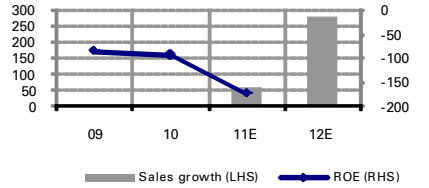
Price Performance



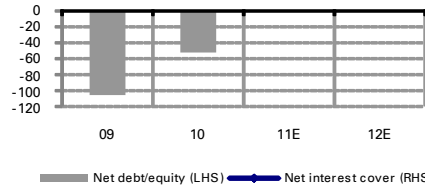
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2009	2010	2011E	2012E
Financial Summary				
DB EPS (USD)	na	-2.55	-2.02	-1.05
Reported EPS (USD)	-1.03	-2.38	-1.88	-0.98
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	1.30	4.11	0.17	-0.89
Valuation Metrics				
Price/Sales (x)	nm	10.1	13.6	3.6
P/E (DB) (x)	na	nm	nm	nm
P/E (Reported) (x)	nm	nm	nm	nm
P/BV (x)	0.0	6.5	161.4	nm
FCF yield (%)	na	nm	nm	nm
Dividend yield (%)	na	0.0	0.0	0.0
EV/Sales	nm	9.2	14.8	4.2
EV/EBITDA	nm	nm	nm	nm
EV/EBIT	nm	nm	nm	nm
Income Statement (USDm)				
Sales	112	117	188	719
EBITDA	-45	-115	-167	-40
EBIT	-52	-126	-193	-92
Pre-tax profit	-56	-128	-194	-102
Net income	**-56**	**-128**	**-193**	**-101**
Cash Flow (USDm)				
Cash flow from operations	**-81**	**-136**	**-131**	**-66**
Net Capex	-12	-127	-196	-119
Free cash flow	**-93**	**-263**	**-327**	**-185**
Equity raised/(bought back)	158	270	0	0
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	-5	55	255	132
Net cash flow	**60**	**62**	**-72**	**-53**
Change in working capital	*-38*	*-3*	*37*	*-17*
Balance Sheet (USDm)				
Cash and cash equivalents	70	178	99	45
Property, plant & equipment	24	123	310	378
Goodwill	0	0	0	0
Other assets	37	85	79	346
Total assets	**130**	**386**	**488**	**769**
Debt	0	72	333	465
Other liabilities	65	107	140	389
Total liabilities	**65**	**179**	**473**	**854**
Total shareholders' equity	**66**	**207**	**16**	**-86**
Net debt	*-70*	*-106*	*234*	*420*
Key Company Metrics				
Sales growth (%)	nm	4.3	61.1	282.5
DB EPS growth (%)	na	na	20.5	48.1
Payout ratio (%)	nm	nm	nm	nm
EBITDA Margin (%)	-40.2	-98.6	-89.0	-5.6
EBIT Margin (%)	-46.4	-107.7	-102.4	-12.9
ROE (%)	-84.8	-94.0	-173.4	nm
Net debt/equity (%)	-106.0	-51.3	nm	nm
Net interest cover (x)	nm	nm	nm	nm
DuPont Analysis				
EBIT margin (%)	-46.4	-107.7	-102.4	-12.9
x Asset turnover (x)	0.9	0.5	0.4	1.1
x Financial cost ratio (x)	1.0	1.0	1.0	1.1
x Tax and other effects (x)	1.0	1.0	1.0	1.0
= ROA (post tax) (%)	**-42.7**	**-49.7**	**-44.2**	**-16.1**
x Financial leverage (x)	2.0	1.9	3.9	-18.0
= ROE (%)	**-84.8**	**-94.0**	**-173.4**	**290.5**
annual growth (%)	*na*	*-10.9*	*-84.3*	*na*
x NTA/share (avg) (x)	1.2	2.5	1.1	-0.3
= Reported EPS	**-1.03**	**-2.38**	**-1.88**	**-0.98**
annual growth (%)	*na*	*-130.1*	*20.7*	*48.0*

Source: Company data, Deutsche Bank estimates

Tesla reported adjusted EPS of -$0.44 vs consensus and DB est of -$0.52. EBIT of -$41.4MM compared to our -$48.9MM estimate, as powertrain revenue was better-than-expected and gross margin (37.1%, +550bp sequentially) benefited from a 74% margin on Development Services revenue (i.e. prototype batteries). Revenue guidance of $170MM-$185MM implies a sequential reduction from 1Q11 revenue of $49MM, but this is to be expected as Daimler / Smart battery production winds down from current levels. Assuming Tesla gets a production contract for the 2012 Toyota RAV4 program, this should more than offset the loss of the Daimler programs, and there is certainly the possibility that Tesla receives additional Daimler business for 2012. All in all, Tesla continues to execute well on current revenue opportunities. We've been encouraged that Roadster volumes and gross margins have been stable, despite the Model S launch being just more than one year away. Total cash levels (including restricted cash) ended the quarter at $148.5MM, down $29.5MM. We continue to believe (and the company reiterated) that cash levels are sufficient to bridge the company to cash flow positive, which we expect in early 2013.

The company appears to be well on-track for an on-time Model S launch in mid-2012. The Alpha prototype build was completed in April, approximately 15 months from launch. Based on our knowledge of traditional OEM product development timing, this is on schedule, if not somewhat ahead of schedule. We continue to view the significant amount of in-sourcing (interior plastics, paint, aluminum stamping) as the biggest potential risk to launch timing, but the company expresses confidence in these areas and we are comfortable that they have the personnel in place to garner success. And the order book is strong for the vehicle, as reservations (minimum $5,000 deposit required) are 4,600 as of today (up from 3,400 at 12/31/10) which is not far from the 6,500 units we expect to be produced in 2012.

We were also encouraged on certain other variables that we consider key to the long-term earnings power of Tesla:

- Warranty: The sufficiency of Tesla's warranty reserves will be difficult to determine, given lack of experience. However, management commented that Roadster warranty spending has remained stable as the vehicle has aged. Additionally, no Roadster batteries have reached "end of life", despite some vehicles being at 100k miles currently.

- Leasing: Tesla's ability to offer a leasing program for the Model S will be important, as the midsize premium sedan segment experiences heavy lease penetrations, particularly in the U.S. Tesla currently uses its owns balance sheet to finance the Roadster leasing program. Given the higher volume on Model S, it will require external financing. Management commented that they are in discussions with several banks that are interested in providing lease financing. Tesla, however, may have to share the residual value risk (risk that vehicle is worth less than originally assumed when the customer's lease expires).

- Average transaction prices: Model S gross margins will likely be quite sensitive to the amount of vehicle options that are purchased. Our 23% gross margin projection for Model S units includes 12% on the base vehicle (approx $62k per-unit global average, before customer subsidies) and 50% on projected option content, add'l battery range, and carbon reduction credits (approx $25k per-unit global average). Tesla's recent announcement that initial production will be focused on highly-contented versions of the vehicle means that margins should be quite strong initially. And, although we don't consider it a direct read-through, we're encouraged that Roadster ATP's have remained high and very stable, despite the vehicle being on sale since late 2008.

- International sales: Roadster sales were 50%+ non-U.S. in 1Q11, a positive sign that brand equity is building outside of the U.S. Our model assumes that Model S sales are 50% non-U.S. In a weak-dollar environment, non-U.S. sales could significantly higher margins

than U.S. vehicles, as nearly all costs will be dollar-denominated. Our Tesla valuation is very sensitive to the EUR / USD assumption.

Raising price target on change to long-term EUR / USD assumption

We are raising our price target to $24 from $21.50 based on a Discounted Cash Flow analysis. The increase is completely related to a change to our long-term USD / EUR assumption to 1.30 from 1.20. Every $0.10 weakening of the USD will add ~$3.00 per share to our Tesla valuation. We are also fine-tuning our 2011 / 2012 / 2013 EPS estimates to -$2.02 / -$1.05 / +$2.33 from -$2.08 / -$1.11 / +$2.08.

Valuation / Risks

Our price target is based on a DCF analysis. Valuing Tesla presents a unique set of challenges, given the fact that company revenue won't accelerate until 2012 and beyond. We believe that DCF is the most appropriate valuation method in this case. We assume 7% terminal growth beginning in 2020 (given our projection that Tesla will still be building out its vehicle portfolio and that only 9.5% of global sales will be vehicles able to be fueled from the grid in 2020, we believe that a 7% growth rate is reasonable). We assume a terminal EBIT margin of 12.8% and a weighted average cost of capital of 13.6% (we calculate WACC by using 15% cost of equity and 3.3% cost of DOE debt and weight this over the expected capital structure from 2011 - 2015).

Key downside risks include execution on the scale up from niche to volume manufacturing, risks associated with demand and average transaction price assumptions, risks associated with costs projections, and unknowns associated with the future competitive landscape. In addition, we anticipate limited near term revenue/earnings to support the stock and, consequently, we anticipate that Tesla's shares can exhibit high levels of near term volatility. Upside could be derived from higher-than-expected Model S volumes or Powertrain sales contract wins. Given volumes of competitor vehicles in the 50k - 200k range, there is the potential for Tesla Model S volume to be significantly higher-than-expected. Additional customers / contracts for Powertrain sales could add significantly to our revenue / profitability targets (i.e. if current Toyota / Daimler development contracts turn into commercial production contracts). Finally, Tesla valuation is sensitive to changes in the EUR / USD exchange rate.

Figure 1: Tesla Discounted Cash Flow Analysis ($MM)

	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	116.7	188.0	719.2	2,022.2	2,263.1	2,763.9	3,391.8	3,886.0	4,665.0	5,416.6	6,074.4
Revenue Growth		61.1%	282.5%	181.2%	11.9%	22.1%	22.7%	14.6%	20.0%	16.1%	12.1%
Operating Expenses	242.4	380.6	811.6	1,761.4	1,940.7	2,349.2	2,846.1	3,257.1	4,091.7	4,729.6	5,294.6
Operating Income	($126)	($193)	($92)	$261	$322	$415	$546	$629	$573	$687	$780
Operating Margin	-107.7%	-102.4%	-12.9%	12.9%	14.2%	15.0%	16.1%	16.2%	12.3%	12.7%	12.8%
Depr and Amort	$11	$25	$52	$58	$58	$63	$74	$84	$101	$118	$132
EBITDA	($115)	($167)	($40)	$319	$381	$478	$619	$713	$674	$805	$912
EBITDA Margin	-98.6%	-89.0%	-5.6%	15.8%	16.8%	17.3%	18.3%	18.4%	14.5%	14.9%	15.0%
Taxes	$0	($1)	($1)	($1)	($4)	($65)	($130)	($151)	($138)	($165)	($187)
Change \Working Capital		$37	($17)	($96)	$59	($34)	($45)	$148	($124)	($35)	($40)
Capex to Sales %	108.6%	104.1%	16.6%	2.9%	4.2%	4.7%	4.0%	4.1%	4.1%	4.1%	4.1%
CAPEX	($127)	($196)	($119)	($59)	($94)	($131)	($137)	($159)	($191)	($222)	($249)
Incremental Investment	($127)	($159)	($136)	($155)	($35)	($164)	($182)	($12)	($316)	($257)	($289)
Free Cash Flow	($242)	($327)	($177)	$163	$342	$249	$308	$551	$221	$383	$435
Terminal Value											$6,614
Present Value			($155)	$126	$233	$149	$163	$257	$91	$107	$1,737
Sum of PVs	$2,708										

Enterprise value	$2,708
Cash (2011YE)	($99)
Total Debt (2011YE)	$334
Shareholder Value	$2,474
Shares Outstanding	102.5
Per Share Value	$24

Normalized Assumptions			
Sales Growth	7.0%	Terminal Value	
Operating Margin	12.8%	WACC - g	6.6%
Tax Rate	24.0%	WACC	13.6%
W/C % Revenue	2.0%		
CAPEX % Rev.	3.7%		

Source: Deutsche Bank

Figure 2: Tesla Earnings Model ($MM)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11E	3Q11E	4Q11E	F2009	F2010	F2011E	F2012E	F2013E
Auto & PWT Revenue	20.6	24.0	23.4	29.2	33.6	35.2	32.7	32.1	94.8	97.1	133.6	696.7	2,007.2
Development Services	0.2	4.4	7.9	7.1	15.4	13.0	13.0	13.0	17.2	19.7	54.4	22.5	15.0
Total Revenue	**20.8**	**28.4**	**31.2**	**36.3**	**49.0**	**48.2**	**45.7**	**45.1**	**111.9**	**116.7**	**188.0**	**719.2**	**2,022.2**
Auto COGS	16.8	20.2	19.4	23.3	26.8								
Development Service COGS	0.1	1.9	2.5	1.6	4.0								
COGS	16.9	22.1	21.9	24.9	30.8	34.2	32.2	31.7	102.4	85.8	129.0	592.7	1,549.5
Gross Profit	3.9	6.3	9.4	11.4	18.2	14.0	13.5	13.4	9.5	31.0	59.0	126.5	472.7
Gross Margin	*18.7%*	*22.2%*	*30.0%*	*31.5%*	*37.1%*	*29.0%*	*29.5%*	*29.6%*		*26.5%*	*31.4%*	*17.6%*	*23.4%*
Product Gross Margin	*18.3%*	*15.6%*	*17.0%*	*20.1%*	*20.3%*	*21.3%*	*21.0%*	*20.6%*					
R&D	13.0	14.9	25.4	35.6	38.9	42.0	42.0	42.0	19.3	88.9	165.0	116.0	83.0
SG&A	13.5	16.7	17.9	19.7	20.7	21.5	21.8	22.5	42.2	67.8	86.6	102.9	128.9
Operating Profit	**(22.6)**	**(25.2)**	**(34.0)**	**(43.8)**	**(41.4)**	**(49.5)**	**(50.4)**	**(51.2)**	**(51.9)**	**(125.7)**	**(192.6)**	**(92.4)**	**260.8**
Operating Margin	*-108.6%*	*-88.9%*	*-108.9%*	*-120.7%*	*-84.5%*	*-102.6%*	*-110.3%*	*-113.7%*		*-107.7%*	*-102.4%*	*-12.9%*	*12.9%*
		20.7%											
Interest Inc / (Exp)	(0.2)	(0.4)	(0.2)	0.1	0.0	(0.3)	(0.4)	(0.6)	(2.4)	(0.7)	(1.2)	(9.6)	(14.3)
Other gain / (loss)	(0.9)	(0.4)	-	(0.4)	(0.4)				(1.4)	(1.7)	-	-	-
Pretax Income	**(23.7)**	**(26.0)**	**(34.2)**	**(44.1)**	**(41.7)**	**(49.8)**	**(50.8)**	**(51.8)**	**(55.7)**	**(128.1)**	**(194.1)**	**(102.0)**	**246.5**
Taxes	(0.1)	(0.0)	(0.1)	0.0	0.2	0.2	0.2	0.2	(0.0)	(0.2)	0.6	0.6	0.6
Tax Rate					0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	**(23.8)**	**(26.1)**	**(34.3)**	**(44.1)**	**(41.6)**	**(49.6)**	**(50.7)**	**(51.6)**	**(55.7)**	**(128.3)**	**(193.5)**	**(101.4)**	**247.1**
EPS	**(3.26)**	**(3.41)**	**(0.37)**	**(0.47)**	**(0.44)**	**(0.52)**	**(0.53)**	**(0.54)**		**(2.55)**	**(2.02)**	**(1.05)**	**2.33**
Basic Shares	7.3	7.6	92.3	94.2	95.2	95.4	95.7	96.0	50.4	50.4	95.6	96.6	97.7
Diluted Shares	7.3	7.6	99.5	103.0	103.7	104.0	104.2	104.5	54.4	54.4	104.1	105.2	106.2
EBITDA	**(20.5)**	**(22.8)**	**(30.9)**	**(40.9)**	**(37.9)**	**(44.1)**	**(43.3)**	**(41.9)**	**(45.0)**	**(115.1)**	**(167.3)**	**(40.1)**	**319.0**
EBITDA Margin											*-89%*	*-6%*	*16%*
R&D as % of Revenue	62.4%	52.3%	81.4%	98.0%	79.3%	87.2%	92.0%	93.3%	17%	76%	88%	16.1%	4.1%
SG&A as % of Revenue	65.0%	58.7%	57.5%	54.2%	42.3%	44.5%	47.8%	50.0%	38%	58%	46%	14.3%	6.4%

Source: Company Filings, Deutsche Bank

Figure 3: Tesla Cash Flow Model ($MM)

Cash Flow Statement	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	F2009	F2010	F2011	F2012	F2013
Reported net income	(23.8)	(26.1)	(34.3)	(44.1)	(41.6)	(49.6)	(50.7)	(51.6)	(55.7)	(128.3)	(193.5)	(101.4)	247.1
Depreciation and amortization	2.1	2.5	3.1	2.9	3.5	5.4	7.1	9.3	6.9	10.6	25.3	52.4	58.2
Other operating	0.1	(4.1)	(7.2)	(4.7)	(12.4)				5.5	(15.8)			
Change in working capital	(5.8)	9.8	(15.9)	9.1	7.1	8.6	11.0	10.0	(37.5)	(2.8)	36.8	(16.8)	(96.1)
Operating cash flow	**(27.3)**	**(17.9)**	**(54.3)**	**(36.8)**	**(43.3)**	**(35.7)**	**(32.6)**	**(32.3)**	**(80.8)**	**(136.2)**	**(131.5)**	**(65.9)**	**209.2**
Capital expenditures	(5.5)	(9.2)	(67.1)	(23.6)	(20.5)	(50.2)	(59.5)	(65.7)	(11.9)	(126.8)	(195.7)	(119.1)	(59.2)
Free cash flow	**(32.8)**	**(27.1)**	**(121.4)**	**(60.4)**	**(63.8)**	**(85.8)**	**(92.0)**	**(98.0)**	**(92.7)**	**(263.0)**	**(327.2)**	**(185.0)**	**150.0**
Cash used in acquisitions										-	-	-	-
Other investing	(3.9)	(0.9)	-		-				(2.4)	(4.8)	-	-	-
Dividends										-	-	-	-
Discretionary cash flow	**(36.7)**	**(27.9)**	**(121.4)**	**(60.4)**	**(63.8)**	**(85.8)**	**(92.0)**	**(98.0)**	**(95.1)**	**(267.8)**	**(327.2)**	**(185.0)**	**150.0**
Increase (decrease) in borrowings										-	-	-	-
Increase (decrease) in cap leas	(0.1)								(0.3)	(0.1)	-	-	-
Increase (decrease) in gov't bor	29.9	15.5	10.9	15.3	30.7	70.0	78.0	82.4		71.6	261.1	132.3	(52.8)
Change in vehicle lease investm	-	(1.9)	(4.1)	(2.5)	(1.6)	(1.6)	(1.5)	(1.2)		(8.4)	(5.9)	(0.7)	7.1
Governmental Grants										-	-	-	-
Equity Issuances	0.4	-	239.2	30.6					157.8	270.2	-	-	-
Other	(1.6)	0.1	(2.17)	0.03	5.20				(2.0)	(3.7)			
Net Financing flow	**28.6**	**13.7**	**243.9**	**43.4**	**34.3**	**68.4**	**76.5**	**81.2**	**155.4**	**329.6**	**255.2**	**131.6**	**(45.7)**
Effect of foreign currency													
Net change in cash position	**(8.1)**	**(14.2)**	**122.5**	**(17.0)**	**(29.5)**	**(17.5)**	**(15.5)**	**(16.8)**	**60.4**	**61.9**	**(72.1)**	**(53.4)**	**104.3**

Source: Company Filings, Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Tesla Motors	TSLA.OQ	26.69 (USD) 4 May 11	2,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Historical recommendations and target price: Tesla Motors (TSLA.OQ)

(as of 5/4/2011)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	8/9/2010:	Hold, Target Price Change USD17.00	2.	2/16/2011:	Hold, Target Price Change USD21.50

Equity rating key

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

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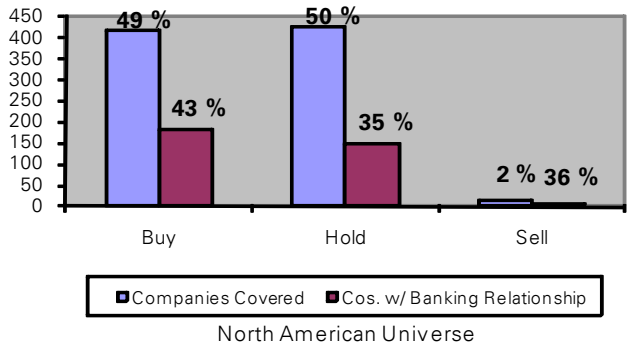
Equity rating dispersion and banking relationships



Regulatory Disclosures

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CAPSTONE INVESTMENTS | Strategy, Vision, Innovation

Tesla Motors, Inc.

(TSLA: NNM; $26.68)

Sell | Target: $19

May 5, 2011

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Company Statistics

12-month Price Target:	$19
Current Price:	$26.68
Shares Outstanding (M):	95.2
Institutional Holdings:	19%
Market Cap (M):	$2,539.6
EV (M):	$2,541.4
EV/EBITDA:	NM
52-wk Range:	$14.98-$36.42
Avg. Daily Vol. (000):	1,391
Dividend:	NA
Price/Book Value:	15.1x
Book Value/sh:	$1.76

Financials

FYE Dec		**2010A**	**2011E**	**2012E**
EBITDA (M):		($136.2)	($176.7)	($91.7)
P/E Ratio:		NM	NM	NM
Revenue (M):	Q1	$20.8	$49.0	$41.5
	Q2	$28.4	$50.2	$42.7
	Q3	$31.2	$45.8	$232.5
	Q4	$36.3	$41.5	$232.7
Total		**$116.7**	**$186.5**	**$549.4**
EPS:	Q1	($1.35)	($0.51)A	($0.49)
	Q2	($1.68)	($0.50)E	($0.47)
	Q3	($0.38)	($0.51)E	($0.30)
	Q4	($0.54)	($0.53)E	($0.29)
Total		**($3.04)A**	**($2.06)E**	**($1.54)**

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: NOT A LOT OF DETAILS; SELL

- **Top line beat, EPS in line.** TSLA reported 1Q11 revenue of $49M and a loss of $0.51 on better than expected sales of Roadsters and powertrain components. Gross margins at 36.8% exceeded expectations but higher opex mitigated most of the margin improvement. We contend that P&L results (net loss of $49M) still do not matter much to investors ahead of the Model S launch but we continue to expect heavy net losses for several more quarters.
- **No new OEMs**. While Daimler increased their order from 1,800 to 2,100 units for battery packs and chargers for its Smart fortwo /A-class EVs, we find it curious that TSLA dismissed the notion that they were ever interested in pursuing a powertrain supply relationship with Daimler. We know battery packs & chargers is all they had been selling but this is an example of a relationship that has not expanded as TSLA originally intended.
- **Short on details**. TSLA stated that alpha prototype road test results were still ongoing but other than saying they were going well, we did not get much detail (we also thought they would have been completed testing by now since the prototypes were finished in February). 15 prototypes also seems like a small number (20 or more vehicles is typical for U.S. road tests) to conduct such extensive tests (braking, handling, noise-vibration-harshness, cool climate driving, crash simulation, etc.). The Model S beta prototype is supposed to be completed by late summer, a little later than first thought but not demonstrably later. Model S reservations of ~4,600 improved each month of the quarter, however, we again find it curios that TSLA retooled their line to build 20K vehicles on one shift but somehow 5,000 units is all they can produce in 2012? We are unclear what exactly the limiting production factors are.
- **Factory build out has yet to begin in earnest**. TSLA admitted it has yet to spend the bulk of the $195-$210M in 2011E capex (spent only $20M in 1Q11) but expects to ramp up expenditures on stamping and tooling equipment in 2Q-4Q11, just in time for those "unnecessary" but hopefully available funds from a potential secondary offering.
- **Maintain SELL**. Bulls will point to lower net losses ($49M vs. $51M in 4Q10), higher Model S reservations and the "on schedule" beta delivery. But if you dig deeper there was not much to get excited about. We expect some short covering will provide another opportunity to exit long positions or initiate short ones once the euphoria has settled down.

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Figure 1: 1Q11 Performance Relative to CapStone Investments Estimates

Line Item	1Q11A	1Q11E	H/(L) Variance	% Var. Rel. to Est.	Historical 1Q10A	% Chg	4Q10A	% Chg
Automotive Sales	$33.6	$23.0	$10.6	46%	$20.6	63%	$29.2	15%
Development Service Sales	$15.4	$14.8	$0.7	4%	$0.2	NM	$7.1	117%
Total Sales	$49.0	$37.8	$11.2	30%	$20.8	136%	$36.3	35%
Auto Gross Margin	20%	10%	10%	98%	18%	10%	20%	0%
Develop. Services Gross Mgn	74%	60%	14%	23%	56%	33%	78%	-5%
Gross Margin	36.8%	29.5%	7.3%	25%	18.5%	99%	31.2%	18%
R&D	$41.2	$35.9	$5.3	15%	$13.3	210%	$37.6	9%
SG&A	$24.2	$25.7	($1.5)	-6%	$16.6	46%	$25.3	-4%
EBITDA	($43.8)	($43.6)	($0.26)	-1%	($23.9)	-84%	($48.8)	10%
EBITDA Margin	-89%	-115%	25.9%	22%	-115%	22%	-134%	33%
GAAP EPS	($0.51)	($0.52)	$0.01	1%	($1.35)	62%	($0.54)	6%
Adjusted EPS	($0.44)	($0.49)	$0.05	11%	($1.09)	60%	($0.47)	7%

FY11 Revenue Guidance	
Prior Guidance	$160-$175M
New Guidance	$170-$185M

Source: Company reports and CapStone Investments estimates

Positives for Tesla on the call / in the quarter:

- Stronger than expected sales of Roadsters (145 cars) and powertrain components delivered record sales of $49M.
- TSLA raised revenue guidance from $160-$175M to $170-$185M for 2011, partially due to the higher number of battery packs ordered by Daimler.
- Gross margins of 36.8% exceeded expectations as margins from lumpy development services sales were far higher than expected.
- Model S reservations grew ~1,300 from 12/31 through 4/30 to reach ~4,600.

Negatives for Tesla on the call / in the quarter:

- No new OEMs. Since Roadster sales are ending at YE11, and there will be no Model S sales before mid-2012, shouldn't expanding powertrain component sales / expanding OEM relationships be an important step in growing revenue? This is the second consecutive quarter that Tesla has not added any new partnerships.
- Did the Model S beta delivery slip just a little? First it was mid-summer and now it is the end of summer? We may be nitpicking but where are all the promised extra details about the road driving tests? Do they have anything to do with the beta introduction sliding just a bit?
- Retail strategy is still murky. We do not understand the appeal of the distribution model. TSLA will stop selling Roadsters in 8 months, has no plans to advertise (at least today) and there is no Model S to test drive? So let me understand this…you go to the store not to buy a car, not to drive a car and not to see the product (since it not even available yet)? But Tesla claims there are thousands of people creating foot traffic at these stores. It must be the rarified air and really good lattes.

Conclusion – Sometimes it is hard to poke holes when everything is so rosy

We have never listened to a company discuss their business that is running so smoothly and yet lost $49M on the bottom line. There was not one negative expression or utterance on the call. But since there were so few details on operations, alpha prototype test results, new partnerships, etc. we guess it is hard to be anything but positive since so many people will be driving $80K electric vehicles next year, assuming they are available for sale. Just ask Fisker how that time frame is working out. We do not mean to be so glib but we now count 18 auto OEMs that plan to have or will have an EV available for sale by the end of 2012. So why are so many car buyers willing to pay TSLA a 25% gross margin per car as management confidently states they will reach on the Model S? We would certainly demand a lower price if we thought that was the profit an auto OEM were going to make and said it right to our face. We would use the expected media hype and bullish commentary to exit positions should the stock bounce above $30.

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 2: 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	$33.6	$28.5	$24.7	$120.5	$21.9	$20.8	$225.7	$225.8	$494.3
Battery Packs, Develop. Service Revenue	0.2	4.4	7.9	7.1	19.7	15.4	16.6	17.2	16.8	66.0	19.5	21.9	6.8	6.9	55.1
Total Revenues	**$20.8**	**$28.4**	**$31.2**	**$36.3**	**$116.7**	**$49.0**	**$50.2**	**$45.8**	**$41.5**	**$186.5**	**$41.5**	**$42.7**	**$232.5**	**$232.7**	**$549.4**
YoY Growth	*0%*	*5%*	*-31%*	*95%*	*4%*	*136%*	*77%*	*46%*	*14%*	*60%*	*-15%*	*-15%*	*408%*	*461%*	*195%*
QoQ Growth	*12%*	*36%*	*10%*	*16%*		*35%*	*2%*	*-9%*	*-9%*		*0%*	*3%*	*445%*	*0%*	
Cost of Sales - Auto	17.0	22.1	21.9	25.0	86.0	31.0	31.9	28.9	26.4	118.2	24.9	24.9	198.5	200.8	449.1
Cost of Sales - Batteries, Develop. Services	0.1	1.9	2.5	1.6	6.0	4.0	5.0	5.5	5.4	19.9	6.2	7.0	2.1	2.1	17.4
Total COGS	17.0	22.1	21.9	25.0	86.0	31.0	31.9	28.9	26.4	118.2	24.9	24.9	198.5	200.8	449.1
Gross Profit	3.9	6.3	9.3	11.3	30.7	18.0	18.4	16.9	15.1	68.4	16.6	17.8	34.0	31.9	100.3
R & D	13.3	15.4	26.7	37.6	93.0	41.2	42.2	41.2	39.4	164.0	31.9	29.9	27.9	23.3	113.0
S G & A	16.6	22.2	20.4	25.3	84.6	24.2	25.1	25.6	28.2	103.2	29.9	31.2	32.6	34.9	128.5
Total Operating Expenses	29.9	37.6	47.1	63.0	177.6	65.4	67.3	66.8	67.7	267.1	61.8	61.0	60.5	58.2	241.5
EBIT	(26.0)	(31.4)	(37.8)	(51.6)	(146.8)	(47.3)	(48.9)	(49.9)	(52.5)	(198.8)	(45.2)	(43.3)	(26.4)	(26.3)	(141.1)
EBITDA	**(23.9)**	**(28.9)**	**(34.7)**	**(48.8)**	**(136.2)**	**(43.8)**	**(44.3)**	**(43.9)**	**(44.7)**	**(176.7)**	**(34.5)**	**(31.3)**	**(13.4)**	**(12.5)**	**(91.7)**
EBITDA Margin	*-115%*	*-102%*	*-111%*	*-134%*	*-117%*	*-89%*	*-88%*	*-96%*	*-108%*	*-95%*	*-83%*	*-73%*	*-6%*	*-5%*	*-17%*
Interest & Other Income, Net	(3.4)	(7.1)	3.0	0.3	(7.3)	(1.4)	0.7	0.7	0.6	0.6	(2.5)	(3.1)	(3.1)	(2.8)	(11.5)
Pretax Income	(29.4)	(38.5)	(34.9)	(51.4)	(154.2)	(48.8)	(48.2)	(49.2)	(51.9)	(198.2)	(47.8)	(46.3)	(29.5)	(29.0)	(152.6)
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)**	**(48.2)**	**(49.2)**	**(51.9)**	**(198.3)**	**(47.8)**	**(46.4)**	**(29.5)**	**(29.0)**	**(152.7)**
GAAP Net Margin	*-142%*	*-136%*	*-112%*	*-142%*	*-132%*	*-100%*	*-96%*	*-108%*	*-125%*	*-106%*	*-115%*	*-109%*	*-13%*	*-12%*	*-28%*
GAAP EPS	**($1.35)**	**($1.68)**	**($0.38)**	**($0.54)**	**($3.04)**	**($0.51)**	**($0.50)**	**($0.51)**	**($0.53)**	**($2.06)**	**($0.43)**	**($0.41)**	**($0.24)**	**($0.24)**	**($1.54)**
YoY Growth	*-76%*	*-223%*	*-73%*	*53%*	*-15%*	*62%*	*70%*	*-34%*	*2%*	*32%*	*-16%*	*-18%*	*-53%*	*-56%*	*25%*
QoQ Growth	*-17%*	*-25%*	*77%*	*-44%*		*6%*	*2%*	*-1%*	*-5%*		*9%*	*4%*	*37%*	*2%*	
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)	($43.3)	($44.3)	($47.0)	($176.2)	($42.4)	($41.0)	($24.1)	($23.6)	($131.1)
Pro forma EPS	**($1.09)**	**($1.14)**	**($0.37)**	**($0.47)**	**($2.53)**	**($0.44)**	**($0.45)**	**($0.46)**	**($0.48)**	**($1.83)**	**($0.49)**	**($0.47)**	**($0.30)**	**($0.29)**	**($1.32)**
Average Shares Outstanding	21.9	22.9	92.3	94.2	50.7	95.2	95.9	96.7	97.4	96.3	98.2	98.9	99.7	100.4	99.3
Percent of Revenue															
Cost of Sales	81.5%	78.0%	70.2%	68.8%	73.7%	63.2%	63.4%	63.2%	63.6%	63.4%	60.0%	58.3%	85.4%	86.3%	81.7%
Gross Profit	18.5%	22.0%	29.8%	31.2%	26.3%	36.8%	36.6%	36.8%	36.4%	36.6%	40.0%	41.7%	14.6%	13.7%	18.3%
R & D	63.7%	54.3%	85.5%	103.7%	79.7%	84.0%	84.0%	90.0%	95.0%	87.9%	77.0%	70.0%	12.0%	10.0%	20.6%
S G & A	79.7%	78.2%	65.4%	69.9%	72.4%	49.4%	50.0%	56.0%	68.0%	55.3%	72.0%	73.0%	14.0%	15.0%	23.4%
Total Operating Expenses	143.4%	132.5%	150.9%	173.5%	152.1%	133.3%	134.0%	146.0%	163.0%	143.2%	149.0%	143.0%	26.0%	25.0%	44.0%

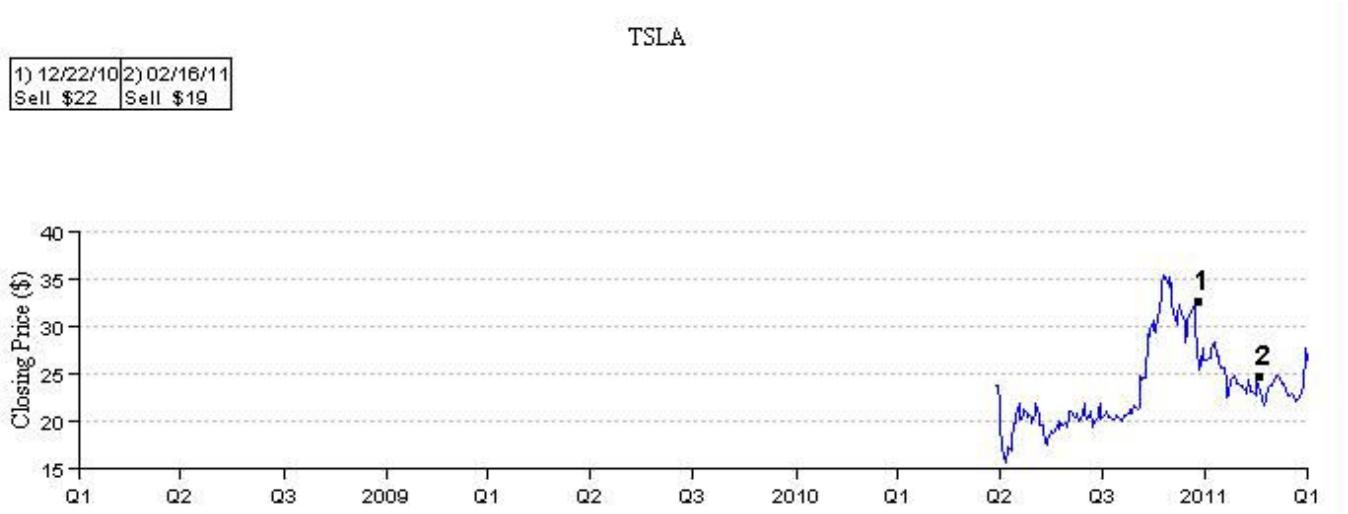
Source: Company reports and CapStone Investments estimates

Figure 3: Tesla Motors, Inc.: HISTORICAL AND PROJECTED CASH FLOWS AND BALANCE SHEET

$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
Operating Sources:															
Net Income	($29.5)	($38.5)	($34.9)	($51.4)	($154.3)	($48.9)	($48.2)	($49.2)	($51.9)	($198.3)	($47.8)	($46.4)	($29.5)	($29.0)	($152.7)
Depreciation and Amortization	2.1	2.5	3.1	2.9	10.6	3.5	4.6	6.0	7.9	22.0	10.8	12.0	13.0	13.7	49.4
Total	**(27.4)**	**(36.0)**	**(31.8)**	**(48.5)**	**(143.7)**	**(45.4)**	**(43.6)**	**(43.2)**	**(44.0)**	**(176.2)**	**(37.0)**	**(34.4)**	**(16.6)**	**(15.3)**	**(103.3)**
Change in Working Capital															
Accounts Receivable	(2.4)	(0.5)	(1.6)	1.4	(3.2)	(13.6)	(0.5)	1.8	1.8	(10.4)	8.1	(0.3)	(3.4)	(0.0)	4.4
Inventories	(5.5)	(1.1)	(10.3)	(3.2)	(20.1)	(5.6)	(0.1)	(6.8)	5.0	(7.6)	3.0	2.4	(5.5)	(14.0)	(14.1)
Other Current Assets	(0.1)	(1.3)	(8.5)	(4.0)	(13.8)	(1.4)	0.0	0.0	0.0	(1.4)	0.0	0.0	0.0	0.0	0.0
Non-Debt Current Liabilities	2.2	8.5	2.8	12.5	26.0	30.2	(12.5)	(1.9)	(1.3)	14.6	2.0	(8.9)	89.1	(7.7)	74.5
Total	(5.8)	5.5	(17.6)	6.7	(11.2)	9.6	(13.1)	(6.9)	5.5	(4.9)	13.1	(6.8)	80.3	(21.8)	64.7
Capital Expenditures	5.5	12.2	65.9	18.7	102.2	20.5	50.0	64.0	68.0	202.4	45.0	40.0	35.0	35.0	155.0
Operating Cash Flow	**($38.7)**	**($42.7)**	**($115.3)**	**($60.5)**	**($257.1)**	**($56.3)**	**($106.7)**	**($114.0)**	**($106.6)**	**($383.5)**	**($68.9)**	**($81.2)**	**$28.7**	**($72.1)**	**($193.5)**
Cash Flow per Share	**($1.76)**	**($1.86)**	**($1.25)**	**($0.64)**	**($5.07)**	**($0.57)**	**($1.08)**	**($1.14)**	**($1.06)**	**($3.98)**	**($0.68)**	**($0.80)**	**$0.28**	**($0.70)**	**($1.95)**
Non-Operating Activities:	30.6	28.5	164.5	63.5	287.0	59.9	68.7	93.7	93.7	315.9	50.0	80.0	0.0	57.0	187.0
Beginning Cash and Invest.	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$69.6**	**$99.6**	**$103.2**	**$65.1**	**$44.8**	**$99.6**	**$31.9**	**$12.9**	**$11.7**	**$40.4**	**$31.9**
Net Cash Flow	**(8.1)**	**(14.2)**	**49.3**	**3.0**	**29.9**	**3.6**	**(38.0)**	**(20.3)**	**(12.9)**	**(67.7)**	**(18.9)**	**(1.2)**	**28.7**	**(15.1)**	**(6.5)**
Ending Cash and Invest.	**$61.5**	**$47.3**	**$96.6**	**$99.6**	**$99.6**	**$103.2**	**$65.1**	**$44.8**	**$31.9**	**$31.9**	**$12.9**	**$11.7**	**$40.4**	**$25.3**	**$25.3**
Assets															
Cash & Equivalents	$61.5	$47.3	$96.6	$99.6		$100.7	$65.1	$44.8	$31.9		$12.9	$11.7	$40.4	$25.3	
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	20.7	18.9	17.2		9.1	9.4	12.7	12.8	
Inventories	28.6	29.5	39.5	45.2		50.8	51.0	57.8	52.8		49.8	47.4	52.9	66.9	
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**	**192.0**	**176.7**	**157.0**		**127.0**	**123.7**	**161.3**	**160.2**	
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	188.8	246.7	307.8		342.0	370.1	392.1	413.4	
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**	**$417.8**	**$460.4**	**$501.8**		**$506.1**	**$530.7**	**$590.4**	**$610.6**	
Liabilities															
Accounts Payable	$18.2	$25.6	$27.0	$29.0		$56.5	$42.0	$38.1	$34.8		$32.8	$21.9	$109.0	$99.3	
Accrued Liabilities	7.9	8.4	10.7	20.9		13.0	13.0	13.0	13.0		13.0	13.0	13.0	13.0	
Defd Development Compensation	0.0	0.0	0.0	0.0		3.4	3.4	3.4	3.4		3.4	3.4	3.4	3.4	
Deferred Revenue	6.7	8.1	3.5	4.6		3.5	3.5	3.5	3.5		3.5	3.5	3.5	3.5	
Capital Lease Obligations, Current	7.9	8.4	10.7	20.9		13.0	13.0	13.0	13.0		13.0	13.0	13.0	13.0	
Reservation Payments	6.7	8.1	3.5	4.6		3.5	3.5	3.5	3.5		3.5	3.5	3.5	3.5	
Current Liabilities	**$59.1**	**$68.6**	**$69.3**	**$85.6**		**$115.8**	**$103.3**	**$101.4**	**$100.1**		**$102.2**	**$93.2**	**$182.4**	**$174.6**	
Common Stock Warrant Liability	0.0	16.7	6.7	6.1		7.5	0.0	0.0	0.0		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		0.7	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Deferred Revenue, less current	1.4	2.1	2.5	2.8		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Long-Term Debt - DoE Loan	29.9	45.4	56.6	71.8		102.5	200.4	269.0	337.0		387.0	447.0	447.0	434.0	
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**	**$316.7**	**$383.5**	**$450.2**		**$502.3**	**$553.3**	**$642.5**	**$621.7**	
Shareholders' Equity	**($279.3)**	**($309.8)**	**$219.9**	**$207.0**		**$167.7**	**$101.0**	**$76.9**	**$51.6**		**$3.8**	**($22.6)**	**($52.1)**	**($11.1)**	
Total Liabilities and Equity	**$145.3**	**$148.0**	**$361.6**	**$386.1**		**$407.3**	**$417.8**	**$460.4**	**$501.8**		**$506.1**	**$530.7**	**$590.4**	**$610.6**	
Key Financial Ratios															
Days Receivable Outstanding	26.0	20.8	23.5	16.9		37.7	37.7	37.7	37.7		20.0	20.0	5.0	5.0	
Inventory Turns	2.4x	3.0x	2.2x	2.2x		2.4x	2.5x	2.0x	2.0x		2.0x	2.1x	15.0x	12.0x	
Days Payable	79.8	82.3	78.8	72.8		105.1	120.0	120.0	120.0		120.0	80.0	50.0	45.0	
Book Value	($12.75)	($13.51)	$2.38	$2.20		$1.76	$1.05	$0.79	$0.53		$0.04	($0.23)	($0.52)	($0.11)	
Cash per Share	$2.81	$2.06	$1.05	$1.06		$1.03	$0.68	$0.46	$0.33		$0.13	$0.12	$0.41	$0.25	

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES
Price charts generated by Jovus, Inc



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CapStone Equity Research Disclosures as of May 5, 2011

Company	Disclosure
Tesla Motors, Inc. (TSLA)	None

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Tesla Motors

1Q Revenue and Margin Upside; Model S Bookings Grow; Equity Deal Likely

Overweight

TSLA, TSLA US
Price: $26.69

▲ **Price Target: $35.00**
Previous: $30.00

Automobile Manufacture

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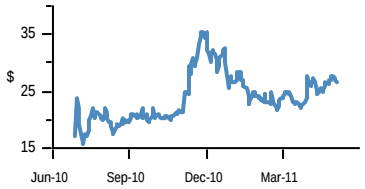
Price Performance



	YTD	1m	3m	12m
Abs	0.3%	3.3%	13.8%	57.0%

Key messages from Q1 results: Overweight-rated Tesla reported encouraging revenues and gross margin in Q1, saw acceleration in Model S reservations, and reaffirmed that it could opportunistically tap equity markets. We raise our 2011e revenues to $179MM ($161MM earlier), which is now in line with TSLA's revised revenue guidance of $170-185MM ($160-175MM earlier). We also nudge up EPS estimates to -$1.98 in 2011 (-$2.14 previously) and -$1.51 in 2012 (-$1.56 earlier). We revise our DCF-based Dec 2011 price target to $35 ($30 earlier).

- **Stock View:** TSLA remains one of our top medium-term stock picks despite its high risk profile. In addition to being able to deliver an impressive ~300 mile pure EV driving range for the pending Model S (aided by what we think is a ~30-50% battery costs/kWh advantage versus industry peers), we think many are underestimating TSLA's non-powertrain related vehicle engineering prowess in areas such as safety, handling, and interior design, all critical differentiators in the luxury market. Our $35 revised price target is still based on a relatively conservative terminal value operating margin assumption of 9.0% (8.5% previously), still substantially below management's long-term guidance of around 15% (which, all else equal, would imply a low-$50 DCF based fair value).

- **Model-S update:** TSLA has now secured 4,600 advance registrations for the Model S that will be launched in mid 2012 (vs. 4,300 by March-end, 3,700 by mid February, and 3,000 by mid November 2010). Management believes reservations saw an upward inflection after the company participated in the Detroit Auto Show in January 2011. TSLA will also be participating in the upcoming Frankfurt Auto Show this September, which could further boost Model S advance bookings. It is worth noting that all reservations to date are being done with minimal (Model S) marketing efforts. TSLA has capacity to manufacture *only* 5K Model S vehicles in 2012 (20K in 2013), suggesting 2012 production capacity will soon be sold out.

Tesla Motors, Inc. (TSLA;TSLA US)

	2011E (Old)	2011E (New)	2012E (Old)	2012E (New)	2013E	2014E
EPS Reported ($)						
Q1 (Mar)	(0.52)A	(0.45)A				
Q2 (Jun)	(0.53)	(0.48)				
Q3 (Sep)	(0.53)	(0.51)				
Q4 (Dec)	(0.54)	(0.54)				
FY	(2.14)	(1.98)	(1.56)	(1.51)	1.45	1.15

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

Company Data	
Price ($)	26.69
Date Of Price	04 May 11
52-week Range ($)	36.42 - 14.98
Mkt Cap ($ mn)	2,515.27
Fiscal Year End	Dec
Shares O/S (mn)	94
Price Target ($)	35.00
Price Target End Date	31 Dec 11

See page 5 for analyst certification and important disclosures.

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- **Thoughts on funding requirement:** Mgmt. stated that it will evaluate fundraising needs and may seek to opportunistically tap *equity* capital markets. While maintaining that currently available cash resources are sufficient, additional capital would likely help the company to accelerate the launch timing of Model X (crossover variant of Model S), perhaps to within 3-4 quarters of the Model S launch. Alpha version of Model X will be unveiled this December, soon after the release of Beta version of Model S in September. We believe Model X will require $150MM of capital investment, significantly below Model S' (~$500MM) as capital required to develop platforms, powertrain, etc. will not be carried over. Further, additional capital may be required to expand production capacity from one shift to two shifts. All things considered, this suggests any potential secondary dilution would be relatively modest compared to the company's current $2.6B equity market cap.

- **1Q earnings details:** TSLA reported 1Q EPS of -$0.45 (JPMe -$0.52) on higher revenues ($49MM vs. JPMe $37MM and 4Q:10 of $36MM) and lower than expected operating loss of -$47MM (vs. JPMe -$52MM and 4Q:10 of -$52MM). Revenues were stronger at both Automotive ($34MM vs. JPMe $30MM) and Development Services ($15MM vs. JPMe $7MM). TSLA delivered 145 Roadster units in 1Q, roughly in line with the past three quarters and notably above 1Q:10's 126. Gross margin in the quarter was 37% (obviously aided by upside to high-margin Development Services sales), ahead of JPMe 30% and 4Q:10's 31%. Average selling prices were roughly flat with the prior quarter. Capex for the quarter was $20MM, and TSLA guided full-year capex to be within the range of $190-215MM, with quarterly expenditures in the balance of the year to be roughly equal. Further, Daimler continued to increase its battery pack orders for the *Smart fortwo* in FY2011 to 2,100 units (+300 vs. last quarter), the same magnitude of increase seen in 4Q:10.

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Table 1: TSLA: Discounted Cash Flow (DCF) Based Valuation

	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	112	117	179	660	1,854	2,181	3,679	4,978	6,598	7,216	8,353	8,427
EBITDA	-46	-136	-195	-121	204	169	494	653	739	727	812	823
Less: D&A	-5	-11	-14	-25	-50	-50	-52	-55	-57	-60	-62	-65
EBIT	-51	-147	-209	-146	154	119	442	598	682	667	750	758
Interest Expense	-2	-1	-1	-14	-13	-10	-9	-7	-6	0	0	0
Taxes	0	0	0	0	0	0	-104	-141	-162	-160	-180	-182
Net Income	**-54**	**-148**	**-210**	**-160**	**141**	**109**	**329**	**449**	**515**	**507**	**570**	**576**
Add: D&A	+5	+11	+14	+25	+50	+50	+52	+55	+57	+60	+62	+65
Add: Stock based compensation		+21	+22	+16	+19	+20	+22	+24	+26	+28	+30	+30
Change in Working Capital	0	-5	98	25	87	35	101	96	117	59	91	27
Capital Expenditure	-68	-105	-206	-118	-136	-180	-350	-80	-128	-148	-185	-163
Free Cash Flow to Equity	**-117**	**-227**	**-282**	**-212**	**161**	**33**	**155**	**544**	**587**	**506**	**568**	**536**
PV of FCF to Equity				-171	117	22	90	285	275	213	214	182
Terminal Value												7,508
Implied Terminal Growth rate												14x
PV of Terminal Value												2,546

DCF Assumptions		Comments
(1) Risk-free rate*	3.216%	
(2) Beta	1.1	
(3) Risk Premium**	7.5%	
(1)+ (2)*(3) = Cost of Equity	11.4%	
LT Growth Rate	4.0%	

* US 10-yr Treasury yield

** Source: Bloomberg's US Country Risk Premium

Equity Value Calculation	
PV of FCFs	1,226
PV of Terminal Value	2,546
Equity Value (fully distributed)	**3,772**
Implied Stock Price	**35**

Source: Company reports and J.P. Morgan estimates.

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Valuation

We raise our DCF-based Dec 2011 price target to $35 (vs. $30 earlier)—11.4% discount rate, 4% terminal growth, exclusive of 2011 burn. However, our $35 target does imply a somewhat lofty 36x P/E on tax rate-adjusted 2013E EPS (versus its current multiple of 27x), although implied P/E is 29x 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 Rating and Price Target

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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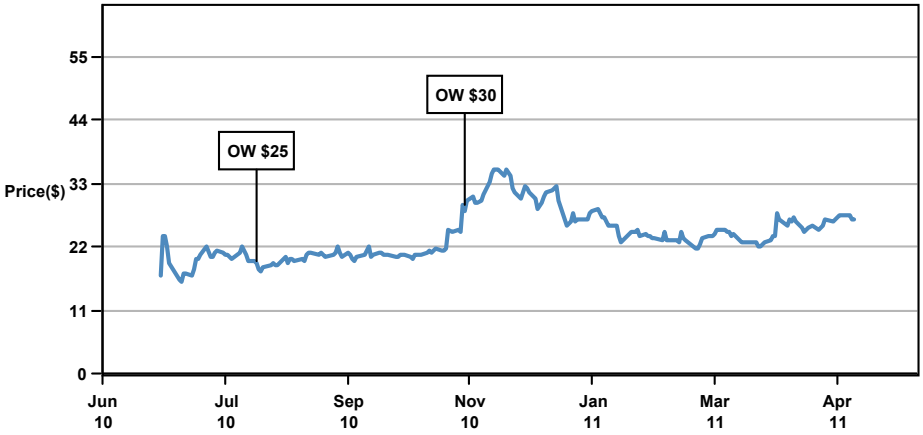
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from Tesla Motors.

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.

Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:
J.P. Morgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] J.P. Morgan Cazenove's UK Small/Mid-Cap dedicated research analysts use the same rating categories; however, each stock's expected total return is compared to the expected total return of the FTSE All Share Index, not to those analysts' coverage universe. A list of these analysts is available on request. The analyst or analyst's team's coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Himanshu Patel, CFA:** American Axle (AXL), AutoNation, Inc. (AN), Autoliv (ALV), Avis Budget Group, Inc. (CAR), Borg Warner Inc. (BWA), CarMax Inc. (KMX), Cooper Tire & Rubber (CTB), Dana Holding Corporation (DAN), Dollar Thrifty Automotive (DTG), Ford Motor Company (F), General Motors (GM), Gentex Corporation (GNTX), Goodyear Tire & Rubber (GT), Group 1 Automotive, Inc (GPI), Harley-Davidson (HOG), Harman International (HAR), Hertz Global Holdings, Inc. (HTZ), Johnson Controls, Inc. (JCI), KAR Auction Services, Inc. (KAR),

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J.P. Morgan Equity Research Ratings Distribution, as of March 31, 2011

	Overweight (buy)	**Neutral** (hold)	**Underweight** (sell)
J.P. Morgan Global Equity Research Coverage	47%	42%	11%
IB clients*	50%	45%	33%
JPMS Equity Research Coverage	43%	49%	8%
IB clients*	70%	62%	56%

*Percentage of investment banking clients in each rating category.
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May 5, 2011

Andrea James (206) 285-0080 ajames@doughertymarkets.com

TESLA MOTORS INC. (TSLA) BUY - $26.69

APPLIED TECHNOLOGIES

PLEASE REFER TO DISCLOSURES ON PAGES 5 & 6 FOR IMPORTANT INFORMATION

Solid Quarter Plus Steady Progress on All Programs; Reiterate PT & Buy

Changes: FY11 Revenue to $178MM from $168MM; FY11 EPS to ($2.04) from ($2.11)

Financial Summary*

Adj. EPS	2010	2011E	2012E	2013E		
Mar	-3.26A	-0.44A	-0.48	0.16	Price	$26.69
Jun	-3.41A	-0.53	-0.48	0.41	12-Month Target	$40.00
Sep	-0.37A	-0.54	-0.40	0.39	52-Week Range	$14.98-$36.42
Dec	-0.47A	-0.52	-0.29	0.14	Diluted Shares ('000)	95,187
FY	-2.53	-2.04	-1.64	1.10	Market Cap ('000)	$2,540,541
					Avg. Daily Vol	741,838
					3-5 Yr. Revenue Growth	20%+
Revs ($'000)					3-5 Yr. EPS Growth	20%+
Mar	$20,812A	$49,030A	$40,373	$344,570	Book Value	$1.76
Jun	$28,405A	$49,855	$40,176	$512,630	LT Debt / Total Capital	38%
Sep	$31,241A	$44,369	$152,297	$512,630	Insider Ownership	57%
Dec	$36,286A	$34,960	$274,089	$347,570	Est. Q2 Reporting Date	Aug '11
FY	$116,744	$178,215	$506,936	$1,717,401		
Mkt Cap/Rev	22x	14x	5x	1x		

*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.

Investment Thesis:

After the close last night, Tesla Motors reported Q111 revenue and EPS that beat expectations, with strength driven by a strong mix of Roadster sales, record battery pack deliveries to Daimler and development services work for Toyota. Tesla raised its FY11 revenue guidance accordingly.

Progress on Tesla's high-end sedan, the Model S, remains on schedule, as we had expected and learned during our recent factory tour. Tesla is testing its alpha build vehicles, which have all been built. The beta-build version should be available for test drives by summer's end.

Management said that Toyota RAV4 powertrain development is on schedule and that Tesla has completed initial milestones on that program, confirming what we had heard from industry contacts in recent weeks. Tesla also reported that Daimler upsized its order for Smart fortwo electric drive components, to 2,100 sets from 1,800. This is the fourth increase from Daimler and an endorsement of Tesla's battery technology.

Given the solid results and favorable outlook, we reiterate our $40 PT and Buy rating. Our PT is based on a DCF that takes into account sales of Tesla's new Model S, slated for release in 2012.

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Q111 Quarterly Details

- Tesla's Q1 revenue of $49MM beat our $39MM estimate and the street's $43MM estimate. Gross margin of 37% beat our 27% estimate. The non-GAAP EPS loss of ($0.44) beat our estimate of ($0.54) and the consensus estimate of ($0.52.)

- Automotive sales of $33.6MM beat our $24MM estimate, with upside coming from battery deliveries to Daimler and more Roadsters sold retail, as opposed to leased, which led to more auto revenue recognized in the quarter.

- Development services sales of $15.4MM were slightly above our $15MM estimate, with most of the revenue coming from the Toyota RAV4 program.

- Tesla sold 145 Roadsters in the quarter compared with our estimate of 140.

- Model S reservations now top 4,600, making the vehicle nearly sold out for FY12. We expect Tesla to sell 4,800 vehicles in FY12 and 20,000 in FY13.

- Management raised its full year revenue guidance range to $170MM-$185MM, from $160MM-$175MM previously. The mid-point jumps 6% to $178MM

Forward projections:

Our forward projections remain mostly unchanged. Later this year, we expect to receive more details about the Toyota RAV4 production contract. (It is now in the development phase.) We believe that the contract may provide upside to our FY12 powertrain revenue estimates.

TESLA	2010 A	2011 E	2012 E	2013 E	2014 E
Roadster Revenue	71,487	84,428	35,362	-	-
Model S Revenue	-	-	380,969	1,626,208	2,032,760
ZEV Credit Revenue	2,740	5,000	4,000	4,000	4,000
Dest. Charges & Leasing	1,232	1,685	6,605	26,193	32,491
Powertrain Revenue	21,619	24,700	32,000	33,000	36,000
Development Revenue	19,666	62,402	48,000	28,000	28,000
Total revenue	116,744	178,215	506,936	1,717,401	2,133,251
GM	26%	30%	16%	23%	25%
OM	-126%	-125%	-40%	7%	12%
EBITDA	(136,216)	(201,917)	(165,558)	174,806	323,163
EBITDA/Share	(2.69)	(2.05)	(1.56)	1.44	2.15
EPS	(2.53)	(2.04)	(1.64)	1.10	1.62
Assumptions					
Roadster Units	567	625	271	-	-
Model S Units	-	-	4,800	20,000	25,000

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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.)

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	Actual													Estimated							Model S Begins								
TESLA	FY 2007	FY 2008	Q1 2009 MAR	Q2 2009 JUN	Q3 2009 SEP	Q4 2009 DEC	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		20095%					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				29.0%	69.0%	-59.2%		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	73	14,742	20,886	26,945	45,527	18,585	111,943	20,585	23,971	23,350	29,172	97,078	33,628	30,855	30,369	20,960	115,813	23,373	23,176	145,297	267,089	458,936	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	17,000	17,000	7,000	7,000	48,000	7,000	7,000	7,000	7,000	28,000
Total Revenue	73	14,742	20,886	26,945	45,527	18,585	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	9	15,883	22,932	24,844	37,828	16,804	102,408	16,858	20,266	19,457	23,401	79,982	26,961	27,769	25,814	18,864	99,409	18,699	18,541	128,646	238,488	404,374	260,740	390,537	390,537	263,110	1,304,923
Cost of development svs	-	-	-	-	-	-	-	102	1,878	2,488	1,564	6,032	4,041	8,550	6,300	6,300	25,191	7,650	7,650	3,150	3,150	21,600	3,150	3,150	3,150	3,150	12,600
Total COGS	9	15,883	22,932	24,844	37,828	16,804	102,408	16,960	22,144	21,945	24,965	86,014	31,002	36,319	32,114	25,164	124,600	26,349	26,191	131,796	241,638	425,974	263,890	393,687	393,687	266,260	1,317,523
Gross profit (loss)	64	(1,141)	(2,046)	2,101	7,699	1,781	9,535	3,852	6,261	9,296	11,321	30,730	18,028	13,535	12,255	9,796	53,615	14,025	13,985	20,501	32,451	80,962	80,681	118,944	118,944	81,311	399,879
GM	88%	-8%	-10%	8%	17%	10%	9%	19%	22%	30%	31%	26%	37%	27%	28%	28%	30%	35%	35%	13%	12%	16%	23%	23%	23%	23%	23%
R&D	62,753	53,714	7,941	1,941	1,257	8,143	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	17,244	23,649	6,607	8,247	10,733	16,563	42,150	16,585	22,207	20,432	25,349	84,573	24,212	27,000	26,700	26,500	104,412	27,000	27,000	26,700	26,500	107,200	30,700	30,500	30,100	30,000	121,300
Total OpEx	79,997	77,363	14,548	10,188	11,990	24,706	61,432	29,850	37,623	47,130	62,966	177,569	65,374	70,500	70,500	70,800	277,174	70,600	70,600	70,600	70,900	282,700	68,300	68,100	67,700	67,600	271,700
Op profit (loss)	(79,933)	(78,504)	(16,594)	(8,087)	(4,291)	(22,925)	(51,897)	(25,998)	(31,362)	(37,834)	(51,645)	(146,839)	(47,346)	(56,965)	(58,245)	(61,004)	(223,559)	(56,575)	(56,615)	(50,099)	(38,449)	(201,738)	12,381	50,844	51,244	13,711	128,179
OM	-109497%	-533%	-79%	-30%	-9%	-123%	-46%	-125%	-110%	-121%	-142%	-126%	-97%	-114%	-131%	-174%	-125%	-140%	-141%	-33%	-14%	-40%	4%	10%	10%	4%	7%
Interest income	1,749	529	16	29	52	62	159	48	47	100	63	258	40	40	27	15	122	5	25	17	0	47	0	0	0	0	-
Interest expense	-	(3,747)	(1,402)	(1,086)	(18)	(25)	(2,531)	(230)	(464)	(298)	-	(992)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	137	(963)	1,972	(1,715)	(677)	(1,125)	(1,445)	(3,221)	(6,729)	3,180	187	(6,583)	(1,485)	-	-	-	(1,485)	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax	(78,047)	(82,685)	(16,008)	(10,859)	(4,834)	(24,013)	(55,714)	(29,401)	(38,508)	(34,852)	(51,395)	(154,156)	(48,791)	(56,925)	(58,218)	(60,988)	(224,922)	(56,571)	(56,589)	(50,081)	(38,449)	(201,690)	12,381	50,844	51,244	13,711	128,179
Tax	110	97	8	8	(219)	229	26	118	9	83	(37)	173	150	131	134	140	555	130	130	115	88	464	2,476	10,169	10,249	2,742	25,636
Net Income (Loss)	(78,157)	(82,782)	(16,016)	(10,867)	(4,615)	(24,242)	(55,740)	(29,519)	(38,517)	(34,935)	(51,358)	(154,329)	(48,941)	(57,055)	(58,352)	(61,129)	(225,477)	(56,701)	(56,720)	(50,197)	(38,537)	(202,154)	9,904	40,675	40,995	10,968	102,543
Diluted shares	3,444	6,646	6,924	6,966	7,014	7,066	7,022	7,302	7,643																		
QoQ Growth			4.2%	0.6%	0.7%	0.7%		3.3%	8.8%																		
GAAP EPS	(22.69)	(12.46)	(2.31)	(1.56)	(0.66)	(3.43)	(7.94)	(4.04)	(5.04)																		
Diluted (pro-forma)				71,828			77,694	77,974	91,208	92,271	94,240	50,718	95,187	96,144	97,105	105,359	98,449	105,675	105,992	106,310	106,629	106,151	111,960	118,118	124,615	131,468	121,540
QoQ Growth									17.0%	1.2%	2.1%		1.0%	1.00%	1.0%	8.5%		0.3%	0.30%	0.3%	0.3%		5.0%	5.50%	5.5%	5.5%	
EPS (calculated)				**(0.15)**			**(0.72)**	**(0.38)**	**(0.42)**	**(0.38)**	**(0.54)**	**(3.04)**	**(0.51)**	**(0.59)**	**(0.60)**	**(0.58)**	**(2.29)**	**(0.54)**	**(0.54)**	**(0.47)**	**(0.36)**	**(1.90)**	**0.09**	**0.34**	**0.33**	**0.08**	**0.84**
Adjusted Net Income (Loss)				(10,689)	(4,103)			(23,800)	(26,053)	(34,195)	(44,102)	(128,150)	(41,594)	(51,129)	(52,426)	(55,203)	(200,352)	(50,775)	(50,794)	(42,354)	(30,694)	(174,616)	17,747	48,518	48,838	18,811	133,915
Adjusted EPS				**(1.53)**	**(0.58)**			**(3.26)**	**(3.41)**	**(0.37)**	**(0.47)**	**(2.53)**	**(0.44)**	**(0.53)**	**(0.54)**	**(0.52)**	**(2.04)**	**(0.48)**	**(0.48)**	**(0.40)**	**(0.29)**	**(1.64)**	**0.16**	**0.41**	**0.39**	**0.14**	**1.10**

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Neutral	31.71
Sell	2.44

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May 4, 2011

Stock Rating
Overweight

Industry View
In-Line

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.

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%
Growth Rate	*10.7%*	*10.7%*	*NM*		
COGS	31	30	17	3.4%	82.8%
Gross Profit	18	13	4	33.8%	368.0%
Gross Margin	*36.8%*	*31.0%*	*18.5%*		
Research and Development	41	38	13	9.8%	210.3%
R&D/Sales	*84.0%*	*86.3%*	*63.7%*		
SG&A	24	30	17	-19.3%	46.0%
SG&A/Sales	*49.4%*	*69.0%*	*79.7%*		
Stock-based Compensation	6	7	3	-12.2%	75.0%
% of Operating Expense	*10.0%*	*10.0%*	*11.3%*		
Operating Profit (GAAP)	**(47)**	**(54)**	**(26)**	**NM**	**NM**
Operating Margin	*-96.6%*	*-124.3%*	*-124.9%*		
Operating Profit (Non-GAAP excl. Stock Comp)	**(41)**	**(47)**	**(23)**	**NM**	**NM**
Operating Margin	*7.3%*	*7.3%*	*5.8%*		
Pre-tax Income	(49)	(55)	(29)	NM	NM
Provision for income taxes	0	-	0	NM	27.1%
Tax Rate	*-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

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of April 30, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	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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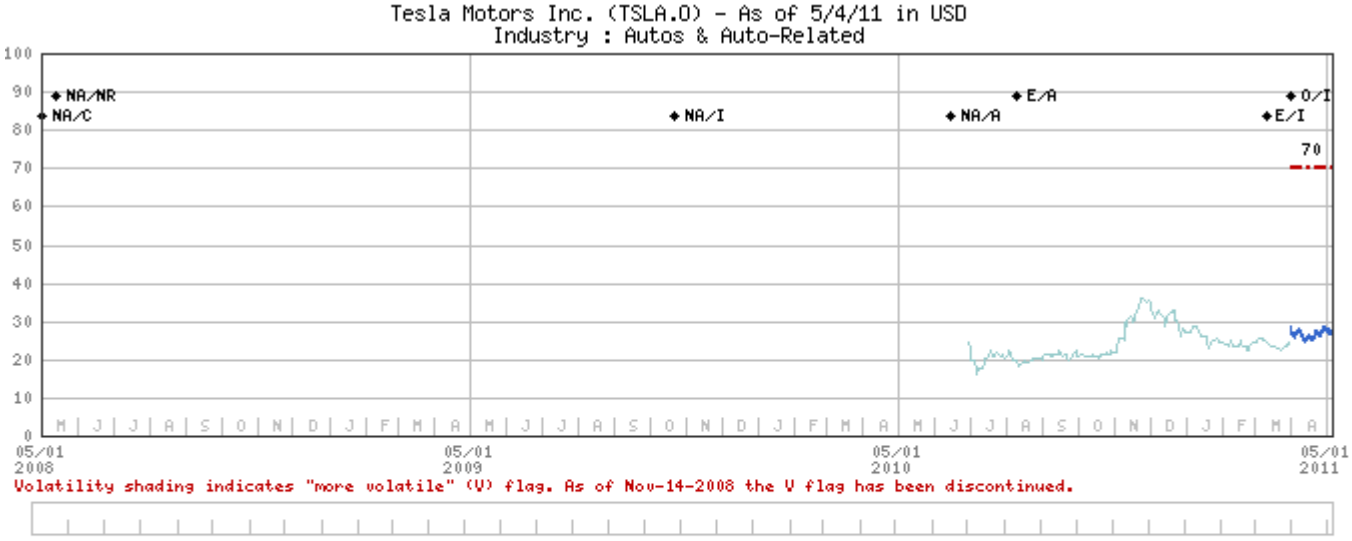
Stock Price, Price Target and Rating History (See Rating Definitions)



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)
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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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* Historical prices are not split adjusted.

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CAPSTONE INVESTMENTS | Strategy, Vision, Innovation

Tesla Motors, Inc.

(TSLA: NNM; $27.45)

Sell | Target: $19

May 3, 2011
Carter Driscoll, CFA / 973-821-4330 /
carter@capstoneinvestments.com

Company Statistics

12-month Price Target:	$19
Current Price:	$27.45
Shares Outstanding (M):	94.2
Institutional Holdings:	19%
Market Cap (M):	$2,586.9
EV (M):	$2,559.2
EV/EBITDA:	NM
52-wk Range:	$14.98-$36.42
Avg. Daily Vol. (000):	1,928
Dividend:	NA
Price/Book Value:	12.5x
Book Value/sh:	$2.20

Financials

FYE Dec		**2010A**	**2011E**	**2012E**
EBITDA (M):		($136.2)	($173.6)	($63.2)
P/E Ratio:		NM	NM	NM
Revenue (M):	Q1	$20.8	$37.8	$39.9
	Q2	$28.4	$46.2	$46.6
	Q3	$31.2	$47.2	$193.7
	Q4	$36.3	$39.8	$309.0
Total		**$116.7**	**$171.0**	**$589.2**
EPS:	Q1	($1.35)	($0.52)	($0.43)
	Q2	($1.68)	($0.57)	($0.45)
	Q3	($0.38)	($0.55)	($0.32)
	Q4	($0.54)	($0.51)	($0.28)
Total		**($3.04)A**	**($2.15)**	**($1.47)**

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 ~ 1,400 vehicles sold through 3Q10. Tesla's next-generation EV called the Model S is set to launch in 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: HAS STRATEGY SHIFTED FROM MODEL S? REITERATE SELL

- **Strategy shift?** Tesla reports 1Q11 results AMC on Wednesday with a 5pm call. We forecast revenue of $37.8M and a loss of $0.52. While EVs have garnered a lot of media attention the past few months (both good and bad) we have noticed a subtle strategy shift on the part of Tesla. The company appears to be de-emphasizing its Model S in favor of a more broadly appealing, mass market crossover model (Model X), perhaps recognizing the Model X may have a better chance to succeed against the slew of competitor vehicles slated to be launched over the next 6-18 months.
- **Secondary raise likely in the next few months.** Tesla had made no secret of its desire to raise an additional $100-$150M in cash to promote development of the Model X and build out its production facility. However, we contend that a potential capital raise is evidence that developing, manufacturing, marketing and selling an EV from scratch (Model S) is more capital intensive than Tesla first believed.
- **How have the prototypes faired?** We seek details on the performance of the Model S alpha prototype (braking, handling, noise-vibration-harshness (NVH) and crash test) under driving conditions. Typically auto makers need to build at least 20 prototypes to pass crash test ratings. Tesla disclosed it had finished its 15th in February so the results should be available. Although it is difficult to verify results as they are closely guarded, favorable results could provide an indication that the Model S beta prototype, expected to be completed sometime in the summer, is on track.
- **Daimler's tie-up with Bosch bodes poorly for Tesla?** Tesla OEM partner Daimler recently expanded an existing relationship with Bosch GmbH to jointly develop electric motors for Mercedes-Benz and Smart EVs in 2012. Currently, Tesla supplies battery packs and chargers to Daimler but could this expanded relationship signal a shift away from Tesla by Daimler?
- **Reiterate SELL.** Our SELL thesis is predicated on (1) highly competitive EV space with established auto OEMs will limit gross margins (2) Tesla has no history producing a car and cost overruns are likely (3) slippage in the mid-2012 time frame to deliver a Model S (4) slower than expected rate of adoption for EVs. Outside of heightened press for EV adoption we believe little has changed to alter our thesis and continue to believe the shares are overvalued.

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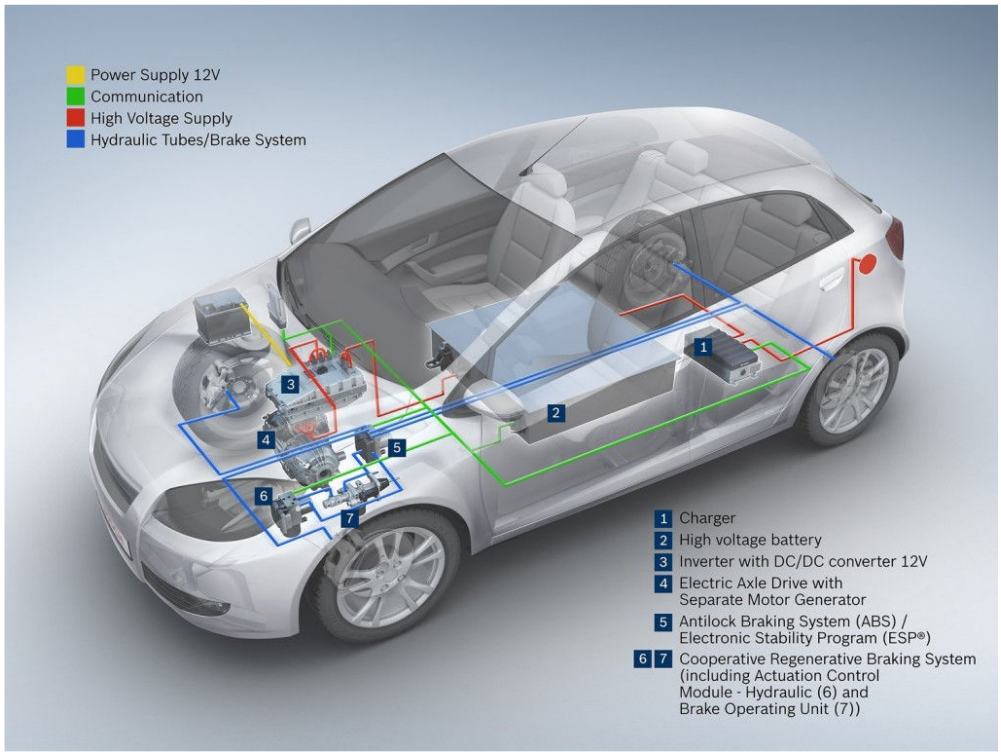
Is Daimler spreading its bets or could it replace Tesla?

The announcement of a partnership between Daimler and Robert Bosch GmbH to jointly develop an all new electric vehicle drive train to be used in new Mercedes Benz and Smart EVs starting in 2012 if all goes to plan. In particular Daimler has been somewhat behind other major auto OEMs in developing EVs. For example, despite the availability of the Smart fortwo in a number of locations in the U.S. the car has received a lot of grief for its limited top speed (~62 m.p.h.) and expensive purchase and lease financing ($2,500 down, $599/month for a typical 4-year lease). Compare this to a 2011 Nissan Leaf that costs ~$350/month to lease with $2,000 down.

Figure 1: Is Tesla's Battery Pack Supply Relationship in Trouble at Daimler?



Source: All Cars Electric, Bosch GmbH

Figure 1 shows a diagram of Bosch's EV powertrain, a newer version of which may be the backbone of the pending joint venture between Robert Bosch and Daimler. The Bosch powertrain includes a battery and charger. Currently Tesla supplies battery packs and chargers that Daimler uses in its Smart fortwo EV. While currently only a small portion of Tesla's current revenue, we believe Tesla was hoping to expand upon its current agreement with Daimler but this new relationship may place such an expansion at risk.

Management suggested on the last earnings call in February that it with their focus on the Model S, the OEM partnership to develop the all EV Rav-4 with Toyota and the existing Daimler agreement they were not likely to pursue other large OEM partnerships (even though they had discussions). Perhaps if the Daimler relationship diminishes Tesla would have the capacity and inclination to pursue other OEM deals. We shall see.

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 2: Tesla Motors, Inc.: HISTORICAL AND PROJECTED INCOME STATEMENT

$M	2009					2010A					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1Q Mar-10	2Q Jun-10	3Q Sep-10	4Q Dec-10	2010A YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Automotive Revenues	$20.9	$26.9	$45.5	$18.6	$111.9	$20.6	$24.0	$23.4	$29.2	$97.1	$23.0	$30.3	$30.4	$23.1	$106.9	$532.1
Battery Packs, Develop. Service Revenue	0.0	0.0	0.0	0.0	0.0	0.2	4.4	7.9	7.1	19.7	14.8	15.8	16.8	16.7	64.0	57.1
Total Revenues	**$20.9**	**$26.9**	**$45.5**	**$18.6**	**$111.9**	**$20.8**	**$28.4**	**$31.2**	**$36.3**	**$116.7**	**$37.8**	**$46.2**	**$47.2**	**$39.8**	**$171.0**	**$589.2**
YoY Growth	*0%*	*0%*	*0%*	*0%*	*659%*	*0%*	*5%*	*-31%*	*95%*	*4%*	*82%*	*62%*	*51%*	*10%*	*46%*	*245%*
QoQ Growth	*NA*	*29%*	*69%*	*-59%*		*12%*	*36%*	*10%*	*16%*		*4%*	*22%*	*2%*	*-16%*		
Cost of Sales - Auto	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	25.0	86.0	26.6	33.8	34.5	28.0	122.9	502.8
Cost of Sales - Batteries, Develop. Services	0.0	0.0	0.0	0.0	0.0	0.1	1.9	2.5	1.6	6.0	5.9	5.9	5.9	5.8	23.5	18.6
Total COGS	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	25.0	86.0	26.6	33.8	34.5	28.0	122.9	502.8
Gross Profit	(2.0)	2.1	7.7	1.8	9.5	3.9	6.3	9.3	11.3	30.7	11.2	12.4	12.7	11.8	48.1	86.4
R & D	7.9	1.9	1.3	8.1	19.3	13.3	15.4	26.7	37.6	93.0	35.9	41.5	40.1	35.8	153.4	101.7
S G & A	6.6	8.2	10.7	16.6	42.2	16.6	22.2	20.4	25.3	84.6	25.7	26.3	26.4	26.3	104.7	119.1
Total Operating Expenses	14.5	10.2	12.0	24.7	61.4	29.9	37.6	47.1	63.0	177.6	61.6	67.9	66.6	62.1	258.1	220.8
EBIT	(16.6)	(8.1)	(4.3)	(22.9)	(51.9)	(26.0)	(31.4)	(37.8)	(51.6)	(146.8)	(50.5)	(55.5)	(53.8)	(50.3)	(210.1)	(134.4)
EBITDA	**(15.2)**	**(6.4)**	**(2.3)**	**(21.0)**	**(45.0)**	**(23.9)**	**(28.9)**	**(34.7)**	**(48.8)**	**(136.2)**	**(43.6)**	**(47.6)**	**(43.5)**	**(39.0)**	**(173.6)**	**(63.2)**
EBITDA Margin	*-73%*	*-24%*	*-5%*	*-113%*	*-40%*	*-115%*	*-102%*	*-111%*	*-134%*	*-117%*	*-115%*	*-103%*	*-92%*	*-98%*	*-102%*	*-11%*
Interest & Other Income, Net	0.6	(2.8)	(0.5)	(1.1)	(3.2)	(3.4)	(7.1)	3.0	0.3	(7.3)	0.9	0.7	0.8	0.6	3.0	(11.2)
Pretax Income	(16.0)	(10.9)	(4.8)	(24.0)	(55.1)	(29.4)	(38.5)	(34.9)	(51.4)	(154.2)	(49.6)	(54.7)	(53.1)	(49.7)	(207.1)	(145.6)
Taxes	0.0	0.0	(0.2)	0.2	0.0	0.1	0.0	0.1	(0.0)	0.2	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.3)
Tax Rate	*0.0%*	*-0.1%*	*4.5%*	*-1.0%*	*0.0%*	*-0.4%*	*0.0%*	*-0.2%*	*0.1%*	*-0.1%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
GAAP Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(55.1)**	**(29.5)**	**(38.5)**	**(34.9)**	**(51.4)**	**(154.3)**	**(49.5)**	**(54.6)**	**(52.9)**	**(49.6)**	**(206.6)**	**(145.3)**
GAAP Net Margin	*-77%*	*-40%*	*-10%*	*-130%*	*-49%*	*-142%*	*-136%*	*-112%*	*-142%*	*-132%*	*-131%*	*-118%*	*-112%*	*-125%*	*-121%*	*-25%*
GAAP EPS	**($0.77)**	**($0.52)**	**($0.22)**	**($1.15)**	**($2.65)**	**($1.35)**	**($1.68)**	**($0.38)**	**($0.54)**	**($3.04)**	**($0.52)**	**($0.57)**	**($0.55)**	**($0.51)**	**($2.15)**	**($1.47)**
YoY Growth	*NA*	*NA*	*NA*	*NA*	*3%*	*-76%*	*-223%*	*-73%*	*53%*	*-15%*	*61%*	*66%*	*-45%*	*6%*	*29%*	*32%*
QoQ Growth	*NA*	*32%*	*58%*	*-425%*		*-17%*	*-25%*	*77%*	*-44%*		*4%*	*-9%*	*4%*	*7%*		
Chg in Fair Value Warrants	0.1	0.0	0.3	0.0	0.4	2.3	6.3	(3.1)	(0.6)	5.0	(0.6)	(0.6)	(0.6)	(0.6)	(2.3)	(2.3)
Amort. Stock Comp. Expense	0.1	0.2	0.2	0.0	0.4	3.4	6.1	3.8	7.8	21.2	3.5	3.5	3.5	3.5	14.0	16.0
Pro Forma Net Income	($15.9)	($10.7)	($4.1)	($24.2)	($54.3)	($23.8)	($26.1)	($34.2)	($44.1)	($128.1)	($46.6)	($51.7)	($50.0)	($46.7)	($195.0)	($131.7)
Pro forma EPS						**($1.09)**	**($1.14)**	**($0.37)**	**($0.47)**	**($2.53)**	**($0.49)**	**($0.54)**	**($0.52)**	**($0.48)**	**($2.03)**	**($1.33)**
Average Shares Outstanding	20.9	20.9	21.0	21.1	21.1	21.9	22.9	92.3	94.2	50.7	95.0	95.7	96.5	97.2	96.1	99.1
Percent of Revenue																
Cost of Sales	109.8%	92.2%	83.1%	90.4%	91.5%	81.5%	78.0%	70.2%	68.8%	73.7%	70.5%	73.2%	73.0%	70.4%	71.9%	85.3%
Gross Profit	(9.8%)	7.8%	16.9%	9.6%	8.5%	18.5%	22.0%	29.8%	31.2%	26.3%	29.5%	26.8%	27.0%	29.6%	28.1%	14.7%
R & D	38.0%	7.2%	2.8%	43.8%	17.2%	63.7%	54.3%	85.5%	103.7%	79.7%	95.0%	90.0%	85.0%	90.0%	89.7%	17.3%
S G & A	31.6%	30.6%	23.6%	89.1%	37.7%	79.7%	78.2%	65.4%	69.9%	72.4%	68.0%	57.0%	56.0%	66.0%	61.3%	20.2%
Total Operating Expenses	69.7%	37.8%	26.3%	132.9%	54.9%	143.4%	132.5%	150.9%	173.5%	152.1%	163.0%	147.0%	141.0%	156.0%	151.0%	37.5%

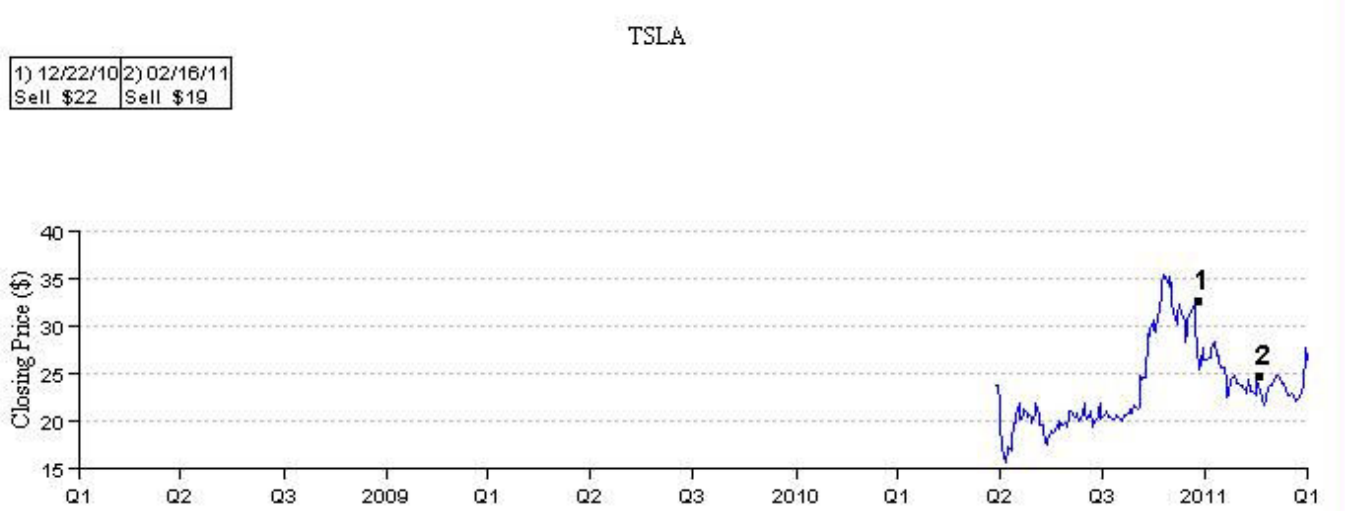
Source: Company reports and CapStone Investments estimates

Figure 3: Tesla Motors, Inc.: HISTORICAL AND PROJECTED CASH FLOWS AND BALANCE SHEET

$M	2009					2010A					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1Q Mar-10	2Q Jun-10	3Q Sep-10	4Q Dec-10	2010A YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Operating Sources:																
Net Income	($16.0)	($10.9)	($4.6)	($24.2)	($55.7)	($29.5)	($38.5)	($34.9)	($51.4)	($154.3)	($49.5)	($54.6)	($52.9)	($49.6)	($206.6)	($145.3)
Depreciation and Amortization	1.4	1.7	1.9	1.9	6.9	2.1	2.5	3.1	2.9	10.6	6.9	7.9	10.4	11.3	36.5	71.2
Total	**(14.6)**	**(9.2)**	**(2.7)**	**(22.3)**	**(48.8)**	**(27.4)**	**(36.0)**	**(31.8)**	**(48.5)**	**(143.7)**	**(42.6)**	**(46.8)**	**(42.6)**	**(38.3)**	**(170.2)**	**(74.1)**
Change in Working Capital																
Accounts Receivable	2.8	(4.0)	3.2	(2.1)	(0.2)	(2.4)	(0.5)	(1.6)	1.4	(3.2)	(0.3)	(1.5)	(0.2)	1.4	(0.6)	(60.4)
Inventories	(4.9)	(3.8)	4.7	(3.9)	(7.9)	(5.5)	(1.1)	(10.3)	(5.7)	(22.6)	(8.1)	(14.3)	(13.6)	(12.3)	(48.3)	(43.4)
Other Current Assets	(0.2)	(2.3)	(0.3)	0.4	(2.5)	(0.1)	(1.3)	(8.5)	(2.0)	(11.8)	0.0	0.0	0.0	0.0	0.0	0.0
Non-Debt Current Liabilities	0.5	5.2	(29.3)	(3.4)	(27.0)	2.2	8.5	2.8	18.7	32.2	(8.0)	9.5	2.7	(4.7)	(0.5)	161.1
Total	(1.9)	(4.9)	(21.7)	(9.0)	(37.5)	(5.8)	5.5	(17.6)	12.5	(5.4)	(16.4)	(6.3)	(11.0)	(15.7)	(49.5)	57.3
Capital Expenditures	0.9	2.5	2.3	6.2	11.9	5.5	12.2	65.9	23.6	107.2	35.5	50.0	64.0	43.0	192.5	154.4
Operating Cash Flow	**($17.4)**	**($16.6)**	**($26.7)**	**($37.5)**	**($98.2)**	**($38.7)**	**($42.7)**	**($115.3)**	**($59.7)**	**($256.3)**	**($94.5)**	**($103.1)**	**($117.6)**	**($97.0)**	**($412.1)**	**($171.2)**
Cash Flow per Share	**($0.83)**	**($0.79)**	**($1.27)**	**($1.78)**	**($4.66)**	**($1.76)**	**($1.86)**	**($1.25)**	**($0.63)**	**($5.05)**	**($0.96)**	**($1.04)**	**($1.18)**	**($0.97)**	**($4.29)**	**($1.73)**
Non-Operating Activities:	8.1	16.6	133.2	0.6	158.6	30.6	28.5	164.5	62.7	286.2	68.7	68.7	93.7	93.7	324.7	167.0
Beginning Cash and Invest.	**$9.3**	**$0.0**	**$0.0**	**$106.5**	**$9.3**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$69.6**	**$99.6**	**$73.8**	**$39.4**	**$15.5**	**$99.6**	**$12.1**
Net Cash Flow	**(9.3)**	**0.0**	**106.5**	**(36.9)**	**60.4**	**(8.1)**	**(14.2)**	**49.3**	**3.0**	**29.9**	**(25.8)**	**(34.4)**	**(23.9)**	**(3.3)**	**(87.4)**	**(4.2)**
Ending Cash and Invest.	**$0.0**	**$0.0**	**$106.5**	**$69.6**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$99.6**	**$99.6**	**$73.8**	**$39.4**	**$15.5**	**$12.1**	**$12.1**	**$7.9**
Assets																
Cash & Equivalents				$69.6		$61.5	$47.3	$96.6	$99.6		$73.8	$39.4	$15.5	$12.1		
Restricted Cash				0.0		0.0	0.0	88.1	73.6		73.6	73.6	73.6	73.6		
Accounts Receivable				3.5		5.9	6.5	8.1	6.7		7.0	8.5	8.7	7.4		
Inventories				23.2		28.6	29.5	39.5	45.2		53.3	67.5	81.1	93.5		
Prepaid & Other CA				4.2		4.5	6.7	8.9	10.8		10.8	10.8	10.8	10.8		
Total Current Assets				**100.6**		**100.6**	**90.0**	**241.1**	**235.9**		**218.5**	**199.9**	**189.8**	**197.4**		
Operating Lease Vehicles				0.0		0.0	0.0	5.7	8.0		8.0	8.0	8.0	8.0		
Net PP&E				23.5		26.9	33.2	37.2	114.6		131.0	173.2	226.8	254.2		
Goodwill & Intangible Assets				3.6		7.5	5.4	57.5	4.9		4.9	4.9	4.9	4.9		
Other Assets				2.8		10.4	19.4	20.1	22.7		22.7	22.7	22.7	22.7		
Total Assets				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$386.1**		**$385.1**	**$408.6**	**$452.1**	**$487.1**		
Liabilities																
Accounts Payable				$15.1		$18.2	$25.6	$27.0	$37.9		$27.9	$35.4	$36.1	$29.4		
Accrued Liabilities				14.5		7.9	8.4	10.7	12.0		12.0	12.0	12.0	12.0		
Defd Development Compensation				0.2		0.0	0.0	0.0	3.6		3.6	3.6	3.6	3.6		
Deferred Revenue				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Capital Lease Obligations, Current				14.5		7.9	8.4	10.7	12.0		12.0	12.0	12.0	12.0		
Reservation Payments				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Current Liabilities				**$57.5**		**$59.1**	**$68.6**	**$69.3**	**$88.1**		**$80.1**	**$89.5**	**$92.3**	**$87.5**		
Common Stock Warrant Liability				0.0		0.0	16.7	6.7	6.1		0.0	0.0	0.0	0.0		
Convertible Pfd Stock Warrant Liability				1.7		10.4	0.0	0.0	0.0		0.0	0.0	0.0	0.0		
Capital Lease Obligations, Non-Current				0.8		0.7	0.6	0.6	0.8		0.0	0.0	0.0	0.0		
Deferred Revenue, less current				1.2		1.4	2.1	2.5	2.5		0.0	0.0	0.0	0.0		
Long-Term Debt - DoE Loan				0.0		29.9	45.4	56.6	71.8		140.5	209.2	277.8	345.8		
Other Long Term Liabilities				3.5		3.9	5.0	6.1	9.8		9.8	9.8	9.8	9.8		
Total Liabilities				**$64.7**		**$105.4**	**$138.5**	**$141.7**	**$179.0**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Total Convertible Pfd Stock				**$319.2**		**$319.2**	**$319.2**	**$0.0**	**$0.0**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Series A Convert. Pfd (7.2M shs)				3.5		3.5	3.5	0.0	0.0		0.0	0.0	0.0	0.0		
Series B Convert. Pfd (17.5M shs)				12.9		12.9	12.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series C Convert. Pfd (35.2M shs)				39.8		39.8	39.8	0.0	0.0		0.0	0.0	0.0	0.0		
Series D Convert. Pfd (18.4M shs)				44.9		44.9	44.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series E Convert. Pfd (102.8M shs)				135.7		135.7	135.7	0.0	0.0		0.0	0.0	0.0	0.0		
Series F Convert. Pfd (27.8M shs)				82.4		82.4	82.4	0.0	0.0		0.0	0.0	0.0	0.0		
Total Liabilities & Convert Pfd				**$383.9**		**$424.6**	**$457.7**	**$141.7**	**$179.0**		**$230.3**	**$308.5**	**$379.9**	**$443.1**		
Shareholders' Equity				**($253.5)**		**($279.3)**	**($309.8)**	**$219.9**	**$207.0**		**$154.7**	**$100.1**	**$72.2**	**$44.0**		
Total Liabilities and Equity				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$386.1**		**$385.1**	**$408.6**	**$452.1**	**$487.1**		
Key Financial Ratios																
Days Receivable Outstanding				17.1		26.0	20.8	23.5	16.9		16.9	16.9	16.9	16.9		
Inventory Turns				2.9x		2.4x	3.0x	2.2x	2.2x		2.0x	2.0x	1.7x	1.2x		
Days Payable				74.1		79.8	82.3	78.8	95.3		95.3	95.3	95.3	95.3		
Book Value				($12.03)		($12.75)	($13.51)	$2.38	$2.20		$1.58	$1.01	$0.73	$0.44		
Cash per Share				$3.31		$2.81	$2.06	$1.05	$1.06		$0.75	$0.40	$0.16	$0.12		

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES
Price charts generated by Jovus, Inc



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CapStone Equity Research Disclosures as of May 3, 2011

Company	Disclosure
Tesla Motors, Inc. (TSLA)	None

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April 29, 2011

Stock Rating
Overweight

Industry View
In-Line

Tesla Motors Inc.

T Minus 500 Days: What Will Matter for Q1 Results?

Tesla has six quarters to report before the first scheduled Model S deliveries in mid-2012. In that period, sales volumes and quarterly EPS will likely be poor indicators of future success. We highlight four items that we think matter when Tesla reports, scheduled for Wednesday after the close.

(1) Model S Reservations: We expect 400 new reservations in the quarter, bringing the total to 3,800. We believe reservations are the best indicator of future demand as each requires a refundable $5,000 payment. Reservations also de-risk the production ramp: we expect at least six months of production will be pre-sold by mid-2012.

(2) Roadster Sales: We expect Roadster unit volume and ASPs to be 145 and $126k, respectively, in-line with 4Q/10. Sales of the low-volume high-priced Roadster may not predict Model S demand, but disappointing Roadster sales would likely weigh on the stock price.

(3) Model S production ramp. We hope to hear details of the performance of the Alpha builds and to get more specifics on the factory buildout. In our model, we forecast the first Model S deliveries late in 4Q/12, approximately six months later than management's target of mid-2012. Increasing confidence in or accelerating the schedule could be a major positive and should reduce the risk of a cash crunch.

(4) Cash burn and plans for capital raise: We expect Tesla's free cash burn in the quarter to be $83MM; funding from the DOE loan reduces net burn to only ($9MM) and will leave $483MM of gross liquidity at March 31, 2011. Management has indicated that they plan to raise capital in 2H11 and we have modeled in a $150 MM equity raise. Even with that, gross liquidity falls below $150 MM in 2013. A successful capital raise would challenge the bear thesis that the company will run out of cash before they can ramp production and would serve as a positive catalyst in our view.

Key Ratios and Statistics

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

Price target	**$70.00**
Shr price, close (Apr 27, 2011)	$27.08
Mkt cap, curr (mm)	$2,577
52-Week Range	$36.42-14.98

Recent Reports

Title	Date
Cooper Tire & Rubber Company: Pulling the Right Levers in a Materials Storm Ravi Shanker / Adam Jonas, CFA / Yejay Ying	Apr 27, 2011
Group 1 Automotive, Inc: Few Positive Catalysts on the Horizon, Remain UW Ravi Shanker / Adam Jonas, CFA / Yejay Ying	Apr 27, 2011
Johnson Controls, Inc.: Building a Bridge to More Stable Auto Ravi Shanker / Adam Jonas, CFA / Yejay Ying	Apr 27, 2011
Ford Motor Company: Demand > Supply Keeps the Dearborn Revolution Alive Adam Jonas, CFA / Ravi Shanker / Yejay Ying	Apr 26, 2011
Autos & Auto-Related: Leading Indicator Drops to Lowest Level since Oct-08 Ravi Shanker / Adam Jonas, CFA / Yejay Ying	Apr 26, 2011
Cree, Inc.: LEDs are Bright, but Near Term Outlook Still Isn't Joshua Paradise, CFA / Smittipon Srethapramote / Timothy Radcliff	Apr 20, 2011
Clean Tech: Climate Change & Policy: Clarity on New Italian Solar Policy Exp Smittipon Srethapramote / Joshua Paradise, CFA / Timothy Radcliff / Sunil Gupta / Sophie Lu / Sung Hee Lim / Andrew Humphrey / Allen D Wells, CFA	Apr 18, 2011

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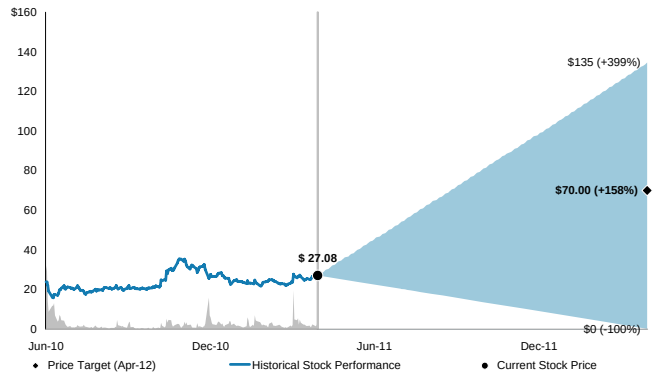
OEMs – Tesla Motors (TSLA, OW, PT $70)

Risk-Reward Snapshot



Source: Company data, Morgan Stanley Research

Investment Thesis

- **Global xEV penetration.** Electric cars will comprise a significant minority of global light vehicle sales medium-term and the majority longer term. Our global xEV model suggests penetration of 5.5% globally by 2020 and >15% by 2025.
- **A natural oil hedge.** A high oil price helps sway both consumer and political forces to support widespread electrification of the automotive fleet. A $1 rise in US gas price could be worth 13% to Tesla shares based on our est. Tesla 6.0% share of the US xEV market in 2025.
- **Strategic partnerships.** Strategic cooperation and ownership relationships with Daimler, Toyota and Panasonic lend credibility and validation to Tesla's strategy in our view.
- **Mass production**. Acquisition of former NUMMI facility from Toyota should enable manufacturing scale to be a high volume producer.

Key Investment Risks

- **Model S execution and liquidity concerns.** Missteps in the Model S sedan (and derivatives) execution could jeopardize Tesla's ability to participate in the mass EV market**.** Inability to raise new equity could challenge min. liquidity thresholds.
- **Government support.** Significant long-term government coordination required to provide incentives to foster the application of new battery technologies, consumer taste and grid infrastructure necessary for EV adoption.
- **Competition.** Evolution of cost and performance of battery technology vs. ever-improving internal combustion engines. Stiff competition from other OEMs as they develop their own xEVs**.**

1Q11e Earnings Outlook

- 1Q11 earnings expected May 4th after the close.
- Key metrics are Model S reservations. We expect 400 new reservations, bringing the total to 3800.
- We expect Roadster unit volume and ASPs to be 145 and $126k, respectively.
- Model S production ramp, R&D and capex spend and rate of cash burn. We expect Tesla's free cash burn in the quarter to be $83MM, but funding from the DOE loan reduces net cash burn to only ($9MM). We forecast gross liquidity of $483MM at March 31, 2011.

1Q11e Morgan Stanley vs. Consensus

($ mm)	MSe	Cons.	% Diff
Revenue	43	43	0.4%
Operating Income	(54)	(54)	NM
Operating Margin	(124.3%)	(124.7%)	NM
Net Income	(55)	(53)	NM
EPS	($0.57)	($0.52)	NM

Source: Company data, FactSet, Datastream, Morgan Stanley Research

1Q11e vs. Last Year

($ mm)	1Q11e	1Q10	% Change
Unit Production	**595**	**231**	157.6%
Roadster	145	126	15.1%
Powertrain	450	105	328.6%
Group Revenue	**43**	**21**	108.8%
Roadster	18	18	13%
Powertrain	10	2	307.1%
Developmental Services	15	0	6507.9%
Cost of Sales	30	17	76.8%
Gross Profit	**13**	**4**	249.7%
Gross Margin	31.0%	18.5%	12.5%
SG&A	30	17	80.9%
R&D	38	13	182.7%
Stock Based Compensation	7	3	99.3%
Operating Profit	**(54)**	**(26)**	NM
Operating Margin	(124.3%)	(124.9%)	NM
Adj. Operating Profit	**(47)**	**(23)**	NM
Adjusted OP Margin	(108.8%)	(108.6%)	NM
Interest Expense	1	0	297.3%
Net Interest Income	0	0	50.8%
Other Income (expense), ne	0	(3)	NM
Pre-tax Income	**(55)**	**(29)**	NM
Effective Tax Rate	0.0%	(0.4%)	NM
Net Income	**(55)**	**(30)**	NM
ModelWare EPS	**(0.57)**	**(4.04)**	NM

Source: Company data, Morgan Stanley Research

Electric Vehicle Projections and Earnings Model

Exhibit 1

Global PHEV + EV Sales Projections (000s)

	2011	2012	2013	2014	2015	2020	2025
PHEV +EV SALES							
US							
PHEV	11	51	90	176	266	574	1,068
EV	7	28	39	59	89	574	1,601
Total	19	79	129	234	355	1,148	2,669
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*29.2%*	*33.1%*	*27.9%*	*26.6%*	*25.3%*	*19.1%*	*15.2%*
W. Europe							
PHEV	19	53	97	180	255	652	1,450
EV	13	29	42	60	85	652	2,174
Total	31	82	139	239	341	1,305	3,624
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*49.1%*	*34.1%*	*30.0%*	*27.2%*	*24.3%*	*21.7%*	*20.7%*
China							
PHEV	6	34	72	136	236	1,160	2,718
EV	4	18	31	45	79	625	2,718
Total	9	52	103	182	315	1,785	5,435
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*65%*	*50%*
% of Global xEV Sales	*14.6%*	*21.8%*	*22.2%*	*20.6%*	*22.5%*	*29.7%*	*31.0%*
Japan							
PHEV	2	11	29	54	77	177	349
EV	1	6	12	18	26	177	524
Total	3	17	41	72	103	355	873
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*4.7%*	*7.0%*	*8.9%*	*8.1%*	*7.4%*	*5.9%*	*5.0%*
ROW							
PHEV	1	6	36	115	215	710	1,975
EV	1	3	15	38	72	710	2,962
Total	2	9	51	153	287	1,421	4,937
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*2.4%*	*3.9%*	*11.0%*	*17.4%*	*20.5%*	*23.6%*	*28.1%*
Global							
PHEV	38	155	324	660	1,050	3,274	7,559
EV	25	84	139	220	350	2,739	9,979
Total	**64**	**239**	**462**	**880**	**1,401**	**6,013**	**17,538**
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*54%*	*43%*

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Cost-benefit methodology behind our xEV model. We have attempted to determine the financial inflection point for operating costs, which is one of the objective factors driving our US xEV demand model. We note that several other factors also drive EV demand, some of which are more subjective including image, political will etc. These subjective factors could be even more influential than the cost factor in determining xEV demand. For our model, we assume the average car drives 12,000 miles/year and gets 25 mpg, and we estimate a weekly gasoline consumption of 8-9 gallons/week. We note that US consumers tend to feel the pain of high gas prices between $3.50-$4 per gallon. This means the average consumer would be comfortable spending no more than $30 per week on gasoline costs. As part of our xEV model, we have tried to maintain the weekly gasoline/electricity spend at $30 per week by substituting more PHEVs and EVs in the car fleet, as gasoline prices get to $5, $6 and higher between now and 2025.

Exhibit 2

Global PHEV + EV Share of Total Market (%)

	2011	2012	2013	2014	2015	2020	2025
PHEV + EV SHARE %							
US							
PHEV	0.1%	0.3%	0.6%	1.1%	1.6%	3.3%	6.0%
EV	0.1%	0.2%	0.2%	0.4%	0.5%	3.3%	9.0%
Total	0.1%	0.5%	0.8%	1.4%	2.1%	6.6%	15.0%
W. Europe							
PHEV	0.1%	0.4%	0.6%	1.1%	1.6%	4.0%	8.7%
EV	0.1%	0.2%	0.3%	0.4%	0.5%	4.0%	13.0%
Total	0.2%	0.5%	0.9%	1.5%	2.1%	8.0%	21.6%
China							
PHEV	0.0%	0.2%	0.4%	0.7%	1.1%	4.1%	8.7%
EV	0.0%	0.1%	0.2%	0.2%	0.4%	2.2%	8.7%
Total	0.1%	0.3%	0.5%	0.9%	1.5%	6.3%	17.5%
Japan							
PHEV	0.0%	0.2%	0.6%	1.1%	1.6%	3.9%	8.0%
EV	0.0%	0.1%	0.3%	0.4%	0.5%	3.9%	12.0%
Total	0.1%	0.4%	0.8%	1.5%	2.1%	7.9%	20.1%
ROW							
PHEV	0.0%	0.0%	0.1%	0.3%	0.6%	1.7%	4.3%
EV	0.0%	0.0%	0.0%	0.1%	0.2%	1.7%	6.4%
Total	0.0%	0.0%	0.2%	0.4%	0.8%	3.4%	10.7%
Global							
PHEV	0.0%	0.2%	0.4%	0.7%	1.1%	3.0%	6.5%
EV	0.0%	0.1%	0.2%	0.2%	0.4%	2.5%	8.6%
Total	0.1%	0.3%	0.5%	0.9%	1.5%	5.5%	15.1%

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 3

Global PHEV + EV Parc Analysis

	2011	2012	2013	2014	2015	2020	2025
PHEV + EV PARC							
US	19	98	225	455	802	4,587	13,814
W. Europe	31	112	249	484	816	4,924	16,663
China	9	61	162	341	649	5,883	23,226
Japan	3	20	60	131	232	1,386	4,361
ROW	2	11	61	213	495	4,673	20,056
Global	**64**	**301**	**757**	**1,623**	**2,994**	**21,452**	**78,120**
% Change		*371.4%*	*151.4%*	*114.4%*	*84.5%*	*36.3%*	*26.0%*
PHEV + EV PARC SHARE %							
US	0.0%	0.0%	0.1%	0.2%	0.3%	1.7%	4.8%
W. Europe	0.0%	0.0%	0.1%	0.2%	0.3%	1.9%	6.1%
China	0.0%	0.1%	0.2%	0.3%	0.5%	2.9%	8.4%
Japan	0.0%	0.0%	0.1%	0.2%	0.3%	1.9%	6.0%
ROW	0.0%	0.0%	0.0%	0.1%	0.1%	1.1%	4.0%
Global	**0.0%**	**0.0%**	**0.1%**	**0.2%**	**0.3%**	**1.7%**	**5.5%**
TOTAL VEHICLE SALES							
US	14,000	15,000	16,033	16,645	17,136	17,488	17,788
W. Europe	14,345	14,863	15,620	16,190	16,125	16,263	16,743
China	15,845	17,372	18,711	20,125	21,451	28,335	31,128
Japan	4,742	4,783	4,862	4,876	4,814	4,498	4,346
ROW	27,904	30,827	33,023	35,080	37,065	42,378	46,070
Global	**76,836**	**82,844**	**88,249**	**92,916**	**96,592**	**108,963**	**116,075**
% Change		*7.8%*	*6.5%*	*5.3%*	*4.0%*	*1.2%*	*1.0%*
TOTAL VEHICLE PARC							
US	247,046	248,944	251,728	254,954	258,486	274,686	288,568
W. Europe	238,502	240,697	243,500	246,706	249,690	262,513	274,281
China	82,091	93,524	105,532	118,149	131,256	203,860	276,161
Japan	75,395	75,367	75,415	75,474	75,471	74,645	73,000
ROW	311,523	321,809	333,542	346,504	360,555	437,494	506,186
Global	**954,557**	**980,340**	**1,009,717**	**1,041,787**	**1,075,457**	**1,253,196**	**1,418,196**
% Change		*2.7%*	*3.0%*	*3.2%*	*3.2%*	*2.9%*	*2.3%*

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 4

Internal Combustion Engine Share of Auto Market

	2011	2012	2013	2014	2015	2020	2025
ICE Sales Share %							
US	99.9%	99.5%	99.2%	98.6%	97.9%	93.4%	85.0%
W. Europe	99.8%	99.5%	99.1%	98.5%	97.9%	92.0%	78.4%
China	99.9%	99.7%	99.5%	99.1%	98.5%	93.7%	82.5%
Japan	99.9%	99.6%	99.2%	98.5%	97.9%	92.1%	79.9%
ROW	100.0%	100.0%	99.8%	99.6%	99.2%	96.6%	89.3%
Global	99.9%	99.7%	99.5%	99.1%	98.5%	94.5%	84.9%
ICE PARC Share %							
US	100.0%	100.0%	99.9%	99.8%	99.7%	98.3%	95.2%
W. Europe	100.0%	100.0%	99.9%	99.8%	99.7%	98.1%	93.9%
China	100.0%	99.9%	99.8%	99.7%	99.5%	97.1%	91.6%
Japan	100.0%	100.0%	99.9%	99.8%	99.7%	98.1%	94.0%
ROW	100.0%	100.0%	100.0%	99.9%	99.9%	98.9%	96.0%
Global	100.0%	100.0%	99.9%	99.8%	99.7%	98.3%	94.5%
ICE SALES							
US	13,981	14,921	15,904	16,411	16,781	16,340	15,119
W. Europe	14,313	14,781	15,481	15,951	15,785	14,959	13,120
China	15,836	17,320	18,609	19,943	21,136	26,550	25,693
Japan	4,739	4,766	4,821	4,804	4,711	4,143	3,474
ROW	27,902	30,817	32,972	34,926	36,778	40,958	41,133
Global	**76,772**	**82,605**	**87,786**	**92,036**	**95,191**	**102,950**	**98,537**
% Change		*7.6%*	*6.3%*	*4.8%*	*3.4%*	*0.0%*	*-1.5%*
ICE PARC							
US	247,027	248,846	251,503	254,499	257,683	270,099	274,753
W. Europe	238,471	240,584	243,252	246,222	248,874	257,589	257,618
China	82,081	93,463	105,370	117,808	130,607	197,977	252,935
Japan	75,392	75,347	75,355	75,343	75,239	73,259	68,639
ROW	311,521	321,798	333,480	346,291	360,060	432,821	486,130
Global	**954,493**	**980,039**	**1,008,960**	**1,040,164**	**1,072,463**	**1,231,744**	**1,340,076**
% Change		*2.7%*	*3.0%*	*3.1%*	*3.1%*	*2.4%*	*1.2%*

Source: Company data, Morgan Stanley Research

Valuation: We argue Tesla cannot be valued on near-term multiple metrics like traditional auto companies given that we expect Tesla to multiply revenues by over 20x from 2010 to 2015, by more than 80x by 2020 and over 150x by 2025. We have thus chosen a 15-year time horizon for our DCF which captures the full utilization of Tesla's manufacturing capacity in Fremont, the full maturation of the Model S, Model X (and top-hat derivatives) and also the ramp up of its mass market electric vehicle (the Gen 3). We have applied a 12% WACC with a range of 10% to 14%. The terminal value accounts for around 60% to 70% of the total DCF value across the range of methodologies we have applied to arrive at our $70 PT.

Exhibit 5

Tesla: Quarterly Revenue Driver Analysis, 2009-2012e

Revenues	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Unit Volume												
Roadster	840	567	145	145	140	140	570	140	140	100	45	425
Growth		*-32.5%*	*15.1%*	*2.8%*	*-7.3%*	*-6.0%*	*0.5%*	*-3.4%*	*-3.4%*	*-28.6%*	*-67.9%*	*-25.4%*
Model S	-	-	-	-	-	-	-			750	1,250	2,000
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	975	450	450	450	500	1,850	650	700	750	800	2,900
Growth			*328.6%*	*125.0%*	*87.5%*	*16.3%*	*89.7%*	*44.4%*	*55.6%*	*66.7%*	*60.0%*	*56.8%*
Total Units	**840**	**1,542**	**595**	**595**	**590**	**640**	**2,420**	**790**	**840**	**1,600**	**2,095**	**5,325**
Growth												
Revenue/Unit ($000s)												
Roadster	133,251	133,437	126,378	125,087	126,702	125,906	126,013	126,378	125,087	126,702	125,906	125,979
Growth		*0.1%*	*-12.0%*	*-8.0%*	*5.0%*	*-7.0%*	*-5.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Model S	-	-	-	-	-	-	-			89,000	89,000	89,000
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	21,968	22,529	22,800	20,302	19,884	21,338	21,402	21,660	19,287	18,890	20,224
Growth			*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-2.9%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.2%*
Total Revenue/Unit	**133,265**	**62,956**	**47,836**	**47,727**	**45,550**	**43,076**	**45,993**	**40,005**	**38,898**	**58,679**	**63,020**	**54,496**
Growth												
Revenues												
Roadster	112	76	18	18	18	18	72	18	18	13	6	54
Growth		*-32.4%*	*1.3%*	*-5.4%*	*-2.6%*	*-12.6%*	*-5.1%*	*-3.4%*	*-3.4%*	*-28.6%*	*-67.9%*	*-25.5%*
Model S	-	-	-	-	-	-	-	-	-	67	111	178
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	21	10	10	9	10	39	14	15	14	15	59
Growth			*307.1%*	*113.8%*	*78.1%*	*10.5%*	*84.3%*	*37.2%*	*47.8%*	*58.3%*	*52.0%*	*48.6%*
Total Automotive Revenues	**112**	**97**	**28**	**28**	**27**	**28**	**111**	**32**	**33**	**94**	**132**	**290**
Growth		*-13.3%*	*38.3%*	*18.5%*	*15.1%*	*-5.5%*	*14.7%*	*11.0%*	*15.1%*	*249.4%*	*378.9%*	*160.7%*
Developmental Services Sales	**-**	**20**	**15**	**15**	**15**	**15**	**60**	**15**	**15**	**15**	**15**	**60**
Growth			*NM*	*238.3%*	*90.1%*	*110.9%*	*205.1%*	*NM*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Tesla Revenue	**112**	**117**	**43**	**43**	**42**	**43**	**171**	**47**	**48**	**109**	**147**	**350**
Growth		*4.3%*	*108.8%*	*52.8%*	*34.0%*	*17.3%*	*46.7%*	*7.2%*	*9.9%*	*160.0%*	*245.4%*	*104.4%*

E = Morgan Stanley Research estimates.

Source: Company data, Morgan Stanley Research

Exhibit 6

Tesla: Consolidated Quarterly Income Statement, 2009 to 2012

Income Statement	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Revenues												
Automotive	112	97	28	28	27	28	111	32	33	94	132	290
Growth		*-13.3%*	*-2.4%*	*-0.2%*	*-5.4%*	*2.6%*	*14.7%*	*14.6%*	*3.4%*	*187.3%*	*40.6%*	*160.7%*
Development services	-	20	15	15	15	15	60	15	15	15	15	60
Growth			*110.9%*	*0.0%*	*0.0%*	*0.0%*	*205.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Revenues	**112**	**117**	**43**	**43**	**42**	**43**	**171**	**47**	**48**	**109**	**147**	**350**
Growth		*4%*	*19.8%*	*-0.1%*	*-3.5%*	*1.7%*	*46.7%*	*9.5%*	*2.3%*	*128.4%*	*35.0%*	*104.4%*
Total Cost of Revenues	**102**	**86**	**30**	**29**	**30**	**32**	**121**	**30**	**30**	**72**	**102**	**308**
Growth												
Total Gross Profit	**10**	**31**	**13**	**14**	**11**	**11**	**50**	**17**	**18**	**37**	**45**	**42**
Gross Margin	*8.5%*	*26.3%*	*31.0%*	*33.4%*	*27.4%*	*25.3%*	*29.3%*	*35.9%*	*37.6%*	*33.7%*	*30.8%*	*12.1%*
Research and Development	19	93	38	38	35	35	145	40	40	40	40	160
R&D/Sales	*17.2%*	*79.7%*	*86.3%*	*86.4%*	*83.6%*	*82.2%*	*84.6%*	*85.8%*	*83.9%*	*36.7%*	*27.2%*	*45.7%*
SG&A	42	85	30	30	32	34	126	38	41	43	46	167
SG&A/Sales	*37.7%*	*72.4%*	*69.0%*	*69.1%*	*76.4%*	*79.9%*	*73.6%*	*81.5%*	*85.0%*	*39.5%*	*30.9%*	*47.7%*
Stock-based Compensation	1	21	7	7	7	7	27	8	8	8	9	33
% of Operating Expense	*2.3%*	*11.9%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Operating Profit (GAAP)	**(52)**	**(147)**	**(54)**	**(53)**	**(56)**	**(58)**	**(221)**	**(61)**	**(63)**	**(46)**	**(40)**	**(285)**
Operating Margin	*-46.4%*	*-125.8%*	*-124.3%*	*-122.1%*	*-132.6%*	*-136.8%*	*-128.9%*	*-131.5%*	*-131.3%*	*-42.5%*	*-27.4%*	*-81.3%*
Operating Profit (Non-GAAP excl. Stock Comp)	**(50)**	**(126)**	**(47)**	**(46)**	**(49)**	**(51)**	**(194)**	**(53)**	**(55)**	**(38)**	**(32)**	**(252)**
Operating Margin	*-45.1%*	*-107.7%*	*-108.8%*	*-106.6%*	*-116.6%*	*-120.6%*	*-113.1%*	*-114.7%*	*-114.4%*	*-34.9%*	*-21.6%*	*-72.0%*
Interest income	0	0	0	0	0	0	0	0	0	0	0	1
Rate		0.14%	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.1%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.4%*
Interest expense	3	1	1	1	2	2	6	2	3	3	3	12
Rate		1.4%	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*2.2%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*2.5%*
Other income (expense), net	(1.4)	(6.6)	-	-	-	-	-	-	-	-	-	-
Pretax Profit	**(56)**	**(154)**	**(55)**	**(54)**	**(57)**	**(60)**	**(226)**	**(63)**	**(65)**	**(49)**	**(44)**	**(296)**
Pretax Margin	*-49.8%*	*-132.0%*	*-126.2%*	*-125.0%*	*-136.5%*	*-141.4%*	*-132.2%*	*-136.1%*	*-136.6%*	*-45.2%*	*-29.6%*	*-84.4%*
Provision for income taxes	0	0	-	-	-	-	-	-	-	-	-	-
Effective Tax Rate	*0.0%*	*-0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Ongoing Net Income	**(56)**	**(154)**	**(55)**	**(54)**	**(57)**	**(60)**	**(226)**	**(63)**	**(65)**	**(49)**	**(44)**	**(296)**
Extraordinary gains (charges)												
Reported Net Income	**(56)**	**(154)**	**(55)**	**(54)**	**(57)**	**(60)**	**(226)**	**(63)**	**(65)**	**(49)**	**(44)**	**(296)**
Basic Weighted Average Shares	7	51	96	96	96	100	97	104	105	105	106	105
Diluted Weighted Average Shares	7	51	96	96	96	100	97	104	105	105	106	105
Basic EPS		(3.04)	(0.57)	(0.56)	(0.59)	(0.60)	(2.33)	(0.61)	(0.62)	(0.47)	(0.41)	(2.80)
Diluted EPS Reported		(3.04)	(0.57)	(0.56)	(0.59)	(0.60)	(2.33)	(0.61)	(0.62)	(0.47)	(0.41)	(2.80)
Diluted EPS (GAAP)	**(7.94)**	**(3.04)**	**(0.57)**	**(0.56)**	**(0.59)**	**(0.60)**	**(2.33)**	**(0.61)**	**(0.62)**	**(0.47)**	**(0.41)**	**(2.80)**
Diluted EPS (Non-GAAP excl. Stock Comp)	**(7.73)**	**(2.63)**	**(0.50)**	**(0.49)**	**(0.52)**	**(0.53)**	**(2.05)**	**(0.53)**	**(0.54)**	**(0.39)**	**(0.33)**	**(2.49)**

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 7

Tesla: Consolidated Quarterly Balance Sheet, 2009-2012e

Balance Sheet	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Cash & Cash Equivalents	70	100	91	80	62	169	169	135	132	145	173	173
Restricted Cash - Current	-	74	49	25	-	-	-	-	-	-	-	-
Account Receivable	3	7	12	12	11	12	12	13	13	30	40	40
Inventory	23	45	41	40	42	44	44	36	33	87	123	123
Prepaid expenses and other current assets	4	11	11	11	11	11	11	11	11	11	11	11
Total Current Assets	**101**	**236**	**204**	**166**	**126**	**235**	**235**	**195**	**188**	**273**	**347**	**347**
Operating lease vehicles, net	-	8	8	8	8	8	8	8	8	8	8	8
Property and equipment, net	24	115	147	188	232	275	275	300	302	294	286	286
Restricted cash	4	5	5	5	5	5	5	5	5	5	5	5
Other assets	3	23	23	23	23	23	23	23	23	23	23	23
Total Assets	**130**	**386**	**386**	**390**	**394**	**545**	**545**	**530**	**526**	**602**	**669**	**669**
Accounts payable	15	29	33	32	33	35	35	33	33	79	112	112
Accrued liabilities	15	21	12	12	12	13	13	12	12	29	41	41
Deferred development compensation	0	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	1	5	5	5	5	5	5	5	5	5	5	5
Capital lease obligations, current portion	0	0	0	0	0	0	0	0	0	0	0	0
Reservation payments	26	31	34	37	39	42	42	45	48	52	56	56
Total Current Liabilities	**57**	**86**	**84**	**85**	**89**	**94**	**94**	**94**	**97**	**165**	**213**	**213**
Common stock warrant liability	-	6	6	6	6	6	6	6	6	6	6	6
Convertible preferred stock warrant liability	2	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	1	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue, less current portion	1	3	3	3	3	3	3	3	3	3	3	3
Long-term debt	-	72	122	172	222	272	272	312	362	412	465	465
Other long-term liabilities	3	12	12	12	12	12	12	12	12	12	12	12
Total Liabilities	**65**	**179**	**227**	**278**	**333**	**388**	**388**	**428**	**481**	**598**	**699**	**699**
Total convertible preferred stock	319	-	-	-	-	-	-	-	-	-	-	-
Common Stock	*0*	0	0	0	0	0	0	0	0	0	0	0
Additional paid-in capital	*7*	622	629	635	642	799	799	807	815	823	832	832
Accumulated deficit	*(261)*	(415)	(470)	(524)	(581)	(641)	*(641)*	(705)	(770)	(819)	(863)	*(863)*
Total stockholders' equity (deficit)	(254)	207	159	111	61	158	158	102	45	4	(31)	(31)
Total Liabilities and Equity	**130**	**386**	**386**	**390**	**394**	**545**	**545**	**530**	**526**	**602**	**669**	**669**
check	-	-	-	-	-	-	-	-	-	-	-	-
Total Debt	**-**	**72**	**122**	**172**	**222**	**272**	**272**	**312**	**362**	**412**	**465**	**465**
Net Debt (Cash)	**(70)**	**(28)**	**31**	**92**	**160**	**103**	**103**	**177**	**230**	**266**	**291**	**291**
Net Debt/EBITDA		0.2 x	(0.2 x)	(0.5 x)	(0.9 x)	(0.6 x)	(0.6 x)	(1.0 x)	(1.3 x)	(1.7 x)	(2.1 x)	(2.1 x)

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 8

Tesla: Consolidated Quarterly Cash Flow Statement, 2009-2012e

Cash Flow	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Cash flows from operating activities												
Net Income (Loss)	(56)	(154)	(55)	(54)	(57)	(60)	(226)	(63)	(65)	(49)	(44)	(221)
Depreciation and amortization	7	11	8	9	11	12	40	17	19	19	18	73
Change in fair value of warrant liabilities	1	5	-	-	-	-	-	-	-	-	-	-
Gain on cvt notes and warrants	(1)	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	1	21	7	7	7	7	27	8	8	8	9	33
Inventory write-downs	0	1	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	1	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities	3	(11)	(3)	3	3	3	5	7	6	(4)	2	11
Accounts receivable	*(0)*	*(3)*	*(5)*	*0*	*0*	*(0)*	*(5)*	*(1)*	*(0)*	*(17)*	*(10)*	*(29)*
Inventory	*(8)*	*(20)*	*4*	*1*	*(2)*	*(2)*	*2*	*8*	*3*	*(54)*	*(36)*	*(79)*
Prepaid expenses and other current assets	*(2)*	*(5)*	-	-	-	-	-	-	-	-	-	-
Operating lease assets	-	*(8)*	-	-	-	-	-	-	-	-	-	-
Other assets	*(0)*	*(0)*	-	-	-	-	-	-	-	-	-	-
Accounts payable	*1*	*(0)*	*4*	*(1)*	*2*	*2*	*6*	*(2)*	*(0)*	*46*	*32*	*77*
Accrued liabilities	*3*	*13*	*(9)*	*(0)*	*1*	*1*	*(8)*	*(1)*	*(0)*	*17*	*12*	*28*
Deferred development compensation	*(10)*	*(0)*	-	-	-	-	-	-	-	-	-	-
Deferred revenue	*(1)*	*5*	-	-	-	-	-	-	-	-	-	-
Reservation payments	*(22)*	*5*	*3*	*3*	*2*	*3*	*11*	*3*	*3*	*4*	*4*	*14*
Other long-term liabilities	*2*	*4*	-	-	-	-	-	-	-	-	-	-
Net cash used in operating activities	**(81)**	**(128)**	**(43)**	**(36)**	**(37)**	**(38)**	**(154)**	**(32)**	**(32)**	**(26)**	**(14)**	**(105)**
Cash flows from investing activities												
Acquisition of Fremont and related assets	-	(65)	-	-	-	-	-	-	-	-	-	-
Purchases of PP&E excl capital leases	(12)	(40)	(40)	(50)	(55)	(55)	(200)	(42)	(21)	(11)	(11)	(84)
Increase in restricted cash in DOE account	-	(74)	25	25	25	-	74	-	-	-	-	-
Increase in other restricted cash	(2)	(1)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(14)**	**(180)**	**(15)**	**(25)**	**(30)**	**(55)**	**(126)**	**(42)**	**(21)**	**(11)**	**(11)**	**(84)**
Cash flows from financing activities												
Proceeds from issuance of common stock	-	269	-	-	-	150	150	-	-	-	-	-
Proceeds from issuance of cvt preferred	132	-	-	-	-	-	-	-	-	-	-	-
Principal paid on capital leases and other debt	(0)	(0)	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt	-	72	50	50	50	50	200	40	50	50	53	193
Proceeds from cvt notes and warrants	25	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0	1	-	-	-	-	-	-	-	-	-	-
Common stock and loan facility issuance costs	(2)	(4)	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	**155**	**338**	**50**	**50**	**50**	**200**	**350**	**40**	**50**	**50**	**53**	**193**
Net increase in cash and cash equivalents	**60**	**30**	**(9)**	**(11)**	**(18)**	**107**	**69**	**(34)**	**(3)**	**14**	**28**	**4**
Cash and equivalents at beginning of period	9	70	100	91	80	62	100	169	135	132	145	169
Cash and cash equivalents at end of period	**70**	**100**	**91**	**80**	**62**	**169**	**169**	**135**	**132**	**145**	**173**	**173**
FCF	(93)	(168)	(83)	(86)	(92)	(93)	(354)	(74)	(53)	(36)	(25)	(189)

Drivers	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Depreciation/PP&E		45%	28%	24%	23%	21%	35%	25%	25%	25%	25%	27%
Depreciation/Sales		9.1%	18.5%	20.3%	25.8%	28.6%	23.2%	36.9%	39.3%	17.3%	12.5%	20.9%
Capex/Sales		34.4%	92.0%	115.2%	131.3%	129.2%	116.8%	90.1%	44.0%	9.6%	7.1%	24.0%
Days Receivables		21	25	25	25	25	25	25	25	25	25	42
Days Payables		123	100	100	100	100	105	100	100	100	100	132
Inventory Days' Supply		192	125	125	125	125	131	110	100	110	110	145
Accrued Liabilities		24%	10%	10%	10%	10%	11%	10%	10%	10%	10%	13%
EBIT	-53	-153	-54	-53	-56	-58	-221	-61	-63	-46	-40	-210
EBITDA	-46	-143	-46	-44	-45	-46	-181	-44	-44	-27	-22	-137
LTM												
EBITDA		-143	-162	-170	-183	-181	-181	-179	-179	-161	-137	-137

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 9

Tesla: Annual Revenue Driver Analysis, 2009-2025e

Revenues	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Unit Volume													
Roadster	840	567	570	425	128	765	1,148	1,262	1,325	1,392	1,364	1,091	1,528
Growth		*-32.5%*	*0.5%*	*-25.4%*	*-70.0%*	*500.0%*	*50.0%*	*10.0%*	*5.0%*	*5.0%*	*-2.0%*	*-20.0%*	*5.0%*
Model S	-	-	-	2,000	15,000	18,000	20,700	23,805	26,186	23,567	22,389	21,269	27,626
Growth					*650.0%*	*20.0%*	*15.0%*	*15.0%*	*10.0%*	*-10.0%*	*-5.0%*	*-5.0%*	*5.0%*
Model X	-	-	-	-	-	10,000	15,000	20,000	25,000	30,000	36,000	41,400	54,739
Growth						*NM*	*50.0%*	*33.3%*	*25.0%*	*20.0%*	*20.0%*	*15.0%*	*3.0%*
Gen 3	-	-	-	-	-	-	-	-	30,000	50,000	100,000	150,000	370,000
Growth									*NM*	*66.7%*	*100.0%*	*50.0%*	*12.1%*
Powertrain	-	975	1,850	2,900	3,480	4,176	5,429	8,143	12,215	18,322	21,987	26,384	42,492
Growth			*89.7%*	*56.8%*	*20.0%*	*20.0%*	*30.0%*	*50.0%*	*50.0%*	*50.0%*	*20.0%*	*20.0%*	*10.0%*
Total Units	**840**	**1,542**	**2,420**	**5,325**	**18,608**	**32,941**	**42,276**	**53,210**	**94,726**	**123,281**	**181,739**	**240,144**	**496,385**
Growth													
Revenue/Unit ($000s)													
Roadster	133,251	133,437	126,013	125,979	128,499	96,374	98,301	100,268	102,273	104,318	106,405	108,533	119,829
Growth		*0.1%*	*-5.6%*	*0.0%*	*2.0%*	*-25.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Model S	-	-	-	89,000	80,100	72,090	64,881	66,179	66,840	67,509	68,184	68,866	72,379
Growth					*-10.0%*	*-10.0%*	*-10.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Model X	-	-	-	-	-	80,100	76,095	72,090	64,881	66,179	66,840	67,509	70,952
Growth							*-5.0%*	*-5.3%*	*-10.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*
Gen 3	-	-	-	-	-	-	-	-	30,000	30,600	31,212	31,836	32,473
Growth										*2.0%*	*2.0%*	*2.0%*	*2.0%*
Powertrain	-	21,968	21,338	20,224	16,179	11,326	9,060	9,151	9,243	9,335	9,428	9,523	10,008
Growth			*-2.9%*	*-5.2%*	*-20.0%*	*-30.0%*	*-20.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Total Revenue/Unit	**133,265**	**62,956**	**45,993**	**54,496**	**68,477**	**67,382**	**62,599**	**60,482**	**47,724**	**43,985**	**40,753**	**39,163**	**37,283**
Growth													
Revenues													
Roadster	112	76	72	54	16	74	113	127	136	145	145	118	183
Growth		*-32.4%*	*-5.1%*	*-25.5%*	*-69.4%*	*350.0%*	*53.0%*	*12.2%*	*7.1%*	*7.1%*	*0.0%*	*-18.4%*	*7.1%*
Model S	-	-	-	178	1,202	1,298	1,343	1,575	1,750	1,591	1,527	1,465	2,000
Growth					*575.0%*	*8.0%*	*3.5%*	*17.3%*	*11.1%*	*-9.1%*	*-4.0%*	*-4.1%*	*6.1%*
Model X	-	-	-	-	-	801	1,141	1,442	1,622	1,985	2,406	2,795	3,884
Growth							*42.5%*	*26.3%*	*12.5%*	*22.4%*	*21.2%*	*16.2%*	*4.0%*
Gen 3	-	-	-	-	-	-	-	-	900	1,530	3,121	4,775	12,015
Growth										*70.0%*	*104.0%*	*53.0%*	*14.4%*
Powertrain	-	21	39	59	56	47	49	75	113	171	207	251	425
Growth			*84.3%*	*48.6%*	*-4.0%*	*-16.0%*	*4.0%*	*51.5%*	*51.5%*	*51.5%*	*21.2%*	*21.2%*	*11.1%*
Total Automotive Revenues	**112**	**97**	**111**	**290**	**1,274**	**2,220**	**2,646**	**3,218**	**4,521**	**5,423**	**7,406**	**9,405**	**18,507**
Growth		*-13.3%*	*14.7%*	*160.7%*	*339.1%*	*74.2%*	*19.2%*	*21.6%*	*40.5%*	*19.9%*	*36.6%*	*27.0%*	*11.0%*
					1,139	*1,231*							
Developmental Services Sales	**-**	**20**	**60**	**60**	**63**	**66**	**69**	**73**	**77**	**80**	**84**	**89**	**113**
Growth			*205.1%*	*0.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Tesla Revenue	**112**	**117**	**171**	**350**	**1,337**	**2,286**	**2,716**	**3,291**	**4,597**	**5,503**	**7,491**	**9,493**	**18,620**
Growth		*4.3%*	*46.7%*	*104.4%*	*281.8%*	*70.9%*	*18.8%*	*21.2%*	*39.7%*	*19.7%*	*36.1%*	*26.7%*	*10.9%*

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 10

Tesla: Annual Operating Profit Bridge Analysis, 2009-2025e

	FY 2009	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Beginning of period OP			-147	-221	-285	-69	68	192	246	240	382	760	2,541
Volume			20	51	218	258	162	176	642	346	652	602	437
Mix			-12	14	78	-11	-61	-34	-363	-138	-176	-115	27
Pricing			0	0	2	13	11	14	0	23	28	37	-84
Productivity/Structural Costs			18	0	0	40	69	54	33	87	55	127	-134
R&D Delta			-52	-15	-8	-54	-16	-35	-43	-36	-18	-6	-73
SG&A Delta			-41	-41	-23	-61	-47	-57	-132	-85	-102	-161	-147
Commodity Costs			-6	-5	-4	0	0	0	0	0	0	0	0
Launch Costs			0	-34	-35	-40	23	-27	-99	-23	0	0	0
Depreciation Creep			-29	-33	-13	-8	-17	-36	-46	-32	-60	-23	-55
Other			29	0	0	0	0	0	0	0	0	0	0
End of period OP	-52	-147	-221	-285	-69	68	192	246	240	382	760	1,223	2,513
Inputs:													
Units	840	1,542	2,420	5,325	18,608	32,941	42,276	53,210	94,726	123,281	181,739	240,144	496,385
Revenues	112	117	171	350	1,337	2,286	2,716	3,291	4,597	5,503	7,491	9,493	18,620
Revenue/Unit	133,265	62,956	45,993	54,496	68,477	67,382	62,599	60,482	47,724	43,985	40,753	39,163	37,283
Period-over-Period Unit Volume Change (%)			57%	120%	249%	77%	28%	26%	78%	30%	47%	32%	10%
Variable Margin on Volume (%)			30%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Mix Impact per Unit ($)			(5,089)	2,551	4,194	(328)	(1,435)	(635)	(3,827)	(1,122)	(970)	(477)	54
YoY price change (%)			0%	0%	0.5%	1.0%	0.5%	0.5%	0.0%	0.5%	0.5%	0.5%	-0.5%
Productivity/Structural Costs/Sales (%)			15%	0%	0%	3%	3%	2%	1%	2%	1%	2%	-1%
R&D ($)		-74	-52	-15	-8	-54	-16	-35	-43	-36	-18	-6	-73
SG&A ($)		-42	-41	-41	-23	-61	-47	-57	-132	-85	-102	-161	-147
Commodity Impact per Unit ($)			-2,375	-1,000	-200	-	-	-	-	-	-	-	-
Launch Cost/Sales (%)			0%	-20%	-10%	-3%	1%	-1%	-3%	-1%	0%	0%	0%
OP Margin (%)		**-126%**	**-129%**	**-81%**	**-5%**	**3%**	**7%**	**7%**	**5%**	**7%**	**10%**	**13%**	**13%**
Variable OP Margin (%)			*-136%*	*-36%*	*22%*	*14%*	*29%*	*9%*	*-1%*	*16%*	*19%*	*23%*	*-2%*

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 11

Tesla: Consolidated Annual Income Statement, 2009-2025e

Income Statement	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Revenues													
Automotive	112	97	111	290	1,274	2,220	2,646	3,218	4,521	5,423	7,406	9,405	18,507
Growth		*-13.3%*	*14.7%*	*160.7%*	*339.1%*	*74.2%*	*19.2%*	*21.6%*	*40.5%*	*19.9%*	*36.6%*	*27.0%*	*11.0%*
Development services	-	20	60	60	63	66	69	73	77	80	84	89	113
Growth			*205.1%*	*0.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Revenues	**112**	**117**	**171**	**350**	**1,337**	**2,286**	**2,716**	**3,291**	**4,597**	**5,503**	**7,491**	**9,493**	**18,620**
Growth		*4%*	*46.7%*	*104.4%*	*281.8%*	*71%*	*19%*	*21%*	*40%*	*20%*	*36%*	*27%*	*11%*
Total Cost of Revenues	**102**	**86**	**121**	**308**	**1,048**	**1,744**	**1,987**	**2,416**	**3,554**	**4,197**	**5,686**	**7,059**	**13,877**
Growth													
Total Gross Profit	**10**	**31**	**50**	**42**	**289**	**541**	**729**	**875**	**1,043**	**1,306**	**1,805**	**2,435**	**4,743**
Gross Margin	*8.5%*	*26.3%*	*29.3%*	*12.1%*	*21.6%*	*23.7%*	*26.8%*	*26.6%*	*22.7%*	*23.7%*	*24.1%*	*25.6%*	*25.5%*
Research and Development	19	93	145	160	168	222	238	274	316	352	370	376	740
R&D/Sales	*17.2%*	*79.7%*	*84.6%*	*45.7%*	*12.6%*	*10.0%*	*9.0%*	*8.5%*	*7.0%*	*6.5%*	*5.0%*	*4.0%*	*4.0%*
SG&A	42	85	126	167	190	251	299	355	487	572	674	835	1,490
SG&A/Sales	*37.7%*	*72.4%*	*73.6%*	*47.7%*	*14.2%*	*11.0%*	*11.0%*	*10.8%*	*10.6%*	*10.4%*	*9.0%*	*8.8%*	*8.0%*
Stock-based Compensation	1	21	27	33	32	38	38	38	48	46	52	48	67
% of Operating Expense	*2.3%*	*11.9%*	*10.0%*	*10.0%*	*9.0%*	*8.0%*	*7.0%*	*6.0%*	*6.0%*	*5.0%*	*5.0%*	*4.0%*	*3.0%*
Operating Profit (GAAP)	**(52)**	**(147)**	**(221)**	**(285)**	**(69)**	**68**	**192**	**246**	**240**	**382**	**760**	**1,223**	**2,513**
Operating Margin	*-46.4%*	*-125.8%*	*-128.9%*	*-81.3%*	*-5.1%*	*3.0%*	*7.1%*	*7.5%*	*5.2%*	*6.9%*	*10.2%*	*12.9%*	*13.5%*
Operating Profit (Non-GAAP excl. Stock Comp)	**(50)**	**(126)**	**(194)**	**(252)**	**(37)**	**106**	**230**	**284**	**288**	**428**	**813**	**1,271**	**2,580**
Operating Margin	*-45.1%*	*-107.7%*	*-113.1%*	*-72.0%*	*-2.7%*	*4.6%*	*8.5%*	*8.6%*	*6.3%*	*7.8%*	*10.8%*	*13.4%*	*13.9%*
Interest income	0	0	0	1	1	2	3	4	4	12	26	47	235
Rate		0.14%	*0.1%*	*0.4%*	*0.8%*	*1.0%*	*1.5%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Interest expense	3	1	6	12	14	14	20	15	2	-	-	-	-
Rate		1.4%	*2.2%*	*2.5%*	*3.0%*	*3.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Other income (expense), net	(1.4)	(6.6)	-	-	-	-	-	-	-	-	-	-	-
Pretax Profit	**(56)**	**(154)**	**(226)**	**(296)**	**(82)**	**56**	**175**	**236**	**242**	**393**	**787**	**1,270**	**2,748**
Pretax Margin	*-49.8%*	*-132.0%*	*-132.2%*	*-84.4%*	*-6.1%*	*2.5%*	*6.5%*	*7.2%*	*5.3%*	*7.1%*	*10.5%*	*13.4%*	*14.8%*
Provision for income taxes	0	0	-	-	-	3	11	17	20	38	162	294	659
Effective Tax Rate	*0.0%*	*-0.1%*	*0.0%*	*0.0%*	*0.0%*	*6.0%*	*6.0%*	*7.2%*	*8.4%*	*9.6%*	*20.6%*	*23.2%*	*24.0%*
Ongoing Net Income	**(56)**	**(154)**	**(226)**	**(296)**	**(82)**	**53**	**165**	**219**	**221**	**355**	**624**	**976**	**2,089**
Extraordinary gains (charges)													
Reported Net Income	**(56)**	**(154)**	**(226)**	**(296)**	**(82)**	**53**	**165**	**219**	**221**	**355**	**624**	**976**	**2,089**
Basic Weighted Average Shares	7	51	97	105	108	111	114	116	119	122	125	128	144
Diluted Weighted Average Shares	7	51	97	105	108	125	128	131	134	137	141	144	162
Basic EPS		(3.04)	(2.33)	(2.80)	(0.75)	0.48	1.45	1.88	1.86	2.91	4.99	7.61	14.46
Diluted EPS Reported		(3.04)	(2.33)	(2.80)	(0.75)	0.42	1.29	1.67	1.65	2.59	4.44	6.78	12.88
Diluted EPS (GAAP)	**(7.94)**	**(3.04)**	**(2.33)**	**(2.80)**	**(0.75)**	**0.42**	**1.29**	**1.67**	**1.65**	**2.59**	**4.44**	**6.78**	**12.88**
Diluted EPS (Non-GAAP excl. Stock Comp)	**(7.73)**	**(2.63)**	**(2.05)**	**(2.49)**	**(0.46)**	**0.71**	**1.57**	**1.94**	**1.98**	**2.90**	**4.74**	**7.04**	**13.19**

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 12

Tesla: Consolidated Annual Balance Sheet, 2009-2025e

Balance Sheet	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Cash & Cash Equivalents	70	100	169	173	146	200	200	200	200	572	1,314	2,344	11,754
Restricted Cash - Current	-	74	-	-	-	-	-	-	-	-	-	-	-
Account Receivable	3	7	12	40	55	56	67	81	113	136	185	234	434
Inventory	23	45	44	123	215	335	327	397	584	690	935	1,160	2,281
Prepaid expenses and other current assets	4	11	11	11	11	11	11	11	11	11	11	11	11
Total Current Assets	**101**	**236**	**235**	**347**	**427**	**602**	**604**	**689**	**908**	**1,408**	**2,444**	**3,749**	**14,479**
Operating lease vehicles, net	-	8	8	8	8	8	8	8	8	8	8	8	8
Property and equipment, net	24	115	275	286	334	423	585	768	898	948	1,023	1,144	2,013
Restricted cash	4	5	5	5	5	5	5	5	5	5	5	5	5
Other assets	3	23	23	23	23	23	23	23	23	23	23	23	23
Total Assets	**130**	**386**	**545**	**669**	**796**	**1,060**	**1,225**	**1,492**	**1,842**	**2,392**	**3,503**	**4,928**	**16,528**
Accounts payable	15	29	35	112	230	358	381	463	682	805	1,090	1,354	2,661
Accrued liabilities	15	21	13	41	105	174	199	242	355	420	569	706	1,388
Deferred development compensation	0	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	1	5	5	5	5	5	5	5	5	5	5	5	5
Capital lease obligations, current portion	0	0	0	0	0	0	0	0	0	0	0	0	0
Reservation payments	26	31	42	56	51	26	6	-	-	-	-	-	-
Total Current Liabilities	**57**	**86**	**94**	**213**	**390**	**564**	**590**	**710**	**1,042**	**1,229**	**1,664**	**2,065**	**4,054**
Common stock warrant liability	-	6	6	6	6	6	6	6	6	6	6	6	6
Convertible preferred stock warrant liability	2	-	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	1	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue, less current portion	1	3	3	3	3	3	3	3	3	3	3	3	3
Long-term debt	-	72	272	465	465	465	400	291	39	-	-	-	-
Other long-term liabilities	3	12	12	12	12	12	12	12	12	12	12	12	12
Total Liabilities	**65**	**179**	**388**	**699**	**877**	**1,050**	**1,012**	**1,023**	**1,102**	**1,251**	**1,686**	**2,086**	**4,076**
Total convertible preferred stock	319	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock	*0*	0	0	0	0	0	0	0	0	0	0	0	0
Additional paid-in capital	*7*	622	799	832	864	902	939	977	1,025	1,072	1,124	1,172	1,478
Accumulated deficit	*(261)*	(415)	*(641)*	*(863)*	(944)	(891)	(727)	(508)	(286)	69	693	1,669	10,974
Total stockholders' equity (deficit)	(254)	207	158	(31)	(80)	10	213	469	739	1,141	1,817	2,842	12,453
Total Liabilities and Equity	**130**	**386**	**545**	**669**	**796**	**1,060**	**1,225**	**1,492**	**1,842**	**2,392**	**3,503**	**4,928**	**16,528**
check	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Debt	**-**	**72**	**272**	**465**	**465**	**465**	**400**	**291**	**39**	**-**	**-**	**-**	**-**
Net Debt (Cash)	**(70)**	**(28)**	**103**	**291**	**319**	**265**	**200**	**91**	**(161)**	**(572)**	**(1,314)**	**(2,344)**	**(11,754)**
Net Debt/EBITDA		0.2 x	(0.6 x)	(2.1 x)	18.9 x	1.6 x	0.7 x	0.2 x	(0.4 x)	(0.9 x)	(1.3 x)	(1.5 x)	(3.8 x)

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 13

Tesla: Consolidated Annual Cash Flow Statement, 2009-2025e

Cash Flow	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Cash flows from operating activities													
Net Income (Loss)	(56)	(154)	(226)	(221)	(82)	53	165	219	221	355	624	976	2,089
Depreciation and amortization	7	11	40	73	86	93	110	146	192	224	284	307	544
Change in fair value of warrant liabilities	1	5	-	-	-	-	-	-	-	-	-	-	-
Gain on cvt notes and warrants	(1)	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	1	21	27	33	32	38	38	38	48	46	52	48	67
Inventory write-downs	0	1	-	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	1	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities	3	(11)	5	11	70	53	24	35	113	60	141	126	190
Accounts receivable	*(0)*	*(3)*	*(5)*	*(29)*	*(15)*	*(1)*	*(11)*	*(14)*	*(32)*	*(22)*	*(49)*	*(49)*	*(20)*
Inventory	*(8)*	*(20)*	*2*	*(79)*	*(93)*	*(119)*	*8*	*(71)*	*(187)*	*(106)*	*(245)*	*(226)*	*(270)*
Prepaid expenses and other current assets	*(2)*	*(5)*	-	-	-	-	-	-	-	-	-	-	-
Operating lease assets	-	*(8)*	-	-	-	-	-	-	-	-	-	-	-
Other assets	*(0)*	*(0)*	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	*1*	*(0)*	*6*	*77*	*118*	*129*	*23*	*82*	*218*	*123*	*286*	*263*	*315*
Accrued liabilities	*3*	*13*	*(8)*	*28*	*64*	*70*	*24*	*43*	*114*	*64*	*149*	*137*	*164*
Deferred development compensation	*(10)*	*(0)*	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	*(1)*	*5*	-	-	-	-	-	-	-	-	-	-	-
Reservation payments	*(22)*	*5*	*11*	*14*	*(5)*	*(25)*	*(20)*	*(6)*	-	-	-	-	-
Other long-term liabilities	*2*	*4*	-	-	-	-	-	-	-	-	-	-	-
Net cash used in operating activities	**(81)**	**(128)**	**(154)**	**(105)**	**106**	**237**	**336**	**438**	**574**	**686**	**1,102**	**1,457**	**2,889**
Cash flows from investing activities													
Acquisition of Fremont and related assets	-	(65)	-	-	-	-	-	-	-	-	-	-	-
Purchases of PP&E excl capital leases	(12)	(40)	(200)	(84)	(134)	(183)	(272)	(329)	(322)	(275)	(360)	(427)	(745)
Increase in restricted cash in DOE account	-	(74)	74	-	-	-	-	-	-	-	-	-	-
Increase in other restricted cash	(2)	(1)	-	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(14)**	**(180)**	**(126)**	**(84)**	**(134)**	**(183)**	**(272)**	**(329)**	**(322)**	**(275)**	**(360)**	**(427)**	**(745)**
Cash flows from financing activities													
Proceeds from issuance of common stock	-	269	150	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of cvt preferred	132	-	-	-	-	-	-	-	-	-	-	-	-
Principal paid on capital leases and other debt	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt	-	72	200	193	-	-	(65)	(108)	(253)	(39)	-	-	-
Proceeds from cvt notes and warrants	25	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0	1	-	-	-	-	-	-	-	-	-	-	-
Common stock and loan facility issuance costs	(2)	(4)	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	**155**	**338**	**350**	**193**	**-**	**-**	**(65)**	**(108)**	**(253)**	**(39)**	**-**	**-**	**-**
Net increase in cash and cash equivalents	**60**	**30**	**69**	**4**	**(27)**	**54**	**-**	**-**	**-**	**372**	**742**	**1,030**	**2,144**
Cash and equivalents at beginning of period	9	70	100	169	173	146	200	200	200	200	572	1,314	9,610
Cash and cash equivalents at end of period	**70**	**100**	**169**	**173**	**146**	**200**	**200**	**200**	**200**	**572**	**1,314**	**2,344**	**11,754**
FCF	(93)	(168)	(354)	(189)	(27)	54	65	108	253	410	742	1,030	2,144

Drivers	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Depreciation/PP&E		45%	35%	27%	30%	28%	26%	25%	25%	25%	30%	30%	30%
Depreciation/Sales		9.1%	23.2%	20.9%	6.4%	4.1%	4.1%	4.4%	4.2%	4.1%	3.8%	3.2%	2.9%
Capex/Sales		34.4%	116.8%	24.0%	10.0%	8.0%	10.0%	10.0%	7.0%	5.0%	4.8%	4.5%	4.0%
Days Receivables		21	25	42	15	9	9	9	9	9	9	9	9
Days Payables		123	105	132	80	75	70	70	70	70	70	70	70
Inventory Days' Supply		192	131	145	75	70	60	60	60	60	60	60	60
Accrued Liabilities		24%	11%	13%	10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT	-53	-153	-221	-210	-69	68	192	246	240	382	760	1,223	2,513
EBITDA	-46	-143	-181	-137	17	162	302	393	431	606	1,045	1,530	3,057
LTM													
EBITDA		-143	-181	-137	17	162	302	393	431	606	1,045	1,530	3,057

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 14

Tesla: Annual Geographic Sales Forecasts, 2011-2025

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total xEV Market															
US	19	79	129	234	355	471	612	773	957	1,148	1,419	1,691	1,959	2,303	2,669
W. Europe	31	82	139	239	341	482	658	822	1,027	1,305	1,596	1,957	2,462	3,038	3,624
China	9	52	103	182	315	499	727	1,024	1,403	1,785	2,230	2,829	3,409	4,701	5,435
Japan	3	17	41	72	103	143	189	234	287	355	436	535	633	752	873
ROW	2	9	51	153	287	442	605	790	1,083	1,421	1,851	2,381	3,152	4,127	4,937
Global	**64**	**239**	**462**	**880**	**1,401**	**2,037**	**2,790**	**3,643**	**4,757**	**6,013**	**7,532**	**9,392**	**11,615**	**14,921**	**17,538**
Tesla Sales (ex Powertrain)															
US	0.3	1.4	7.1	14.0	19.5	23.5	41.0	44.8	67.0	83.8	99.3	115.0	131.3	149.7	160.1
W. Europe	0.3	0.7	4.2	7.4	6.8	7.2	13.2	20.5	35.9	49.6	55.9	66.5	81.3	91.2	101.5
China	0.0	0.0	1.0	1.8	3.1	5.0	10.9	15.4	21.0	26.8	33.4	45.3	54.5	70.5	81.5
Japan	0.0	0.0	0.4	0.7	1.0	1.4	2.8	3.5	5.7	8.9	10.9	12.3	14.6	15.0	17.5
ROW	0.0	0.3	2.4	4.8	6.3	7.9	14.6	20.7	30.0	44.7	58.9	75.1	86.4	84.5	93.3
Global	**0.6**	**2.4**	**15.1**	**28.8**	**36.8**	**45.1**	**82.5**	**105.0**	**159.8**	**213.8**	**258.4**	**314.2**	**368.0**	**410.9**	**453.9**
Tesla Share (%)															
US	1.4%	1.8%	5.5%	6.0%	5.5%	5.0%	6.7%	5.8%	7.0%	7.3%	7.0%	6.8%	6.7%	6.5%	6.0%
W. Europe	0.9%	0.9%	3.0%	3.1%	2.0%	1.5%	2.0%	2.5%	3.5%	3.8%	3.5%	3.4%	3.3%	3.0%	2.8%
China	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%	1.5%	1.5%
Japan	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	2.0%	2.5%	2.5%	2.3%	2.3%	2.0%	2.0%
ROW	1.9%	2.8%	4.8%	3.1%	2.2%	1.8%	2.4%	2.6%	2.8%	3.1%	3.2%	3.2%	2.7%	2.0%	1.9%
Global	**0.9%**	**1.0%**	**3.3%**	**3.3%**	**2.6%**	**2.2%**	**3.0%**	**2.9%**	**3.4%**	**3.6%**	**3.4%**	**3.3%**	**3.2%**	**2.8%**	**2.6%**

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

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(as of March 31, 2011)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1195**	**42%**	**469**	**47%**	**39%**
Equal-weight/Hold	**1153**	**40%**	**406**	**40%**	**35%**
Not-Rated/Hold	**114**	**4%**	**22**	**2%**	**19%**
Underweight/Sell	**389**	**14%**	**108**	**11%**	**28%**
Total	**2,851**		**1005**		

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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.
Equal-weight (E). The stock's total return is expected to be in line with 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.
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.
Underweight (U). The stock's total return is expected to be below 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.
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.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
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.
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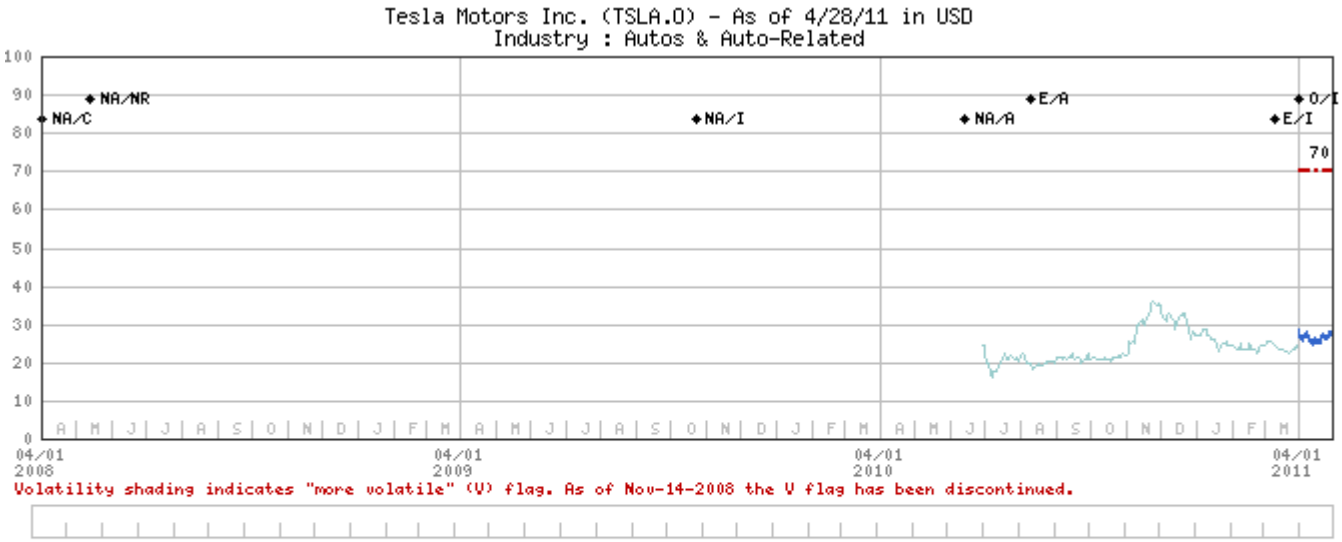
Stock Price, Price Target and Rating History (See Rating Definitions)



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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)
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
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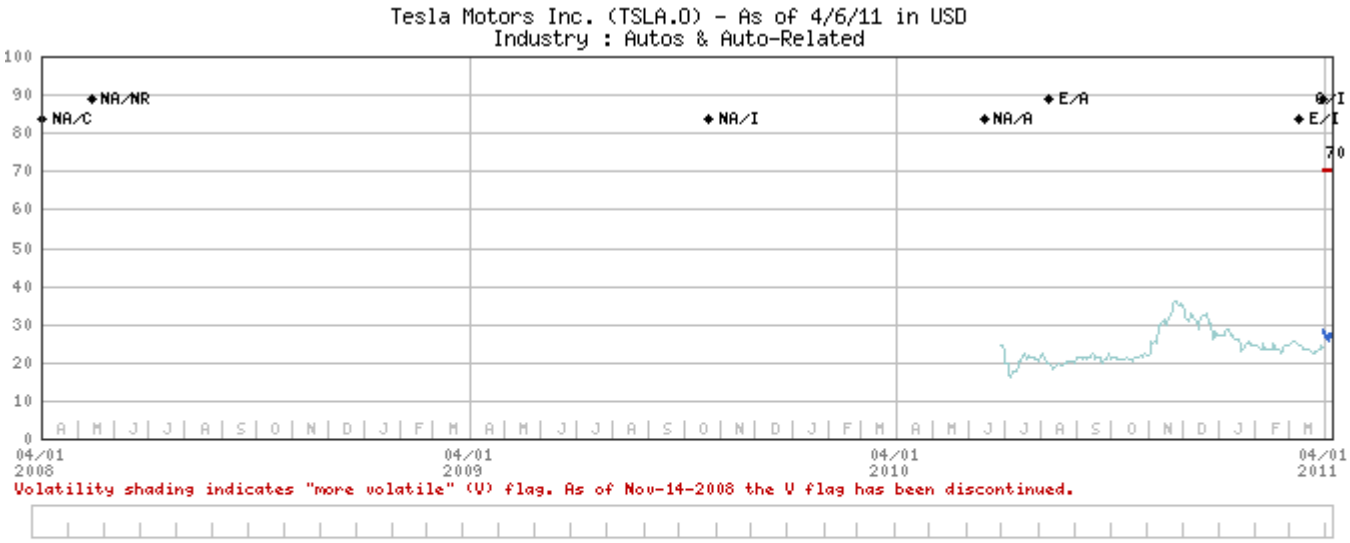

Stock Rating History: 4/1/08 : NA/C; 5/13/08 : NA/NR; 10/22/09 : NA/I; 6/14/10 : NA/A; 8/9/10 : E/A; 3/10/11 : E/I; 3/31/11 : O/I
Price Target History: 8/9/10 : NA; 3/31/11 : 70

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Industry Coverage:Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (04/27/2011)
Adam Jonas, CFA		
Ford Motor Company (F.N)	O (10/04/2010)	$15.58
General Motors Company (GM.N)	O (12/28/2010)	$31.78
Tesla Motors Inc. (TSLA.O)	O (03/31/2011)	$27.08
Ravi Shanker		
AutoNation Inc. (AN.N)	U (03/10/2011)	$33.36
BorgWarner Inc. (BWA.N)	O (10/22/2009)	$78.56
Cooper Tire & Rubber Company (CTB.N)	O (03/16/2010)	$26.51
Goodyear Tire & Rubber Company (GT.N)	O (03/10/2011)	$16.16
Group 1 Automotive, Inc (GPI.N)	U (10/22/2009)	$40.68
Johnson Controls, Inc. (JCI.N)	O (06/14/2010)	$41.16
Lear Corporation (LEA.N)	U (09/23/2010)	$49.97
Magna International Inc. (MGA.N)	U (03/10/2011)	$49.86
Meritor Inc (MTOR.N)	O (09/23/2010)	$16.64
Penske Automotive Group, Inc (PAG.N)	U (10/22/2009)	$20.54
TRW Automotive Holdings Corp. (TRW.N)	O (09/10/2010)	$56.09
Tenneco Inc. (TEN.N)	U (09/23/2010)	$45.07

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April 15, 2011

Andrea James (206) 285-0080 ajames@doughertymarkets.com

TESLA MOTORS INC. (TSLA) BUY - $25.14

TECHNOLOGY - LOCATION, REMOTE SENSING & APPLIED TECHNOLOGIES

PLEASE REFER TO DISCLOSURES ON PAGES 13 & 14 FOR IMPORTANT INFORMATION

Our Positive View Brightens After Tesla Factory Tour; Raising PT to $40

Changes: FY12 Revenue to $507MM from $135MM; EPS to ($1.64) from ($2.33)
FY13 EPS to $1.33 from $1.57, on share count change from secondary expected in 2H11
PT to $40 from $30

Financial Summary*

Adj. EPS	2010	2011E	2012E	2013E		
Mar	-3.26A	-0.54	-0.47	0.18	Price	$25.14
Jun	-3.41A	-0.55	-0.47	0.50	12-Month Target	$40.00
Sep	-0.37A	-0.52	-0.41	0.48	52-Week Range	$14.98-$36.00
Dec	-0.47A	-0.50	-0.29	0.17	Diluted Shares ('000)	94,240
FY	-2.53	-2.11	-1.64	1.33	Market Cap ('000)	$2,369,194
					Avg. Daily Vol	741,838
					3-5 Yr. Revenue Growth	20%+
Revs ($'000)					3-5 Yr. EPS Growth	20%+
Mar	$20,812A	$39,059	$40,373	$344,570	Book Value	$2.20
Jun	$28,405A	$42,855	$40,176	$512,630	LT Debt / Total Capital	26%
Sep	$31,241A	$47,869	$152,297	$512,630	Insider Ownership	57%
Dec	$36,286A	$38,460	$274,587	$347,570	Est. Q1 Reporting Date	May '11
FY	$116,744	$168,244	$507,433	$1,717,401		
Mkt Cap/Rev	20x	14x	5x	1x		

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

Investment Thesis:

After touring Tesla's operations in the San Francisco Bay Area this week, we have come away more positive on the company's long-term future. We believe that Tesla is in the nascent stages of building a viable long-term company with a dedicated and growing fan-like customer base. We believe that Tesla's role in the auto industry could be similar to Apple Inc.'s position in the personal computer & electronics industry.

We better realized what a boon the Tesla Fremont factory represents to the company. We see a lot of hidden value in the Fremont purchase – it is more than 200 acres of prime real estate in the Bay Area that cost Tesla $42MM. Beyond the raw value of the property, this asset will allow Tesla to expand with new models that build upon the Model-S platform, including the Model-X, and its third-generation vehicle.

We also came away more confident that Tesla will be able to achieve mid-2012 launch of the Model S.

We have updated several of our near-term and long-term assumptions, giving us a $40 DCF-based price target. We note that this price target takes into account an incremental 8MM shares from an expected secondary offering in the second half of this year[1].

Key assumption changes are:

[1] We believe that Tesla may want to raise $100MM to $200MM to jump start its Model X development. However, we do not think this will happen until the company has released the beta build of its Model S. We note that Tesla does not need to raise money to bring the Model S to market.

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- Margin savings on Fremont plant efficiencies and on producing certain items in house, which saves on outsourcing costs and freight. For instance, the seats will now be made adjacent to the assembly line. This is a new development made possible by the space available at the Fremont factory. Tesla expects that battery improvements could lead to 8% cost savings on batteries annually, or lead to higher energy density per battery, which would also help to drive higher ASPs. We expect 25% gross margins in FY14, which is in line with Tesla's guidance. This adds about $4 to our PT.

TESLA	2010 A	2011 E	2012 E	2013 E	2014 E
Roadster Revenue	71,487	79,570	35,852	-	-
Model S Revenue	-	-	380,969	1,626,208	2,032,760
ZEV Credit Revenue	2,740	4,000	4,000	4,000	4,000
Dest. Charges & Leasing	1,232	1,474	6,612	26,193	32,491
Powertrain Revenue	21,619	21,200	32,000	33,000	36,000
Development Revenue	19,666	62,000	48,000	28,000	28,000
Total revenue	116,744	168,244	507,433	1,717,401	2,133,251
GM	26%	28%	16%	23%	25%
OM	-126%	-140%	-40%	7%	12%
EBITDA	(136,216)	(210,627)	(161,599)	179,362	328,496
EBITDA/Share	(2.69)	(2.17)	(1.55)	1.50	2.22
EPS	(2.53)	(2.11)	(1.64)	1.33	2.01
Assumptions					
Roadster Units	567	620	276	-	-
Model S Units	-	-	4,800	20,000	25,000

- Our previous PT did not take into account Tesla's partnership with Toyota to supply power trains and battery packs for the RAV4. This $60MM development contract plus initial production orders for 2,500 power trains add about $2 to our PT.

- At least 4,800 Model S units sold in FY12, up from zero previously. (We assume a gradual ramp in cars produced per 8-hour work shift, with 1,600 units produced in Q312 and 3,200 produced in Q412. Eventual production will be 80 cars per shift, or 5,000 per quarter.) Internal manufacturing buffers give us confidence that Tesla can produce at least 4,800 units in FY12. We note that the company already has more than 4,000 Model S reservations and that each reservation holder has paid at least $5,000 for a refundable deposit. This adds about $1 to our PT.

- A terminal value growth rate of 0.5% after 20 years. This takes into account the next generation of cars beyond Model S and Model X, including a third generation vehicle. At more than 200 acres, the Fremont factory gives the company ample room to expand – Model S production only takes up about 15% of the space. This adds about $1 to our PT.

- The company is now within eight quarters of profitability, which means positive cash flows are closer in time, which benefits the DCF calculation. Beyond the math, we think this PT boost makes sense because Tesla has produced a drivable alpha Model S since we set our $30 PT. This adds $2 to our PT.

- Some investors have suggested that Tesla is a binary story – either worth nothing, or a lot. We believe that the downside risk is not zero, particularly given the company's IP portfolio[2] and its property, plant and equipment[3].

The following sections will address key takeaways from the Tesla factory tour, key takeaways from Tesla's retail store design concept and our assessment of end-market demand.

[2] Tesla has 35 patents awarded and 280 applications pending.

[3] Using nearby land sales for comparison from commercial real estate broker CB Richard Ellis, we estimate the Fremont factory land is worth $91MM. Of course, this does not take into account the buildings on the site nor any of the equipment. Tesla paid $42MM for the plant and $17MM for additional equipment and plant emissions credits from Toyota. Some equipment was free and other machines were purchased at deep discounts because it was cheaper for Toyota to sell them to Tesla, or give them for free, than demo and haul the machines away.

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Tesla factory tour, takeaways:

Plant progress:

- We were impressed with the progress that Tesla has made on its Fremont factory in the past 3.5 months[4]. For example, installation of the Shuler press is almost complete (see photos, next page). Tesla is on track for automated manufacturing to begin in FY12.

- Second, Tesla has clearly outlined detailed plans for major and minor manufacturing milestones. After touring the stamping, plastic, paint and final assembly lines, it became clear to us that Tesla has built in buffer time to hit its mid-2012 Model S launch. Throughout the Fremont factory, Tesla has posted large charts with deadlines. Near the entrance of any part of the plant, one can see a large timeline with a string that hangs over the current date. For example, the paint shop has several near-term milestones posted with deadlines, such as a "facility deep clean," by June 15.

- We believe that Tesla could achieve at least 4,800 Model S units sold in FY12, even if its internal timeline slips three months. Eventually, the plant will produce 80 Model S units per 8-hour shift, but we believe that will not be achieved until 2013.

Plant potential:

- Tesla is only using 1/5 of its Fremont facility. The plant is big – very big – at 200 acres and 5MM square feet. A white board in the conference room at the entrance to the plant shows that more than half of the factory has its lights off and is being reserved for "future use."

- Tesla set the date for the Model S launch and unit targets *before* it had acquired the factory. Previous factory designs were much smaller, and were to be located in Downey, Calif.

- Tesla's Model S lines are set up with sufficient space between stations to allow for expansion to up to 40,000 vehicles per year. The Model S line can scale up to 40,000 just by adding more labor.

Model S alpha builds:

- We observed a dozen alpha builds in testing. Some cars were painted orange for crash testing – orange shows up better on camera.

- On the day of our tour, Bosch had shipped back one Model S that had been cold-weather traction tested at Bosch's Minnesota testing grounds. The Model S performed well on all fronts, according to Bosch.

- A central part of our initial thesis on Tesla was that the Model S had the potential to be not only a good electric vehicle, but an excellent car. We stick by that thesis after seeing the Model S alpha builds. Also, the flat panel display is a compelling part of the vehicle. The Model S seats seven passengers and has a roomy interior.

Anecdotes:

- Gilbert Passin, vice president of manufacturing and alumnus of Renault and Toyota, jointed Tesla in January 2010. Tesla CEO Elon Musk said to Passin upon his hiring: "Make the best car you've ever made in your life."

- Other key quotes from Passin:

[4] The first thing that Tesla VP of Manufacturing Gilbert Passin did after closing on the NUMMI plant in October was to compile a list of assets. That took two months. Also, Toyota was clearing out until Jan 1.

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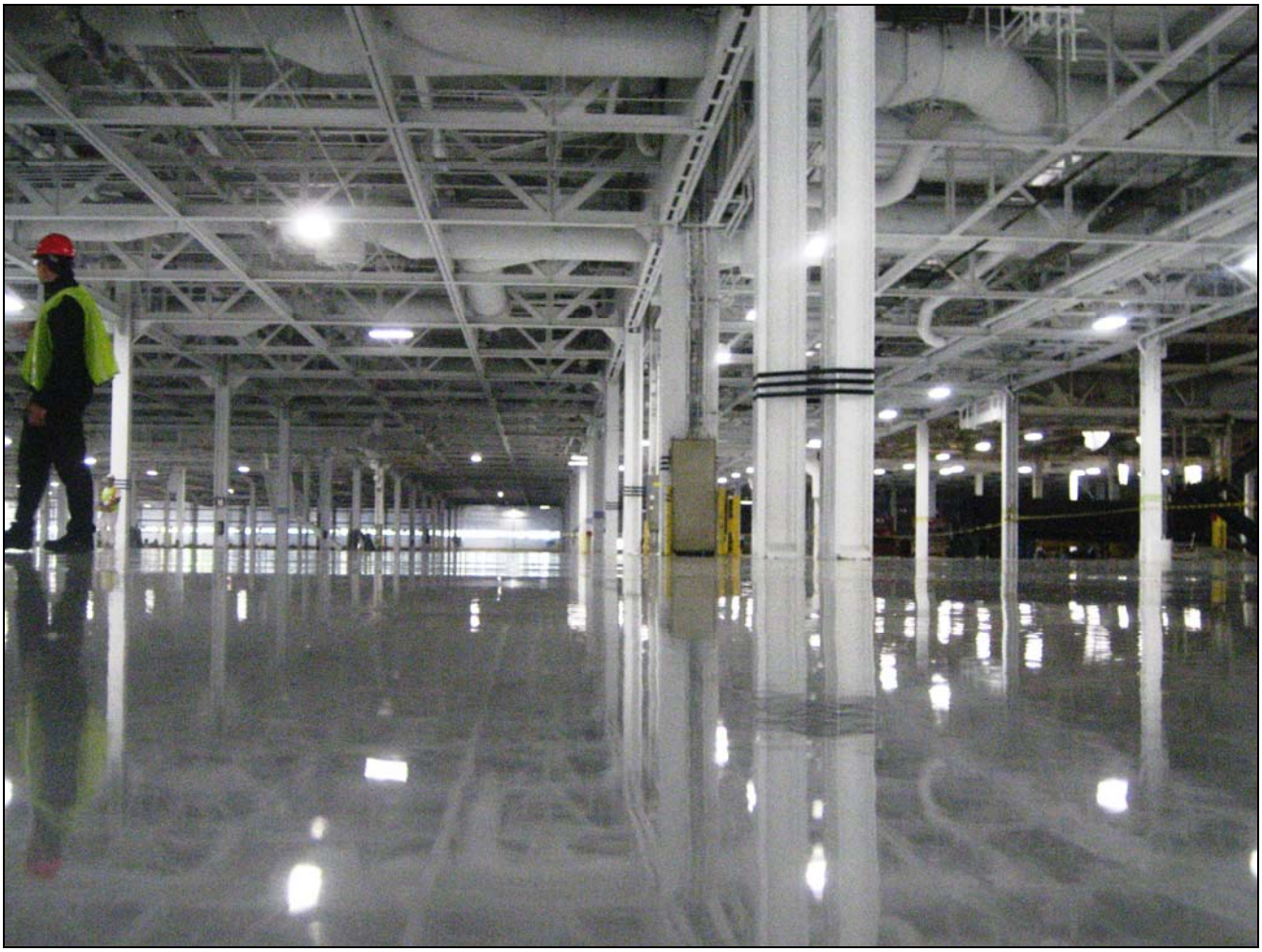
--"From a manufacturing perspective, I'm very comfortable with delivery."
--"We are milestone driven. We are very focused, like an Army. We are very driven with deliverables and dates."
--"Yes it's a big place. Yes we have a lot to do. It's happening. Are there going to be some bumps in the road? Sure. Are there going to be some late nights? Yes. But it's going to happen."
--"I have hired people from Toyota, Lexus, BMW and Aston Martin. These are people who know this stuff."

- We spoke with the head of the plastics operations. He has worked at the factory for 22 years, and Tesla hired him to continue operating the plastic manufacturing. When we were there, he was re-configuring and testing machines that had produced bumpers. He was also preparing new ovens to be ready by this summer.

Photos:



VP Manufacturing Gilbert Passin walks through the future site of the final assembly facility, which should look more complete in July. The final assembly robots are being debugged and "trained" in Detroit before shipping. Installation on the first robots is to begin within days.

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The Shuler press is nearly complete. It is the largest in the U.S. and is hydraulic, which has the necessary finesse to bend the aluminum without ripping it. Other presses, made by Komatsu, are mechanical and used for interior parts.

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Some of the press lines at the Fremont factory. A new press line costs $20MM to $25MM; Tesla paid less than $250,000. Different presses are used for different parts. Tesla paid $42MM for the plant and $17MM for additional equipment and plant emissions credits from Toyota – these machines were purchased at deep discounts because it was cheaper for Toyota to sell them to Tesla, or give them for free, than demo and haul the machines away.

Retail store design:

- The Tesla store is a welcome and overdue departure from the way that cars have been sold in the past. The Santana Row store, which opens to the public Saturday, is visually appealing and draws people in, engages people through a variety of interactive media and displays and creates a comfortable buying environment that is unlike any other retail car buying experience we've seen.

- The store is designed by George Blankenship, Tesla's head of retail store design and a former Apple executive who helped to pioneer Apple's mall store concept.

- Tesla's store concept is expandable because it unbundles retail operations from maintenance. By the end of 2013, Tesla should have about 50 stores of 2,000 square feet to 4,000 square feet (which hold two to four cars) in high-end retail locations, such as the one we saw in Santana Row in San Jose. Its maintenance centers will be in geographically central, lower rent locations. Tesla is signing five-year leases on its stores, which will allow the company to adapt its store strategy as it sells additional vehicle models.

Photos:

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George Blankenship describes Tesla's store strategy. The stores include large touch screens to design one's own car, and platters to choose colors. Tesla will encourage browsing to generate desire and good will for the brand. For example, parents are encouraged to put their nine-month-old with sticky fingers in the $130,000 Roadster and take a picture, without judgment. "Just try to do that at a Porsche dealer," Blankenship said. Tesla will keep another car clean for the serious buyers.

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George Blankenship describes a platter of car options, including exterior paint, interior trim and wheel design. Customers can design their own platters and take them home, or give them as gifts. The Santana Row store in San Jose is emblematic Tesla's store strategy, located in a high-end shopping location across from a Lululemon and beside a BCBG Max Azria.

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Discussing demand:

- We maintain our thesis that consumer demand for Tesla's vehicles will support the company's long-term ambitions.

- Tesla calculated that its 2010 North American market share on the Roadster is 2% for 2-seat sports cars that cost more than $75,000.[5]

- We believe that Tesla's initial production targets on the Model S are likely below end-market demand for its vehicles[6]. Assuming 20,000 Model S units sold in the U.S., we estimate that Tesla's share of the high-end vehicle market would be 0.85% -- or less than 1%. We note that this represents lower captured market share than Tesla has already been able to achieve on the Roadster in the performance vehicle market. We also note that the 20,000 units sold in 2013 is likely to include international shipments, which would make the market share target even lower, and thus, even easier to achieve.

- We estimate that 200,000 to 300,000 plug-in electric vehicles will be produced for the U.S. market for 2013, based on sales and volume projections by the U.S. Department of Energy, Tesla, Fisker, Ford, GM and Nissan, among others. Thus, we estimate that in order for Tesla to achieve its sales goal of 20,000 Model S units that year, it would need to capture less than 10% of the electric vehicle market in 2013. (See table, next page.)

- We believe that Tesla's market share will increase over time as it introduces additional versions of EVs.

- We've also investigated recent media reports about the Nissan Leaf running out of juice and stranding customers. We believe that such incidents are fewer than the media hype would lead us to believe. However, perception matters and we note that the state of charge of a Tesla vehicle starts out three times higher than Leaf, which should help to alleviate range concerns. We've been conditioned, as drivers, to push our gas-powered cars well-past empty. We know that an "E" on a gas gauge really means we have 20-miles to go. To that end, both the Tesla and Nissan Leaf vehicles are built with "reserve" miles. Nissan derives its "distance to empty" by software formula, which takes into account previous energy used and energy remaining. The distance is constantly updated, according to our contacts at Nissan. Tesla relies on a similar formula, though Tesla has said that it has an advantage in its software and charge assessments.

[5] While we do not have the data granular enough to verify Tesla's calculations, they are in line with what we'd expect. Based on our higher level data, we estimate that the Roadster has captured 0.04% to 0.07% of the combined high-end and premium vehicle markets in the U.S., which includes BMW, Mercedes, Jaguar, Lexus, Ferrari and Porsche. Even more broadly, we estimate that Roadster sales in 2010 represented 0.005% of total US light vehicle sales. Given these broader categories, Tesla's estimate of 2% market share of premium vehicles makes sense.

[6] Our estimates assume 18MM vehicles sold in the US in 2013. Our estimates are based on our research, Department of Energy data, National Highway Traffic Safety Administration Data, Motor Intelligence data, Ward's Auto data and data from Tesla, Nissan and GM. We also spoke with the Department of Energy's Advanced Technologies Vehicles Manufacturing Loan Program office, which did its own eight month analysis on end-market demand.

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Estimated U.S. Supply of Electric Vehicles from 2011 through 2015

Manufacturer	Model	Type		2011	2012	2013	2014	2015	Total
Coda	Sedan	EV			14,000	14,000	14,000	14,000	56,000
Fisker	Karma	PHEV		1,000	5,000	10,000	10,000	10,000	36,000
Fisker	Nina	PHEV		-	5,000	40,000	75,000	75,000	195,000
Ford	Focus	EV		-	10,000	20,000	20,000	20,000	70,000
Ford	Transit Connect	EV		400	800	1,000	1,000	1,000	4,200
GM	Chevrolet Volt	PHEV		10,000	15,000	60,000	60,000	60,000	205,000
Navistar	eStar	EV (truck)		200	800	1,000	1,000	1,000	4,000
Nissan	LEAF	EV		25,000	25,000	50,000	100,000	100,000	300,000
Newton	EV	(truck)		1,000	1,000	1,000	1,000	1,000	5,000
Tesla Motors	Model S	EV		-	5,000	20,000	25,000	30,000	80,000
Tesla Motors	Roadster	EV		1,000	-	-	-	-	1,000
Toyota	Rav4	EV		-	500	1,000	1,000	1,500	4,000
Think	City	EV		2,000	5,000	10,000	20,000	20,000	57,000
Other (unannounced)				-	-	20,000	30,000	45,000	95,000
			Total	40,600	87,100	248,000	358,000	378,500	1,112,200
Market share									
Coda	Sedan	EV		0.0%	16.1%	5.6%	3.9%	3.7%	5%
Fisker	Karma	PHEV		2.5%	5.7%	4.0%	2.8%	2.6%	3%
Fisker	Nina	PHEV		0.0%	5.7%	16.1%	20.9%	19.8%	18%
Ford	Focus	EV		0.0%	11.5%	8.1%	5.6%	5.3%	6%
Ford	Transit Connect	EV		1.0%	0.9%	0.4%	0.3%	0.3%	0%
GM	Chevrolet Volt			24.6%	17.2%	24.2%	16.8%	15.9%	18%
Navistar	eStar	EV (truck)		0.5%	0.9%	0.4%	0.3%	0.3%	0%
Nissan	LEAF	EV		61.6%	28.7%	20.2%	27.9%	26.4%	27%
Newton	EV	(truck)		2.5%	1.1%	0.4%	0.3%	0.3%	0%
Tesla Motors	Model S	EV		0.0%	5.7%	8.1%	7.0%	7.9%	7%
Tesla Motors	Roadster	EV		2.5%	0.0%	0.0%	0.0%	0.0%	0%
Toyota	Rav4	EV		0.0%	0.6%	0.4%	0.3%	0.4%	0%
Think	City	EV		4.9%	5.7%	4.0%	5.6%	5.3%	5%
Other (unannounced)				0.0%	0.0%	8.1%	8.4%	11.9%	9%
			Total	100%	100%	100%	100%	100%	100%

Sources: D&Co. estimates, U.S. Department of Energy

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. Tesla has indicated that it is on track to make first delivery of the Model S in 2012. However, our model assumes delays.
- 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.

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- 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 build out of the charging infrastructure. A deleterious change to the subsidies or support surrounding electric vehicles could create an ethanol-like failure of the concept.
- Stock Dilution – Shareholders could see dilution should the company pursue a plan to raise additional capital in the form of stock or convertible debt.
- 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.)

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	Actual												Estimated							Model S Begins		
TESLA	FY 2007	FY 2008	Q1 2009 MAR	Q2 2009 JUN	Q3 2009 SEP	Q4 2009 DEC	FY 2009	Q1 2010 MAR	Q2 2010 JUN	Q3 2010 SEP	Q4 2010 DEC	FY 2010	Q1 2011E 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
Income Statement																						
YOY		20095%					659%	-0.4%	5.4%	-31.4%	95.2%	4%	87.7%	50.9%	53.2%	6.0%	44%	3.4%	-6.3%	218.2%	613.9%	202%
QOQ				29.0%	69.0%	-59.2%		12.0%	36.5%	10.0%	16.1%			9.7%	11.7%	-19.7%			-0.5%	279.1%	80.3%	
Auto Sales	73	14,742	20,886	26,945	45,527	18,585	111,943	20,585	23,971	23,350	29,172	97,078	24,059	27,855	31,869	22,460	106,244	23,373	23,176	145,297	267,587	459,433
Development services sales	-	-	-				-	227	4,434	7,891	7,114	19,666	15,000	15,000	16,000	16,000	62,000	17,000	17,000	7,000	7,000	48,000
Total Revenue	73	14,742	20,886	26,945	45,527	18,585	111,943	20,812	28,405	31,241	36,286	116,744	39,059	42,855	47,869	38,460	168,244	40,373	40,176	152,297	274,587	507,433
Cost of Auto sales	9	15,883	22,932	24,844	37,828	16,804	102,408	16,858	20,266	19,457	23,401	79,982	21,653	25,069	27,089	20,214	94,026	18,699	18,541	128,646	238,886	404,771
Cost of development svs	-	-	-	-	-	-	-	102	1,878	2,488	1,564	6,032	6,750	6,750	7,200	7,200	27,900	7,650	7,650	3,150	3,150	21,600
Total COGS	9	15,883	22,932	24,844	37,828	16,804	102,408	16,960	22,144	21,945	24,965	86,014	28,403	31,819	34,289	27,414	121,926	26,349	26,191	131,796	242,036	426,371
Gross profit (loss)	64	(1,141)	(2,046)	2,101	7,699	1,781	9,535	3,852	6,261	9,296	11,321	30,730	10,656	11,035	13,580	11,046	46,318	14,025	13,985	20,501	32,551	81,062
GM	88%	-8%	-10%	8%	17%	10%	9%	19%	22%	30%	31%	26%	27%	26%	28%	29%	28%	35%	35%	13%	12%	16%
R&D	62,753	53,714	7,941	1,941	1,257	8,143	19,282	13,265	15,416	26,698	37,617	92,996	43,500	43,500	43,800	44,300	175,100	43,600	43,600	43,900	44,400	175,500
SG&A	17,244	23,649	6,607	8,247	10,733	16,563	42,150	16,585	22,207	20,432	25,349	84,573	26,300	27,000	26,700	26,500	106,500	27,000	27,000	26,700	26,500	107,200
Total OpEx	79,997	77,363	14,548	10,188	11,990	24,706	61,432	29,850	37,623	47,130	62,966	177,569	69,800	70,500	70,500	70,800	281,600	70,600	70,600	70,600	70,900	282,700
Op profit (loss)	(79,933)	(78,504)	(16,594)	(8,087)	(4,291)	(22,925)	(51,897)	(25,998)	(31,362)	(37,834)	(51,645)	(146,839)	(59,144)	(59,465)	(56,920)	(59,754)	(235,282)	(56,575)	(56,615)	(50,099)	(38,349)	(201,638)
OM	-109497%	-533%	-79%	-30%	-9%	-123%	-46%	-125%	-110%	-121%	-142%	-126%	-151%	-139%	-119%	-155%	-140%	-140%	-141%	-33%	-14%	-40%
Interest income	1,749	529	16	29	52	62	159	48	47	100	63	258	63	13	10	0	87	0	7	0	0	7
Interest expense	-	(3,747)	(1,402)	(1,086)	(18)	(25)	(2,531)	(230)	(464)	(298)	-	(992)	-	-	-	-	-	-	-	-	-	-
Other income (expense)	137	(963)	1,972	(1,715)	(577)	(1,125)	(1,445)	(3,221)	(6,729)	3,180	187	(6,583)	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax	(78,047)	(82,685)	(16,008)	(10,859)	(4,834)	(24,013)	(55,714)	(29,401)	(38,508)	(34,852)	(51,395)	(154,156)	(59,081)	(59,451)	(56,909)	(59,754)	(235,195)	(56,575)	(56,608)	(50,099)	(38,349)	(201,632)
Tax	110	97	8	8	(219)	229	26	118	9	83	(37)	173	133	134	128	135	530	127	128	113	86	454
Net Income (Loss)	(78,157)	(82,782)	(16,016)	(10,867)	(4,615)	(24,242)	(55,740)	(29,519)	(38,517)	(34,935)	(51,358)	(154,329)	(59,214)	(59,585)	(57,037)	(59,889)	(235,725)	(56,703)	(56,736)	(50,212)	(38,436)	(202,086)
Diluted shares	3,444	6,646	6,924	6,966	7,014	7,066	7,022	7,302	7,643													
QoQ Growth			4.2%	0.6%	0.7%	0.7%		3.3%	8.8%													
GAAP EPS	(22.69)	(12.46)	(2.31)	(1.56)	(0.66)	(3.43)	(7.94)	(4.04)	(5.04)													
Diluted (pro-forma)				71,828			77,694	77,974	91,208	92,271	94,240	50,718	94,334	94,429	95,373	103,480	96,904	103,790	104,101	104,414	104,727	104,258
QoQ Growth									17.0%	1.2%	2.1%		0.10%	0.10%	1.0%	8.5%		0.3%	0.30%	0.3%	0.3%	
EPS (calculated)				**(0.15)**			**(0.72)**	**(0.38)**	**(0.42)**	**(0.38)**	**(0.54)**	**(3.04)**	**(0.63)**	**(0.63)**	**(0.60)**	**(0.58)**	**(2.43)**	**(0.55)**	**(0.55)**	**(0.48)**	**(0.37)**	**(1.94)**
EPS (given pro-forma)							(0.70)	(0.35)	(0.28)													
Reconciliation GAAP to Non-GAAP																						
Net Income (Loss)			(16,016)	(10,867)	(4,615)	(24,242)	(55,740)	(29,519)	(38,517)	(34,935)	(51,358)	(154,329)	(59,214)	(59,585)	(57,037)	(59,889)	(235,725)	(56,703)	(56,736)	(50,212)	(38,436)	(202,086)
COGS stock-based comp				24	18			42	36	72	93	243										
R&D stock based comp				86	67			281	551	1,256	2,051	4,139										
SG&A stock-based comp				43	121			3,064	5,528	2,483	5,699	16,774										
Total stock-based comp				153	206			3,387	6,115	3,811	7,843	21,156	7,843	7,843	7,843	7,843	31,372	7,843	7,843	7,843	7,843	31,372
Change in fair value of warrant liab.				25	306			2,332	6,349	(3,071)	(587)	5,023	-	-	-	-	-	-	-	-	-	-
Adjusted Net Income (Loss)				(10,689)	(4,103)			(23,800)	(26,053)	(34,195)	(44,102)	(128,150)	(51,371)	(51,742)	(49,194)	(52,046)	(204,353)	(48,860)	(48,893)	(42,369)	(30,593)	(170,714)
Adjusted EPS				**(1.53)**	**(0.58)**			**(3.26)**	**(3.41)**	**(0.37)**	**(0.47)**	**(2.53)**	**(0.54)**	**(0.55)**	**(0.52)**	**(0.50)**	**(2.11)**	**(0.47)**	**(0.47)**	**(0.41)**	**(0.29)**	**(1.64)**

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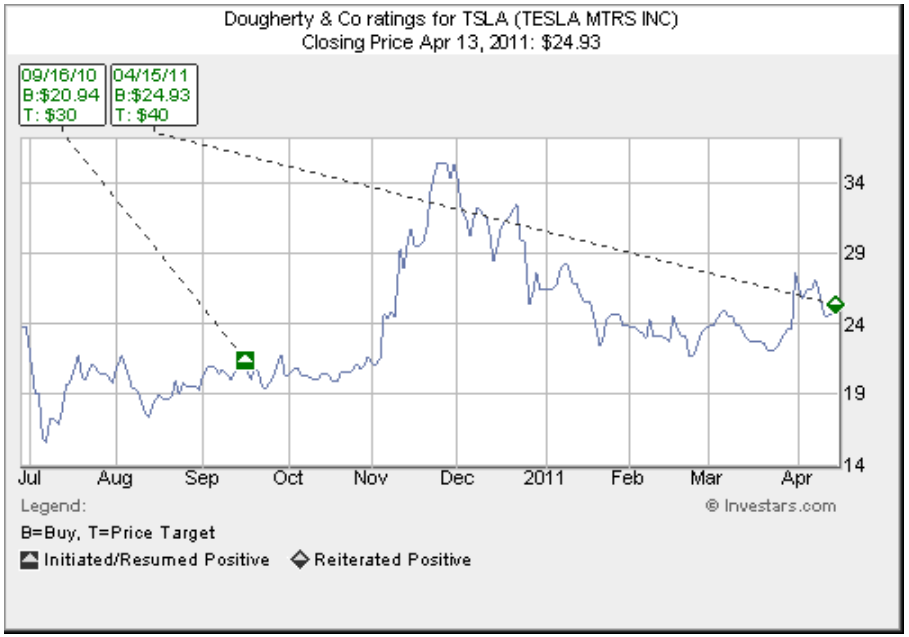

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April 7, 2011

Stock Rating
Overweight

Industry View
In-Line

Tesla Motors Inc.

Catalyst Roadmap

How do we get there? Our recent Tesla upgrade "America's Fourth Automaker" (March 31, 2011) is based on top-line assumptions that are >3x above consensus longer-term. Investors are asking us what is the path to unlock value nearer term? We identify six catalysts that we believe can move the stock in 2011:

1. **Capital raise**: We estimate Tesla's gross liquidity troughs at $146 MM in 2013, *after* a $150 MM equity raise. Without the capital raise, Tesla may need to slow expansion plans. We model the equity raise in 2H11.
2. **Oil price moves.** A $1 rise in gas price per gallon costs US consumers $130bn (approx 1% of US GDP), improving the economic and social rationale for EVs. We estimate a $10 move in oil price is worth around 5% to Tesla's stock.
3. **Powertrain wins.** Daimler and Toyota use Tesla's powertrain in current or future EVs. Additional models with these or other OEMs serve as further validation of Tesla's technology and as well as a source of cash.
4. **Detail on Model X and Gen 3.** We expect a Model X design study released by the LA auto show (Nov '11). We forecast the "Gen 3," a $30k higher volume EV to launch in 2017. Most analyst models reflect little value for this project.
5. **Road test reports of the Model S** could be on newsstands as early as 4Q11. Such opinions carry significant weight with prospective car buyers and can impact stock sentiment.
6. **1Q earnings,** expected the first week of May. Key metrics are Model S reservations, Roadster units and ASPs, Model S production ramp, R&D and capex, and rate of cash burn.

We don't expect Tesla to hit $70 overnight, nor in a straight line. Our forecasts and valuation approach are radically different from the prevailing view. Our thesis requires a combination of near-term execution and long-term industry developments to come to fruition.

Key Ratios and Statistics

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

Price target	**$70.00**
Shr price, close (Apr 5, 2011)	$26.70
Mkt cap, curr (mm)	$2,541
52-Week Range	$36.42-14.98

Recent Reports

Title	Date
Tesla Motors Inc.: America's Fourth Automaker Adam Jonas, CFA / Joshua Paradise, CFA / Ravi Shanker / Yejay Ying	Mar 31, 2011
Cree, Inc.: Market Likely Overestimates Earnings Power Joshua Paradise, CFA / Smittipon Srethapramote / Timothy Radcliff	Apr 5, 2011
Tesla Motors Inc.: The Natural Oil Hedge Adam Jonas, CFA / Joshua Paradise, CFA / Ravi Shanker / Yejay Ying	Apr 4, 2011
Global Auto Monitor Adam Jonas, CFA / Noriaki Hirakata, CFA / Stuart Pearson, CFA / Kate Zhu, CFA / Sangkyoo Park / Binay Singh / Jeremy C Chen	Mar 31, 2011

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(1) Capital raise: We estimate that Tesla's gross liquidity bottoms at $146 MM in 2013, after a $150 MM equity raise, which we model in 2H11. A key positive catalyst could be the completion of a sufficient capital raise to diminish concerns that Tesla would have insufficient capital to produce and ship the Model S, fund the design of the Model X, and build a distribution network. Without the capital raise, we believe Tesla would have to slow expansion plans.

We would also view as an incremental positive if strategic partners Daimler, Toyota or Panasonic invest additional capital. Note that foreign entities would have to file Hart–Scott –Rodino (HSR) if their investment exceeded $66 MM.

(2) Oil price moves. On our calculations, a $10 rise in global oil prices is worth ~5% to Tesla shares. A $1 move in US gas prices could be worth ~13% to Tesla shares as higher gas prices increase the attractiveness of electric vehicles and reduce the payback period. Tesla offers a hedge against rising oil prices, the function of an EV costing around 3 cents per mile of electric energy usage vs. around 15 cents per mile for a typical internal combustion vehicle. The typical US driver buys 480 gallons of gas per year. The burden of a $1 increase in gas price has an NPV cost of $3,500, equal to 25 to 30% of the cost of a 100-mile-range EV battery ($12,500). Seen another way, $1 rise in gas price reduces the payback period of an EV battery from 9.5 to 6.9 years at $500 per KWh and 25mpg for internal combustion engine.

(3) Powertrain wins. Daimler currently uses Tesla's battery packs and chargers in electric versions of the Smart ForTwo and the A-class. Toyota plans to use Tesla's entire electric powertrain including the motor, battery pack, power management system, and charger in a new electric version of the Rav4 small SUV, which Tesla is developing with Toyota. Toyota is paying Tesla $69 MM over 5 quarters for development of the Rav4 powertrain, accounting for 35% of 2011e revenues. To date, the anticipated volumes on the Daimler and Toyota powertrain agreements are small, typically below 2,000 units, but they serve as validation of Tesla's technology. Higher volumes and/or additional OEM agreements would be a significant positive catalyst, in our view.

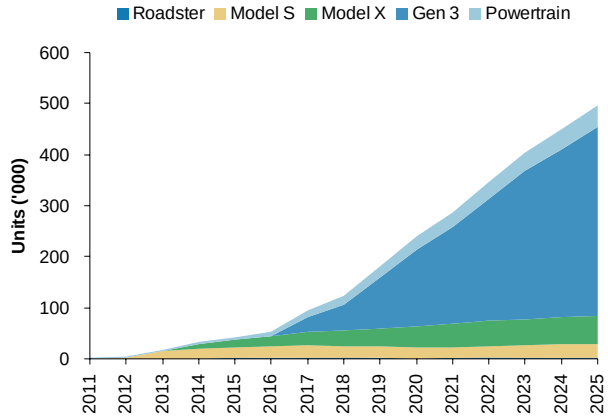
(4) Further detail on upcoming models, esp. the Gen 3: We expect TSLA could show a concept version of its Model X crossover as early as the LA Auto Show this November. We believe any glimpse into the future model pipeline at TSLA could soothe investor fears about over-reliance on the Model S. This is especially true of the "Gen 3," a lower-priced higher volume Tesla which we forecast to launch in 2017 with 30,000 units, and grow to 370,000 units by 2025, accounting for over 80% of Tesla's vehicle volumes.

Exhibit 1
Tesla Model X

Source: Motor Authority

TSLA itself has made few public statements about the Gen 3 and we believe most analyst models reflect little value. There is significant skepticism that battery costs will come down quickly enough to sell an electric vehicle around $30,000. If management shares more details about the Gen 3 with investors, the market could start to incorporate Gen 3 volumes into forecasts, potentially driving upside in the shares.

Exhibit 2
Gen 3 Volumes are over 80% of Unit Sales in 2025e



Source: Company data, Morgan Stanley Research

If we exclude Gen 3 from our forecast, our DCF-based value and our 2025e EPS would each be about 55% lower; our DCF without Gen 3 falls to $32 per share and our EPS in 2025e falls to $5.85.

As management starts planning the Gen 3, and the market starts to incorporate Gen 3 volumes into forecasts, we see upside to the shares.

(5) Road test reports of the Model S could be on newsstands as early as 4Q11. A positive review could reduce skepticism that deliveries will begin on time in mid-2012 and would likely increase the pace of reservations. We forecast that by the time Model S production begins, Tesla will have over 6,500 reservations, creating a backlog of nearly six months of production.

(6) Quarterly earnings, expected the first week of May. Key metrics are Model S reservations, Roadster sales volumes and ASPs, progress on Model S production ramp, R&D and capex spending. We expect 400 new Model S reservations in the quarter, equal to the run rate in 4Q10, bringing total reservations to 3,800. For Roadster sales, we expect forecast 145 units at an average ASP of $126k, also in–line with 4Q10. Our EPS forecast of ($0.57) is below consensus of ($0.52) as we expect higher investment in R&D near-term. In our view, disappointing quarterly earnings would likely drive the stock lower, but a positive earnings surprise is less likely to be a major catalyst than those detailed above.

Valuation methodology and risk discussion. We argue Tesla cannot be valued on near-term multiple metrics like traditional auto companies given that we expect Tesla to multiply revenues by over 20x from 2010 to 2015e, by more than 80x by 2020e and over 150x by 2025e. We have thus chosen a 15-year time horizon for our DCF which captures the full utilization of Tesla's manufacturing capacity in Fremont, the full maturation of the Model S, Model X (and top-hat derivatives) and also the ramp up of its mass market electric vehicle (the Gen 3). We have applied a 12% WACC with a range of 10% to 14%. The terminal value accounts for around 60% to 70% of the total DCF value across the range of methodologies we have applied to arrive at our $70 PT. The risks of lagging EV adoption, launch delays and balance sheet difficulties make Tesla a highly speculative investment.

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of March 31, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1195	42%	469	47%	39%
Equal-weight/Hold	1153	40%	406	40%	35%
Not-Rated/Hold	114	4%	22	2%	19%
Underweight/Sell	389	14%	108	11%	28%
Total	2,851		1005		

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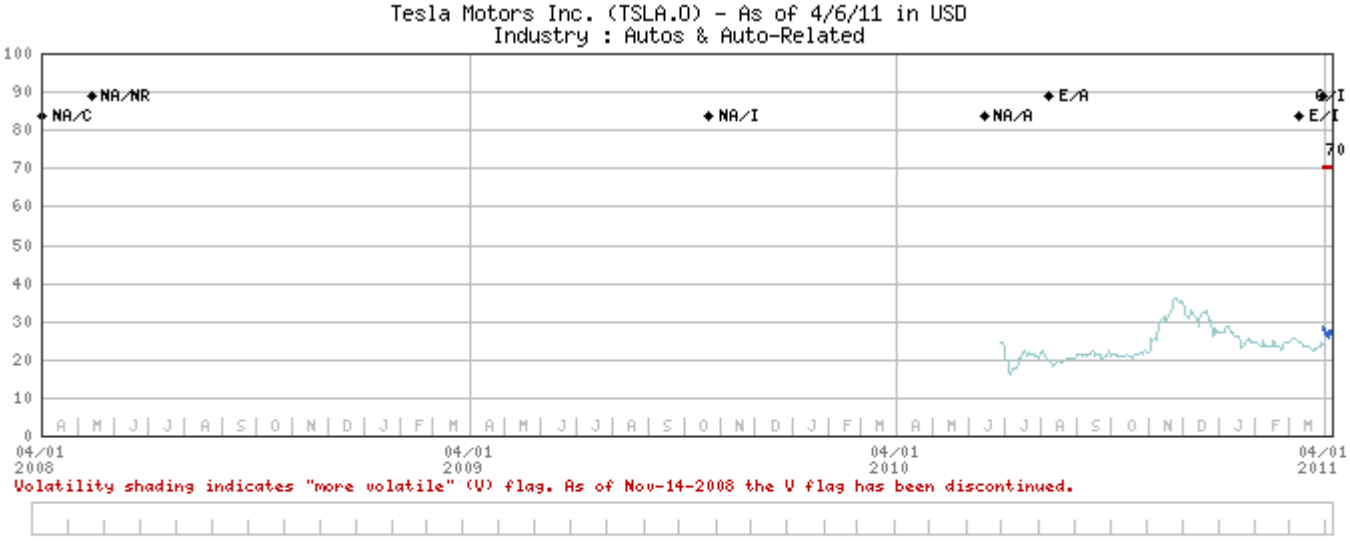
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 4/1/08 : 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)

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Industry Coverage:Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (04/06/2011)
Adam Jonas, CFA		
Ford Motor Company (F.N)	O (10/04/2010)	$15.73
General Motors Company (GM.N)	O (12/28/2010)	$32.87
Tesla Motors Inc. (TSLA.O)	O (03/31/2011)	$26.49
Ravi Shanker		
AutoNation Inc. (AN.N)	U (03/10/2011)	$35.22
BorgWarner Inc. (BWA.N)	O (10/22/2009)	$77.76
Cooper Tire & Rubber Company (CTB.N)	O (03/16/2010)	$25.34
Goodyear Tire & Rubber Company (GT.N)	O (03/10/2011)	$15.2
Group 1 Automotive, Inc (GPI.N)	U (10/22/2009)	$43.51
Johnson Controls, Inc. (JCI.N)	O (06/14/2010)	$41.36
Lear Corporation (LEA.N)	U (09/23/2010)	$48.47
Magna International Inc. (MGA.N)	U (03/10/2011)	$48.69
Meritor Inc (MTOR.N)	O (09/23/2010)	$17
Penske Automotive Group, Inc (PAG.N)	U (10/22/2009)	$20.93
TRW Automotive Holdings Corp. (TRW.N)	O (09/10/2010)	$54.83
Tenneco Inc. (TEN.N)	U (09/23/2010)	$42.32

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April 4, 2011

Stock Rating
Overweight

Industry View
In-Line

Tesla Motors Inc.

The Natural Oil Hedge

A strong case can be made for the value of Tesla *rising* on higher oil prices: At a $3.60 gas price per gallon, the average US light vehicle consumes over $1,700 in fuel cost per year, nearly $0.5 trillion *per year* across the 245m unit fleet – roughly 3.5% of US GDP and nearly 10x the US Department of Education budget. For most auto stocks under our coverage, there are few things as disruptive as the threat of higher gas prices. But for Tesla, such a scenario only increases the economic and social rationale for grid-enabled vehicles. Making a number of broad assumptions, and holding net consumer demand destruction stable, **we can link Tesla value to several oil and gas price sensitivities:**

- **A $10 rise in oil price globally could be worth 5% to Tesla shares** based on our est. Tesla 2.6% share of the global xEV market in 2025. This assumes consumers shift 15% of the incremental cost burden to xEVs.
- **A $1 rise in US gas price could be worth 13% to Tesla shares** based on our est. Tesla 6.0% share of the US xEV market in 2025.
- **Improves operating cost/benefit.** The typical US driver buys 480 gallons of gas per year. The burden of a $1 increase in gas price has an NPV cost of $3,500, equal to 25 to 30% of the cost of a 100-mile-range EV battery ($12,500).
- **Reduces payback period.** A $1 rise in gas price reduces the payback period of an EV battery from 9.5 to 6.9 years at $500 per KWh and 25mpg for internal combustion engine.

Our Tesla forecasts and $70 price target assume fuel prices rise, battery costs fall and Model S launch does not breach minimum liquidity levels. Premium offerings like the Model S and its derivatives are important stepping stones to the company's full volume potential of 500k units by 2025. We see a path to a company with $9.5bn of sales, >$1.2bn of operating profit and >$1.0bn of FCF by 2020, based on Tesla capturing 3.6% of the global xEV market by that time.

Key Ratios and Statistics

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

Price target	**$70.00**
Shr price, close (Mar 31, 2011)	$27.75
Mkt cap, curr (mm)	$2,641
52-Week Range	$36.42-14.98

Recent Reports

Title	Date
Tesla Motors Inc.: America's Fourth Automaker Adam Jonas, CFA / Joshua Paradise, CFA / Ravi Shanker / Yejay Ying	Mar 31, 2011

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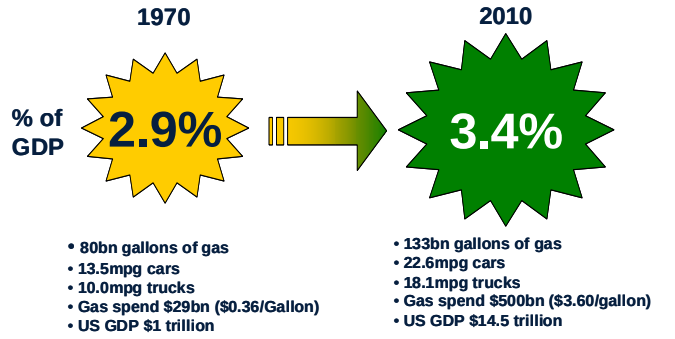
The political push for EVs: Governments worldwide have a strategic interest in reducing transportation dependence on foreign oil. The statistics speak for themselves. At $3.60 per gallon, Americans spend roughly $0.5 trillion on gasoline for personal transport each year. This amount accounts for approximately 3.4% of US GDP. Personal transport accounts for the largest portion of the $1tn in total US oil demand (half of which is imported). By comparison, the 2010 US Department of Education annual budget was approximately $50bn. Such an enormous dependence of the US economy on foreign oil alone creates a great incentive for the Federal government to have a hand in creating conditions for grid-enabled-vehicles to thrive. The incentive to create green manufacturing jobs is augmented by sluggish growth and high unemployment.

Exhibit 1

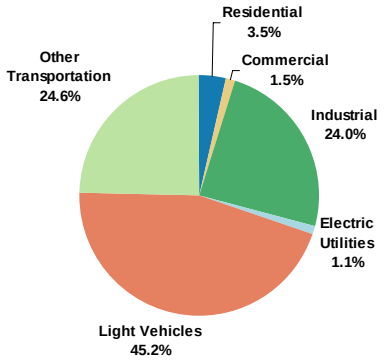
US economy, environment and national security threatened by dependence on oil (gas spend/GDP)



Source: US Transportation Energy Book, Morgan Stanley Research.

Exhibit 2

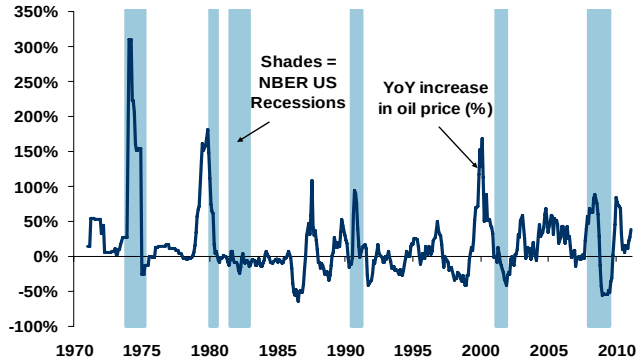
Light vehicles for personal use accounts for nearly ½ of US oil consumption



Source: US Transportation Databook, Morgan Stanley Research.

Exhibit 3

Every recession since 1970 has been preceded by an oil price spike



Source: Department of Commerce, Bureau of Economic Analysis. Uses inflation adjusted GDP.

The key impediment for EVs: Battery costs are too high and today's cars are too good. While the initial uptake of xEVs will be driven by early adopters, long-term demand will depend on whether xEVs can become financially viable. Viability can be defined as (1) upfront cost premium: if the cost of entry is too high, operating cost savings will not even matter. It is encouraging to see many initial EV launches in the $25-50k range before radical technology breakthroughs. (2) ability to reach breakeven vs. running cost savings.

Prevailing gasoline prices and fuel economy of internal combustion engine will significantly influence the payback period for xEVs. All else equal, a $1 increase in gas price per gallon would reduce the payback period of purchasing an xEV by roughly 2.5 years. Each 5mpg increase in ICE fuel economy extends the payback by >2 years.

Exhibit 4

Payback (years) at various battery cost vs. gas price at 25.0 mpg of ICE

		Battery Cost ($/KWh)					
		600	500	400	300	200	100
Gas Price ($/gal)	1.50	41.7	34.7	27.8	20.8	13.9	6.9
	2.00	25.0	20.8	16.7	12.5	8.3	4.2
	2.50	17.9	14.9	11.9	8.9	6.0	3.0
	3.00	13.9	11.6	9.3	6.9	4.6	2.3
	3.50	11.4	**9.5**	7.6	5.7	3.8	1.9
	4.00	9.6	8.0	6.4	4.8	3.2	1.6
	4.50	8.3	6.9	5.6	4.2	2.8	1.4
	5.00	7.4	6.1	4.9	3.7	2.5	1.2
	5.50	6.6	5.5	4.4	3.3	2.2	1.1
	6.00	6.0	5.0	4.0	3.0	**2.0**	1.0
	6.50	5.4	4.5	3.6	2.7	1.8	0.9
	7.00	5.0	4.2	3.3	2.5	1.7	0.8
	7.50	4.6	3.9	3.1	2.3	1.5	0.8
	8.00	4.3	3.6	2.9	2.2	1.4	0.7

Source: Company data, Morgan Stanley Research. Assumes electricity cost of $0.12/KWh, 4 miles/KWh and average annual driving distance of 12,000 miles/year.

A $10 rise in oil price globally could be worth 5% to Tesla's share price. Each $10 of oil price per barrel is a projected $92bn annual operating cost increase to light vehicle owners. Assuming 15% of this burden shifts to xEVs with Tesla taking a 2.6% global xEV share adds $89m to incremental EBITDA by 2025 and $1.3 per Tesla share.

Exhibit 5

Global oil analysis – sensitivity to Tesla value

Barrels of oil consumed by light vehicles globally per day (mm)	20.9
2025 projected oil consumption by light vehicles per day (mm)	25.1
Barrels of oil consumed by light vehicles globally per year (bn)	9.2
Oil price per barrel ($)	110
Global oil expenditure for light vehicles ($bn)	1,009
Burden of $10 move in oil price on light vehicle consumers (bn)	92
% of incremental oil burden moving to xEV demand	15%
Value of incremental cost moving to xEV demand	14
Tesla global xEV market share by 2025 (%)	2.6%
Value of incremental Tesla sales in 2025 ($mm)	358
Incremental margin on Tesla sales (%)	25%
Incremental EBITDA for Tesla ($m)	89
2025 EBITDA multiple (x)	8.5
Additional terminal value ($m)	760
WACC (%)	12%
PV of additional terminal value ($mm)	139
Tesla shares outstanding (m)	107
Increased value per Tesla share ($)	1.3
Tesla share price ($)	27
% of current Tesla Share price (%)	5%

Source: Company data, Morgan Stanley Research

A $1 rise in US gas price could be worth 13% to Tesla's share price. Each $1 of gas price per gallon is a projected $103bn annual operating cost increase to light vehicle consumers in the United States based on our projection of gasoline consumption for personal transport by 2025. Assuming 15% of this burden shifts to xEVs with Tesla taking a 6% share of the US xEV market adds $233m of incremental EBITDA by 2025 and $3.4 per Tesla share.

Exhibit 6

US gasoline analysis – sensitivity to Tesla value

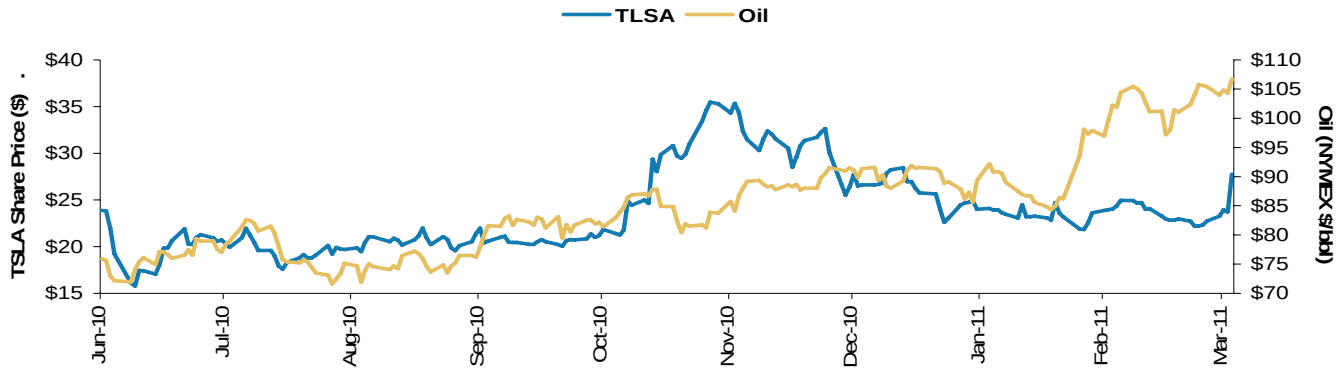
Annual gasoline usage for personal transport (bn gallons)	138
2025 projected gasoline usage for persaonal transport (bn gallons)	103
Gasoline price ($)	3.50
Annual US gasoline expenditure for light vehicles ($bn)	362
Gas price increment ($)	1.00
Burden of $1 move in gas price on light vehicle consumers (bn)	103
% of burden moving to xEV demand	15%
Value of burden moving to xEV demand ($bn)	15.5
Tesla share of US xEV market by 2025 (%)	6.0%
Value of incremental Tesla sales in 2025 ($mm)	931
Incremental margin on Tesla sales (%)	25%
Incremental EBITDA for Tesla ($m)	233
2025 EBITDA multiple (x)	8.5
Additional terminal value ($m)	1,978
WACC (%)	12%
PV of additional terminal value ($mm)	361
Tesla shares outstanding (m)	107
Increased value per Tesla share ($)	3.4
Tesla share price ($)	27
% of current Tesla Share price (%)	13%

Source: Company data, Morgan Stanley Research

Valuation methodology and risk discussion. We argue Tesla cannot be valued on near-term multiple metrics like traditional auto companies given that we expect Tesla to multiply revenues by over 20x from 2010 to 2015, by more than 80x by 2020 and over 150x by 2025. We have thus chosen a 15-year time horizon for our DCF which captures the full utilization of Tesla's manufacturing capacity in Fremont, the full maturation of the Model S, Model X (and top-hat derivatives) and also the ramp up of its mass market electric vehicle (the Gen 3). We have applied a 12% WACC with a range of 10% to 14%. The terminal value accounts for around 60% to 70% of the total DCF value across the range of methodologies we have applied to arrive at our $70 PT. The risks of lagging EV adoption, launch delays and balance sheet difficulties make Tesla a highly speculative investment.

Exhibit 7

Tesla share price vs. NYMEX Crude



Source: Company data, Morgan Stanley Research

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(as of March 31, 2011)

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Total	2,851		1005		

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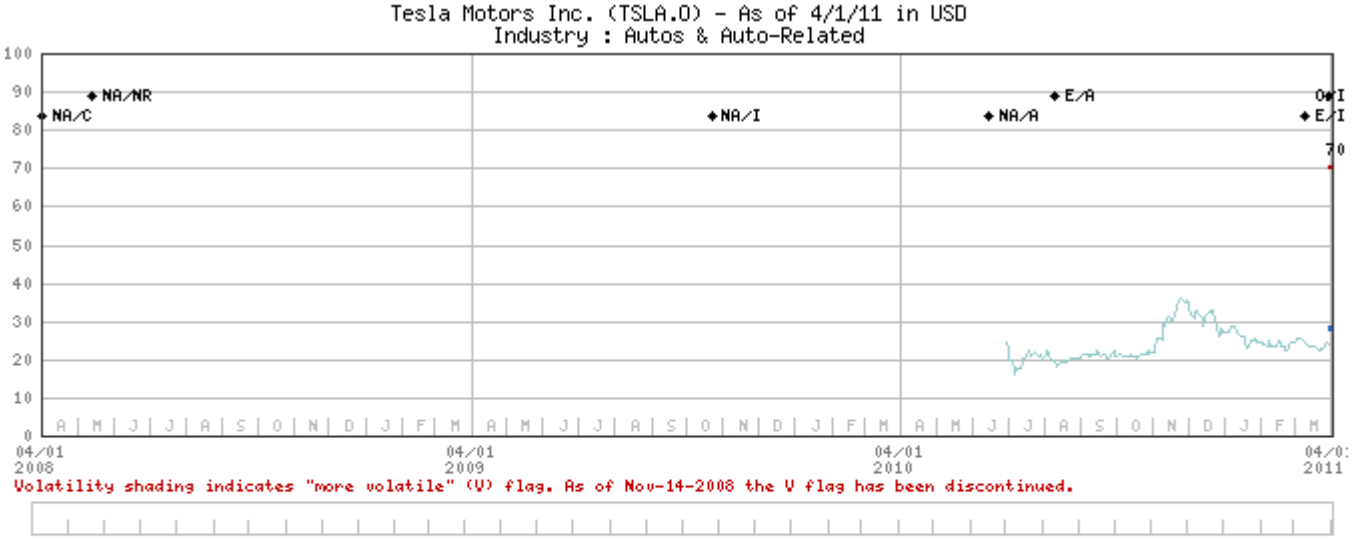
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 4/1/08 : 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

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Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
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Industry Coverage:Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (03/31/2011)
Adam Jonas, CFA		
Ford Motor Company (F.N)	O (10/04/2010)	$14.91
General Motors Company (GM.N)	O (12/28/2010)	$31.03
Tesla Motors Inc. (TSLA.O)	O (03/31/2011)	$27.75
Ravi Shanker		
AutoNation Inc. (AN.N)	U (03/10/2011)	$35.37
BorgWarner Inc. (BWA.N)	O (10/22/2009)	$79.69
Cooper Tire & Rubber Company (CTB.N)	O (03/16/2010)	$25.75
Goodyear Tire & Rubber Company (GT.N)	O (03/10/2011)	$14.98
Group 1 Automotive, Inc (GPI.N)	U (10/22/2009)	$42.8
Johnson Controls, Inc. (JCI.N)	O (06/14/2010)	$41.57
Lear Corporation (LEA.N)	U (09/23/2010)	$48.87
Magna International Inc. (MGA.N)	U (03/10/2011)	$47.91
Meritor Inc (MTOR.N)	O (09/23/2010)	$16.97
Penske Automotive Group, Inc (PAG.N)	U (10/22/2009)	$20.02
TRW Automotive Holdings Corp. (TRW.N)	O (09/10/2010)	$55.08
Tenneco Inc. (TEN.N)	U (09/23/2010)	$42.45

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* Historical prices are not split adjusted.

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March 31, 2011

Stock Rating
Overweight

Industry View
In-Line

Tesla Motors Inc.

America's Fourth Automaker

What's Changed

Rating	**Equal-weight to Overweight**
Price Target	**NA to $70.00**

Flipping the chessboard: The confluence of structural industry change, disruptive technology, changing consumer tastes and heightened national security creates an opportunity for significant new entrants in the global auto industry. California dreaming? We don't think so. In our view, the conditions are ripe for a shake-up of a complacent, century-old industry heavily invested in the status quo of internal combustion. The risks are high. So is the opportunity. Enter Tesla.

xEV market entering higher volume and it's happening right now: We are convinced electric cars will comprise a significant minority of global light vehicle sales medium-term and the majority longer term. Our global xEV model suggests penetration of 5.5% globally by 2020 and >15% by 2025. Even on our forecasts, the Internal Combustion Engine (ICE) remains by far the dominant form of propulsion for a very long time.

Tesla moves from rich man's toy to mass market: We believe Tesla's long-term independence can only be secured through the commercialization of mass market EVs in the $30k price range. Premium offerings like the Model S and its derivatives are important stepping stones to the company's full volume potential of 500k units by 2025. We see a path to a company with $9.5bn of sales, >$1.2bn of operating profit and >$1.0bn of FCF by 2020, based on Tesla capturing 3.6% of the global xEV market by that time. The risks of lagging EV adoption, launch delays and balance sheet difficulties make Tesla a highly speculative investment.

$70 PT offers almost 200% upside, on revenue est. roughly 3x consensus in the out years. On our forecasts, Tesla's biggest financial challenge comes in 2013 when gross liquidity falls to $146mm. As is not uncommon with start-ups, the biggest question is if Tesla can remain solvent long enough to capitalize on the forthcoming technological break-throughs.

Key Ratios and Statistics

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

Price target	**$70.00**
Shr price, close (Mar 30, 2011)	$23.71
Mkt cap, curr (mm)	$2,256
52-Week Range	$36.42-14.98

Fiscal Year ending	12/09	12/10	12/11e	12/12e
ModelWare EPS ($)	**-**	**(3.04)**	**(2.33)**	**(2.80)**
Prior ModelWare EPS ($)	**-**	**-**	**-**	**-**
P/E	**-**	**NM**	**NM**	**NM**
Consensus EPS ($)§	**(1.59)**	**(2.53)**	**(2.05)**	**(1.38)**
Div yld (%)	-	-	-	-

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates

Quarterly ModelWare EPS

Quarter	2009	2010 Prior	2010 Current	2011e Prior	2011e Current
Q1	-	-	(4.04)	-	(0.57)
Q2	-	-	(5.04)	-	(0.56)
Q3	-	-	(0.38)	-	(0.59)
Q4	-	-	(0.54)	-	(0.60)

e = Morgan Stanley Research estimates

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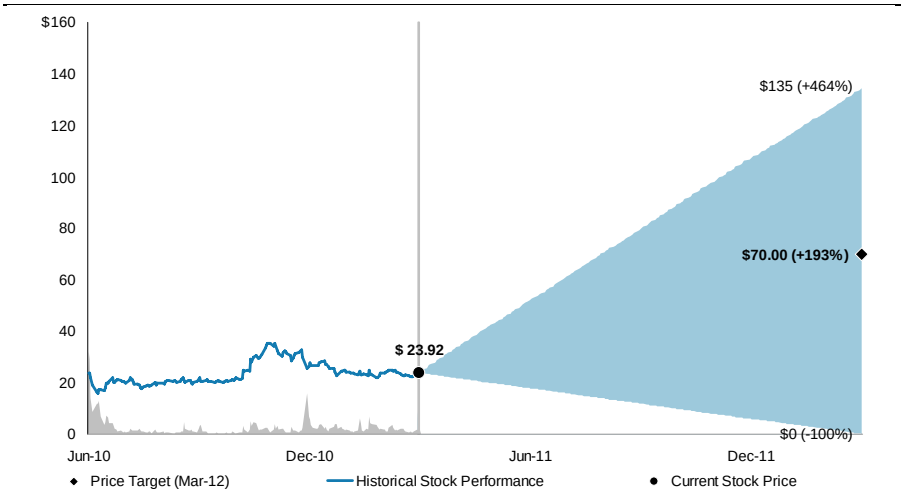
Risk-Reward Snapshot: Tesla Motors (TSLA, OW, PT $70)

There are few things in business as risky as starting an auto company – especially one that relies on entirely new technology that is not likely to be competitive vs. the established internal combustion engine for more than a decade. However, conditions are ripe for new entrants and we believe Tesla can be a significant volume player in the auto industry. We believe the market for xEVs (plug-in-hybrids or PHEVs and pure EVs) is underestimated as rising oil prices and government support accelerate the shift away from the internal combustion engine. This shift has made room for entirely new players to join the ranks of currently entrenched OEMs, and has afforded Tesla the opportunity to establish itself as America's fourth automaker. The biggest risk remains Tesla's own execution of its plan. Despite its extremely risky profile, the almost 200% upside to our base case $70 price target is enough to justify an Overweight rating.



Source: FactSet (historical share price data), Morgan Stanley Research estimates

We argue Tesla cannot be valued on near-term multiple metrics like traditional auto companies given that we expect Tesla to multiply revenues by over 20x from 2010 to 2015, by more than 80x by 2020 and over 150x by 2025. We have thus chosen a 15-year time horizon for our DCF which captures the full utilization of Tesla's manufacturing capacity in Fremont, the full maturation of the Model S, Model X (and top-hat derivatives) and also the ramp up of its mass market electric vehicle (the Gen 3). We have applied a 12% WACC with a range of 10% to 14%. The terminal value accounts for around 60% to 70% of the total DCF value across the range of methodologies we have applied to arrive at our $70 PT.

Bull Case $135	**Production far beyond Fremont.** Global car market runs at 3.4% CAGR through 2025. Global xEV penetration at 7% by 2020 and 21% by 2025. Tesla EV share peaks at 11% and >8% long term. Pricing similar to base case. Mix stable over time due to higher contribution from Model S and Model X and higher content uptake on Gen 3. Break-even OP reached in 2013, OP margin peak at 23%, normalize at just under 20%.
Base Case $70	Significant EV player, fully utilizes Fremont. Global car market runs at 3.2% CAGR through 2025. Global EV penetration at 5.5% by 2020 and 15% by 2025. Tesla xEV share peaks at <4% and runs at 2.5% long term. Pricing grows slightly - up in the early years, down in the later years. Mix driven down over time by growth in mass market with Gen 3 dominating the volume. Break-even OP reached in early 2014, OP margins peak at 17%, normalize at 13%.
Bear Case $0	Cash burn exceeds available liquidity by 2013/2014. Global car market runs at 1.9% CAGR through 2025. Global xEV penetration at 2.5% by 2020 and 6.2% by 2025. Delays to Model S lead to cost overruns not adequately funded by additional capital sources. A not uncommon outcome for many new technology start-ups.

Why Overweight?

- We forecast grid-enabled vehicles (plug-in hybrids and pure electric vehicles) will comprise 5.5% of global car sales by 2020 and 15% by 2025.
- A high oil price helps sway both consumer and political forces to support widespread electrification of the automotive fleet.
- No attachments to the established belt-driven internal combustion technology allows 100% focus on new technological challenges.
- Strategic cooperation and ownership relationships with Daimler, Toyota and Panasonic lend credibility and validation to Tesla's strategy.
- Acquisition of former NUMMI facility from Toyota enables manufacturing scale to be a high volume producer.

Key Investment Risks

- Missteps in the execution of the Model S sedan (and derivatives) could jeopardize the ability of Tesla to participate in the mass EV market.
- Evolution of cost and performance of battery technology vs. ever-improving internal combustion engines.
- Stiff competition from other OEMs as they develop their own xEVs.
- Significant long-term government coordination required to provide incentives to foster the application of new battery technologies, consumer taste and grid infrastructure necessary for EV adoption.
- Significant delays to Model S and inability to raise new equity could challenge min. liquidity thresholds.

Current Valuation

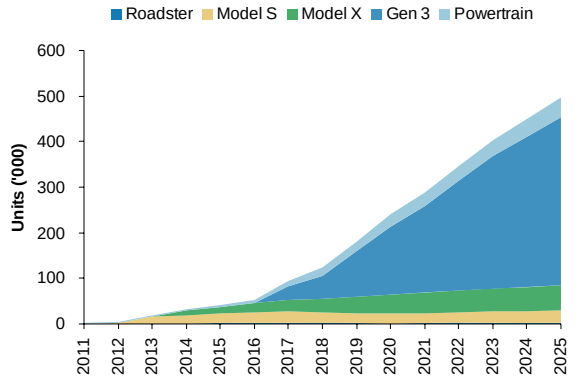
- Tesla trades on 93% EV/Sales and 8.4x EBITDA on our 2015 estimate. Tesla trades at 18.5x 2015e P/E and 3.5x 2020e P/E.

Potential Catalysts

- Strategic tie-ups, Model S milestones, quarterly results, estimated 2H capital increase.

Tesla Market Position and Strategic Snapshot

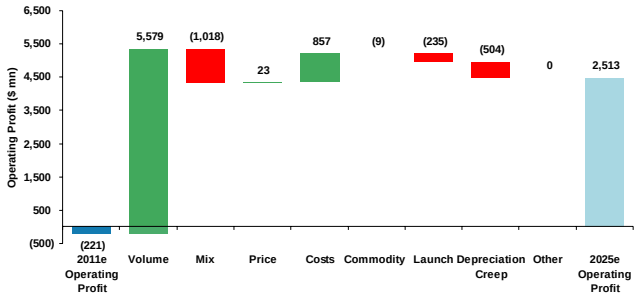
Tesla unit volume by model line, 2011 to 2025e



Tesla Liquidity vs. Cash Burn through 2015e ($mm)

	2010	2011	2012	2013	2014	2015
Liquidity vs. Burn Profile						
Cash	100	169	173	146	200	200
Restricted Cash	74	0	0	0	0	0
Undrawn DOE Loan	393	193	0	0	0	65
Other	0	0	0	0	0	0
End-of-Period Liquidity	**566**	**362**	**173**	**146**	**200**	**265**
Beginning-of-Period Liquidity		566	362	173	146	200
Free Cash Flow (Burn)		-354	-189	-27	54	65
Capital Increase		150	0	0	0	0
End-of-Period Liquidity	**566**	**362**	**173**	**146**	**200**	**265**

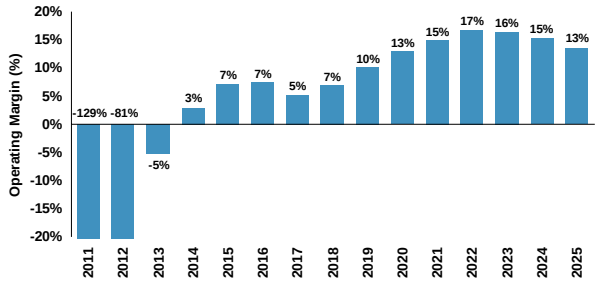
Tesla Operating Profit Bridge, 2011 to 2025e ($m)



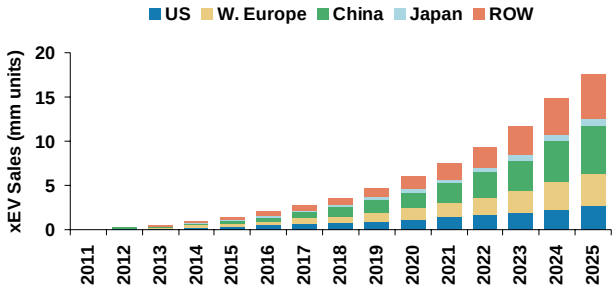
Tesla: DCF Sensitivity to WACC and EV/EBITDA ($)

WACC \ EV/EBITDA	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0
6.0%	95	108	120	132	144	156	168	180	192
8.0%	74	83	93	102	111	120	129	139	148
10.0%	58	65	72	79	86	93	100	107	114
12.0%	45	51	56	61	**67**	**72**	78	83	88
14.0%	36	40	44	48	52	56	60	65	69
16.0%	28	31	34	38	41	44	47	50	54
18.0%	22	24	27	29	32	34	37	39	42
20.0%	17	19	21	23	25	27	29	31	33
22.0%	13	15	17	18	20	21	23	24	26
24.0%	10	12	13	14	15	16	18	19	20
26.0%	8	9	10	11	12	13	14	15	16

Tesla: Operating Margin, 2011e to 2025e (%)



Global EV Sales Penetration by through 2025



e = Morgan Stanley Research estimates

Source: Company data, FactSet, Morgan Stanley Research

Key Tesla Debates

Debates	Our take
1. **How big is the global xEV market?** *Market View: Maybe 5% of US sales and substantially less than 5% of global sales by 2020.*	**xEV sales to reach 7% of US market and 5.5% of global volume by 2020.** The death of the internal combustion engine? Far from it. We still expect 85% of global car sales to be based on the internal combustion engine in 2025. We believe it would take the better part of 30 years to have the majority of the world's cars powered by electrons.
2. **Is there room for new entrants into the global light vehicle market?** *Market View: Industry is consolidating. The big players will get bigger. Smaller players die or are gobbled up.*	**Electric vehicles represent a disruptive technology that can lead to new players in the market with significant global scale.** Traditional automakers face an increasingly daunting regulatory burden for internal combustion vehicles while investing in competing technology. If Tesla can execute through the Model S launch and ramp-up, we think they can be a major player in alternative mobility.
3. **How big a player can Tesla be in the auto industry?** *Market View: A niche player focusing on high-end electric vehicles and the supply of EV engineering competence and powertrains to larger manufacturers.*	**Tesla's goal is to be an independent, mass market electric car company selling hundreds of thousands of units by early next decade.** Investments in the Fremont facility (where Toyota had produced upwards of 500k units), efforts to increase manufacturing flexibility (all Model S volume made on one line) and vertical integration suggest Tesla plans to be a higher volume player.
4. **How does one put a value on Tesla?** *Market View: Heavily sentiment driven. Take a 3 to 5 year view based on execution of 'milestones' like Roadster sales and Model S launch deliverables. Tough to take a long-term view.*	**Must take a long-term view to value Tesla. The company either succeeds as a high-volume EV player or faces significant challenges as a stand-alone company.** We expect to receive some criticism for taking a 15 year forecast horizon for the company's valuation. In our opinion, there's just no way to value Tesla that makes better sense. Most auto companies may have over 50% of their value beyond year 5 of a DCF. Tesla has more than 97% of its value beyond 2020.

N. American Autos and Auto-Related Industry View: In-Line.

- Sharp volume recovery expected in N. America driven by pent-up demand, aging car parc and historical recovery patterns. Financial sub profits boosted by high residual values and improving risk-loss could trigger far greater release of pent-up demand. Dealer network has been rationalized and inventories are still low.

- Industry is in a sweet spot of high capacity utilization and low cost structure due to unprecedented capacity exit and legacy cost reduction. We believe capacity can chase production rather than the other way around in this cycle, leading to higher sustainable margins for the supplier group.

- We prefer secular stories vs. cyclical stories given the market's expectation for a V-shaped volume recovery now appears to be consensual. Many of our top N. American auto picks have built-in oil hedges that enable them to benefit from permanently higher fuel prices. BorgWarner is the best way to play the greening of the internal combustion engine while Tesla and Johnson Controls are plays on electrification.

Californ-Electrification

We view Tesla as an auto company first and foremost - not just a 'clean-tech' company. The key difference between our investment view on Tesla vs. that of the prevailing market is that we believe Tesla has a viable opportunity to be a significant volume player in the global auto industry. The transformation from California startup to global auto player may require well more than a decade to achieve - not unlike the genesis of many of today's established automotive companies.

We believe the market is greatly underestimating three drivers of the Tesla story: (1) The electric car market is larger than you think; (2) The room for entirely new market players is greater than you think; and (3) Tesla has the attributes to be a disruptive force in the auto industry longer term. The biggest risk will be Tesla's own execution of its plan, particularly over the next 3 years.

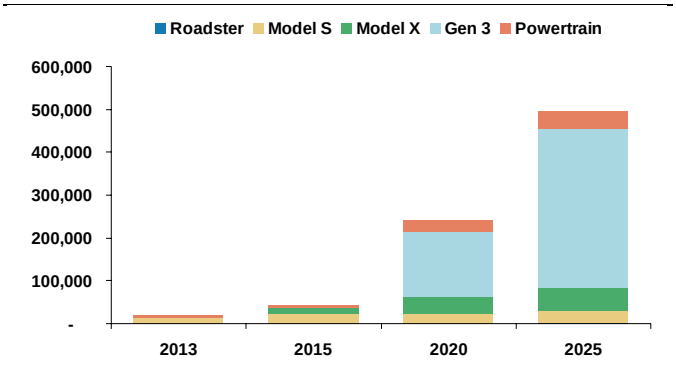
The prevailing market view is that Tesla will be a niche player in a fringe EV market with a high chance of failure.

Our view is that Tesla will be a significant player in a more widely adopted EV market with a high chance of success.

We have taken a bottom-up approach to our xEV forecast, focusing on key metropolitan areas. Our global xEV model is based on key cities like New York, Los Angeles, London, Paris and Beijing achieving xEV penetration of 15-20% by 2020 and 25-35% by 2025. We forecast both Plug-in Hybrid (PHEV) and pure EV (EV) sales with PHEV dominating our forecast in the early years peaking at 75% of the total xEV market in 2015.

Exhibit 1

Tesla moves from premium/niche to volume player



Source: Company data, Morgan Stanley Research

Key drivers of our Overweight rating on Tesla:

1. **Size of the global electric vehicle market is underestimated.** We forecast grid-enabled vehicles (plug-in hybrids and pure electric vehicles) will comprise 5.5% of global car demand by 2020 and over 15% by 2025.

2. **First mover advantage – scarcity of pure-play ways to play the electrification of the automobile.** At this early stage of product development, attracting the best people is critical. We are encouraged by the balance of electrical engineering, automobile design and retailing talent at Tesla, supporting our view of the company ultimately becoming a higher volume player.

3. **Beneficiary of US and geo-political climate (oil hedge).** A high oil price helps sway both consumer and political forces to support widespread electrification of the automotive fleet. Higher fuel prices also improve the pay-back period for an electric vehicle to the consumer.

4. **Pure play EV company without investment in internal combustion.** While virtually all traditional auto manufacturers are funding electric vehicle programs, we believe a key Tesla advantage is that it has no attachments to the established belt-driven internal combustion technology and can focus 100% of its efforts on the new technological challenges.

5. **Validation from key auto industry players.** Tesla has established strategic cooperation and an ownership relationship with Daimler, Toyota and Panasonic. The US Department of Energy and the state of California (world's 8th largest economy) have also made financial and fiscal commitments. In our view, it is unusual for start-up companies to have garnered such direct forms of credibility from established industry participants with tacit government support.

6. **Manufacturing scale to be a high volume producer.** Tesla acquired the former NUMMI facility from Toyota for $42mm. It is capable of producing 500k units per year or approximately 1% of total worldwide passenger car production. This factory demonstrates Tesla's intention and capability to produce a far higher level of volume than that currently anticipated by the market.

Our valuation philosophy is radically different from consensus. Using a 15 year DCF approach is a highly unorthodox way to value an auto company. However, we argue one simply cannot conduct a valuation for such an early-stage applied technology startup without taking a long-term view. A traditional auto company may have >50% of its DCF value accounted for within the first 5 years. For Tesla, we estimate 97% of its value occurs > year 10. The risks inherent in taking such a long-term approach to valuation may be too great for most auto investors to stomach. For those who form a valuation thesis based on nearer-term news flow such as strategic tie-ups and milestones on the Model S, we cannot recommend owning the stock with high conviction.

Venture cap upside brings high risk: The technology hurdles and the execution risks are high. As such, investors must demand out-sized returns relative to other auto stocks. Tesla is the only stock under our coverage with a $0 bear case. In our view, a $70 price target is sufficient to support an Overweight rating on the stock, but is not high enough to make Tesla rank amongst our very highest picks in N. American autos, given the execution risk.

Biggest risks are near-term: We forecast Tesla liquidity will decline to $146mm from $566m today even after raising $150mm through a capital increase in 2H11. While we can make a fundamental case for Tesla's place in the auto industry to be substantially higher than currently anticipated by the market, we must acknowledge that, like many early stage enterprises, Tesla faces enormous challenges to their success – many of which are systematically outlined in Tesla's 2010 Form 10-K which includes a risk factor section that runs a full 40 pages (from page 30 to page 70).

Exhibit 2

Key Tesla valuation sensitivities

Variable	Impact	MS Estimate
1% xEV Share of Global Market	40k units by 2020 $1.6bn revenue $10 to share price	5.5% by 2020 15.1% by 2025
1% Tesla Share of EV Market	110k units from 2020-25 $4.3bn revenue $20 to share price	3.6% by 2020 2.6% by 2025
100k Units of Tesla Volume	$3.9bn revenue $0.9bn OP $18 to share price	240k by 2020 496k by 2025
100bp of Operating Margin	$140m to 2020-2025 OP $4 to share price	17% peak in 2022 13% exit in 2025
1x EBITDA Multiple for DCF	$6 to share price	8.0x
1% WACC for DCF	$8 to share price	12%

Source: Morgan Stanley Research.

Key risks to our view on Tesla:

1. **Execution risk on near term milestones.** A serious misstep on the costs and commercial appeal of the Model S sedan (and derivatives) could jeopardize Tesla's ability to participate in the mass EV market longer term. We anticipate a Model S production launch in mid 2012 with 2,000 deliveries by the end of that year. Our forecasts through 2013 have Tesla burning through approx. 75% of today's available liquidity even including a $150mm cap increase.

2. **Evolution of battery technology.** Our forecast for global EV growth is dependent on a significant improvement in battery performance at a sharply reduced cost. A path to a $200 per KWh battery with a 200 to 300 mile range and fast recharging will be required to make EVs a competitive option vs. advanced internal combustion technology.

3. **Competition from new entrants and existing OEMs.** Tesla will face a raft of new EV competition. Most of the world's largest OEMs are devoting billions in investment and engineering resources to developing their own EVs. Too much capacity chasing insufficient demand could threaten smaller-resourced companies like Tesla. Another key risk is the pace of improvement for internal combustion engines, which could conceivably achieve average fuel economy 2x to 3x higher than they do today.

4. **Charging infrastructure / electric power sector.** Our assumptions of global EV growth, particularly beyond 2020, will require both significant investment in upgrades of the electric grid and related IT infrastructure, requiring a coordinated effort from utilities, regulators, and government at the local and federal level.

5. **Consumer acceptance.** EVs must offer consumers significant advantages over prevailing internal combustion technology without policies to artificially encourage purchase. Hard core enthusiasts and deep-pocketed environmentalists are not enough to ensure the sustainable place of the electric car. The product must be safe, reliable, convenient, enjoyable and provide a substantial cost/benefit to make meaningful inroads.

6. **Lack of government support.** America's leadership in electric mobility requires significant government coordination over at least the next 10 to 15 years. Washington must remain focused on national security, energy security and job security to provide the early incentives to foster the application of new battery technologies, consumer adoption and grid infrastructure.

Debate 1: How big is the global xEV market opportunity?

Market View: Maybe 5% of US sales and substantially <5% of global sales by 2020.

Our view: PHEV + EV sales to reach 7% of US market and 5.5% of global volume by 2020. The death of the internal combustion engine? Not at all. We expect more than 85% of global car sales to be powered solely by an internal combustion engine by 2025. We believe it would take the better part of 30 years to have the majority of the world's cars powered by electrons.

We expect significant adoption of electric vehicles will require a full engineering cycle of 10 to 15 years. Key requirements to foster xEV development include:

- Battery costs must decline
- Charging infrastructure upgraded
- Reliability and safety proven in the market
- Fuel prices remain high
- Costs of internal combustion cars rising on regulatory pressures
- Government incentives remain in place

Exhibit 3

Easter morning 1900: 5th Ave, New York City. Spot the automobile.

Source: US National Archives.

Exhibit 4

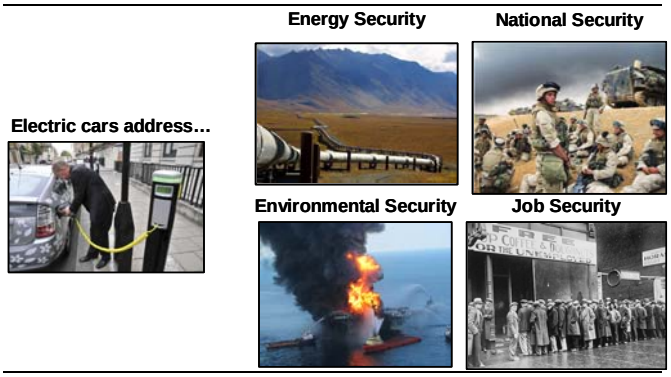
Easter morning 1913: 5th Ave, New York City. Spot the horse.

Source: George Grantham Bain Collection.

The key push for EVs: Governments worldwide have a strategic interest in reducing transportation dependence on foreign oil. The statistics speak for themselves. At $3.60 per gallon, Americans spend roughly $0.5 trillion on gasoline for personal transport each year. This amount accounts for approximately 3.4% of US GDP. Personal transport accounts for the largest portion of the $1tn in total US oil demand (half of which is imported). By comparison, the US Department of Education annual budget is less than $50bn. Such an enormous dependence of the US economy on foreign oil alone creates a great incentive for the Federal government to have a hand in creating conditions for grid-enabled-vehicles to thrive. The incentive to create green manufacturing jobs is augmented by sluggish growth and high unemployment.

Exhibit 5

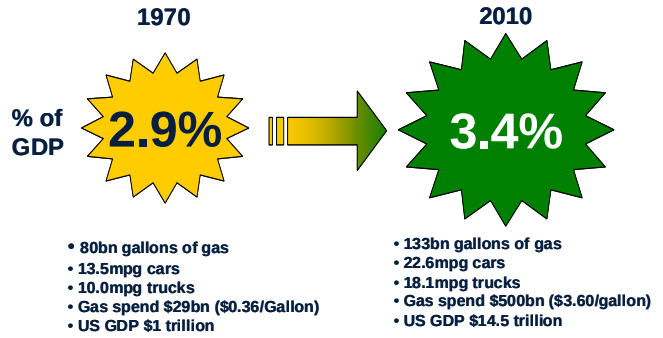
Things that should keep Congress up at night…



Source: Library of Congress, www.army.mil

Exhibit 6

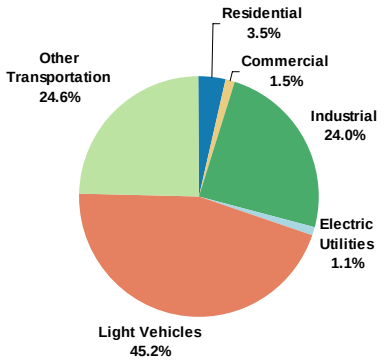
US economy, environment and national security threatened by dependence on oil (gas spend/GDP)



Source: US Transportation Energy Book, Morgan Stanley Research.

Exhibit 7

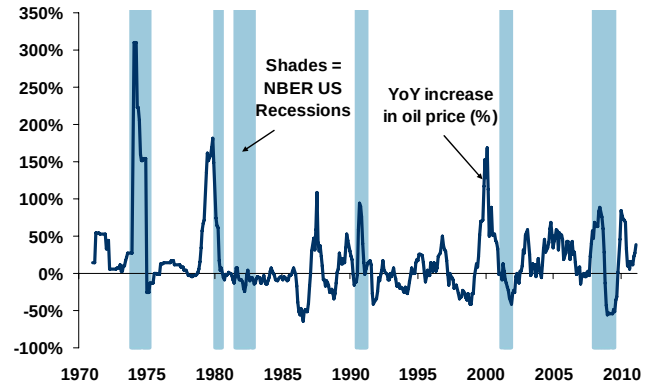
Light vehicles for personal use accounts for nearly ½ of US oil consumption



Source: US Transportation Databook, Morgan Stanley Research.

Exhibit 8

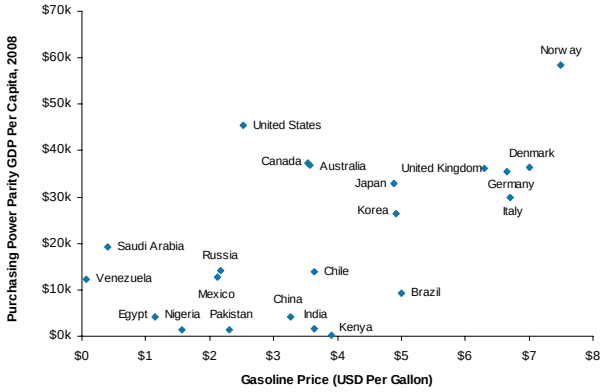
Every recession since 1970 has been preceded by an oil price spike



Source: Department of Commerce, Bureau of Economic Analysis. Uses inflation adjusted GDP.

Exhibit 9

The United States of America: Wealthy nation with a 3rd world gas price (2009)



Source: World Bank, International Energy Agency.

The key impediment for EVs: Battery costs are too high and today's cars are too good. While the initial uptake of xEVs will be driven by early adopters, long-term demand will depend on whether xEVs can become financially viable. Viability can be defined as (1) upfront cost premium: if the cost of entry is too high, operating cost savings will not even matter. It is encouraging to see many initial EV launches in the $25-50k range before radical technology breakthroughs. (2) ability to reach breakeven vs. running cost savings.

Prevailing gasoline prices and fuel economy of internal combustion engine will significantly influence the payback period for xEVs. All else equal, a $1 increase in gas price per gallon would reduce the payback period of purchasing an xEV by roughly 2.5 years. Each 5mpg increase in ICE fuel economy extends the payback by >2 years.

Exhibit 10

Payback (years) at various battery cost vs. gas price at 25.0 mpg of ICE

		Battery Cost ($/KWh)					
		600	500	400	300	200	100
Gas Price ($/gal)	1.50	41.7	34.7	27.8	20.8	13.9	6.9
	2.00	25.0	20.8	16.7	12.5	8.3	4.2
	2.50	17.9	14.9	11.9	8.9	6.0	3.0
	3.00	13.9	11.6	9.3	6.9	4.6	2.3
	3.50	11.4	**9.5**	7.6	5.7	3.8	1.9
	4.00	9.6	8.0	6.4	4.8	3.2	1.6
	4.50	8.3	6.9	5.6	4.2	2.8	1.4
	5.00	7.4	6.1	4.9	3.7	2.5	1.2
	5.50	6.6	5.5	4.4	3.3	2.2	1.1
	6.00	6.0	5.0	4.0	3.0	**2.0**	1.0
	6.50	5.4	4.5	3.6	2.7	1.8	0.9
	7.00	5.0	4.2	3.3	2.5	1.7	0.8
	7.50	4.6	3.9	3.1	2.3	1.5	0.8
	8.00	4.3	3.6	2.9	2.2	1.4	0.7

Source: Company data, Morgan Stanley Research. Assumes electricity cost of $0.12/KWh, 4 miles/KWh and average annual driving distance of 12,000 miles/year.

Exhibit 11

Payback (years) at various battery cost vs. mpg of ICE at $3.50 gas price

		Battery Cost ($/KWh)					
		600	500	400	300	200	100
ICE Efficiency (mpg)	65	52.4	43.7	34.9	26.2	17.5	8.7
	60	44.1	36.8	29.4	22.1	14.7	7.4
	55	37.2	31.0	24.8	18.6	12.4	6.2
	50	31.3	26.0	20.8	15.6	10.4	5.2
	45	26.2	21.8	17.4	13.1	**8.7**	4.4
	40	21.7	18.1	14.5	10.9	7.2	3.6
	35	17.9	14.9	11.9	8.9	6.0	3.0
	30	14.4	12.0	9.6	7.2	4.8	2.4
	25	11.4	**9.5**	7.6	5.7	3.8	1.9
	20	8.6	7.2	5.7	4.3	2.9	1.4
	15	6.1	5.1	4.1	3.1	2.0	1.0
	10	3.9	3.3	2.6	2.0	1.3	0.7
	5	1.9	1.6	1.2	0.9	0.6	0.3

Source: Company data, Morgan Stanley Research. Assumes electricity cost of $0.12/KWh, 4 miles/KWh and average annual driving distance of 12,000 miles/year.

xEVs are not cost effective at current prices. With battery costs north of $600/kWh, it will take over 10 years for an EV to break-even, even with gas prices around $3.50/gallon. If gas prices rise to $7/gallon or higher or when battery costs decline to under $300/kWh, the breakeven period will drop below 5 years, which is the typical length of an auto loan today.

We believe OEMs should try to keep the cost premium for EVs at 10% above the cost of an equivalent ICE car. Anything above that could make it hard to recover the premium through operating cost savings and may even tempt the consumer to trade up to a higher segment.

The cost equation is heavily dependent on battery costs, particularly the cost of raw materials and production efficiencies. Most battery manufacturers and automakers expect prismatic lithium ion batteries to be the chemistry and format of choice for volume xEVs. Prismatic lithium ion batteries are still in early stages of development and cost per kWh is in the $800-1,000 range. This means a typical 15 kWh battery that can propel a vehicle for 50-60 miles costs $12k to $15k or about 50% of the cost of the vehicle. An EV could require a larger battery to give it a more useful range...such a battery could cost as much as $30-40k today.

Scale production, optimized manufacturing processes and material substitution that reduce the reliance on expensive, exotic metals like cobalt should help significantly reduce this price premium in the coming years. Battery makers have targeted reducing cost per kWh to about $500 by 2012-13 and halving that further in the next 5 years. We expect a 10% per year decline in battery costs. At $200 per kWh an EV battery would cost $5-8k, only slightly more than a typical automotive powertrain today, and potentially be more competitive vs. the higher cost of advanced internal combustion engines.

Exhibit 12

Remember Moore's Law?

Osborne Executive Portable Computer (1982)
vs.
Apple iPhone (2007)

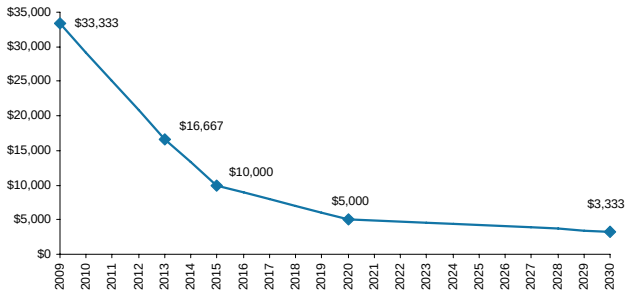
The Executive is…

- **100x the weight**
- **500x the volume**
- **10x the cost**
- **1/100th the processing power**

Source: Lexikon's History of Computing

Exhibit 13

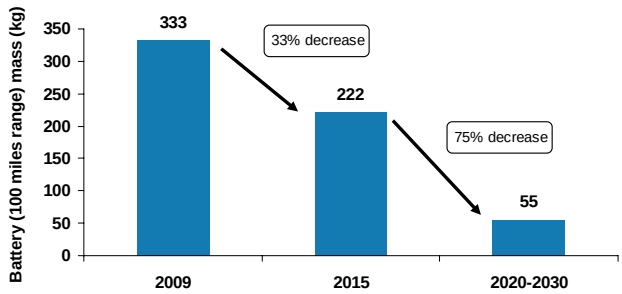
Battery costs expected to collapse, increasing the addressable market



Source: US Department of Energy. Assumes 3 miles per kWh and 100 mile range.

Exhibit 14

Battery weight expect to plummet, reducing cost and complexity



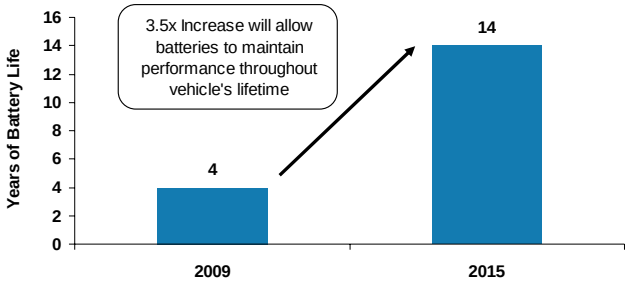
Source: US Department of Energy.

PHEV can be an effective bridge between ICE and EV. PHEVs use a much smaller battery than EVs since they have a smaller all-electric range. This reduces the upfront cost premium but operating costs are still as low as EVs for short-range applications like daily commuting. PHEVs also have an ICE powered on-board 'range extender' which eliminates 'range anxiety' – one of the key obstacles to adoption of EVs today. We expect the majority of xEV uptake

in the near-term to be PHEV until battery technology evolves significantly and costs decline. We see proliferation of traditional hybrids and PHEVs helping to improve the manufacturing scale required for mass adoption of EVs.

Exhibit 15

Battery life will grow, as should equal useful life of vehicle



Source: US Department of Energy.

Tesla is in a unique position with regard to battery costs. Tesla uses a battery comprised of 18650 form factor cells, which are closely related to existing laptop batteries. These cells are much farther along the scale and cost ramp curve than other form-factors, which allows Tesla to build its batteries at a much lower cost than competitors. We assume Tesla's battery packs are in the $350-400 / kWh range today. We note however, that Tesla claims to be chemistry agnostic and will be ready and willing to switch to any chemistry/form-factor that may prove to be more cost effective or have better performance than its current cells.

Will EV adoption crash the US electrical grid? We don't think so. Bottlenecks will exist on the local (neighbourhood) level. Our utilities team see the increased penetration of electric vehicles as a key driver of overall long-term electricity demand growth. Given the relative price of oil to natural gas, we believe the economic argument for owning EVs is becoming more compelling. The limiting factors seem to be the cost of advanced battery systems and the availability and cost of fast charging infrastructure. As the technology improves and manufacturing processes achieve scale, we believe that an increasing proportion of new vehicle sales will be either plug-in hybrids or pure electric vehicles. In the meantime, federal and state tax incentives are filling the gap.

2011 will see a number of high profile electric vehicle launches, including the Chevy Volt and the Nissan Leaf. The number of commercially viable electric vehicle manufacturers now exceeds ten.

Assuming 4 miles per KWh, each additional pure electric vehicle sold in the US will increase annual demand by 3 MWh (based on an average of 12,000 miles driven each year). In 2008, the average annual electricity consumption for a U.S. residential utility customer was 11 MWh, so adding an electric car would increase demand for the average residence by ~30%.

At a cost of $0.12/ kWh, the annual electric bill for a residence with an electric vehicle would increase by around $350. This compares to a total gasoline bill of $1,700 assuming 25 mpg and a $3.50/ gallon gas price. Thus, the annual fuel savings for an electric vehicle could surpass $1,300/yr. Discounted at 7%, this amounts to a $9,000 total savings over the life of the vehicle. All else equal, If the incremental cost (after incentives) for an electric vehicle is significantly less than $9,000, an economically rational customer may be willing to buy.

We do a quick back of the envelope calculation to determine the potential impact to electricity demand. Our analysis assumes 245m light duty vehicles, a 14 year average fleet turnover, and 3 Trillion light duty vehicle miles driven annually (12,000 miles per vehicle) In the table below we show what annual sales penetration rates would mean for total US electricity demand after 10 years and after 20 years. Assuming 15% of annual new vehicles sales are electric vehicles, total power demand would increase by 776 TWh after 10 years (~2% of total current demand). At 25% penetration, power demand would increase by 127 TWh after 10 years (~3% of total current demand).

In our global EV model, we forecast 13.8 million EVs and PHEVs on US roads by 2025, equal to 4.8% of the total projected light vehicle population. At an annual electricity consumption of 3 MWh per vehicle, this would imply 41 TWh of demand on the grid, slightly more than 1% of the total 4,000 TWh of US demand.

We also note that we expect vehicles powered by conventional internal combustion engines to be the dominant powertrain of choice for the next decade and comprise a majority of new car sales for the next two decades at least. Our global xEV model estimates that 85% of new vehicles sold will be powered by an ICE (ICE only or hybrid) by 2025. While we expect virtually all new vehicles sold to eventually be electric vehicles one day, at least in developed markets, we do not see this happening at least for another 3-4 decades. We expect about 40% of the *incremental* growth in global vehicle sales from the 72 mm units today to 116 mm units by 2025 to come from xEVs.

Exhibit 16

Potential US electricity demand impact from EVs

	Million EV's Cumulative Sales Pentration Rate			Annual TWh of Demand Sales Pentration Rate			Percent of Total US Demand Sales Pentration Rate		
	5%	15%	25%	5%	15%	25%	5%	15%	25%
Year 1	1	3	4	2.5	7.6	12.7	0.1%	0.2%	0.3%
Year 2	2	5	8	5.1	15.2	25.4	0.1%	0.4%	0.6%
Year 3	3	8	13	7.6	22.9	38.1	0.2%	0.6%	1.0%
Year 4	3	10	17	10.2	30.5	50.8	0.3%	0.8%	1.3%
Year 5	4	13	21	12.7	38.1	63.5	0.3%	1.0%	1.6%
Year 6	5	15	25	15.2	45.7	76.2	0.4%	1.1%	1.9%
Year 7	6	18	30	17.8	53.4	88.9	0.4%	1.3%	2.2%
Year 8	7	20	34	20.3	61.0	101.6	0.5%	1.5%	2.5%
Year 9	8	23	38	22.9	68.6	114.3	0.6%	1.7%	2.9%
Year 10	**8**	**25**	**42**	**25.4**	**76.2**	**127.0**	**0.6%**	**1.9%**	**3.2%**
Year 11	9	28	47	27.9	83.8	139.7	0.7%	2.1%	3.5%
Year 12	10	30	51	30.5	91.5	152.4	0.8%	2.3%	3.8%
Year 13	11	33	55	33.0	99.1	165.1	0.8%	2.5%	4.1%
Year 14	12	36	59	35.6	106.7	177.8	0.9%	2.7%	4.4%
Year 15	13	38	64	38.1	114.3	190.5	1.0%	2.9%	4.8%
Year 16	14	41	68	40.6	121.9	203.2	1.0%	3.0%	5.1%
Year 17	14	43	72	43.2	129.6	215.9	1.1%	3.2%	5.4%
Year 18	15	46	76	45.7	137.2	228.6	1.1%	3.4%	5.7%
Year 19	16	48	80	48.3	144.8	241.4	1.2%	3.6%	6.0%
Year 20	**17**	**51**	**85**	**50.8**	**152.4**	**254.1**	**1.3%**	**3.8%**	**6.4%**

Source: Company data, Morgan Stanley Research

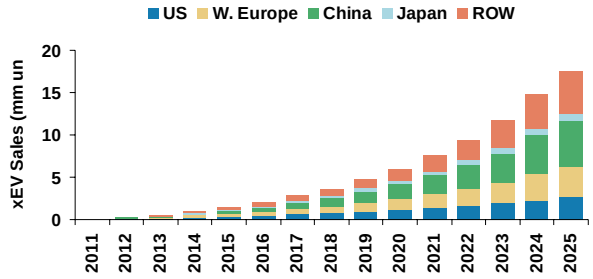
Introducing Our Global xEV Forecast Model

Our xEV forecast model is based on our analyses of xEV penetration within the largest MSAs (metropolitan statistical area) in each of the 4 largest auto markets in the world: China, USA, Western Europe, and Japan, which together account for roughly two thirds of global sales. We believe that xEV adoption will be fuelled in large part by dense, urbanized areas with higher average wealth, optimal commuting distances, significant charging infrastructure and high fleet penetration (including taxi fleets).

Our xEV model includes sales of both Plug-In Hybrid Electric Vehicles (PHEVs) and Electric Vehicles (EVs). We have had to make a broad number of assumptions across each metropolitan and non-metropolitan area in each country in our model. Future xEV sales and parc penetration will be dependent on numerous factors such as national and local government incentives, local consumer demographics and tastes, commuting patterns, local fuel prices, charging infrastructure, congestion charging schemes and many other factors.

Exhibit 17

Global xEV sales

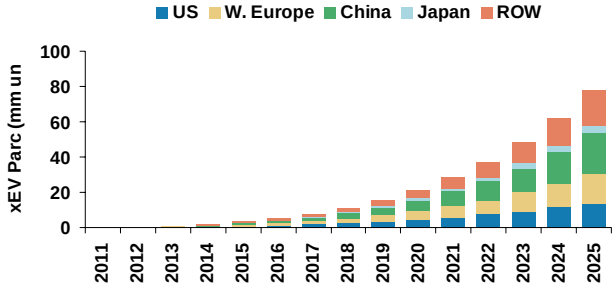


Source: Company data, Morgan Stanley Research

Our model may prove more useful as a yard-stick of xEV progress rather than a precise forecasting tool. We do not pretend to have an exact grasp over the evolution of the factors that can influence xEV sales over the next 15 years. But we do expect that alternative propulsion will experience growth rates within a metropolitan 'ecosystem' that significantly exceed the broader automotive market. As metropolitan areas achieve various milestones in terms of annual xEV sales and number of xEVs on the road, we can make continuous improvements to our global model.

Exhibit 18

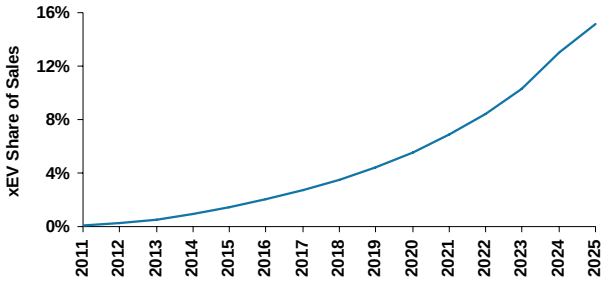
Global xEV parc



Source: Company data, Morgan Stanley Research

Exhibit 19

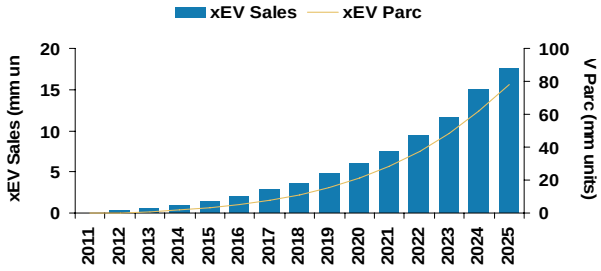
Global xEV share of sales



Source: Company data, Morgan Stanley Research

Exhibit 20

Global xEV sales vs. parc

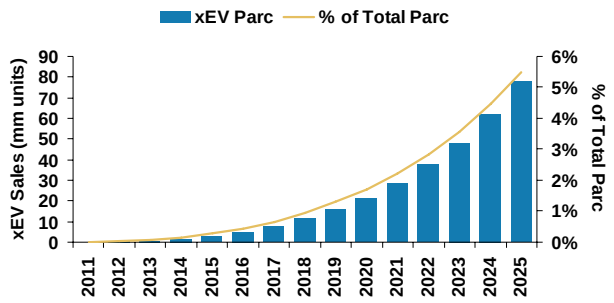


Source: Company data, Morgan Stanley Research

We expect xEV sales to account for 15% of global auto sales by 2025. Of this amount, we expect PHEV sales to account for up to 75% of xEV sales through 2015, falling to 54% by 2020 and to 43% by 2025. We expect China becomes the world's largest xEV market by 2017. By 2025, we estimate xEV penetration hits 15% in the US, 22% in W. Europe, 18% in China, 20% in Japan, and 11% in ROW. We estimate sales of ICE vehicles begin to decline globally from 2021.

Exhibit 21

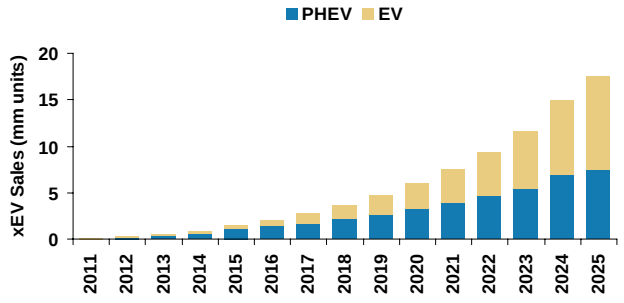
Global xEV parc as % of total



Source: Company data, Morgan Stanley Research

Exhibit 22

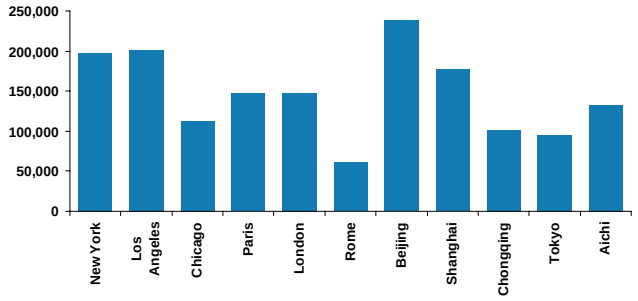
Global PHEV vs. EV breakdown



Source: Company data, Morgan Stanley Research

Exhibit 23

Top global cities xEV sales by 2025 (units)



Source: Company data, Morgan Stanley Research. City = Metropolitan Statistical Area. Example: New York MSA = 10.1m unit light vehicle parc, equal to 4.1% of total US parc.

Our US xEV penetration forecasts are in alignment with the more aggressive scenarios outlined by the EPA and Department of Transportation Joint Rulemaking. These scenarios are based on different levels of annual CO2 and fuel reductions for the lifetime of MY2025 vehicles. For the 3% and 4% scenario (for their aggressive Path D) the combined PHEV + EV penetration is 0% and 4% respectively with a much greater emphasis on hybrids (HEVs) at 25% and 41% respectively. For the 5% and 6% annual savings scenarios, the agencies forecast xEV penetration of 10% and 16% respectively. We assume 15% total xEV penetration with PHEV at 6% and EV at 9%.

Exhibit 24

Technology penetration for MY 2025 vehicle fleet

CO2 Emission Reduction Scenario	Technology Path	New Vehicle Fleet Technology Penetration				
		Mass Reduction (1)	Gasoline & Diesel Vehicles	HEVs (2)	PHEVs (2)	EVs (2)
3%/year	Path A	15%	89%	11%	0%	0%
	Path B	18%	97%	3%	0%	0%
	Path C	18%	97%	3%	0%	0%
	Path D	15%	75%	25%	0%	0%
4%/year	Path A	15%	65%	34%	0%	0%
	Path B	20%	82%	18%	0%	0%
	Path C	25%	97%	3%	0%	0%
	Path D	15%	55%	41%	0%	4%
5%/year	Path A	15%	35%	65%	0%	1%
	Path B	20%	56%	43%	0%	1%
	Path C	25%	74%	25%	0%	0%
	Path D	15%	41%	49%	0%	10%
6%/year	Path A	14%	23%	68%	2%	7%
	Path B	19%	48%	43%	2%	7%
	Path C	26%	53%	44%	0%	4%
	Path D	14%	29%	55%	2%	14%

Source: EPA and US Department of Transportation Notics of Upcoming Joint Rulemaking to Establish 2017 and Later MY Light Duty Vehicle GHG Emissions and CAFÉ Standards.
(1) Mass reduction is the overall reduction of the 2025 fleet relative to MY2008 vehicles.
(2) The assessment considered both PHEVs and EVs. These initial results indicate a higher relative percent of EVs compared to PHEVs. The agencies that performed this analysis believe that PHEV technology may be used more broadly than what the analysis indicates.

Our estimates for US xEV penetration start off slow through 2015 before accelerating by 2020 and 2025. On our calculations, the number of xEVs on US roads by 2015 will be just over 800k units, below President Obama's target of 1 million units and well below the Dept. of Energy sales build-up.

Exhibit 25

Estimated US supply of electric vehicles from 2011 through 2015 (units)

Estimated US Supply of Electric Vehicles from 2011 through 2015						
Manufacturer and Model	2011	2012	2013	2014	2015	Cum Total
Ford Focus EV	0	10,000	20,000	20,000	20,000	70,000
Ford Transit Connect EV	400	800	1,000	1,000	1,000	4,200
GM Chevrolet Volt	15,000	120,000	120,000	120,000	120,000	495,000
Navistar eStar EV (truck)	200	800	1,000	1,000	1,000	4,000
Nissan LEAF EV	25,000	25,000	50,000	100,000	100,000	300,000
Smith Electric Newton EV (truck)	1,000	1,000	1,000	1,000	1,000	5,000
Tesla Motors Model S EV	0	5,000	10,000	20,000	20,000	55,000
Tesla Motors Roadster EV	1,000	0	0	0	0	1,000
Think City EV	2,000	5,000	10,000	20,000	20,000	57,000
Other	1,000	10,000	50,000	85,000	85,000	231,000
Total	**45,600**	**177,600**	**263,000**	**368,000**	**368,000**	**1,222,200**

Source: US Department of Energy February 2011 Status Report.
Note: The above numbers have been taken from announced production figures and media reports. In some cases more conservative estimates have been used due to: delays that have occurred since announced production levels, ramp rates to reach full production, consideration of the size of the market segment for that vehicle, and possible exportation of vehicles manufactured in the US.

Geographic xEV Analysis

United States. For the US, we analyzed the 20 largest MSAs by car parc, with New York, Los Angeles, Chicago, Dallas, and Houston being the five largest. We analyze the rest of the US as a consolidated region with xEV penetration at 34% of the New York benchmark average through 2025. US xEV growth is helped by low fuel economy of the fleet and high miles travelled while hurt by relatively low fuel prices, long trip length and relatively low density of population.

- By 2015, 2020, and 2025 we estimate that xEVs will account for 2.1%, 6.6%, and 15.0% of total US light vehicle sales, respectively.
- By 2015, 2020, and 2025 we estimate that xEVs will account for 0.3%, 1.7%, and 4.8% of light vehicles on the road in the US, respectively.
- We forecast that the US will account for 25%, 19%, and 15% of global xEV sales by 2015, 2020, and 2025, respectively.

W. Europe. We considered the 15 largest MSAs by car parc, with Paris, London, Ruhrgebiet (Westphalia, Germany), Rome and Athens the five largest. We included the rest of W. Europe as one region with penetration at 41% of the Paris benchmark average. W. European xEV growth is helped by high fuel prices and dense population centres while hurt by high average fleet fuel economy and relatively low average miles driven. A recent European Commission White Paper recommended a 50% reduction in internal combustion powered vehicles in cities by 2030 and a complete city ban by 2050.

- By 2015, 2020 and 2025 we forecast that xEVs will account for 2.1%, 8.0%, and 21.6% of total W. Europe LV sales, respectively.
- By 2015, 2020, and 2025 we estimate that xEVs will account for 0.3%, 1.9%, and 6.1% of light vehicles on the road in W. Europe, respectively.
- We forecast that W. Europe will account for 24%, 22%, and 21% of global xEV sales by 2015, 2020, and 2025, respectively.

China. For the world's biggest car market, we analyzed the 10 largest cities by car parc, with Beijing, Shanghai, Chongqing, Shenzhen, and Guangzhou being the five largest. We analyze the rest of China as a consolidated region with penetration at 44% of the Beijing benchmark average. Chinese xEV growth is helped by effective central government planning and rampant growth in the car parc, while it is hurt by relatively low average income levels.

- By 2015, 2020, and 2025 we estimate that xEVs will account for 1.5%, 6.3%, and 17.5% of total China light vehicle sales, respectively.
- By 2015, 2020, and 2025 we estimate that xEVs will account for 0.5%, 2.9%, and 8.4% of light vehicles on the road in China, respectively.
- We forecast that China will account for 23%, 30%, and 31% of global xEV sales by 2015, 2020, and 2025, respectively.

Japan. We analyzed the 5 largest prefectures by car parc, including Aichi, Tokyo, Kanagawa, Saitama, and Osaka. We analyze the rest of Japan as a consolidated region with penetration at 40% of the Tokyo benchmark average. Japanese xEV growth is helped by high population density and high fuel price while hurt by low miles driven and a structurally declining vehicle ownership.

- By 2015, 2020, and 2025 we estimate that xEVs will account for 2.1%, 7.9%, and 20.1% of total Japan light vehicle sales, respectively.
- By 2015, 2020, and 2025 we estimate that xEVs will account for 0.3%, 1.9%, and 6.0% of light vehicles on the road in Japan, respectively.
- We forecast that Japan will account for 7.4%, 5.9%, and 5.0% of global xEV sales by 2015, 2020, and 2025, respectively.

Rest of World. For the Rest of World, we assume that the 25% of remaining auto markets are in metro areas with xEV penetration rates less than half that of New York MSA. We assume the other 75% experience even slower penetration rates.

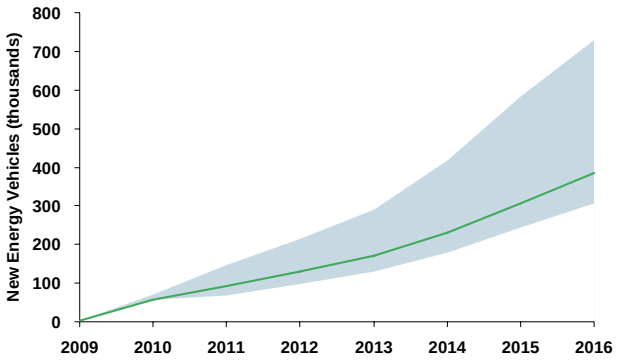
- By 2015, 2020, and 2025 we estimate that xEVs will account for 0.8%, 3.4%, and 10.7% of total RoW light vehicle sales, respectively.
- By 2015, 2020, and 2025 we estimate that xEVs will account for 0.1%, 1.1%, and 4.0% of light vehicles on the road in Japan, respectively.
- We forecast that RoW will account for 21%, 24%, and 28% of global xEV sales by 2015, 2020, and 2025, respectively.

United States in EV 'arms race' with China

China set to be the world's largest xEV market. Most forecasts have total Chinese light vehicle sales doubling by the end of the decade to around 35m units, making China account for more than 30% of projected global light vehicle demand. What is less noticed is that this level of demand growth would multiply the number of cars in Chinese roads by nearly 4x current levels to 270 million units. China is on a course to create an installed vehicle parc even larger than the United States, exposing its economy and population to at least as high a dependency on foreign oil. If you thought traffic and pollution was bad in Beijing today…imagine a China with 4x as many cars on the road in 2020. Allowing for further improvements in infrastructure and fuel economy may not be enough to maintain a balanced relationship between middle-class mobility and the demand for finite natural resources.

Exhibit 26

China: New Energy Vehicle (Hybrid + PEV + PHEV) 2010 – 2016 Forecast

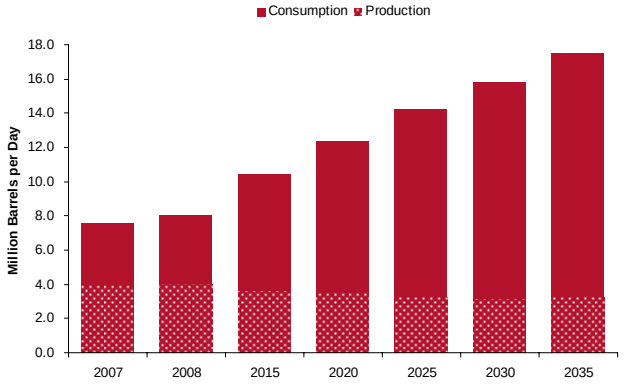


Source: PriceWaterhouseCoopers

The Chinese government has been extremely vocal about the country's intentions to become the world's EV leader. China's Ministry of Industry and Information Technology estimates that the number of vehicles in operation in China will more than triple by 2020. China currently imports over half of its petroleum from overseas. By 2020, the EIA estimates 75% of Chinese oil consumption will be imported. It is clearly in China's strategic and national security interest to reduce its ever-growing dependence on foreign oil through the use of alternative fuel vehicles.

Exhibit 27

China oil consumption vs. production



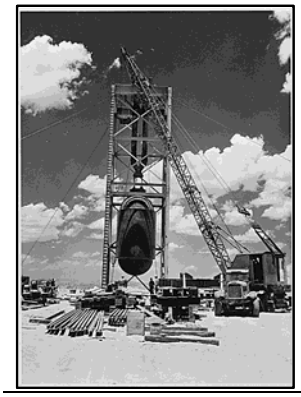
Source: EIA

Recognizing this, China has announced plans to invest 115 billion yuan ($17.5bn) over the next 10 years into the development of the EV industry. In a pilot program that launched last June, China offered subsidies in 5 cities (Shanghai, Hangzhou, Changchun, Shenzhen, and Hefei) of up to 60,000 yuan ($9,100) to buyers of pure EVs, and up to 50,000 yuan ($7,600) to buyers of certain PHEVs. New energy vehicle buyers would also pay no sales tax. In its latest draft of EV development plans, the government is targeting 500,000 EVs and PHEVs on the road by 2015, and 5 million by 2020. It also aims to build 4,000 recharging stations by 2015, with an additional 6,000 by 2020. On our forecasts, Chinese xEV parc reaches 650k units by 2015 vs. the government target of 500k. By 2020, we expect Chinese xEV parc to hit 5.9 million, modestly above the government target of 5 million. By 2025, we expect Chinese xEV parc to be just over 8% of total Chinese vehicles on the road.

Exhibit 28

We've been here before…

1939: Manhattan Project



1962: Space Program

Source: NASA, Atomic Energy Commission

Debate 2: Is there room for new entrants in the global car market?

Market View: The auto industry has been consolidating for 100 years. The big players will keep getting bigger. Smaller players die or are gobbled up.

Our view: Electric vehicles represent a disruptive technology that can lead to new players in the market with significant global scale. Traditional automakers face an increasingly daunting regulatory burden for internal combustion vehicles while investing in competing technology. If Tesla can remain viable through the Model S launch and ramp-up, we think they can be a major player in alternative mobility.

We believe radical changes brought on by new propulsion technology and the related evolution of vehicle design and marketing offer good opportunities for new players. New entrants may actually have several key advantages over incumbent automotive players:

- Can concentrate 100% of resources on EVs.
- No legacy exposure to the diminishing incumbent technology.
- Can attract talent to a smaller organization, which prioritizes advanced technology.
- Can operate without the added costs sometimes associated with organized labor that larger manufacturers must contend with.
- Captures federal and local government interest in employment by creating blue-collar jobs in green industries.

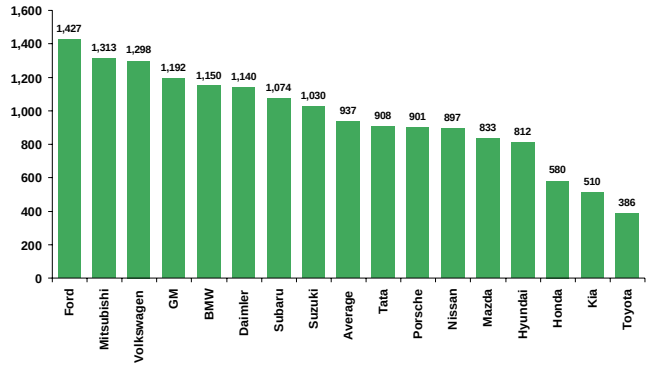
Incumbent OEMs must fight multiple fires at the same time. A new entrant only needs to fight one. The transition to electric vehicles will not be a smooth one. More likely, it will experience its doses of failed policies and industrial turmoil. Today's global auto companies combined for roughly $1.5 trillion of annual new vehicle revenues, directly employs approximately 3 million workers and indirectly employs many times this amount when including the supply chain, distribution channel, aftermarket and related support industries.

Traditional OEMs have a disincentive to innovate too quickly. Radical changes in propulsion and vehicle design offer good opportunities for new players.

Costs for internal combustion engine regulatory compliance are rising significantly, tilting the economics towards EV. While we expect electric vehicle penetration to evolve materially faster than the market expects, we have little doubt that the internal combustion engine will account for the vast majority of propulsion for light vehicle sales through 2035. But this comes at a significant cost to the OEMs. More stringent regulations demand a substantial investment in technology that must be absorbed by the manufacturers through higher costs or by the consumer through higher end prices. Taken to the extreme, the evolution and eventual displacement of today's internal combustion engine will put great strain on various parts of the supply base, becoming an even greater burden on OEMs. Most auto companies are forced to place multiple bets on widely varying technologies ranging from hydrogen fuel-cells to electric vehicles to biofuels in order to hedge the risk of technology obsolescence.

Exhibit 29

Incremental cost per US vehicle by 2016: average of NHTSA and EPA estimates ($)



Source: NHTSA, EPA, Morgan Stanley Research. Incremental cost per unit vs. MY2011.

Why Tesla?

As electric vehicles begin to take share from internal combustion engines, we think Tesla is well-positioned to become a successful new entrant for five reasons:

1) Engineering excellence and the resulting lowest-cost battery system
2) No compromise high performance electric vehicles
3) Brand recognition and technology validation
4) Low cost financing and low capex
5) Strong management team with ability to execute

1) The best engineers and the lowest cost batteries. Tesla's goal of being the first successful new auto maker in a century starts with a focus on engineering. The company's core technology is an efficient electric powertrain that takes advantage of low-cost small form-factor "18650" lithium-ion batteries – the same used in laptops but with a chemistry and internal geometry customized for automotive use.

Tesla's engineering team is at least 80% smaller than a typical OEM team, but many argue that in most engineering environments, the top 10% of the engineers do 90% of the work. Tesla hopes they can beat much larger teams by hiring the best engineers. Similar to other OEMs, Tesla uses computer-aided-design (CAD) at all stages of the engineering and design process – but Tesla pushes CAD further, relying on it heavily for early-stage crash tests and for aerodynamics.

Batteries are a major differentiator. Tesla's battery pack architecture is different from other electric vehicles in that Tesla uses a much larger number (nearly 7,000) of smaller cells and liquid cools them to increase density. Tesla's design takes advantage of the scale built for the consumer electronics industry of >1 billion cells/year. Other auto makers are using custom-designed "prismatic" battery cells that contain roughly 10x the energy as Tesla's cells on a *per cell* basis. Currently, production volumes for prismatic cells are miniscule compared to cylindrical 18650 cells and the lack of scale raises cost. We estimate that Tesla's battery costs less than half of typical competitors' batteries at the pack level and likely has the lowest pack cost per kWh of any electric vehicle.

Tesla's critics claim that Tesla's battery pack design is not reliable, but to date, the over 1,500 Roadsters that use this design have not experienced problems related to the battery pack design and have driven over 10 million miles collectively. For the Model S, Tesla has refined the battery chemistry and internal geometry of the cells compared to the Roadster, enabling a significant increase in energy and power density.

2) No compromise high-performance electric vehicles. Tesla's vehicle design strategy is different from other OEMs with a focus on long-range. Most OEMs are targeting 100 miles of range for an all electric vehicle, and using plug-in hybrids with dual electric and gasoline-powered drivetrains to achieve ranges above 100 miles, if desired. The Nissan Leaf has a range of approximately 100 miles and the GM Volt uses a gasoline engine to extend the ~40-mile all-electric range.

Tesla plans to offer the Model S in three range options: 160, 230, and 300 miles, all above the typical range for a pure electric vehicle. New EPA testing methodology may reduce the advertised range for all xEVs. We expect each range option to add approximately $10,000 to the price of the vehicle, putting the 300-mile Model S at approximately $70,000 in the US after Federal subsidies and before options packages. With the longer range options, Tesla hopes to mitigate consumers' range anxiety.

Tesla is also very focused on vehicle performance. The Roadster Sport offers 0-60 mph acceleration in 3.7 seconds and Tesla has promised that the Model S 0-60 mph acceleration will be less than 6 seconds. The Model S acceleration is comparable to that of a BMW 5-series and Tesla believes that some consumers will choose the Model S for its superior performance *in spite* of it being an electric vehicle, not because it is electric.

3) Brand recognition and technology validation
Even with only 1500 cars on the road, Tesla's brand is well-known and nearly synonymous with electric vehicles. This is no accident: Tesla has managed to create this brand recognition with almost no advertising spend through strategic product placement and marketing.

What's more, Tesla's battery system design is in Daimler's Smart ForTwo and A-class electric vehicles and Toyota plans to use a Tesla-designed powertrain in the new version of the electric RAV4 small SUV. Daimler, Toyota, and Panasonic have all invested in Tesla and their investment helps validate Tesla's technology and systems.

4) Low cost financing and low capex
Tesla has taken advantage of excess capacity in US auto manufacturing to purchase a factory and manufacturing equipment at very low costs. For example, Tesla acquired the former NUMMI facility, which has an annual vehicle capacity of 500,000 cars, for $42mm. Tesla also claims they have

acquired manufacturing equipment such as a stamping line for "cents on the dollar." The development cost to design and begin Model S production is ~$500mm, incl. capex. We estimate that a typical OEM would have spent over $2bn to purchase or build manufacturing and design a new vehicle.

Tesla also has access to $465 million in low-interest loans from the US Department of Energy to fund vehicle production and manufacturing. The interest rate on these loans is set at the time Tesla draws down the loan and is the same rate at which the US Treasury borrows. On average, Tesla's loans are below 3.5% and have flexible repayment schedules.

5) Strong management team with ability to execute
Tesla's management team includes managers with years of experience in the auto industry, as well as executives from other industries who bring best-in-class performance to Tesla. For example:

CEO, Elon Musk, an engineer by training, a co-founder of a precursor to PayPal, and the CEO and CTO of SpaceX, which develops rockets and spacecraft for missions to Earth orbit and beyond. Elon co-founded Tesla and became CEO in 2008.

CTO, JB Straubel, a co-founder of Tesla, helped develop the highly efficient AC-induction motor that powers Tesla vehicles.

VP of Sales and Ownership Experience, George Blankenship came to Tesla from Apple Computer, where he was the strategist behind Apple's retail strategy for Apple-branded stores.

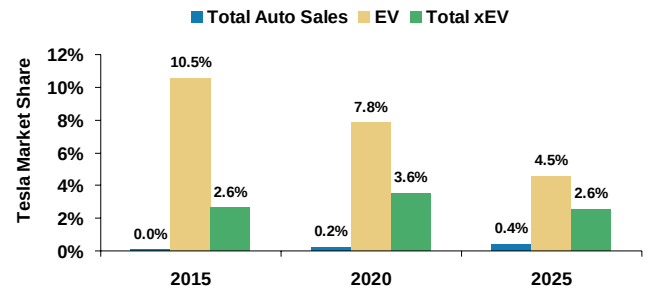
VP of Human Resources, Arnnon Geshuri came to Tesla from Google, were he directed staffing operations and helped Google grow from 2,500 employees to 20,000.

Tesla's CFO, Chief Designer, VP of Manufacturing, and VP of Vehicle Engineering all come from the automotive industry.

We believe Tesla's strong management team and focus on hiring top talent is a key differentiator that will enable the team to succeed against long odds.

Our forecasts imply Tesla would have a modest share of the xEV market and remain a minnow in the global light vehicle market by 2025. While our assessment of xEV adoption may be more positive than consensus, it is worth noting that we still anticipate the internal combustion to be the dominant form of light vehicle propulsion, accounting for 94% of global sales by 2020 and 85% of sales by 2025. By 2025, we estimate Tesla will have 4.5% of the EV market, 2.6% of the xEV market and a mere 0.4% of the total global light vehicle market. For perspective, 0.4% is roughly the market share that Renault's Dacia brand commands of the global light vehicle market.

Exhibit 30
Tesla Global Market Share (%)



Source: Company data, Morgan Stanley Research

Will Tesla run out of money? We don't think so. But there's also not much room for error. Few things are as risky as launching a new company – especially a new auto company. Tesla will have to run the gauntlet through 2014 as it spends heavily on capex and launch costs for the Model S. We forecast Tesla will burn an accumulated $570mm of free cash flow from 2011 through 2013 vs. $716mm of liquidity (including $566mm of gross liquidity at the start of 2011 plus an assumed $150mm of proceeds from a capital increase we expect in 4Q11). On our calculations, Tesla will use up all but $146mm of available liquidity (including an expected capital increase) by the end of 2013. While Tesla makes it through on paper under this scenario, we cannot rule out additional fund-raising activities in the capital markets to provide a greater liquidity cushion. This puts even more importance on accomplishing early production and launch milestones for the Model S and Model X to provide the market with confidence if more capital is required. The DOE loans are subject to a variety of covenants including min. cash balances and leverage ratios outlined in the 10-K.

Exhibit 31
Tesla Liquidity vs. FCF through 2015e ($mm)

	2010	2011	2012	2013	2014	2015
Liquidity vs. Burn Profile						
Cash	100	169	173	146	200	200
Restricted Cash	74	0	0	0	0	0
Undrawn DOE Loan	393	193	0	0	0	65
Other	0	0	0	0	0	0
End-of-Period Liquidity	**566**	**362**	**173**	**146**	**200**	**265**
Beginning-of-Period Liquidity		566	362	173	146	200
Free Cash Flow (Burn)		-354	-189	-27	54	65
Capital Increase		150	0	0	0	0
End-of-Period Liquidity	**566**	**362**	**173**	**146**	**200**	**265**

Source: Company data, Morgan Stanley Research

Debate 3: How big can Tesla be?

Market View: A niche player focusing on high-end electric vehicles and the supply of EV engineering competence and powertrains to larger manufacturers.

Our view: Tesla's goal is to be an independent, mass market electric car company selling hundreds of thousands of units by the middle of next decade. The Model S is just the beginning. Adding Model X and variant volume from 2014 takes the company volume to more than 40k units on our forecasts by 2015. The introduction of a mass-market EV (the Gen 3) takes Tesla global volume to over 240k units by 2020 and to nearly 500k units by 2025.

Tesla is a top-line story driven by their ability to capture a modest share of a growing EV market. We believe our assumptions for unit volume by 2020 and 2025 are roughly 3x higher than consensus, commensurate with our fair valuation that is 2x to 3x consensus. Our long term forecasts for operating profit are almost entirely dependent on volume and productivity improvement, offset by mix, pricing, launch costs, commodity costs, SG&A/R&D cost inflation and depreciation creep. **Key assumptions that drive our top line assumptions for Tesla include:**

- Global xEV (grid-enabled vehicles including pure EVs and plug-in hybrids) market penetration of 1.5% by 2015, 5.5% by 2020 and 15.1% by 2025.
- We assume Tesla captures 5.5% of the global xEV market by 2015, 7.3% by 2020 and 6.0% by 2025.
- By 2020, we estimate 19% of Tesla's unit volume is sold in N. America, 22% in Europe and 49% rest of world.
- We assume the Model S reaches customers by the very end of 2012 (2,000 units), Model X launched by 2014, and Gen 3 launched by 2017. By 2020, we estimate less than 1% of Tesla volume is comprised by the new Roadster, 9% comprised by the Model S, 17% from Model X, 62% from Gen 3 and 11% from the supply of 3rd party power trains.

The Tesla factory – Combining Silicon Valley engineering with Toyota production know how

Plant Background: The Fremont plant was built and operated by General Motors between 1962 and 1982 before NUMMI (New United Motor Manufacturing, Inc JV between GM and Toyota) took over in 1984 and was producing vehicles until April 2010. The plant has been home to cars including the Voltz, Nova, Prizm, Hilux, Vibe and most recently Tacoma and Corolla. On the capacity front, it is capable of producing half a million vehicles per year or nearly 1 percent of total worldwide car production and once employed 5,500 union autoworkers. The plant was Toyota's first in North America and set an industry benchmark for manufacturing flexibility and quality improvements.

Tesla's purchase covers 210 acres or roughly 55% of the available 380 acres of the former NUMMI facility and includes all the manufacturing facility on it. The plant will be home to Model S and its future variants. According to the management, 80% of the 5.5 million-square-foot plant will remain closed until demand for the electric car grows implying that the plant size leaves enough room for production expansion until ramp up of their mass model begins. The Company also concluded purchase of certain manufacturing equipment and spare parts located at the facility.

Plant features:

- **Location**: Within 15 miles of the Company's Palo Alto engineering facility
- **Facilities**: Integrated manufacturing facility includes stamping, plastics, paint and body assembly shops and manufacturing of powertrain components, leveraging the inherited Toyota infrastructure
- **Capacity**: Model S production layout finalized for 20,000 units on a single shift. Optionality to expand production to 40,000-50,000 units annually without any re-tooling. Structural capacity of 500k units.
- **Headcount**: Initial target headcount of 500 for Model S production, including a number of former NUMMI employees. The Company intends to employ 5,000 as subsequent new models roll out and production ramps up.

Exhibit 32

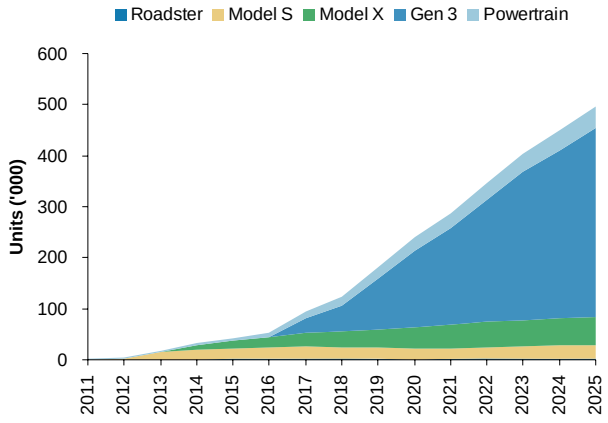
The Tesla Factory in Fremont (former GM/Toyota NUMMI facility), aerial view

Source: Tesla Motors

We forecast that Tesla will have unit sales of 42k by 2015, 240k by 2020, and just under 500k by 2025. The lower-priced Gen 3 model range accounts for the vast majority of our volume growth projections from 2017, accounting for nearly two-thirds of our 2025 Tesla revenue projection. To achieve such volume, we believe Tesla would need to successfully launch a number of derivatives and body styles of the Gen 3, requiring the continued investment in tooling, capex and R&D we have projected in our earnings forecasts.

Exhibit 33

Tesla unit volume by model line, 2011 to 2025e

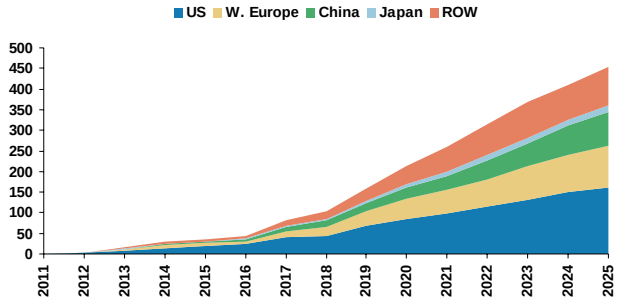


Source: Company data, Morgan Stanley Research

North America will make up the majority of Tesla's volumes, accounting for roughly 53% by 2015. Western Europe will account for 18%, Asia 11%, and RoW 17%.

Exhibit 34

Tesla unit volume by region, 2011 to 2025e

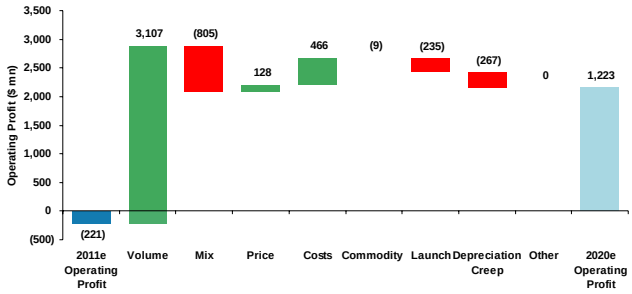


Source: Company data, Morgan Stanley Research

Driven almost entirely by volume, we expect Tesla's operating profit to reach above $1.2bn by 2020, and then more than double to $2.5bn by 2025.

Exhibit 35

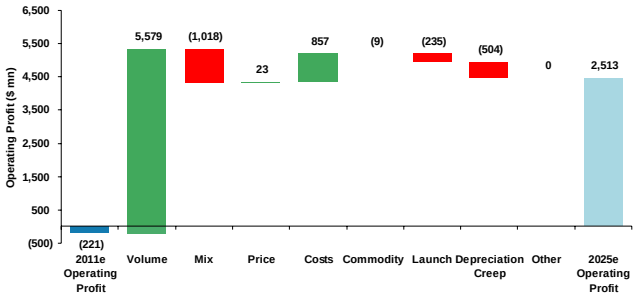
Tesla operating profit bridge, 2011 to 2020e ($m)



Source: Company data, Morgan Stanley Research

Exhibit 36

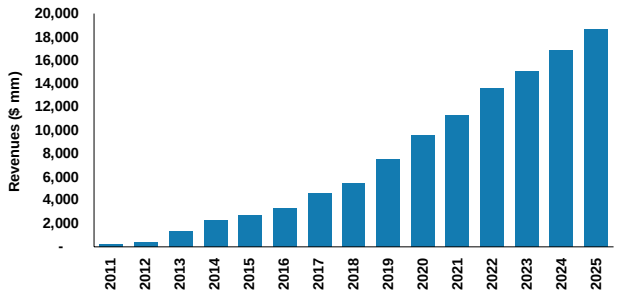
Tesla operating profit bridge, 2011 to 2025e ($m)



Source: Company data, Morgan Stanley Research

Starting at a relatively meager $171mm in revenue in 2011, we forecast Tesla's top line to grow at a 40% CAGR over the next 15 years, with over $18.6bn of revenue by 2025.

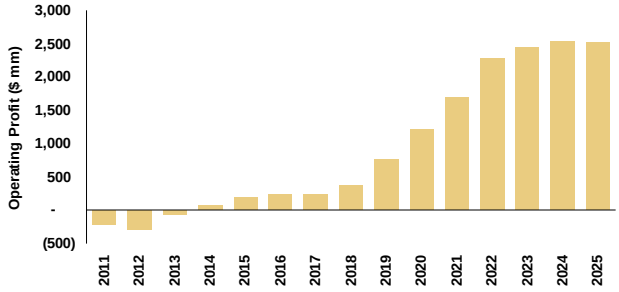
Exhibit 37
Tesla: Revenues, 2011 to 2025e ($m)



Source: Company data, Morgan Stanley Research

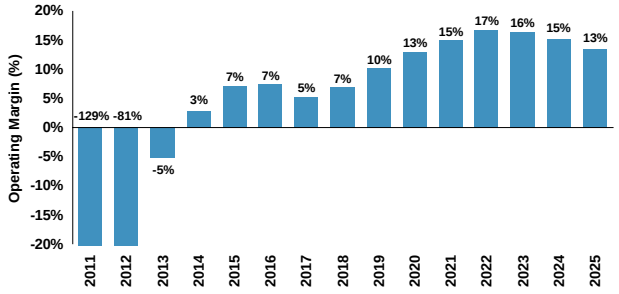
We expect Tesla to first become profitable on an operating profit basis in 2014. Operating profit is then projected to grow at a 36% CAGR through 2025 with peak margins of 17% in 2022 and over $2.5bn by 2025.

Exhibit 38
Tesla: Operating Profit, 2011 to 2025e ($m)



Source: Company data, Morgan Stanley Research

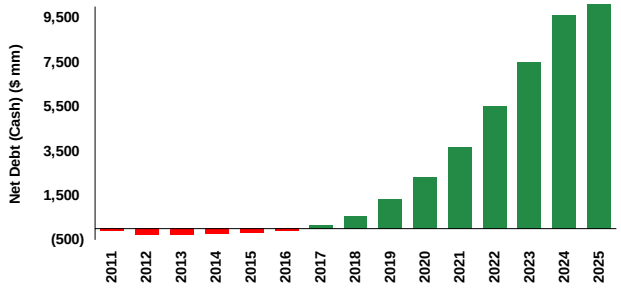
Exhibit 39
Tesla: Operating Margin, 2011 to 2025e (%)



Source: Company data, Morgan Stanley Research

We expect Tesla's net debt to swell to $319mm in 2013 before gradually turning into net cash in 2017. By 2025, we project Tesla will have net cash of almost $12bn.

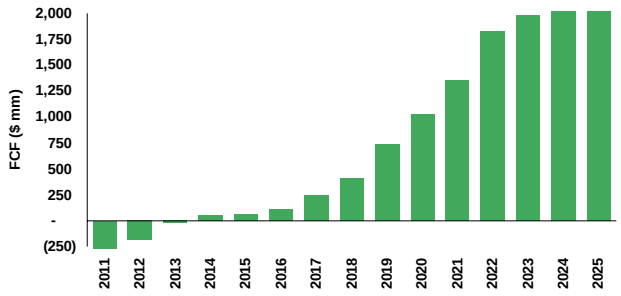
Exhibit 40
Tesla: Net Cash (Debt), 2011 to 2025e ($m)



Source: Company data, Morgan Stanley Research

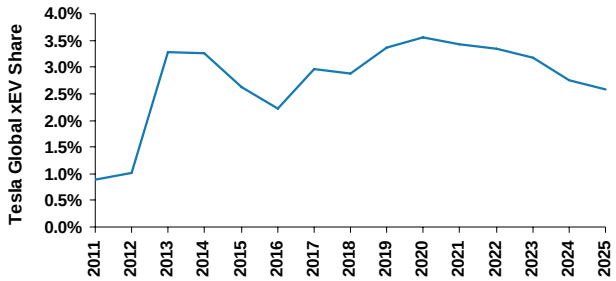
We estimate Tesla will burn cash for years until the Model S is running at full production and we do not expect Tesla to be cash flow positive until 2014, 2 years after we expect the Model S to launch. By 2025, we expect Tesla to generate more than $2bn in cash per year.

Exhibit 41
Tesla: Free Cash Flow, 2011 to 2025e ($m)



Source: Company data, Morgan Stanley Research

Exhibit 42
Tesla share of global xEV market



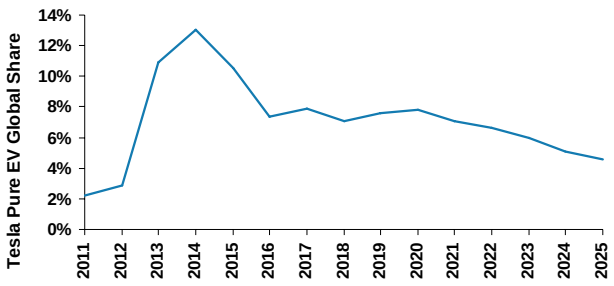
Source: Company data, Morgan Stanley Research

Tesla can capture a significant portion of the pure EV market, while having modest share of the broader xEV market and a miniscule share of the total global light vehicle market.

- Global pure EV share peaks at 13% in 2014 (full year of Model S) declining over time to 4.5%.
- xEV share peaks at 3.6% in 2020, falling to 2.6%.
- Share of US EV market approaches 25% before falling to 10% long term.

Exhibit 43

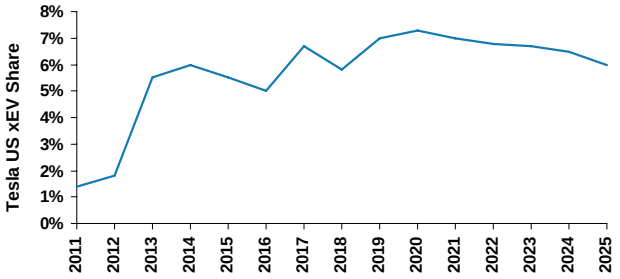
Tesla share of global pure EV market



Source: Company data, Morgan Stanley Research

Exhibit 44

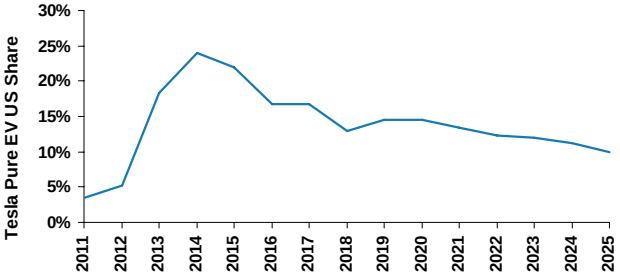
Tesla share of US xEV market



Source: Company data, Morgan Stanley Research

Exhibit 45

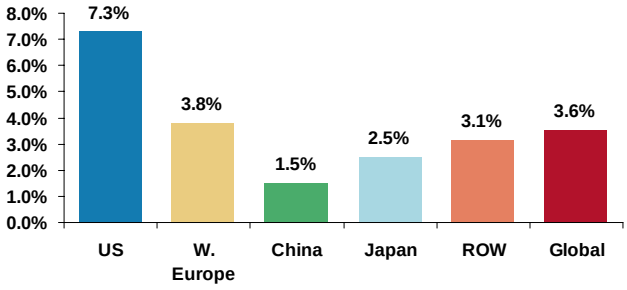
Tesla share of US pure EV market



Source: Company data, Morgan Stanley Research

Exhibit 46

Tesla xEV market share by region, 2020e



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimate.

To achieve the levels of sales volume projected in our model, Tesla must continue to invest in its manufacturing capacity, and may have to adapt its distribution methods. Tesla's near term manufacturing strategy is dependent on a rather limited number of company-owned dealers and utilizing only a portion of its recently acquired manufacturing capacity. In our view, Tesla must, over time, execute:

- **High spend on capex / tooling.** We expect significant capital expenditures at Fremont and potentially another manufacturing facility outside of N. America will be required to achieve our volume targets. From 2011 through 2025, we forecast Tesla capex to exceed $5.5bn with an average spend of almost $460mm per annum from 2015-2025.
- **Dramatic headcount growth.** At the end of 2010, Tesla had just under 900 employees including only 213 in manufacturing. By 2025, we would expect Tesla's total headcount could be in excess of 10,000 employees with approximately half in manufacturing.
- **Multiple variants of the Gen 3 vehicle platform.** The 370k units of Gen 3 volume we forecast by 2025 (nearly 2/3 of total Tesla revenues that year) would require several variants offered globally, increasing demands on R&D, tooling and related expenses.
- **Commensurate growth in number of dealers.** Tesla currently has 17 company owned stores with plans to expand to 50 within the next 'several years'. By 2025, we estimate Tesla could potentially require several times this number of stores to support our volume forecast.
- **Consider using franchise or 3rd party dealer model.** We appreciate Tesla's desire to control the customer experience in its early ramp-up, but expect this to evolve over time to achieve broader reach.

We expect Tesla to introduce an array of new products over the next 2 to 5 years. A review of Tesla's upcoming model launch cadence includes:

Roadster: 2-seat high-performance sports car based on a modified Lotus Elise 'sled' with Tesla's proprietary electric motor, battery and related engineering content. Tesla's only fully assembled model in production for the past 3 years.

- **Timing:** Current roadster volume limited to 2,500 of limited series lifetime production. We expect an all-new roadster based on the Model S platform by 2014.

- **Volume:** 567 delivered in 2010, representing a 33% decrease vs. 2009. We expect unit sales to be flat in 2011 at 570 units. For 2012, we expect volume to drop 25% to 425 units as production of the current model comes to an end. We expect an all-new Roadster to reach 765 units by 2014 with volume surpassing 1,100 units by 2015 and averaging roughly 1,300 units of annual volume thereafter.

- **Price:** The current Roadster achieves a revenue per unit of more than $130,000. Base MSRP starts at $109,000 (excluding options) with the Sport version costing $128,500.

Exhibit 47
Tesla Roadster

Source: Tesla Motors

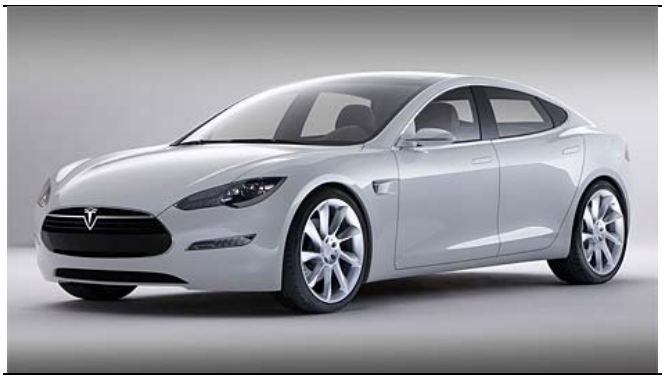
Model S: Tesla's first fully developed from-scratch model, built in the Fremont facility in northern California. A fully electric, 5-seater luxury sedan featuring sports car performance (0 to 60mph in 5.6 seconds), massive torque and an expected battery range of up to 300 miles per charge. Management ultimately anticipates a 25% gross margin (15% operating margin) from the product upon its full ramp-up. Tesla has earmarked a total spend of $500mm for the development of the Model S.

- **Timing:** Tesla plans to launch the vehicle by the end of 2012 and has reported that progress is on schedule. The company has produced a fleet of Model S alpha vehicles currently under testing which management says are performing better than their expectations. Beta testing will commence later this year following the installation of the large hydraulic press line, which should be fully assembled by 2Q11. We see a reasonable chance of a delay to 2013 to correct unforeseen quality and testing disruption, typical for the auto industry ahead of such a high profile launch. While we have no reason at this time to anticipate a substantial delay of the Model S that could threaten the viability of the company, we wanted to remain on the conservative side given Tesla is a new company, producing its first new model, and applying cutting-edge technology in a new plant. We note that since last summer's IPO, Tesla has so far met or exceeded our expectations in terms of pre-production milestones.

- **Volume:** We expect 2,000 Model S units to be sold in 2012, which is materially below market expectations of around 5,000 units. We forecast 15,000 deliveries in 2013, growing to 18,000 in 2014, and peaking at more than 26,000 by 2017. We would have modeled in a higher peak were it not for anticipated cannibalization from the Model X which we expect to be launched around 18 months later.

- **Price**: The base version Model S starts at a net price of under $50,000 (including customer incentives). The Sport version with the larger battery may cost upwards of $80,000. We assume a blended revenue per unit to Tesla of roughly $65,000, rising to almost $70,000 by the latter part of the decade.

Exhibit 48
Tesla Model S



Source: Tesla Motors

Model X: A variant of the Model S, built in Fremont. The Model X is positioned as a crossover SUV with the functionality of a minivan. Would share powertrain/battery characteristics with the evolving Model S. Tesla plans to spend $100mm to develop the Model X.

- **Timing:** Launch still several years away, but Tesla plans to unveil the design prototype by the end of the current year. We expect the Model X to launch in mid 2014, around 18 months after the Model S.
- **Volume:** We forecast Model X volume to be slightly greater than the 20k-25k units we expect of Model S. The addition of further variants takes total Model X volume to 30k units by 2018, surpassing that of Model S. By 2025, we expect 55k units of Model X and variants vs. just under 28k units for Model S.
- **Price:** We have assumed blended revenue per unit starting near $89,000, similar to what we believe will be the price of a more luxurious and higher contented Model S flagship.

Exhibit 49
Tesla Model X

Source: Motor Authority

Model X Derivatives: Tesla is planning a range of 'top-hat' derivatives based on the Model S/X shared platform. Models include a light-duty delivery van, pickup truck and other body styles and applications.

- **Timing:** Derivatives gradually introduced within 2 to 3 years after the launch of the Model X from late 2017 or early 2018.
- **Volume:** Model X derivatives can reasonably achieve volume on par with the main Model X variant – on the order of 20k to 25k units per annum.
- **Price:** Will vary considerably depending on the application. At this stage, we have assumed the derivatives come in at a slightly lower average price point of the core Model X of $70,000.

Gen 3: Represents the future of Tesla as a sustainable, independent high-volume manufacturer of electric vehicles. We view the Roadster, Model S and Model X as necessary building blocks for the company's long term goal of providing electric vehicles to the broader market at an affordable price.

- **Timing:** We expect the launch of the Gen 3 in 2017, achieving 30k units in that year.
- **Volume:** We forecast Gen 3 volume to ramp from 30k units in 2017 to 150k units by 2020 and 370k units by 2025 with multiple derivatives on offer.
- **Price:** We've assumed an average revenue per unit of the Gen 3 range of $30,000, peaking at a little over $33,000 in 2022.

Powertrain supply: Tesla's fastest growing business today is the supply of battery packs and motors to 3rd party partners. Tesla currently has 3 main projects under development and production including the Smart car and A Class for Mercedes-Benz and the Toyota RAV4.

- **Timing:** Daimler recently increased its order for the 3rd time to 1,800 Smart cars from 1,000 units originally. Tesla shipped a record number of packs and chargers in 4Q10 and is now shipping units for the A Class. For Toyota, Tesla has been supplying RAV4 prototypes since July and will move to commercial shipments in the current year.
- **Volume:** Following 975 powertrain units shipped in 2010, we expect 1,850 units shipped in 2011. By

2015, we expect this business to surpass 5,000 units. Longer-term, allowing for broader adoption of EVs globally, we forecast Tesla's 3rd party powertrain supply to reach 26k units by 2020 and 42k units by 2025.

- **Price:** We assume roughly $20k revenue per unit for this business line in the early years before dropping to $9k to $10k between 2015 - 2025.

Development services: This business includes payments for engineering consulting services and compensation for early-stage development of future powertrain production for 3rd parties. Tesla says the development service revenue from the Toyota contract would be around $69mm spread out over the next 4 to 5 quarters.

Further mass market EV validation from the world's leading engineer of internal combustion engines – BMW.

BMW i – Megacity Mobility Redefined. The sub-brand marks BMW's foray into alternative drivetrains complemented with mobility services being developed since 2007. The sub-brand will initially roll out two models by 2013 and expand its mobility services portfolio over the years ahead.

The Chemistry and Geometry. The Lifedrive architecture, consisting of aluminum chassis and carbon fiber-reinforced plastic (CFRP) passenger cells can allow up to 50% reduction in material weight offsetting the extra weight of the batteries. The Life module offers progressive shapes and more space for its size while the CFRP offers longer life span than conventional steel due to its better rust and corrosion resistant characteristics. Advanced charging solutions remains the key to the adaptability of EVs and PHEVs. The BMW Group is working on balancing charging time and access to green electricity under the 'smart charging' project. Features may include the ability to control the charging process remotely via mobile phones and setting a time preference by which the vehicle should be recharged, thereby providing for flexibility between speed and environmental friendliness.

BMW Megacity Vehicle Project Specifics:

- **Models**: Two models to be rolled out by 2013 – BMW i3 and BMW i8. The i3 will be the first series produced car and will be all electric followed by the i8 which will be a plug in hybrid.
- **Capex & Headcount**: Both models will be built at BMW's Leipzig plant. The plant would require capex of about €400mm for new facilities and will create 800 jobs by 2013.
- **Parts**: Both models are expected to use the same component sets for the electric motors, power electronics, and high-voltage lithium-ion batteries driving development and production synergies.
- **CFRP Production**: BMW, together with SGL Automotive Carbon Fibers, develops and produces carbon fibers and carbon fiber sheets. After a three-month testing period, production of carbon fibers for processing at the BMW joint venture plant in Wackersdorf, Germany, will start in mid-July 2011. Another modern, renewably powered carbon fiber production plant is being built at Moses Lake, USA with a target operational date of mid-July 2011
- **Mobility Services**: Develop mobility solutions including intelligent navigation systems with local information, intermodal route planning, premium car-sharing with information on public transportation, parking availability, and local entertainment. Solutions would be offered independently of cars. BMW i Ventures, with an initial investment of $100mm, has been founded to grow this business segment.

Exhibit 50
BMW i3 and BMW i8

Source: Company data, Morgan Stanley Research

Debate 4: How do you value Tesla?

Market View: Heavily sentiment driven. Take a 3 to 5 year view based on execution of 'milestones' like Roadster sales and Model S launch deliverables. Tough to take a long-term view.

Our view: Must take a long-term view to value Tesla. The company either succeeds as a high-volume EV player or may ultimately not be viable as a stand-alone company.

We value Tesla on a 15-year DCF: At some level, Tesla is an exercise in investment fundamentalism – you either believe in the wide spread adoption of electric vehicles, or you don't. Clearly, we believe in the adoption of electric vehicles as an increasingly viable competitor to the internal combustion engine. However, even in our more optimistic scenarios, we have to allow for the gradual ramp-up of xEV penetration through at least 1 or 2 engineering cycles, particularly given the early stage development of applied battery technology, as well as the radical changes required to the regulatory environment, the electric utility industry and consumer perceptions.

At the current price, Tesla valuation does not begin to make sense until 2015. That is, unless you think 16x 2014e EBITDA is cheap - which we do not. Tesla currently trades at almost 2x 2013e EV/Sales. We'd have to roll forward to 2015 before the first "reasonable" P/E multiple of 18.5x. On our forecast, by 2016 Tesla will have achieved a debt-neutral position and an EV/EBITDA multiple (on today's balance sheet) of 6.4x. Interpolating through our 15-year DCF, we believe the current Tesla price assigns the company a viable 4%-type share of an emerging/niche EV market who's long term independence may be questioned. Among any number of scenarios, we believe the current price discounts Tesla sales reaching 100 to 150k units with operating margins peaking at 12% and normalizing at 5.5%, roughly one-third the company's long term OP margin target of 15%.

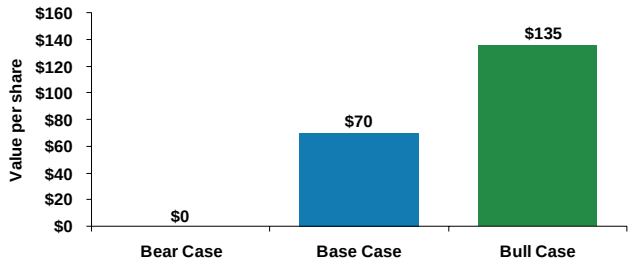
Our valuation on near term earnings figures looks even more expensive. On our forecasts, Tesla equity is worth over $9bn, an amount roughly equal to a level of sales we expect Tesla to achieve by 2020. On any valuation metric one would use to value a traditional auto company over a typical earnings horizon of 2 to 3 years, Tesla will appear anything but cheap.

Our DCF valuation is highly sensitive to a number of key variables:

- **Discount rate.** Every 200bps of discount rate is worth roughly $20 to Tesla's share price around the 12% level we have applied. In its most recent employee stock option pricing exercise (June 9th, 2010), Tesla applied a range of discounts from 14.5% to 20.0%, trending down from the 30% to 40% range applied in 2008 and early 2009.
- **EV/EBITDA multiple.** Each 1 turn of EV/EBITDA multiple is worth around $6 of Tesla share price at the 12% WACC level.
- We can account for Tesla's current market cap with our cash flow from 2011 to 2024. This triangulates to the fact that two-thirds of our DCF valuation for Tesla is accounted for by the terminal value.
- In our opinion, the next 3 years will be critical to determining Tesla's long term viability. The following 7 years will determine if Tesla is a winner.

Exhibit 51

Tesla: Valuation by scenario analysis ($)



Source: Morgan Stanley Research

Exhibit 52

Tesla: DCF sensitivity to WACC and EV/EBITDA ($)

		EV/EBITDA								
		4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0
	6.0%	95	108	120	132	144	156	168	180	192
	8.0%	74	83	93	102	111	120	129	139	148
	10.0%	58	65	72	79	86	93	100	107	114
	12.0%	45	51	56	61	67	72	78	83	88
	14.0%	36	40	44	48	52	56	60	65	69
WACC	16.0%	28	31	34	38	41	44	47	50	54
	18.0%	22	24	27	29	32	34	37	39	42
	20.0%	17	19	21	23	25	27	29	31	33
	22.0%	13	15	17	18	20	21	23	24	26
	24.0%	10	12	13	14	15	16	18	19	20
	26.0%	8	9	10	11	12	13	14	15	16

Source: Morgan Stanley Research

Key assumptions behind our 15-year DCF for Tesla. Given the very early-stage time in the company's lifecycle, we believe it is imperative to value Tesla on long-term basis that captures the transformational developments to the top line. We expect Tesla to multiply revenues by over 20x from 2010 to 2015, by more than 80x by 2020 and over 150x by 2025. Needless to say, we argue Tesla cannot be valued on traditional multiple metrics like traditional auto companies. We have chosen a 15-year time horizon for our DCF which captures the full utilization of Tesla's manufacturing capacity in Fremont, the full maturation of the Model S, Model X (and top-hat derivatives) and also the ramp up of its mass market electric vehicle (the Gen 3). We have applied a 12% WACC with a range of 10% to 14%. The terminal value accounts for around 60 to 70% of the total DCF value across the range of methodologies we have applied. We have treated stock-based compensation as a cash expense in the forecast period.

- **Unit volume:** We expect Tesla's unit volumes to grow at a CAGR 46% over the next 15 years. By 2015, we forecast unit volumes of over 42,000, ballooning to almost 500,000 by 2025.
- **Revenues:** We expect revenue to grow at a 40% CAGR over the next 15 years. As Tesla introduces more mainstream models such as the Model S, Model X, and eventually the Gen 3, we forecast average selling price (ASP) will drop 41% from $62,956 in 2010 to $37,283 in 2025.
- **Operating Profit:** We project Tesla to first achieve positive operating profit in 2014, with margins peaking at 17% in 2022.
- **Free Cash Flow:** We project Tesla to first generate positive free cash flow in 2014 and to grow at a 40% CAGR thereafter.

Exhibit 53

Tesla: Summary 15-year DCF Analysis

	FY 2010A	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Unit Volume	1,542	2,420	5,325	18,608	32,941	42,276	53,210	94,726	123,281	181,739	240,144	287,457	346,118	403,157	449,539	496,385
% Growth		*57%*	*120%*	*249%*	*77%*	*28%*	*26%*	*78%*	*30%*	*47%*	*32%*	*20%*	*20%*	*16%*	*12%*	*10%*
Automotive Revenue Per Unit ($)	62,956	45,993	54,496	68,477	67,382	62,599	60,482	47,724	43,985	40,753	39,163	38,948	38,884	37,014	37,102	37,283
% Growth		*-27%*	*18%*	*26%*	*-2%*	*-7%*	*-3%*	*-21%*	*-8%*	*-7%*	*-4%*	*-1%*	*0%*	*-5%*	*0%*	*0%*
Automotive Sales	97	111	290	1,274	2,220	2,646	3,218	4,521	5,423	7,406	9,405	11,196	13,459	14,922	16,679	18,507
Development Service Sales	20	60	60	63	66	69	73	77	80	84	89	93	98	103	108	113
Total Sales	**117**	**171**	**350**	**1,337**	**2,286**	**2,716**	**3,291**	**4,597**	**5,503**	**7,491**	**9,493**	**11,289**	**13,556**	**15,025**	**16,786**	**18,620**
% Growth		*47%*	*104%*	*282%*	*71%*	*19%*	*21%*	*40%*	*20%*	*36%*	*27%*	*19%*	*20%*	*11%*	*12%*	*11%*
EBITDA	**(143)**	**(181)**	**(137)**	**17**	**162**	**302**	**393**	**431**	**606**	**1,045**	**1,530**	**2,028**	**2,667**	**2,888**	**3,030**	**3,057**
% Margin	*-122%*	*-106%*	*-39%*	*1%*	*7%*	*11%*	*12%*	*9%*	*11%*	*14%*	*16%*	*18%*	*20%*	*19%*	*18%*	*16%*
D&A	11	40	73	86	93	110	146	192	224	284	307	343	386	441	489	544
% of Capex	*26%*	*20%*	*87%*	*64%*	*51%*	*41%*	*44%*	*60%*	*82%*	*79%*	*72%*	*71%*	*68%*	*73%*	*73%*	*73%*
EBIT	**(153)**	**(221)**	**(210)**	**(69)**	**68**	**192**	**246**	**240**	**382**	**760**	**1,223**	**1,685**	**2,281**	**2,447**	**2,541**	**2,513**
% Margin	*-131%*	*-129%*	*-60%*	*-5%*	*3%*	*7%*	*7%*	*5%*	*7%*	*10%*	*13%*	*15%*	*17%*	*16%*	*15%*	*13%*
Net Interest Income (Expense)	(1)	(6)	(11)	(13)	(12)	(17)	(10)	2	12	26	47	74	111	150	192	235
Other Income	(7)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax Income	**(161)**	**(226)**	**(221)**	**(82)**	**56**	**175**	**236**	**242**	**393**	**787**	**1,270**	**1,759**	**2,391**	**2,597**	**2,734**	**2,748**
Income Taxes	0	0	0	0	3	11	17	20	38	162	294	417	571	622	655	659
% Effective Rate	*0%*	*0%*	*0%*	*0%*	*6%*	*6%*	*7%*	*8%*	*10%*	*21%*	*23%*	*24%*	*24%*	*24%*	*24%*	*24%*
Net Income	**(161)**	**(226)**	**(221)**	**(82)**	**53**	**165**	**219**	**221**	**355**	**624**	**976**	**1,342**	**1,820**	**1,975**	**2,078**	**2,089**
Plus																
After-tax Interest Expense (Income)	1	6	11	13	12	17	10	(2)	(12)	(26)	(47)	(74)	(110)	(150)	(192)	(235)
Depreciation of PP&E	11	40	73	86	93	110	146	192	224	284	307	343	386	441	489	544
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less																
Change in Working Capital	11	(5)	(11)	(70)	(53)	(24)	(35)	(113)	(60)	(141)	(126)	(99)	(124)	(110)	(146)	(190)
% of Change in Sales		*-10%*	*-6%*	*-7%*	*-6%*	*-6%*	*-6%*	*-9%*	*-7%*	*-7%*	*-6%*	*-6%*	*-5%*	*-8%*	*-8%*	*-10%*
Capital Expenditures	40	200	84	134	183	272	329	322	275	360	427	485	569	601	671	745
% of Sales	*34%*	*117%*	*24%*	*10%*	*8%*	*10%*	*10%*	*7%*	*5%*	*5%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unlevered Free Cash Flow	**(201)**	**(376)**	**(210)**	**(47)**	**28**	**44**	**81**	**202**	**353**	**664**	**934**	**1,225**	**1,650**	**1,775**	**1,850**	**1,843**

EBITDA	3,057
Sales	18,620
Net Debt (Cash)	(28)
Tesla Diluted Shares	107

Exit EBITDA High	10.5 x	Exit PPG High	5.0%	Exit P/Sales High	180%
Exit EBITDA Low	6.5 x	Exit PPG Low	2.0%	Exit P/Sales Low	100%

Discount Rate High	14.0%	FY Month of Valuation	4.0	(Beginning of this Month)
Discount Rage Low	10.0%	Month of FY End	12.0	(End of this Month)

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 54

Tesla: DCF Fair Value Analysis Based on Various Terminal Value Methodologies

EV/EBITDA Terminal Value

Exit EBITDA Multiple	6.5			8.5			10.5		
Discount Rate	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*
PV of 1st Year Cash Flow	(272)	(270)	(268)	(272)	(270)	(268)	(272)	(270)	(268)
PV of Cash Flows 2 thru 15	3,428	2,782	2,265	3,428	2,782	2,265	3,428	2,782	2,265
Terminal Value	**19,868**	**19,868**	**19,868**	**25,982**	**25,982**	**25,982**	**32,095**	**32,095**	**32,095**
PV of Terminal Value	4,871	3,734	2,876	6,370	4,883	3,761	7,869	6,032	4,646
Enterprise Value	**8,027**	**6,246**	**4,873**	**9,526**	**7,395**	**5,758**	**11,024**	**8,544**	**6,643**
% Value in Terminus	*60.7%*	*59.8%*	*59.0%*	*66.9%*	*66.0%*	*65.3%*	*71.4%*	*70.6%*	*69.9%*
% Value in Cash Flows	*39.3%*	*40.2%*	*41.0%*	*33.1%*	*34.0%*	*34.7%*	*28.6%*	*29.4%*	*30.1%*

Enterprise Value	**6,246**	**--**	**8,544**
Equity Value Per Share	**59**	**--**	**80**

EV/Sales Terminal Value

Exit EV/Sales Multiple	100%			140%			180%		
Discount Rate	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*
PV of 1st Year Cash Flow	(272)	(270)	(268)	(272)	(270)	(268)	(272)	(270)	(268)
PV of Cash Flows 2 thru 15	3,428	2,782	2,265	3,428	2,782	2,265	3,428	2,782	2,265
Terminal Value	18,620	18,620	18,620	26,068	26,068	26,068	33,516	33,516	33,516
PV of Terminal Value	4,565	3,500	2,695	6,391	4,899	3,774	8,217	6,299	4,852
Enterprise Value	**7,721**	**6,011**	**4,692**	**9,547**	**7,411**	**5,770**	**11,373**	**8,811**	**6,849**
% Value in Terminus	*59.1%*	*58.2%*	*57.4%*	*66.9%*	*66.1%*	*65.4%*	*72.3%*	*71.5%*	*70.8%*
% Value in Cash Flows	*40.9%*	*41.8%*	*42.6%*	*33.1%*	*33.9%*	*34.6%*	*27.7%*	*28.5%*	*29.2%*
Implied Exit EBITDA Multiple	**6.1**			**8.5**			**11.0**		
Implied Perpetual Growth Rate	**1.4%**			**4.2%**			**5.8%**		

Enterprise Value	**6,011**	**--**	**8,811**
Equity Value Per Share	**57**	**--**	**83**

Perpetual GrowthTerminal Value

Perpetual Growth Rate	2.0%			3.5%			5.0%		
Discount Rate	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*	*10.0%*	*12.0%*	*14.0%*
Implied Exit EBITDA Multiple	*8.1*	*6.5*	*5.5*	*10.1*	*7.8*	*6.4*	*13.3*	*9.6*	*7.5*
PV of 1st Year Cash Flow	(272)	(270)	(268)	(272)	(270)	(268)	(272)	(270)	(268)
PV of Cash Flows 2 thru 15	3,428	2,782	2,265	3,428	2,782	2,265	3,428	2,782	2,265
Terminal Value	24,735	19,967	16,787	30,891	23,837	19,468	40,741	29,364	23,042
PV of Terminal Value	6,064	3,753	2,430	7,573	4,480	2,818	9,988	5,519	3,336
Enterprise Value	**9,220**	**6,264**	**4,427**	**10,729**	**6,992**	**4,815**	**13,144**	**8,030**	**5,332**
% Value in Terminus	*65.8%*	*59.9%*	*54.9%*	*70.6%*	*64.1%*	*58.5%*	*76.0%*	*68.7%*	*62.6%*
% Value in Cash Flows	*34.2%*	*40.1%*	*45.1%*	*29.4%*	*35.9%*	*41.5%*	*24.0%*	*31.3%*	*37.4%*

Enterprise Value	**6,264**	**--**	**8,030**
Equity Value Per Share	**59**	**--**	**75**

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Base case. Tesla is a significant EV player, but still one of the smallest auto companies in the world. Global car market runs at 3.2% CAGR through 2025 with Global xEV penetration at 5.5% by 2020 and 15.1% by 2025. Tesla xEV share peaks at 3.6% before reaching 2.6% by 2025. Assembled units of 214k by 2020 and 454k by 2025. Model S in 2H12 reaches 20k units by 2015. Model X volume grows begins in 2014 and reaches >40k by 2020. Gen 3 starts in 2017 and reaches 370k units. Pricing stable to up in the early years, down slightly in later years. Mix driven down over time by growth in mass market Gen 3 dominating the volume. Reasonable launch burden with peaks in 2014 and 2017. Tens of millions in a heavy launch year. Break-even OP reached in late 2013, with margin peaking at 17%, normalize at 13%.

Bull case. Tesla is a major EV player, producing well above the limits of the Fremont plant by 2025. Global car market runs at 3.4% CAGR through 2025. Global xEV penetration at 7% by 2020 and 22% by 2025. Tesla xEV share peaks at 4% and at 2.6% long term. Units of 329k by 2020 and 681k by 2025. Model S peaks at 50k. Model X volume hits 80k. Gen 3 surpasses 500k units. Pricing similar to base case. Mix stable over time due to higher contribution from Model S and Model X and higher content uptake on Gen 3 with a less onerous launch burden. Break-even OP reached in mid 2013, normalizing at just under 20%, well above the company's own long term target of 15%.

Bear case. A scenario of negative equity on our 15-year DCF. Global car market runs at 1.9% CAGR through 2025. Global xEV penetration at 2% by 2020 and 6% by 2025. Tesla xEV share peaks at 3% and <2% long term. Assembled units of <50k by 2020. Model S a year late peaks at 10k. Mass market model peaks at no more than 50k units. Pricing moderately worse than base case without substantial tailwinds on mix. Launch costs run higher as a % of sales. Break-even OP reached just after 2015, margins normalize at around 1%. Accumulated cash burn exceeds available liquidity in the early years, necessitating reorganization of capital structure.

Exhibit 55

Tesla: Bull/Bear/Base Scenario Analysis

	2011	2012	2013	2014	2015	2020	2025	15-year DCF Valuation
Bear Case								
Global Light Vehicle Market (Units)	72,994,307	74,559,493	79,423,671	83,624,370	86,932,798	87,170,236	92,860,023	
xEV Share of Global Market (%)	0.0%	0.1%	0.2%	0.4%	0.5%	2.3%	6.3%	
Global xEV Market (Units)	21,219	79,724	154,112	293,419	466,884	2,004,357	5,845,856	
Tesla Share of Global xEV Market (%)	2.1%	0.5%	2.9%	2.3%	1.8%	2.5%	1.8%	
Tesla Units (ex Powertrain)	456	404	4,538	6,712	8,598	49,877	105,908	
Pricing (% YoY)	0.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	
Mix ($/unit)	-6,274	1,656	1,669	-486	-1,205	-154	60	
Launch + Structural Costs ($m)	-76	-87	-52	219	4	-35	-134	
Operating Margin (%)	-143.8%	-114.0%	-63.2%	-6.5%	-0.7%	4.0%	0.7%	
Free Cash Flow ($m)	**-357**	**-213**	**-240**	**-33**	**-26**	**134**	**62**	**0**
Base Case								
Global Light Vehicle Market (Units)	76,836,113	82,843,881	88,248,523	92,915,967	96,591,998	108,962,796	116,075,029	
xEV Share of Global Market (%)	0.1%	0.3%	0.5%	0.9%	1.5%	5.5%	15.1%	
Global xEV Market (Units)	63,658	239,171	462,336	880,256	1,400,652	6,013,070	17,537,567	
Tesla Share of Global xEV Market (%)	0.9%	1.0%	3.3%	3.3%	2.6%	3.6%	2.6%	
Tesla Units (ex Powertrain)	570	2,425	15,128	28,765	36,848	213,760	453,893	
Pricing (% YoY)	0.0%	0.0%	0.5%	1.0%	0.5%	0.5%	-0.5%	
Mix ($/unit)	-5,089	2,551	4,194	-328	-1,435	-477	54	
Launch + Structural Costs ($m)	-76	-90	-66	-115	28	-40	-354	
Operating Margin (%)	-128.9%	-81.3%	-5.1%	3.0%	7.1%	12.9%	13.5%	
Free Cash Flow ($m)	**-354**	**-189**	**-27**	**54**	**65**	**1,030**	**2,144**	**70**
Bull Case								
Global Light Vehicle Market (Units)	78,372,835	86,986,075	92,660,949	97,561,765	101,421,598	114,410,935	121,878,780	
xEV Share of Global Market (%)	0.1%	0.3%	0.6%	1.1%	1.9%	7.4%	21.6%	
Global xEV Market (Units)	79,572	298,963	577,920	1,100,320	1,890,880	8,418,298	26,306,351	
Tesla Share of Global xEV Market (%)	0.9%	1.1%	4.3%	4.2%	3.2%	3.9%	2.6%	
Tesla Units (ex Powertrain)	677	3,334	24,582	46,743	59,693	329,191	680,839	
Pricing (% YoY)	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Mix ($/unit)	-4,074	4,402	2,503	181	-1,915	-363	42	
Launch + Structural Costs ($m)	-76	-93	-72	-408	67	-31	-383	
Operating Margin (%)	-117.0%	-43.1%	6.2%	4.0%	8.0%	15.5%	19.7%	
Free Cash Flow ($m)	**-353**	**-147**	**127**	**120**	**236**	**1,762**	**4,340**	**135**

Source: Company data, Morgan Stanley Research

What's in the price? Tesla exists as only a marginal player with 4%-type share of an emerging/niche xEV market but may face significant strategic challenges as a stand-alone company. This trading level suggests the Street sees a potential take-out candidate before mass adoption of xEVs. Global car market runs at 3.2% CAGR through 2025. Global xEV penetration at 4% by 2020 and 11% by 2025. Tesla xEV share peaks at 4% and runs at 1% longer term. Tesla unit volume of assembled vehicles (excluding powertrain units) reaches of 28k by 2015, 78k by 2020 and 121k by 2025. Model S in 2013, peaks at 15k while Model X volume hits 10k. Gen 3 reaches 85k units by 2025. Pricing is similar to our base case assumptions (relatively stable). Mix is stable over time due to higher contribution from Model S and Model X and higher content uptake on Gen 3. Still onerous launch burden, similar to our base case assumptions, but on far lower volumes. Break-even OP reached in late 2014, with OP margins peaking at 12% and normalizing at <6%.

Exhibit 56

Tesla: What's in the Price?

What's in the Price?	2011	2012	2013	2014	2015	2020	2025	
Global Light Vehicle Market (Units)	76,836,113	82,843,881	88,248,523	92,915,967	96,591,998	108,962,796	116,075,029	
xEV Share of Global Market (%)	0.1%	0.2%	0.4%	0.6%	1.0%	3.9%	10.7%	
Global Electric Vehicle Market (Units)	42,997	163,876	316,786	603,139	959,706	4,259,258	12,422,444	
Tesla Share of Global xEV Market (%)	1.6%	2.0%	3.8%	2.7%	2.9%	1.8%	1.0%	
Tesla Units (ex Powertrain)	677	3,334	12,128	16,165	27,708	77,946	121,472	
Pricing (% YoY)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.5%	
Mix ($/unit)	-5,089	2,551	3,524	-1,465	38	-509	1,664	
Launch + Structural Costs ($m)	-76	-90	-74	96	-106	16	859	
Operating Margin (%)	-128.9%	-81.3%	-13.7%	-0.1%	4.8%	9.1%	5.5%	
Free Cash Flow ($m)	**-355**	**-190**	**-109**	**-3**	**61**	**471**	**-65**	**23**

Source: Company data, Morgan Stanley Research

Exhibit 57

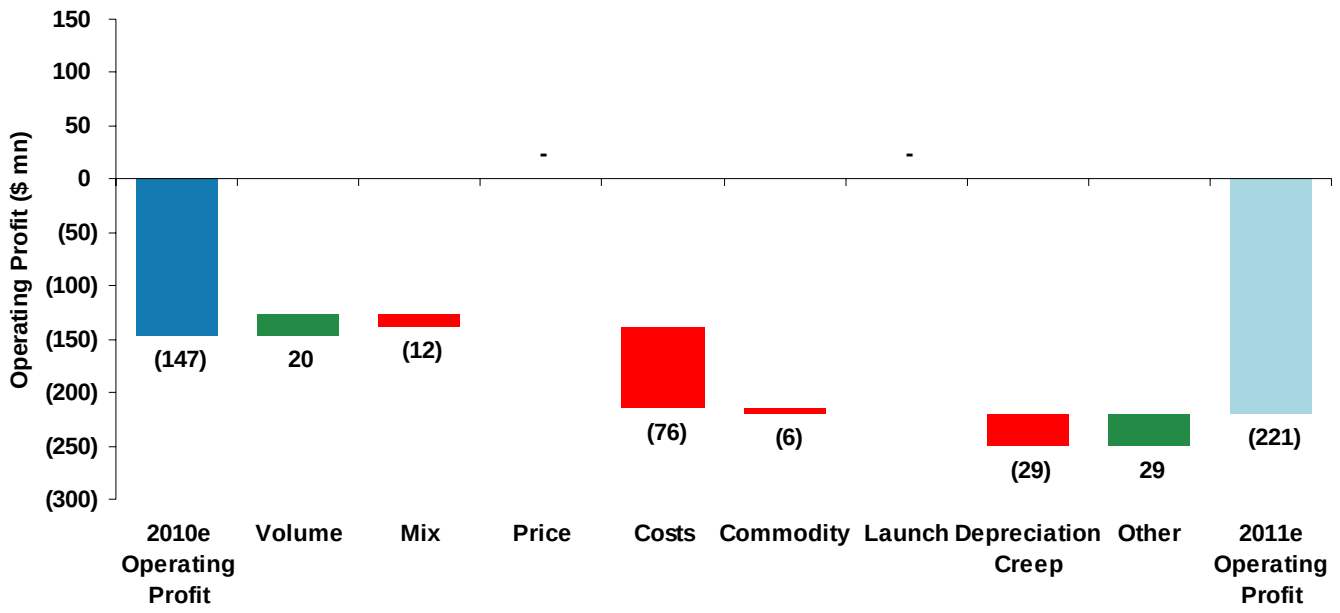
Tesla: Valuation Matrix on 2015 and 2020 projections

Share	Market	Enterprise	Price/Sales (%)		EV/Sales (%)		EV/EBITDA (x)		PE (x)	
Price ($)	Value ($m)	Value ($m)	2015e	2020e	2015e	2020e	2015e	2020e	2015e	2020e
10.00	1,068	1,040	39%	11%	38%	11%	3.4	0.7	7.8	1.5
15.00	1,602	1,574	59%	17%	58%	17%	5.2	1.0	11.6	2.2
20.00	**2,136**	**2,108**	**79%**	**22%**	**78%**	**22%**	**7.0**	**1.4**	**15.5**	**2.9**
25.00	**2,669**	**2,642**	**98%**	**28%**	**97%**	**28%**	**8.7**	**1.7**	**19.4**	**3.7**
30.00	3,203	3,176	118%	34%	117%	33%	10.5	2.1	23.3	4.4
35.00	3,737	3,709	138%	39%	137%	39%	12.3	2.4	27.1	5.2
40.00	4,271	4,243	157%	45%	156%	45%	14.0	2.8	31.0	5.9
45.00	4,805	4,777	177%	51%	176%	50%	15.8	3.1	34.9	6.6
50.00	5,339	5,311	197%	56%	196%	56%	17.6	3.5	38.8	7.4
55.00	5,873	5,845	216%	62%	215%	62%	19.3	3.8	42.6	8.1
60.00	6,407	6,379	236%	67%	235%	67%	21.1	4.2	46.5	8.8
65.00	6,940	6,913	256%	73%	255%	73%	22.9	4.5	50.4	9.6
70.00	**7,474**	**7,447**	**275%**	**79%**	**274%**	**78%**	**24.6**	**4.9**	**54.3**	**10.3**
75.00	8,008	7,981	295%	84%	294%	84%	26.4	5.2	58.1	11.1
80.00	8,542	8,514	315%	90%	314%	90%	28.2	5.6	62.0	11.8
85.00	9,076	9,048	334%	96%	333%	95%	29.9	5.9	65.9	12.5
90.00	9,610	9,582	354%	101%	353%	101%	31.7	6.3	69.8	13.3
95.00	10,144	10,116	373%	107%	372%	107%	33.5	6.6	73.6	14.0
100.00	10,678	10,650	393%	112%	392%	112%	35.2	7.0	77.5	14.7

Source: Company data, Morgan Stanley Research

Exhibit 58

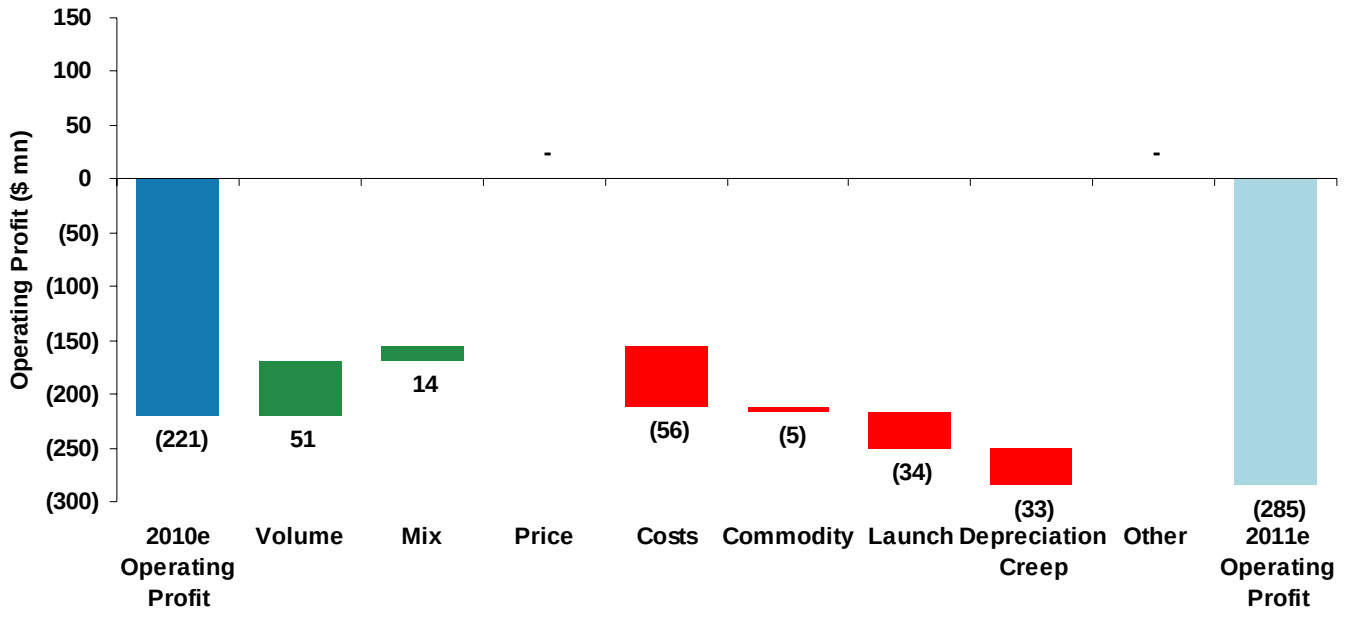
Tesla: Operating Profit Walk-Down from 2010 to 2011e ($m)



Source: Company data, Morgan Stanley Research

Exhibit 59

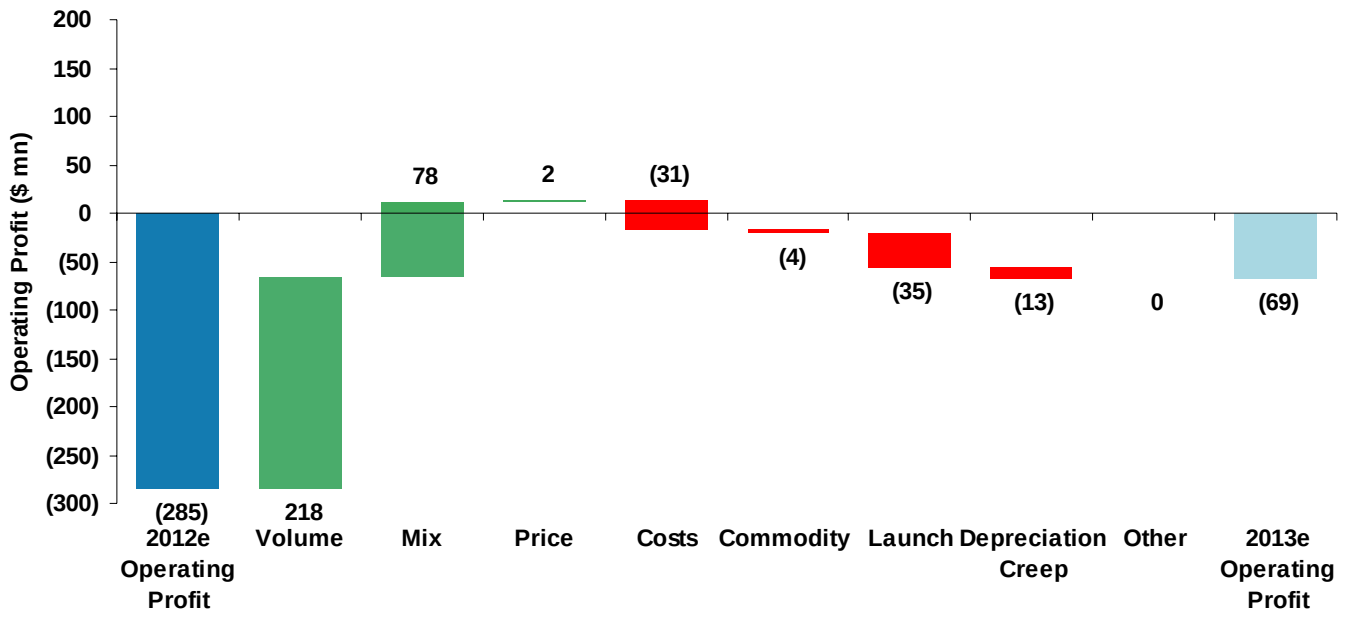
Tesla: Operating Profit Walk-Down from 2011 to 2012e ($m)



Source: Company data, Morgan Stanley Research

Exhibit 60

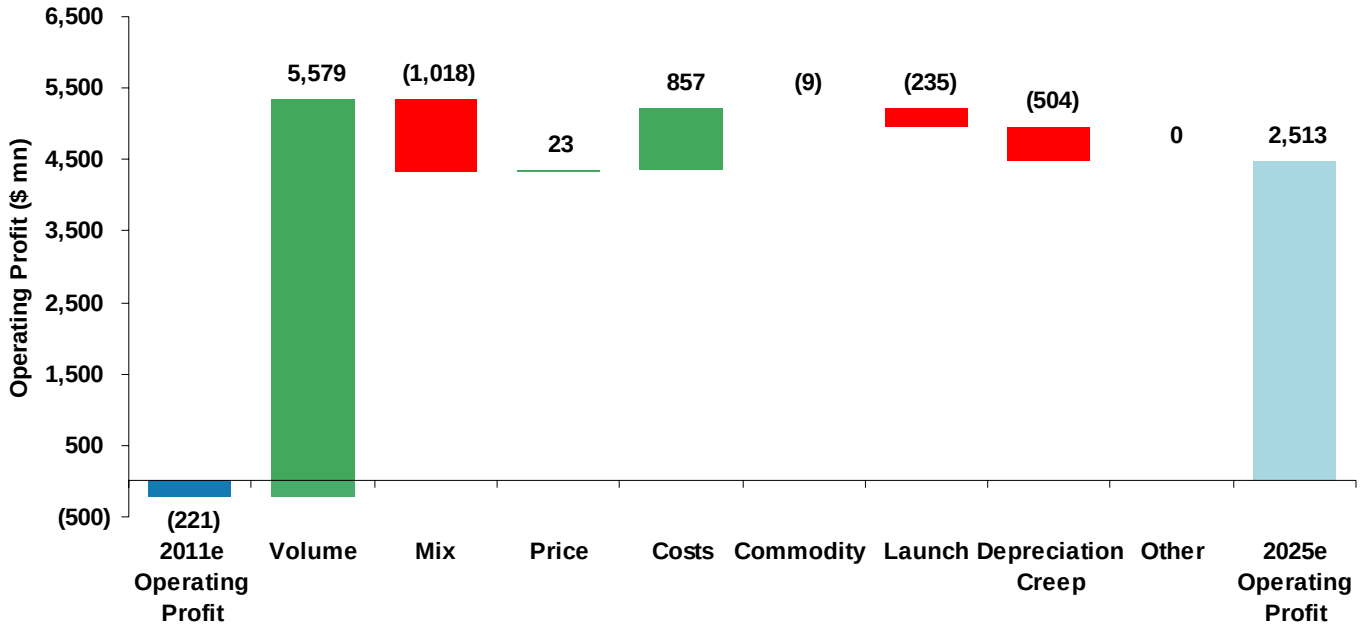
Tesla: Operating Profit Walk-Down from 2012 to 2013e ($m)



Source: Company data, Morgan Stanley Research

Exhibit 61

Tesla: Operating Profit Walk-Down from 2011 to 2025e ($m)



Source: Company data, Morgan Stanley Research

Exhibit 62

N. American Auto Stock Order of Preference

Stock	Rating	Current Pricing	Valuation	Sales by Region	Investment Thesis	Investment Risks	Consensus
Ford	OW	PT: $21.00 Current Price: $14.84 Market Cap: $53,023.3m	Net Debt/EBITDA: 0.7x 2011e P/E: 6.0x 2011e EV/EBITDA: 3.2x	NA: 58% Europe: 27% Other: 16%	• Operating Leverage + Volume • Large deferred tax attributes	• Lack of EM exopsure • Overdependence on pickups and SUVs	Buy: 67% Hold: 28% Sell: 6%
GM	OW	PT: $50.00 Current Price: $31.10 Market Cap: $50,506.4m	Net Debt/EBITDA: NM 2011e P/E: 5.6x 2011e EV/EBITDA: 3.0x	NA: 58% Europe: 17% Other: 26%	• Highly leveraged to both North America and BRIC sales • Large tax attributes mean no cash taxes until 2018	• Lack of sizeable captive finance sub • European business still structurally challenged	Buy: 74% Hold: 21% Sell: 5%
Johnson Controls	OW	PT: $50.00 Current Price: $41.93 Market Cap: $28,319.5m	Net Debt/EBITDA: 1.1x 2011e P/E: 15.5x 2011e EV/EBITDA: 9.2x	NA: 42% Europe: 35% Other: 24%	• Long term secular growth in green buildings • Increased content per vehicle and volume growth in Europe	• Slow recovery in commercial construction • High capex in near term	Buy: 65% Hold: 35% Sell: 0%
BorgWarner	OW	PT: $88.00 Current Price: $78.00 Market Cap: $9,043.5m	Net Debt/EBITDA: 0.8x 2011e P/E: 17.0x 2011e EV/EBITDA: 8.4x	NA: 26% Europe: 55% Other: 19%	• Attractive technology portfolio, industry leading margins • Increased penetration of fuel-efficient technologies	• Europe could see macro risks (50% of revs) • New fuel eco/CO2 regs could be delayed in the event of macro slowdown	Buy: 37% Hold: 58% Sell: 5%
Tesla	OW	PT: $70.00 Current Price: $23.92 Market Cap: $2,276.5m	Net Debt/EBITDA: NM 2011e P/E: NM 2011e EV/EBITDA: NM	NA: 36% Europe: 60% Other: 4%	• xEV set to grow to 5.5% of global sales by 2020 and 15% by 2025 • Gen 3 drives near 500k volume by 2025	• Execution of the Model S sedan • Government support required to foster xEV adoption	Buy: 50% Hold: 33% Sell: 17%
TRW	OW	PT: $75.00 Current Price: $54.05 Market Cap: $7,194.5m	Net Debt/EBITDA: 0.5x 2011e P/E: 7.2x 2011e EV/EBITDA: 4.3x	NA: 30% Europe: 51% Other: 19%	• Increased active safety CPV and passive safety in emerging markets • Geographic and customer diversification leverages production recovery	• Mature "legacy" businesses could keep growth in check • Safety legislation mandates delayed in some regions	Buy: 100% Hold: 0% Sell: 0%
Cooper Tires	OW	PT: $30.00 Current Price: $25.64 Market Cap: $1,603.7m	Net Debt/EBITDA: NM 2011e P/E: 9.9x 2011e EV/EBITDA: 5.1x	NA: 71% Europe: 11% Other: 18%	• Import tariffs on Chinese tires should help share and pricing power • Restructuring initiatives continue to boost manufacturing productivity	• Chinese import tariff ruling could be reversed • Price competition in the low end segments could intensify	Buy: 75% Hold: 25% Sell: 0%
Goodyear	OW	PT: $20.00 Current Price: $14.74 Market Cap: $3,611.3m	Net Debt/EBITDA: 1.8x 2011e P/E: 47.8x 2011e EV/EBITDA: 5.8x	NA: 44% Europe: 34% Other: 22%	• Strong brand, superior product/techonology and high share • Plant closures should improve utilization	• Price increases may not stick • Raw materials will still be a large headwind in 2011+	Buy: 67% Hold: 33% Sell: 0%
ArvinMeritor	OW	PT: $22.00 Current Price: $19.53 Market Cap: $1,822.1m	Net Debt/EBITDA: 3.0x 2011e P/E: 23.6x 2011e EV/EBITDA: 9.9x	NA: 50% Europe: 21% Other: 29%	• High growth in NA and Europe end markets through 2012 • Profitability boosted by capacity rationalization	• Company has had weak execution in past upcycles • Industrial/defense business may be choppy	Buy: 73% Hold: 27% Sell: 0%
Magna	UW	PT: $56.00 Current Price: $47.77 Market Cap: $11,159.1m	Net Debt/EBITDA: NM 2011e P/E: 10.1x 2011e EV/EBITDA: 4.1x	NA: 47% Europe: 49% Other: 4%	• Cyclical rather than secular growth story • Little potential for near term margin improvement	• Low EM exposure could crimp growth prospects • Less leveraged to re-invention or growth trends	Buy: 65% Hold: 29% Sell: 6%
Lear	UW	PT: $47.50 Current Price: $48.41 Market Cap: $5,247.6m	Net Debt/EBITDA: NM 2011e P/E: 10.4x 2011e EV/EBITDA: 4.2x	NA: 34% Europe: 42% Other: 24%	• More excess capacity than others, esp. in the Electrical business • Backlog impressive but has unusually high share of Electrical business	• Backlog growth could come at the cost of pricing • Lower capacity utilization	Buy: 80% Hold: 13% Sell: 7%
AutoNation	UW	PT: $32.00 Current Price: $34.67 Market Cap: $5,503.0m	Net Debt/EBITDA: 2.3x 2011e P/E: 17.3x 2011e EV/EBITDA: 10.8x	NA: 100% Europe: 0% Other: 0%	• Balanced brand footprint, sunbelt states • Better SG&A leverage than peers	• Sunbelt footprint still a risk • Inventory rebuild and capex could pressure FCF	Buy: 0% Hold: 83% Sell: 17%
Penske Automotive	UW	PT: $19.00 Current Price: $19.83 Market Cap: $1,822.2m	Net Debt/EBITDA: 3.0x 2011e P/E: 13.9x 2011e EV/EBITDA: 8.7x	NA: 63% Europe: 37% Other: 0%	• Diversified, high quality operator /w strong management team and brand • Could see pressure on luxury share in the US (65% of revs)	• Share of luxury brands in the US may decline • smart under pressure	Buy: 42% Hold: 50% Sell: 8%
Group 1 Automotive	UW	PT: $34.00 Current Price: $41.68 Market Cap: $959.8m	Net Debt/EBITDA: 2.9x 2011e P/E: 13.0x 2011e EV/EBITDA: 7.3x	NA: 95% Europe: 5% Other: 0%	• Small exposure to economically weak CA and FL markets • Large Used vehicle and Parts businesses	• Smaller size • Recent low capex could see payback in future	Buy: 67% Hold: 25% Sell: 8%
Tenneco	UW	PT: $34.00 Current Price: $42.31 Market Cap: $2,479.5m	Net Debt/EBITDA: 1.9x 2011e P/E: 16.3x 2011e EV/EBITDA: 5.7x	NA: 48% Europe: 41% Other: 11%	• CV push is an attractive opportunity but carries execution risk. • Substrate and Aftermarket businesses reduce leverage to OE production ramp	• Improving fuel economy reduced need for emissions content • Push to grow into CV carries execution risk	Buy: 58% Hold: 33% Sell: 8%

Source: Company data, Morgan Stanley Research
For valuation methodology and risks associated with any price targets above, please email morganstanley.research@morganstanley.com

Electric Vehicle Projections and Earnings Model

Exhibit 63

Global PHEV + EV Sales Projections (000s)

	2011	2012	2013	2014	2015	2020	2025
PHEV +EV SALES							
US							
PHEV	11	51	90	176	266	574	1,068
EV	7	28	39	59	89	574	1,601
Total	19	79	129	234	355	1,148	2,669
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*29.2%*	*33.1%*	*27.9%*	*26.6%*	*25.3%*	*19.1%*	*15.2%*
W. Europe							
PHEV	19	53	97	180	255	652	1,450
EV	13	29	42	60	85	652	2,174
Total	31	82	139	239	341	1,305	3,624
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*49.1%*	*34.1%*	*30.0%*	*27.2%*	*24.3%*	*21.7%*	*20.7%*
China							
PHEV	6	34	72	136	236	1,160	2,718
EV	4	18	31	45	79	625	2,718
Total	9	52	103	182	315	1,785	5,435
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*65%*	*50%*
% of Global xEV Sales	*14.6%*	*21.8%*	*22.2%*	*20.6%*	*22.5%*	*29.7%*	*31.0%*
Japan							
PHEV	2	11	29	54	77	177	349
EV	1	6	12	18	26	177	524
Total	3	17	41	72	103	355	873
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*4.7%*	*7.0%*	*8.9%*	*8.1%*	*7.4%*	*5.9%*	*5.0%*
ROW							
PHEV	1	6	36	115	215	710	1,975
EV	1	3	15	38	72	710	2,962
Total	2	9	51	153	287	1,421	4,937
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*50%*	*40%*
% of Global xEV Sales	*2.4%*	*3.9%*	*11.0%*	*17.4%*	*20.5%*	*23.6%*	*28.1%*
Global							
PHEV	38	155	324	660	1,050	3,274	7,559
EV	25	84	139	220	350	2,739	9,979
Total	**64**	**239**	**462**	**880**	**1,401**	**6,013**	**17,538**
PHEV % of Total	*60%*	*65%*	*70%*	*75%*	*75%*	*54%*	*43%*

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Cost-benefit methodology behind our xEV model. We have attempted to determine the financial inflection point for operating costs, which is one of the objective factors driving our US xEV demand model. We note that several other factors also drive EV demand, some of which are more subjective including image, political will etc. These subjective factors could be even more influential than the cost factor in determining xEV demand. For our model, we assume the average car drives 12,000 miles/year and gets 25 mpg, and we estimate a weekly gasoline consumption of 8-9 gallons/week. We note that US consumers tend to feel the pain of high gas prices between $3.50-$4 per gallon. This means the average consumer would be comfortable spending no more than $30 per week on gasoline costs. As part of our xEV model, we have tried to maintain the weekly gasoline/electricity spend at $30 per week by substituting more PHEVs and EVs in the car fleet, as gasoline prices get to $5, $6 and higher between now and 2025.

Exhibit 64

Global PHEV + EV Share of Total Market (%)

	2011	2012	2013	2014	2015	2020	2025
PHEV + EV SHARE %							
US							
PHEV	0.1%	0.3%	0.6%	1.1%	1.6%	3.3%	6.0%
EV	0.1%	0.2%	0.2%	0.4%	0.5%	3.3%	9.0%
Total	0.1%	0.5%	0.8%	1.4%	2.1%	6.6%	15.0%
W. Europe							
PHEV	0.1%	0.4%	0.6%	1.1%	1.6%	4.0%	8.7%
EV	0.1%	0.2%	0.3%	0.4%	0.5%	4.0%	13.0%
Total	0.2%	0.5%	0.9%	1.5%	2.1%	8.0%	21.6%
China							
PHEV	0.0%	0.2%	0.4%	0.7%	1.1%	4.1%	8.7%
EV	0.0%	0.1%	0.2%	0.2%	0.4%	2.2%	8.7%
Total	0.1%	0.3%	0.5%	0.9%	1.5%	6.3%	17.5%
Japan							
PHEV	0.0%	0.2%	0.6%	1.1%	1.6%	3.9%	8.0%
EV	0.0%	0.1%	0.3%	0.4%	0.5%	3.9%	12.0%
Total	0.1%	0.4%	0.8%	1.5%	2.1%	7.9%	20.1%
ROW							
PHEV	0.0%	0.0%	0.1%	0.3%	0.6%	1.7%	4.3%
EV	0.0%	0.0%	0.0%	0.1%	0.2%	1.7%	6.4%
Total	0.0%	0.0%	0.2%	0.4%	0.8%	3.4%	10.7%
Global							
PHEV	0.0%	0.2%	0.4%	0.7%	1.1%	3.0%	6.5%
EV	0.0%	0.1%	0.2%	0.2%	0.4%	2.5%	8.6%
Total	0.1%	0.3%	0.5%	0.9%	1.5%	5.5%	15.1%

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 65

Global PHEV + EV Parc Analysis

	2011	2012	2013	2014	2015	2020	2025
PHEV + EV PARC							
US	19	98	225	455	802	4,587	13,814
W. Europe	31	112	249	484	816	4,924	16,663
China	9	61	162	341	649	5,883	23,226
Japan	3	20	60	131	232	1,386	4,361
ROW	2	11	61	213	495	4,673	20,056
Global	**64**	**301**	**757**	**1,623**	**2,994**	**21,452**	**78,120**
% Change		*371.4%*	*151.4%*	*114.4%*	*84.5%*	*36.3%*	*26.0%*
PHEV + EV PARC SHARE %							
US	0.0%	0.0%	0.1%	0.2%	0.3%	1.7%	4.8%
W. Europe	0.0%	0.0%	0.1%	0.2%	0.3%	1.9%	6.1%
China	0.0%	0.1%	0.2%	0.3%	0.5%	2.9%	8.4%
Japan	0.0%	0.0%	0.1%	0.2%	0.3%	1.9%	6.0%
ROW	0.0%	0.0%	0.0%	0.1%	0.1%	1.1%	4.0%
Global	**0.0%**	**0.0%**	**0.1%**	**0.2%**	**0.3%**	**1.7%**	**5.5%**
TOTAL VEHICLE SALES							
US	14,000	15,000	16,033	16,645	17,136	17,488	17,788
W. Europe	14,345	14,863	15,620	16,190	16,125	16,263	16,743
China	15,845	17,372	18,711	20,125	21,451	28,335	31,128
Japan	4,742	4,783	4,862	4,876	4,814	4,498	4,346
ROW	27,904	30,827	33,023	35,080	37,065	42,378	46,070
Global	**76,836**	**82,844**	**88,249**	**92,916**	**96,592**	**108,963**	**116,075**
% Change		*7.8%*	*6.5%*	*5.3%*	*4.0%*	*1.2%*	*1.0%*
TOTAL VEHICLE PARC							
US	247,046	248,944	251,728	254,954	258,486	274,686	288,568
W. Europe	238,502	240,697	243,500	246,706	249,690	262,513	274,281
China	82,091	93,524	105,532	118,149	131,256	203,860	276,161
Japan	75,395	75,367	75,415	75,474	75,471	74,645	73,000
ROW	311,523	321,809	333,542	346,504	360,555	437,494	506,186
Global	**954,557**	**980,340**	**1,009,717**	**1,041,787**	**1,075,457**	**1,253,196**	**1,418,196**
% Change		*2.7%*	*3.0%*	*3.2%*	*3.2%*	*2.9%*	*2.3%*

Source: Company data, Morgan Stanley Research. e = Morgan Stanley research estimates.

Exhibit 66

Internal Combustion Engine Share of Auto Market

	2011	2012	2013	2014	2015	2020	2025
ICE Sales Share %							
US	99.9%	99.5%	99.2%	98.6%	97.9%	93.4%	85.0%
W. Europe	99.8%	99.5%	99.1%	98.5%	97.9%	92.0%	78.4%
China	99.9%	99.7%	99.5%	99.1%	98.5%	93.7%	82.5%
Japan	99.9%	99.6%	99.2%	98.5%	97.9%	92.1%	79.9%
ROW	100.0%	100.0%	99.8%	99.6%	99.2%	96.6%	89.3%
Global	99.9%	99.7%	99.5%	99.1%	98.5%	94.5%	84.9%
ICE PARC Share %							
US	100.0%	100.0%	99.9%	99.8%	99.7%	98.3%	95.2%
W. Europe	100.0%	100.0%	99.9%	99.8%	99.7%	98.1%	93.9%
China	100.0%	99.9%	99.8%	99.7%	99.5%	97.1%	91.6%
Japan	100.0%	100.0%	99.9%	99.8%	99.7%	98.1%	94.0%
ROW	100.0%	100.0%	100.0%	99.9%	99.9%	98.9%	96.0%
Global	100.0%	100.0%	99.9%	99.8%	99.7%	98.3%	94.5%
ICE SALES							
US	13,981	14,921	15,904	16,411	16,781	16,340	15,119
W. Europe	14,313	14,781	15,481	15,951	15,785	14,959	13,120
China	15,836	17,320	18,609	19,943	21,136	26,550	25,693
Japan	4,739	4,766	4,821	4,804	4,711	4,143	3,474
ROW	27,902	30,817	32,972	34,926	36,778	40,958	41,133
Global	**76,772**	**82,605**	**87,786**	**92,036**	**95,191**	**102,950**	**98,537**
% Change		*7.6%*	*6.3%*	*4.8%*	*3.4%*	*0.0%*	*-1.5%*
ICE PARC							
US	247,027	248,846	251,503	254,499	257,683	270,099	274,753
W. Europe	238,471	240,584	243,252	246,222	248,874	257,589	257,618
China	82,081	93,463	105,370	117,808	130,607	197,977	252,935
Japan	75,392	75,347	75,355	75,343	75,239	73,259	68,639
ROW	311,521	321,798	333,480	346,291	360,060	432,821	486,130
Global	**954,493**	**980,039**	**1,008,960**	**1,040,164**	**1,072,463**	**1,231,744**	**1,340,076**
% Change		*2.7%*	*3.0%*	*3.1%*	*3.1%*	*2.4%*	*1.2%*

Source: Company data, Morgan Stanley Research

Exhibit 67

Tesla: Quarterly Revenue Driver Analysis, 2009-2012e

Revenues	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Unit Volume												
Roadster	840	567	145	145	140	140	570	140	140	100	45	425
Growth		*-32.5%*	*15.1%*	*2.8%*	*-7.3%*	*-6.0%*	*0.5%*	*-3.4%*	*-3.4%*	*-28.6%*	*-67.9%*	*-25.4%*
Model S	-	-	-	-	-	-	-			750	1,250	2,000
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	975	450	450	450	500	1,850	650	700	750	800	2,900
Growth			*328.6%*	*125.0%*	*87.5%*	*16.3%*	*89.7%*	*44.4%*	*55.6%*	*66.7%*	*60.0%*	*56.8%*
Total Units	**840**	**1,542**	**595**	**595**	**590**	**640**	**2,420**	**790**	**840**	**1,600**	**2,095**	**5,325**
Growth												
Revenue/Unit ($000s)												
Roadster	133,251	133,437	126,378	125,087	126,702	125,906	126,013	126,378	125,087	126,702	125,906	125,979
Growth		*0.1%*	*-12.0%*	*-8.0%*	*5.0%*	*-7.0%*	*-5.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Model S	-	-	-	-	-	-	-			89,000	89,000	89,000
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	21,968	22,529	22,800	20,302	19,884	21,338	21,402	21,660	19,287	18,890	20,224
Growth			*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-2.9%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.2%*
Total Revenue/Unit	**133,265**	**62,956**	**47,836**	**47,727**	**45,550**	**43,076**	**45,993**	**40,005**	**38,898**	**58,679**	**63,020**	**54,496**
Growth												
Revenues												
Roadster	112	76	18	18	18	18	72	18	18	13	6	54
Growth		*-32.4%*	*1.3%*	*-5.4%*	*-2.6%*	*-12.6%*	*-5.1%*	*-3.4%*	*-3.4%*	*-28.6%*	*-67.9%*	*-25.5%*
Model S	-	-	-	-	-	-	-	-	-	67	111	178
Growth												
Model X	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Gen 3	-	-	-	-	-	-	-	-	-	-	-	-
Growth												
Powertrain	-	21	10	10	9	10	39	14	15	14	15	59
Growth			*307.1%*	*113.8%*	*78.1%*	*10.5%*	*84.3%*	*37.2%*	*47.8%*	*58.3%*	*52.0%*	*48.6%*
Total Automotive Revenues	**112**	**97**	**28**	**28**	**27**	**28**	**111**	**32**	**33**	**94**	**132**	**290**
Growth		*-13.3%*	*38.3%*	*18.5%*	*15.1%*	*-5.5%*	*14.7%*	*11.0%*	*15.1%*	*249.4%*	*378.9%*	*160.7%*
Developmental Services Sales	**-**	**20**	**15**	**15**	**15**	**15**	**60**	**15**	**15**	**15**	**15**	**60**
Growth			*NM*	*238.3%*	*90.1%*	*110.9%*	*205.1%*	*NM*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Tesla Revenue	**112**	**117**	**43**	**43**	**42**	**43**	**171**	**47**	**48**	**109**	**147**	**350**
Growth		*4.3%*	*108.8%*	*52.8%*	*34.0%*	*17.3%*	*46.7%*	*7.2%*	*9.9%*	*160.0%*	*245.4%*	*104.4%*

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Exhibit 68

Tesla: Consolidated Quarterly Income Statement, 2009 to 2012

Income Statement	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Revenues												
Automotive	112	97	28	28	27	28	111	32	33	94	132	290
Growth		*-13.3%*	*-2.4%*	*-0.2%*	*-5.4%*	*2.6%*	*14.7%*	*14.6%*	*3.4%*	*187.3%*	*40.6%*	*160.7%*
Development services	-	20	15	15	15	15	60	15	15	15	15	60
Growth			*110.9%*	*0.0%*	*0.0%*	*0.0%*	*205.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Revenues	**112**	**117**	**43**	**43**	**42**	**43**	**171**	**47**	**48**	**109**	**147**	**350**
Growth		*4%*	*19.8%*	*-0.1%*	*-3.5%*	*1.7%*	*46.7%*	*9.5%*	*2.3%*	*128.4%*	*35.0%*	*104.4%*
Total Cost of Revenues	**102**	**86**	**30**	**29**	**30**	**32**	**121**	**30**	**30**	**72**	**102**	**308**
Growth												
Total Gross Profit	**10**	**31**	**13**	**14**	**11**	**11**	**50**	**17**	**18**	**37**	**45**	**42**
Gross Margin	*8.5%*	*26.3%*	*31.0%*	*33.4%*	*27.4%*	*25.3%*	*29.3%*	*35.9%*	*37.6%*	*33.7%*	*30.8%*	*12.1%*
Research and Development	19	93	38	38	35	35	145	40	40	40	40	160
R&D/Sales	*17.2%*	*79.7%*	*86.3%*	*86.4%*	*83.6%*	*82.2%*	*84.6%*	*85.8%*	*83.9%*	*36.7%*	*27.2%*	*45.7%*
SG&A	42	85	30	30	32	34	126	38	41	43	46	167
SG&A/Sales	*37.7%*	*72.4%*	*69.0%*	*69.1%*	*76.4%*	*79.9%*	*73.6%*	*81.5%*	*85.0%*	*39.5%*	*30.9%*	*47.7%*
Stock-based Compensation	1	21	7	7	7	7	27	8	8	8	9	33
% of Operating Expense	*2.3%*	*11.9%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Operating Profit (GAAP)	**(52)**	**(147)**	**(54)**	**(53)**	**(56)**	**(58)**	**(221)**	**(61)**	**(63)**	**(46)**	**(40)**	**(285)**
Operating Margin	*-46.4%*	*-125.8%*	*-124.3%*	*-122.1%*	*-132.6%*	*-136.8%*	*-128.9%*	*-131.5%*	*-131.3%*	*-42.5%*	*-27.4%*	*-81.3%*
Operating Profit (Non-GAAP excl. Stock Comp)	**(50)**	**(126)**	**(47)**	**(46)**	**(49)**	**(51)**	**(194)**	**(53)**	**(55)**	**(38)**	**(32)**	**(252)**
Operating Margin	*-45.1%*	*-107.7%*	*-108.8%*	*-106.6%*	*-116.6%*	*-120.6%*	*-113.1%*	*-114.7%*	*-114.4%*	*-34.9%*	*-21.6%*	*-72.0%*
Interest income	0	0	0	0	0	0	0	0	0	0	0	1
Rate		0.14%	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.1%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.4%*
Interest expense	3	1	1	1	2	2	6	2	3	3	3	12
Rate		1.4%	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*2.2%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*2.5%*
Other income (expense), net	(1.4)	(6.6)	-	-	-	-	-	-	-	-	-	-
Pretax Profit	**(56)**	**(154)**	**(55)**	**(54)**	**(57)**	**(60)**	**(226)**	**(63)**	**(65)**	**(49)**	**(44)**	**(296)**
Pretax Margin	*-49.8%*	*-132.0%*	*-126.2%*	*-125.0%*	*-136.5%*	*-141.4%*	*-132.2%*	*-136.1%*	*-136.6%*	*-45.2%*	*-29.6%*	*-84.4%*
Provision for income taxes	0	0	-	-	-	-	-	-	-	-	-	-
Effective Tax Rate	*0.0%*	*-0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Ongoing Net Income	**(56)**	**(154)**	**(55)**	**(54)**	**(57)**	**(60)**	**(226)**	**(63)**	**(65)**	**(49)**	**(44)**	**(296)**
Extraordinary gains (charges)												
Reported Net Income	**(56)**	**(154)**	**(55)**	**(54)**	**(57)**	**(60)**	**(226)**	**(63)**	**(65)**	**(49)**	**(44)**	**(296)**
Basic Weighted Average Shares	7	51	96	96	96	100	97	104	105	105	106	105
Diluted Weighted Average Shares	7	51	96	96	96	100	97	104	105	105	106	105
Basic EPS		(3.04)	(0.57)	(0.56)	(0.59)	(0.60)	(2.33)	(0.61)	(0.62)	(0.47)	(0.41)	(2.80)
Diluted EPS Reported		(3.04)	(0.57)	(0.56)	(0.59)	(0.60)	(2.33)	(0.61)	(0.62)	(0.47)	(0.41)	(2.80)
Diluted EPS (GAAP)	**(7.94)**	**(3.04)**	**(0.57)**	**(0.56)**	**(0.59)**	**(0.60)**	**(2.33)**	**(0.61)**	**(0.62)**	**(0.47)**	**(0.41)**	**(2.80)**
Diluted EPS (Non-GAAP excl. Stock Comp)	**(7.73)**	**(2.63)**	**(0.50)**	**(0.49)**	**(0.52)**	**(0.53)**	**(2.05)**	**(0.53)**	**(0.54)**	**(0.39)**	**(0.33)**	**(2.49)**

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 69

Tesla: Consolidated Quarterly Balance Sheet, 2009-2012e

Balance Sheet	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Cash & Cash Equivalents	70	100	91	80	62	169	169	135	132	145	173	173
Restricted Cash - Current	-	74	49	25	-	-	-	-	-	-	-	-
Account Receivable	3	7	12	12	11	12	12	13	13	30	40	40
Inventory	23	45	41	40	42	44	44	36	33	87	123	123
Prepaid expenses and other current assets	4	11	11	11	11	11	11	11	11	11	11	11
Total Current Assets	**101**	**236**	**204**	**166**	**126**	**235**	**235**	**195**	**188**	**273**	**347**	**347**
Operating lease vehicles, net	-	8	8	8	8	8	8	8	8	8	8	8
Property and equipment, net	24	115	147	188	232	275	275	300	302	294	286	286
Restricted cash	4	5	5	5	5	5	5	5	5	5	5	5
Other assets	3	23	23	23	23	23	23	23	23	23	23	23
Total Assets	**130**	**386**	**386**	**390**	**394**	**545**	**545**	**530**	**526**	**602**	**669**	**669**
Accounts payable	15	29	33	32	33	35	35	33	33	79	112	112
Accrued liabilities	15	21	12	12	12	13	13	12	12	29	41	41
Deferred development compensation	0	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	1	5	5	5	5	5	5	5	5	5	5	5
Capital lease obligations, current portion	0	0	0	0	0	0	0	0	0	0	0	0
Reservation payments	26	31	34	37	39	42	42	45	48	52	56	56
Total Current Liabilities	**57**	**86**	**84**	**85**	**89**	**94**	**94**	**94**	**97**	**165**	**213**	**213**
Common stock warrant liability	-	6	6	6	6	6	6	6	6	6	6	6
Convertible preferred stock warrant liability	2	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	1	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue, less current portion	1	3	3	3	3	3	3	3	3	3	3	3
Long-term debt	-	72	122	172	222	272	272	312	362	412	465	465
Other long-term liabilities	3	12	12	12	12	12	12	12	12	12	12	12
Total Liabilities	**65**	**179**	**227**	**278**	**333**	**388**	**388**	**428**	**481**	**598**	**699**	**699**
Total convertible preferred stock	319	-	-	-	-	-	-	-	-	-	-	-
Common Stock	*0*	0	0	0	0	0	0	0	0	0	0	0
Additional paid-in capital	*7*	622	629	635	642	799	799	807	815	823	832	832
Accumulated deficit	*(261)*	(415)	(470)	(524)	(581)	(641)	*(641)*	(705)	(770)	(819)	(863)	*(863)*
Total stockholders' equity (deficit)	(254)	207	159	111	61	158	158	102	45	4	(31)	(31)
Total Liabilities and Equity	**130**	**386**	**386**	**390**	**394**	**545**	**545**	**530**	**526**	**602**	**669**	**669**
check	-	-	-	-	-	-	-	-	-	-	-	-
Total Debt	**-**	**72**	**122**	**172**	**222**	**272**	**272**	**312**	**362**	**412**	**465**	**465**
Net Debt (Cash)	**(70)**	**(28)**	**31**	**92**	**160**	**103**	**103**	**177**	**230**	**266**	**291**	**291**
Net Debt/EBITDA		0.2 x	(0.2 x)	(0.5 x)	(0.9 x)	(0.6 x)	(0.6 x)	(1.0 x)	(1.3 x)	(1.7 x)	(2.1 x)	(2.1 x)

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 70

Tesla: Consolidated Quarterly Cash Flow Statement, 2009-2012e

Cash Flow	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Cash flows from operating activities												
Net Income (Loss)	(56)	(154)	(55)	(54)	(57)	(60)	(226)	(63)	(65)	(49)	(44)	(221)
Depreciation and amortization	7	11	8	9	11	12	40	17	19	19	18	73
Change in fair value of warrant liabilities	1	5	-	-	-	-	-	-	-	-	-	-
Gain on cvt notes and warrants	(1)	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	1	21	7	7	7	7	27	8	8	8	9	33
Inventory write-downs	0	1	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	1	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities	3	(11)	(3)	3	3	3	5	7	6	(4)	2	11
Accounts receivable	*(0)*	*(3)*	*(5)*	*0*	*0*	*(0)*	*(5)*	*(1)*	*(0)*	*(17)*	*(10)*	*(29)*
Inventory	*(8)*	*(20)*	*4*	*1*	*(2)*	*(2)*	*2*	*8*	*3*	*(54)*	*(36)*	*(79)*
Prepaid expenses and other current assets	*(2)*	*(5)*	-	-	-	-	-	-	-	-	-	-
Operating lease assets	-	*(8)*	-	-	-	-	-	-	-	-	-	-
Other assets	*(0)*	*(0)*	-	-	-	-	-	-	-	-	-	-
Accounts payable	*1*	*(0)*	*4*	*(1)*	*2*	*2*	*6*	*(2)*	*(0)*	*46*	*32*	*77*
Accrued liabilities	*3*	*13*	*(9)*	*(0)*	*1*	*1*	*(8)*	*(1)*	*(0)*	*17*	*12*	*28*
Deferred development compensation	*(10)*	*(0)*	-	-	-	-	-	-	-	-	-	-
Deferred revenue	*(1)*	*5*	-	-	-	-	-	-	-	-	-	-
Reservation payments	*(22)*	*5*	*3*	*3*	*2*	*3*	*11*	*3*	*3*	*4*	*4*	*14*
Other long-term liabilities	*2*	*4*	-	-	-	-	-	-	-	-	-	-
Net cash used in operating activities	**(81)**	**(128)**	**(43)**	**(36)**	**(37)**	**(38)**	**(154)**	**(32)**	**(32)**	**(26)**	**(14)**	**(105)**
Cash flows from investing activities												
Acquisition of Fremont and related assets	-	(65)	-	-	-	-	-	-	-	-	-	-
Purchases of PP&E excl capital leases	(12)	(40)	(40)	(50)	(55)	(55)	(200)	(42)	(21)	(11)	(11)	(84)
Increase in restricted cash in DOE account	-	(74)	25	25	25	-	74	-	-	-	-	-
Increase in other restricted cash	(2)	(1)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(14)**	**(180)**	**(15)**	**(25)**	**(30)**	**(55)**	**(126)**	**(42)**	**(21)**	**(11)**	**(11)**	**(84)**
Cash flows from financing activities												
Proceeds from issuance of common stock	-	269	-	-	-	150	150	-	-	-	-	-
Proceeds from issuance of cvt preferred	132	-	-	-	-	-	-	-	-	-	-	-
Principal paid on capital leases and other debt	(0)	(0)	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt	-	72	50	50	50	50	200	40	50	50	53	193
Proceeds from cvt notes and warrants	25	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0	1	-	-	-	-	-	-	-	-	-	-
Common stock and loan facility issuance costs	(2)	(4)	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	**155**	**338**	**50**	**50**	**50**	**200**	**350**	**40**	**50**	**50**	**53**	**193**
Net increase in cash and cash equivalents	**60**	**30**	**(9)**	**(11)**	**(18)**	**107**	**69**	**(34)**	**(3)**	**14**	**28**	**4**
Cash and equivalents at beginning of period	9	70	100	91	80	62	100	169	135	132	145	169
Cash and cash equivalents at end of period	**70**	**100**	**91**	**80**	**62**	**169**	**169**	**135**	**132**	**145**	**173**	**173**
FCF	(93)	(168)	(83)	(86)	(92)	(93)	(354)	(74)	(53)	(36)	(25)	(189)

Drivers	FY 2009	FY 2010	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	1Q12E	2Q12E	3Q12E	4Q12E	FY 2012E
Depreciation/PP&E		45%	28%	24%	23%	21%	35%	25%	25%	25%	25%	27%
Depreciation/Sales		9.1%	18.5%	20.3%	25.8%	28.6%	23.2%	36.9%	39.3%	17.3%	12.5%	20.9%
Capex/Sales		34.4%	92.0%	115.2%	131.3%	129.2%	116.8%	90.1%	44.0%	9.6%	7.1%	24.0%
Days Receivables		21	25	25	25	25	25	25	25	25	25	42
Days Payables		123	100	100	100	100	105	100	100	100	100	132
Inventory Days' Supply		192	125	125	125	125	131	110	100	110	110	145
Accrued Liabilities		24%	10%	10%	10%	10%	11%	10%	10%	10%	10%	13%
EBIT	-53	-153	-54	-53	-56	-58	-221	-61	-63	-46	-40	-210
EBITDA	-46	-143	-46	-44	-45	-46	-181	-44	-44	-27	-22	-137
LTM												
EBITDA		-143	-162	-170	-183	-181	-181	-179	-179	-161	-137	-137

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 71

Tesla: Annual Revenue Driver Analysis, 2009-2025e

Revenues	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Unit Volume													
Roadster	840	567	570	425	128	765	1,148	1,262	1,325	1,392	1,364	1,091	1,528
Growth		*-32.5%*	*0.5%*	*-25.4%*	*-70.0%*	*500.0%*	*50.0%*	*10.0%*	*5.0%*	*5.0%*	*-2.0%*	*-20.0%*	*5.0%*
Model S	-	-	-	2,000	15,000	18,000	20,700	23,805	26,186	23,567	22,389	21,269	27,626
Growth					*650.0%*	*20.0%*	*15.0%*	*15.0%*	*10.0%*	*-10.0%*	*-5.0%*	*-5.0%*	*5.0%*
Model X	-	-	-	-	-	10,000	15,000	20,000	25,000	30,000	36,000	41,400	54,739
Growth						*NM*	*50.0%*	*33.3%*	*25.0%*	*20.0%*	*20.0%*	*15.0%*	*3.0%*
Gen 3	-	-	-	-	-	-	-	-	30,000	50,000	100,000	150,000	370,000
Growth									*NM*	*66.7%*	*100.0%*	*50.0%*	*12.1%*
Powertrain	-	975	1,850	2,900	3,480	4,176	5,429	8,143	12,215	18,322	21,987	26,384	42,492
Growth			*89.7%*	*56.8%*	*20.0%*	*20.0%*	*30.0%*	*50.0%*	*50.0%*	*50.0%*	*20.0%*	*20.0%*	*10.0%*
Total Units	**840**	**1,542**	**2,420**	**5,325**	**18,608**	**32,941**	**42,276**	**53,210**	**94,726**	**123,281**	**181,739**	**240,144**	**496,385**
Growth													
Revenue/Unit ($000s)													
Roadster	133,251	133,437	126,013	125,979	128,499	96,374	98,301	100,268	102,273	104,318	106,405	108,533	119,829
Growth		*0.1%*	*-5.6%*	*0.0%*	*2.0%*	*-25.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Model S	-	-	-	89,000	80,100	72,090	64,881	66,179	66,840	67,509	68,184	68,866	72,379
Growth					*-10.0%*	*-10.0%*	*-10.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Model X	-	-	-	-	-	80,100	76,095	72,090	64,881	66,179	66,840	67,509	70,952
Growth							*-5.0%*	*-5.3%*	*-10.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*
Gen 3	-	-	-	-	-	-	-	-	30,000	30,600	31,212	31,836	32,473
Growth										*2.0%*	*2.0%*	*2.0%*	*2.0%*
Powertrain	-	21,968	21,338	20,224	16,179	11,326	9,060	9,151	9,243	9,335	9,428	9,523	10,008
Growth			*-2.9%*	*-5.2%*	*-20.0%*	*-30.0%*	*-20.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Total Revenue/Unit	**133,265**	**62,956**	**45,993**	**54,496**	**68,477**	**67,382**	**62,599**	**60,482**	**47,724**	**43,985**	**40,753**	**39,163**	**37,283**
Growth													
Revenues													
Roadster	112	76	72	54	16	74	113	127	136	145	145	118	183
Growth		*-32.4%*	*-5.1%*	*-25.5%*	*-69.4%*	*350.0%*	*53.0%*	*12.2%*	*7.1%*	*7.1%*	*0.0%*	*-18.4%*	*7.1%*
Model S	-	-	-	178	1,202	1,298	1,343	1,575	1,750	1,591	1,527	1,465	2,000
Growth					*575.0%*	*8.0%*	*3.5%*	*17.3%*	*11.1%*	*-9.1%*	*-4.0%*	*-4.1%*	*6.1%*
Model X	-	-	-	-	-	801	1,141	1,442	1,622	1,985	2,406	2,795	3,884
Growth							*42.5%*	*26.3%*	*12.5%*	*22.4%*	*21.2%*	*16.2%*	*4.0%*
Gen 3	-	-	-	-	-	-	-	-	900	1,530	3,121	4,775	12,015
Growth										*70.0%*	*104.0%*	*53.0%*	*14.4%*
Powertrain	-	21	39	59	56	47	49	75	113	171	207	251	425
Growth			*84.3%*	*48.6%*	*-4.0%*	*-16.0%*	*4.0%*	*51.5%*	*51.5%*	*51.5%*	*21.2%*	*21.2%*	*11.1%*
Total Automotive Revenues	**112**	**97**	**111**	**290**	**1,274**	**2,220**	**2,646**	**3,218**	**4,521**	**5,423**	**7,406**	**9,405**	**18,507**
Growth		*-13.3%*	*14.7%*	*160.7%*	*339.1%*	*74.2%*	*19.2%*	*21.6%*	*40.5%*	*19.9%*	*36.6%*	*27.0%*	*11.0%*
					1,139	*1,231*							
Developmental Services Sales	**-**	**20**	**60**	**60**	**63**	**66**	**69**	**73**	**77**	**80**	**84**	**89**	**113**
Growth			*205.1%*	*0.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Tesla Revenue	**112**	**117**	**171**	**350**	**1,337**	**2,286**	**2,716**	**3,291**	**4,597**	**5,503**	**7,491**	**9,493**	**18,620**
Growth		*4.3%*	*46.7%*	*104.4%*	*281.8%*	*70.9%*	*18.8%*	*21.2%*	*39.7%*	*19.7%*	*36.1%*	*26.7%*	*10.9%*

Source: Company data, Morgan Stanley Research

Exhibit 72

Tesla: Annual Operating Profit Bridge Analysis, 2009-2025e

	FY 2009	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Beginning of period OP			-147	-221	-285	-69	68	192	246	240	382	760	2,541
Volume			20	51	218	258	162	176	642	346	652	602	437
Mix			-12	14	78	-11	-61	-34	-363	-138	-176	-115	27
Pricing			0	0	2	13	11	14	0	23	28	37	-84
Productivity/Structural Costs			18	0	0	40	69	54	33	87	55	127	-134
R&D Delta			-52	-15	-8	-54	-16	-35	-43	-36	-18	-6	-73
SG&A Delta			-41	-41	-23	-61	-47	-57	-132	-85	-102	-161	-147
Commodity Costs			-6	-5	-4	0	0	0	0	0	0	0	0
Launch Costs			0	-34	-35	-40	23	-27	-99	-23	0	0	0
Depreciation Creep			-29	-33	-13	-8	-17	-36	-46	-32	-60	-23	-55
Other			29	0	0	0	0	0	0	0	0	0	0
End of period OP	-52	-147	-221	-285	-69	68	192	246	240	382	760	1,223	2,513
Inputs:													
Units	840	1,542	2,420	5,325	18,608	32,941	42,276	53,210	94,726	123,281	181,739	240,144	496,385
Revenues	112	117	171	350	1,337	2,286	2,716	3,291	4,597	5,503	7,491	9,493	18,620
Revenue/Unit	133,265	62,956	45,993	54,496	68,477	67,382	62,599	60,482	47,724	43,985	40,753	39,163	37,283
Period-over-Period Unit Volume Change (%)			57%	120%	249%	77%	28%	26%	78%	30%	47%	32%	10%
Variable Margin on Volume (%)			30%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Mix Impact per Unit ($)			(5,089)	2,551	4,194	(328)	(1,435)	(635)	(3,827)	(1,122)	(970)	(477)	54
YoY price change (%)			0%	0%	0.5%	1.0%	0.5%	0.5%	0.0%	0.5%	0.5%	0.5%	-0.5%
Productivity/Structural Costs/Sales (%)			15%	0%	0%	3%	3%	2%	1%	2%	1%	2%	-1%
R&D ($)		-74	-52	-15	-8	-54	-16	-35	-43	-36	-18	-6	-73
SG&A ($)		-42	-41	-41	-23	-61	-47	-57	-132	-85	-102	-161	-147
Commodity Impact per Unit ($)			-2,375	-1,000	-200	-	-	-	-	-	-	-	-
Launch Cost/Sales (%)			0%	-20%	-10%	-3%	1%	-1%	-3%	-1%	0%	0%	0%
OP Margin (%)		**-126%**	**-129%**	**-81%**	**-5%**	**3%**	**7%**	**7%**	**5%**	**7%**	**10%**	**13%**	**13%**
Variable OP Margin (%)			*-136%*	*-36%*	*22%*	*14%*	*29%*	*9%*	*-1%*	*16%*	*19%*	*23%*	*-2%*

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Exhibit 73

Tesla: Consolidated Annual Income Statement, 2009-2025e

Income Statement	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Revenues													
Automotive	112	97	111	290	1,274	2,220	2,646	3,218	4,521	5,423	7,406	9,405	18,507
Growth		*-13.3%*	*14.7%*	*160.7%*	*339.1%*	*74.2%*	*19.2%*	*21.6%*	*40.5%*	*19.9%*	*36.6%*	*27.0%*	*11.0%*
Development services	-	20	60	60	63	66	69	73	77	80	84	89	113
Growth			*205.1%*	*0.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Revenues	**112**	**117**	**171**	**350**	**1,337**	**2,286**	**2,716**	**3,291**	**4,597**	**5,503**	**7,491**	**9,493**	**18,620**
Growth		*4%*	*46.7%*	*104.4%*	*281.8%*	*71%*	*19%*	*21%*	*40%*	*20%*	*36%*	*27%*	*11%*
Total Cost of Revenues	**102**	**86**	**121**	**308**	**1,048**	**1,744**	**1,987**	**2,416**	**3,554**	**4,197**	**5,686**	**7,059**	**13,877**
Growth													
Total Gross Profit	**10**	**31**	**50**	**42**	**289**	**541**	**729**	**875**	**1,043**	**1,306**	**1,805**	**2,435**	**4,743**
Gross Margin	*8.5%*	*26.3%*	*29.3%*	*12.1%*	*21.6%*	*23.7%*	*26.8%*	*26.6%*	*22.7%*	*23.7%*	*24.1%*	*25.6%*	*25.5%*
Research and Development	19	93	145	160	168	222	238	274	316	352	370	376	740
R&D/Sales	*17.2%*	*79.7%*	*84.6%*	*45.7%*	*12.6%*	*10.0%*	*9.0%*	*8.5%*	*7.0%*	*6.5%*	*5.0%*	*4.0%*	*4.0%*
SG&A	42	85	126	167	190	251	299	355	487	572	674	835	1,490
SG&A/Sales	*37.7%*	*72.4%*	*73.6%*	*47.7%*	*14.2%*	*11.0%*	*11.0%*	*10.8%*	*10.6%*	*10.4%*	*9.0%*	*8.8%*	*8.0%*
Stock-based Compensation	1	21	27	33	32	38	38	38	48	46	52	48	67
% of Operating Expense	*2.3%*	*11.9%*	*10.0%*	*10.0%*	*9.0%*	*8.0%*	*7.0%*	*6.0%*	*6.0%*	*5.0%*	*5.0%*	*4.0%*	*3.0%*
Operating Profit (GAAP)	**(52)**	**(147)**	**(221)**	**(285)**	**(69)**	**68**	**192**	**246**	**240**	**382**	**760**	**1,223**	**2,513**
Operating Margin	*-46.4%*	*-125.8%*	*-128.9%*	*-81.3%*	*-5.1%*	*3.0%*	*7.1%*	*7.5%*	*5.2%*	*6.9%*	*10.2%*	*12.9%*	*13.5%*
Operating Profit (Non-GAAP excl. Stock Comp)	**(50)**	**(126)**	**(194)**	**(252)**	**(37)**	**106**	**230**	**284**	**288**	**428**	**813**	**1,271**	**2,580**
Operating Margin	*-45.1%*	*-107.7%*	*-113.1%*	*-72.0%*	*-2.7%*	*4.6%*	*8.5%*	*8.6%*	*6.3%*	*7.8%*	*10.8%*	*13.4%*	*13.9%*
Interest income	0	0	0	1	1	2	3	4	4	12	26	47	235
Rate		0.14%	*0.1%*	*0.4%*	*0.8%*	*1.0%*	*1.5%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Interest expense	3	1	6	12	14	14	20	15	2	-	-	-	-
Rate		1.4%	*2.2%*	*2.5%*	*3.0%*	*3.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Other income (expense), net	(1.4)	(6.6)	-	-	-	-	-	-	-	-	-	-	-
Pretax Profit	**(56)**	**(154)**	**(226)**	**(296)**	**(82)**	**56**	**175**	**236**	**242**	**393**	**787**	**1,270**	**2,748**
Pretax Margin	*-49.8%*	*-132.0%*	*-132.2%*	*-84.4%*	*-6.1%*	*2.5%*	*6.5%*	*7.2%*	*5.3%*	*7.1%*	*10.5%*	*13.4%*	*14.8%*
Provision for income taxes	0	0	-	-	-	3	11	17	20	38	162	294	659
Effective Tax Rate	*0.0%*	*-0.1%*	*0.0%*	*0.0%*	*0.0%*	*6.0%*	*6.0%*	*7.2%*	*8.4%*	*9.6%*	*20.6%*	*23.2%*	*24.0%*
Ongoing Net Income	**(56)**	**(154)**	**(226)**	**(296)**	**(82)**	**53**	**165**	**219**	**221**	**355**	**624**	**976**	**2,089**
Extraordinary gains (charges)													
Reported Net Income	**(56)**	**(154)**	**(226)**	**(296)**	**(82)**	**53**	**165**	**219**	**221**	**355**	**624**	**976**	**2,089**
Basic Weighted Average Shares	7	51	97	105	108	111	114	116	119	122	125	128	144
Diluted Weighted Average Shares	7	51	97	105	108	125	128	131	134	137	141	144	162
Basic EPS		(3.04)	(2.33)	(2.80)	(0.75)	0.48	1.45	1.88	1.86	2.91	4.99	7.61	14.46
Diluted EPS Reported		(3.04)	(2.33)	(2.80)	(0.75)	0.42	1.29	1.67	1.65	2.59	4.44	6.78	12.88
Diluted EPS (GAAP)	**(7.94)**	**(3.04)**	**(2.33)**	**(2.80)**	**(0.75)**	**0.42**	**1.29**	**1.67**	**1.65**	**2.59**	**4.44**	**6.78**	**12.88**
Diluted EPS (Non-GAAP excl. Stock Comp)	**(7.73)**	**(2.63)**	**(2.05)**	**(2.49)**	**(0.46)**	**0.71**	**1.57**	**1.94**	**1.98**	**2.90**	**4.74**	**7.04**	**13.19**

Source: Company data, Morgan Stanley Research

Exhibit 74

Tesla: Consolidated Annual Balance Sheet, 2009-2025e

Balance Sheet	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Cash & Cash Equivalents	70	100	169	173	146	200	200	200	200	572	1,314	2,344	11,754
Restricted Cash - Current	-	74	-	-	-	-	-	-	-	-	-	-	-
Account Receivable	3	7	12	40	55	56	67	81	113	136	185	234	434
Inventory	23	45	44	123	215	335	327	397	584	690	935	1,160	2,281
Prepaid expenses and other current assets	4	11	11	11	11	11	11	11	11	11	11	11	11
Total Current Assets	**101**	**236**	**235**	**347**	**427**	**602**	**604**	**689**	**908**	**1,408**	**2,444**	**3,749**	**14,479**
Operating lease vehicles, net	-	8	8	8	8	8	8	8	8	8	8	8	8
Property and equipment, net	24	115	275	286	334	423	585	768	898	948	1,023	1,144	2,013
Restricted cash	4	5	5	5	5	5	5	5	5	5	5	5	5
Other assets	3	23	23	23	23	23	23	23	23	23	23	23	23
Total Assets	**130**	**386**	**545**	**669**	**796**	**1,060**	**1,225**	**1,492**	**1,842**	**2,392**	**3,503**	**4,928**	**16,528**
Accounts payable	15	29	35	112	230	358	381	463	682	805	1,090	1,354	2,661
Accrued liabilities	15	21	13	41	105	174	199	242	355	420	569	706	1,388
Deferred development compensation	0	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	1	5	5	5	5	5	5	5	5	5	5	5	5
Capital lease obligations, current portion	0	0	0	0	0	0	0	0	0	0	0	0	0
Reservation payments	26	31	42	56	51	26	6	-	-	-	-	-	-
Total Current Liabilities	**57**	**86**	**94**	**213**	**390**	**564**	**590**	**710**	**1,042**	**1,229**	**1,664**	**2,065**	**4,054**
Common stock warrant liability	-	6	6	6	6	6	6	6	6	6	6	6	6
Convertible preferred stock warrant liability	2	-	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	1	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue, less current portion	1	3	3	3	3	3	3	3	3	3	3	3	3
Long-term debt	-	72	272	465	465	465	400	291	39	-	-	-	-
Other long-term liabilities	3	12	12	12	12	12	12	12	12	12	12	12	12
Total Liabilities	**65**	**179**	**388**	**699**	**877**	**1,050**	**1,012**	**1,023**	**1,102**	**1,251**	**1,686**	**2,086**	**4,076**
Total convertible preferred stock	319	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock	*0*	0	0	0	0	0	0	0	0	0	0	0	0
Additional paid-in capital	*7*	622	799	832	864	902	939	977	1,025	1,072	1,124	1,172	1,478
Accumulated deficit	*(261)*	(415)	*(641)*	*(863)*	(944)	(891)	(727)	(508)	(286)	69	693	1,669	10,974
Total stockholders' equity (deficit)	(254)	207	158	(31)	(80)	10	213	469	739	1,141	1,817	2,842	12,453
Total Liabilities and Equity	**130**	**386**	**545**	**669**	**796**	**1,060**	**1,225**	**1,492**	**1,842**	**2,392**	**3,503**	**4,928**	**16,528**
check	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Debt	**-**	**72**	**272**	**465**	**465**	**465**	**400**	**291**	**39**	**-**	**-**	**-**	**-**
Net Debt (Cash)	**(70)**	**(28)**	**103**	**291**	**319**	**265**	**200**	**91**	**(161)**	**(572)**	**(1,314)**	**(2,344)**	**(11,754)**
Net Debt/EBITDA		0.2 x	(0.6 x)	(2.1 x)	18.9 x	1.6 x	0.7 x	0.2 x	(0.4 x)	(0.9 x)	(1.3 x)	(1.5 x)	(3.8 x)

Source: Company data, Morgan Stanley Research

Exhibit 75

Tesla: Consolidated Annual Cash Flow Statement, 2009-2025e

Cash Flow	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Cash flows from operating activities													
Net Income (Loss)	(56)	(154)	(226)	(221)	(82)	53	165	219	221	355	624	976	2,089
Depreciation and amortization	7	11	40	73	86	93	110	146	192	224	284	307	544
Change in fair value of warrant liabilities	1	5	-	-	-	-	-	-	-	-	-	-	-
Gain on cvt notes and warrants	(1)	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	1	21	27	33	32	38	38	38	48	46	52	48	67
Inventory write-downs	0	1	-	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	1	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities	3	(11)	5	11	70	53	24	35	113	60	141	126	190
Accounts receivable	*(0)*	*(3)*	*(5)*	*(29)*	*(15)*	*(1)*	*(11)*	*(14)*	*(32)*	*(22)*	*(49)*	*(49)*	*(20)*
Inventory	*(8)*	*(20)*	*2*	*(79)*	*(93)*	*(119)*	*8*	*(71)*	*(187)*	*(106)*	*(245)*	*(226)*	*(270)*
Prepaid expenses and other current assets	*(2)*	*(5)*	-	-	-	-	-	-	-	-	-	-	-
Operating lease assets	-	*(8)*	-	-	-	-	-	-	-	-	-	-	-
Other assets	*(0)*	*(0)*	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	*1*	*(0)*	*6*	*77*	*118*	*129*	*23*	*82*	*218*	*123*	*286*	*263*	*315*
Accrued liabilities	*3*	*13*	*(8)*	*28*	*64*	*70*	*24*	*43*	*114*	*64*	*149*	*137*	*164*
Deferred development compensation	*(10)*	*(0)*	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	*(1)*	*5*	-	-	-	-	-	-	-	-	-	-	-
Reservation payments	*(22)*	*5*	*11*	*14*	*(5)*	*(25)*	*(20)*	*(6)*	-	-	-	-	-
Other long-term liabilities	*2*	*4*	-	-	-	-	-	-	-	-	-	-	-
Net cash used in operating activities	**(81)**	**(128)**	**(154)**	**(105)**	**106**	**237**	**336**	**438**	**574**	**686**	**1,102**	**1,457**	**2,889**
Cash flows from investing activities													
Acquisition of Fremont and related assets	-	(65)	-	-	-	-	-	-	-	-	-	-	-
Purchases of PP&E excl capital leases	(12)	(40)	(200)	(84)	(134)	(183)	(272)	(329)	(322)	(275)	(360)	(427)	(745)
Increase in restricted cash in DOE account	-	(74)	74	-	-	-	-	-	-	-	-	-	-
Increase in other restricted cash	(2)	(1)	-	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(14)**	**(180)**	**(126)**	**(84)**	**(134)**	**(183)**	**(272)**	**(329)**	**(322)**	**(275)**	**(360)**	**(427)**	**(745)**
Cash flows from financing activities													
Proceeds from issuance of common stock	-	269	150	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of cvt preferred	132	-	-	-	-	-	-	-	-	-	-	-	-
Principal paid on capital leases and other debt	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt	-	72	200	193	-	-	(65)	(108)	(253)	(39)	-	-	-
Proceeds from cvt notes and warrants	25	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0	1	-	-	-	-	-	-	-	-	-	-	-
Common stock and loan facility issuance costs	(2)	(4)	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	**155**	**338**	**350**	**193**	**-**	**-**	**(65)**	**(108)**	**(253)**	**(39)**	**-**	**-**	**-**
Net increase in cash and cash equivalents	**60**	**30**	**69**	**4**	**(27)**	**54**	**-**	**-**	**-**	**372**	**742**	**1,030**	**2,144**
Cash and equivalents at beginning of period	9	70	100	169	173	146	200	200	200	200	572	1,314	9,610
Cash and cash equivalents at end of period	**70**	**100**	**169**	**173**	**146**	**200**	**200**	**200**	**200**	**572**	**1,314**	**2,344**	**11,754**
FCF	(93)	(168)	(354)	(189)	(27)	54	65	108	253	410	742	1,030	2,144

Drivers	FY 2009	FY 2010	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2025E
Depreciation/PP&E		45%	35%	27%	30%	28%	26%	25%	25%	25%	30%	30%	30%
Depreciation/Sales		9.1%	23.2%	20.9%	6.4%	4.1%	4.1%	4.4%	4.2%	4.1%	3.8%	3.2%	2.9%
Capex/Sales		34.4%	116.8%	24.0%	10.0%	8.0%	10.0%	10.0%	7.0%	5.0%	4.8%	4.5%	4.0%
Days Receivables		21	25	42	15	9	9	9	9	9	9	9	9
Days Payables		123	105	132	80	75	70	70	70	70	70	70	70
Inventory Days' Supply		192	131	145	75	70	60	60	60	60	60	60	60
Accrued Liabilities		24%	11%	13%	10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT	-53	-153	-221	-210	-69	68	192	246	240	382	760	1,223	2,513
EBITDA	-46	-143	-181	-137	17	162	302	393	431	606	1,045	1,530	3,057
LTM													
EBITDA		-143	-181	-137	17	162	302	393	431	606	1,045	1,530	3,057

Source: Company data, Morgan Stanley Research

Exhibit 76

Tesla: Annual Geographic Sales Forecasts, 2011-2025

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total xEV Market															
US	19	79	129	234	355	471	612	773	957	1,148	1,419	1,691	1,959	2,303	2,669
W. Europe	31	82	139	239	341	482	658	822	1,027	1,305	1,596	1,957	2,462	3,038	3,624
China	9	52	103	182	315	499	727	1,024	1,403	1,785	2,230	2,829	3,409	4,701	5,435
Japan	3	17	41	72	103	143	189	234	287	355	436	535	633	752	873
ROW	2	9	51	153	287	442	605	790	1,083	1,421	1,851	2,381	3,152	4,127	4,937
Global	**64**	**239**	**462**	**880**	**1,401**	**2,037**	**2,790**	**3,643**	**4,757**	**6,013**	**7,532**	**9,392**	**11,615**	**14,921**	**17,538**
Tesla Sales (ex Powertrain)															
US	0.3	1.4	7.1	14.0	19.5	23.5	41.0	44.8	67.0	83.8	99.3	115.0	131.3	149.7	160.1
W. Europe	0.3	0.7	4.2	7.4	6.8	7.2	13.2	20.5	35.9	49.6	55.9	66.5	81.3	91.2	101.5
China	0.0	0.0	1.0	1.8	3.1	5.0	10.9	15.4	21.0	26.8	33.4	45.3	54.5	70.5	81.5
Japan	0.0	0.0	0.4	0.7	1.0	1.4	2.8	3.5	5.7	8.9	10.9	12.3	14.6	15.0	17.5
ROW	0.0	0.3	2.4	4.8	6.3	7.9	14.6	20.7	30.0	44.7	58.9	75.1	86.4	84.5	93.3
Global	**0.6**	**2.4**	**15.1**	**28.8**	**36.8**	**45.1**	**82.5**	**105.0**	**159.8**	**213.8**	**258.4**	**314.2**	**368.0**	**410.9**	**453.9**
Tesla Share (%)															
US	1.4%	1.8%	5.5%	6.0%	5.5%	5.0%	6.7%	5.8%	7.0%	7.3%	7.0%	6.8%	6.7%	6.5%	6.0%
W. Europe	0.9%	0.9%	3.0%	3.1%	2.0%	1.5%	2.0%	2.5%	3.5%	3.8%	3.5%	3.4%	3.3%	3.0%	2.8%
China	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%	1.5%	1.5%
Japan	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	2.0%	2.5%	2.5%	2.3%	2.3%	2.0%	2.0%
ROW	1.9%	2.8%	4.8%	3.1%	2.2%	1.8%	2.4%	2.6%	2.8%	3.1%	3.2%	3.2%	2.7%	2.0%	1.9%
Global	**0.9%**	**1.0%**	**3.3%**	**3.3%**	**2.6%**	**2.2%**	**3.0%**	**2.9%**	**3.4%**	**3.6%**	**3.4%**	**3.3%**	**3.2%**	**2.8%**	**2.6%**

Source: Company data, Morgan Stanley Research

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of February 28, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1175**	**41%**	**463**	**45%**	**39%**
Equal-weight/Hold	**1219**	**42%**	**439**	**42%**	**36%**
Not-Rated/Hold	**120**	**4%**	**23**	**2%**	**19%**
Underweight/Sell	**380**	**13%**	**109**	**11%**	**29%**
Total	**2,894**		**1034**		

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.
Equal-weight (E). The stock's total return is expected to be in line with 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.
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.
Underweight (U). The stock's total return is expected to be below 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.
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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Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
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.
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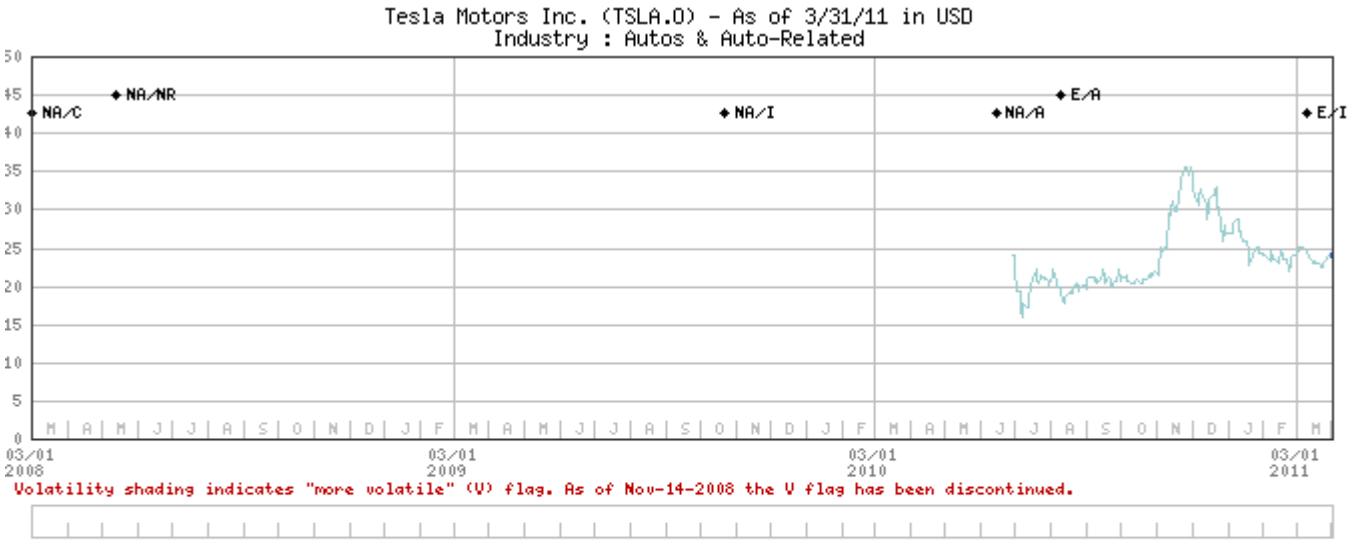
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 3/1/08 : 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
Price Target History: 8/9/10 : NA

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)

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Hong Kong
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Industry Coverage:Autos & Auto-Related

Company (Ticker)	Rating (as of)	Price* (03/30/2011)
Adam Jonas, CFA		
Ford Motor Company (F.N)	O (10/04/2010)	$14.86
General Motors Company (GM.N)	O (12/28/2010)	$31.55
Tesla Motors Inc. (TSLA.O)	O (03/31/2011)	$23.71
Ravi Shanker		
AutoNation Inc. (AN.N)	U (03/10/2011)	$35.71
BorgWarner Inc. (BWA.N)	O (10/22/2009)	$78.61
Cooper Tire & Rubber Company (CTB.N)	O (03/16/2010)	$25.99
Goodyear Tire & Rubber Company (GT.N)	O (03/10/2011)	$14.95
Group 1 Automotive, Inc (GPI.N)	U (10/22/2009)	$42.41
Johnson Controls, Inc. (JCI.N)	O (06/14/2010)	$41.6
Lear Corporation (LEA.N)	U (09/23/2010)	$48
Magna International Inc. (MGA.N)	U (03/10/2011)	$48.62
Meritor Inc (MTOR.N)	O (09/23/2010)	$20.02
Penske Automotive Group, Inc (PAG.N)	U (10/22/2009)	$20.41
TRW Automotive Holdings Corp. (TRW.N)	O (09/10/2010)	$54.24
Tenneco Inc. (TEN.N)	U (09/23/2010)	$42.96

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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Tesla Motors

Introducing 2011 Quarterly Estimates

Overweight

TSLA, TSLA US
Price: $24.73

Price Target: $30.00

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.

Automobile Manufacture

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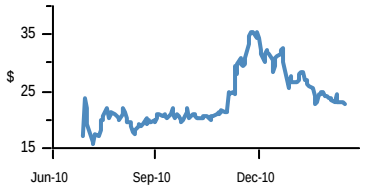
Price Performance



	YTD	1m	3m	12m
Abs	-14.2%	-11.3%	-25.8%	34.4%

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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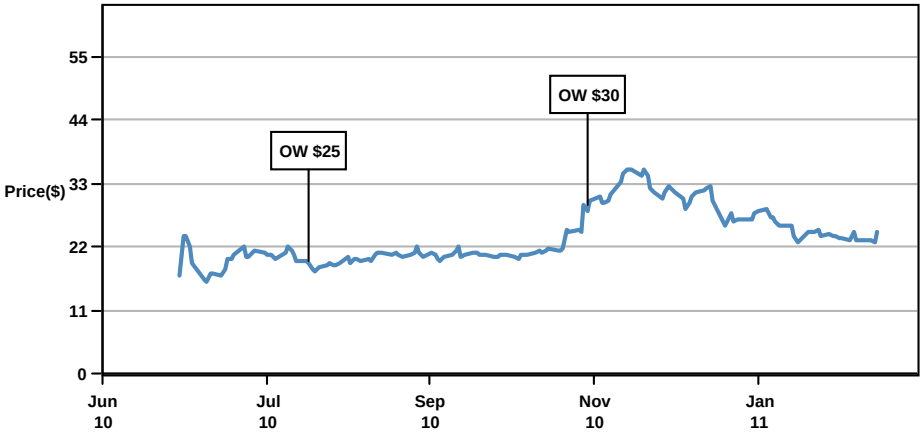
Tesla Motors (TSLA) Price Chart



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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J.P. Morgan Equity Research Ratings Distribution, as of December 31, 2010

	Overweight (buy)	**Neutral** (hold)	**Underweight** (sell)
J.P. Morgan Global Equity Research Coverage	46%	42%	12%
IB clients*	53%	50%	38%
JPMS Equity Research Coverage	43%	49%	8%
IB clients*	71%	63%	59%

*Percentage of investment banking clients in each rating category.
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CAPSTONE INVESTMENTS | Strategy, Vision, Innovation

Tesla Motors, Inc.

(TSLA: NNM; $22.84)

Sell | Target: $19

February 16, 2011

Carter Driscoll, CFA / 973-821-4330 /
carter@capstoneinvestments.com

Company Statistics

12-month Price Target:	$19
Current Price:	$22.84
Shares Outstanding (M):	94.2
Institutional Holdings:	8%
Market Cap (M):	$2,152.4
EV (M):	$2,124.7
EV/EBITDA:	NM
52-wk Range:	$14.98-$36.42
Avg. Daily Vol. (000):	1,272
Dividend:	NA
Price/Book Value:	10.4x
Book Value/sh:	$2.19

Financials

FYE Dec		**2010A**	**2011E**	**2012E**
EBITDA (M):		($136.2)	($173.6)	($63.2)
P/E Ratio:		NM	NM	NM
Revenue (M):	Q1	$20.8	$37.8	$39.9
	Q2	$28.4	$46.2	$46.6
	Q3	$31.2	$47.2	$193.7
	Q4	$36.3	$39.8	$309.0
Total		**$116.7**	**$171.0**	**$589.2**
EPS:	Q1	($1.35)	($0.52)	($0.43)
	Q2	($1.68)	($0.57)	($0.45)
	Q3	($0.38)	($0.55)	($0.32)
	Q4	($0.54)	($0.51)	($0.28)
Total		**($3.04)A**	**($2.15)**	**($1.47)**

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 ~ 1,400 vehicles sold through 3Q10. Tesla's next-generation EV called the Model S is set to launch in 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: INLINE QTR; NO NEW OEMS; HIGHER CAPEX; SELL

- **4Q10 inline but higher capex impacts 2011.** TSLA reported 4Q10 sales and EPS largely inline with expectations. Sales of $36.3M and GAAP EPS of $0.54 were neither great nor terrible. TSLA offered initial 2011 guidance of $160-$175M, in line with our previous forecasts. Swing factors include how quickly they can satisfy the RAV4 powertrain contract, uptake in battery pack sales and ability to satisfy Roadster demand in 2011 vs. 2012 (backlog is high).
- **Expenses and capex going up.** The sales guidance comes at a price, namely far higher capex and somewhat higher expenses. TSLA indicated they had deferred some capex in 2010 until 2011 but the $190-$215M is far higher than our $135M forecast. We have always believed the tooling and assembly equipment, along with road & safety tests, prototype builds and current factory under utilization would prove more costly than first thought and the 2011 capex guidance and higher opex appear to support that view.
- **No new OEMs.** TSLA did not add any new OEM partnerships in 4Q10 and indicated it had its hands full with the Toyota Rav4 contract. Furthermore, although TSLA sold more battery packs/chargers to Daimler for Daimler's Smart ForTwo electric drive, there is no timetable for commercial production and no guarantee that TSLA wins that business if/when it occurs.
- **Turning away Roadster business?** TSLA stated they were turning away Roadster sales as it winds down these "collector items". We thought they were cars for sale not toys. We guess TSLA wants to focus on the Model S development with its lower expected price point, greater size and range rather than low volume expensive EVs.
- **Reduce target to $19 on higher expenses and capex**. We use a combination of EV/Sales, EV-EBITDA multiples on 2014E discounted at 20% and a 5-year DCF to reach our target price. We would use any strength from positive sentiment to reduce long positions and / or initiate short ones. We reiterate our SELL rating. We believe execution risk remain very high with competition rapidly accelerating.

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Figure 1: 4Q10 Performance Relative to CapStone Investments Estimates

Line Item	4Q10A	4Q10E	H/(L) Variance	% Var. Rel. to Est.	Historical 4Q09A	Historical % Chg	Historical 3Q10A	Historical % Chg
Automotive Sales	$29.2	$23.5	$5.7	24%	$18.6	57%	$23.4	25%
Development Service Sales	$7.1	$14.4	($7.3)	-51%	NA	NM	$7.9	-10%
Total Sales	$36.3	$37.9	($1.6)	-4%	$18.6	95%	$31.2	16%
Auto Gross Margin	20%	10%	10%	98%	10%	106%	17%	19%
Develop. Services Gross Mgn	78%	60%	18%	30%	NA	NM	68%	14%
Gross Margin	31.2%	21.5%	9.7%	45%	9.6%	226%	29.8%	5%
R&D	$37.6	$36.0	$1.7	5%	$8.1	362%	$26.7	41%
SG&A	$25.3	$30.3	($4.9)	-16%	$16.6	53%	$20.4	24%
EBITDA	($48.8)	($55.1)	$6.36	12%	($21.0)	-132%	($34.7)	-40%
EBITDA Margin	-134%	-146%	11.2%	8%	-113%	-19%	-111%	-21%
GAAP EPS	($0.54)	($0.60)	$0.06	9%	($1.15)	53%	($0.38)	-44%
Adjusted EPS	($0.47)	($0.56)	$0.09	16%	($1.15)	59%	($0.37)	-26%
FY11 Revenue Guidance	$160-$175M							

Source: Company reports and CapStone Investments estimates

Positives for Tesla during the call/quarter:

- Sequential sales growth of ~16% was driven by strong powertrain component sales (>$9M, up ~80% q/q).
- Gross margin reached a record 31.2% ahead of our expectations on stronger than expected ASP for the Roadster and some cost reductions.
- TSLA introduced its first Model S alpha prototype which the company exhibited at the North American auto show in Detroit last month. TSLA believes it will have the beta prototype ready sometime in mid-to-late 2011.
- Daimler increased its orders for the battery pack and charger for the Smart ForTwo electric drive from 1,500 to 1,800 sets. However the Smart ForTwo car is not yet in volume production so the incremental revenue impact will be limited until the RFP is awarded. TSLA would appear to have the inside track to win the business but the timing and scale are unknown.
- Tesla and Toyota finalized the powertrain specs for Toyota RAV4 EV, which could deliver ~$60M in additional development service revenue (~$9M from the original order) over the next 4-5 quarters (assuming TSLA hits its operational and delivery targets).
- TSLA claims to have established most of its sourcing relationships.

Negatives for Tesla during the call/quarter:

- Capex for 2011 is going way up. TSLA deferred capex in 2010 and now plans on spending $190-$215M in 2011, far higher than the $135M we had previously forecast. One of our concerns has always centered TSLA's underestimation of the capital intensity needed to manufacture an automobile.
- Vertical strategy will be costly. The CEO admitted TSLA would not have the same leverage with auto parts suppliers given it small size. Part of TSLA's vertical strategy is to be able to adapt quickly (e.g. if demand

exceeds expectations they could add another shift) and use only one shift to build the Model S. Management believes that part of the reason they want to be able to manufacture and assemble virtually all aspects of the Model S is to ore tightly control unit costs. However, we could easily see under absorption becoming a problem is demand does not ramp as expected.

- No new OEM partnerships announced. TSLA did not sign any new OEMs for battery or powertrain development. Management indicated they had their hands full satisfying the Toyota partnership for the RAV4 but additional outside validation of their technology would likely have boosted the stock.
- Model S reservations improved only modestly. TSLA reported it ended 4Q10 with ~3,400 reservations and now has ~3,700, which we view as neutral at best. TSLA indicated that they really have not begun to sell the Model S since they do not have a test model (beta) available. Fair enough. So why have 16 dealerships open when you only plan on selling another 1,000 Roadsters through 2012 and you have no Model S to test drive? We still do not agree with the distribution strategy. Dealerships make most of their profits on parts/service and used cars, not new cars.
- Net losses more than doubled. While revenue did grow nicely, the net loss more than doubled y/y. Development services revenue declined ~10% q/q as the Daimler A-class program was completed, partially offset by early work of the RAV4 powertrain.
- Cash burn increased q/q. TSLA drew down ~$15M from the DoE loan, but the real draw down is just beginning. We expect that as TSLA's fully builds out its Fremont facility we expect the company to max out the $465M DoE loan.

Conclusion – More capex means costs are creeping up

We have modestly increased our 2011E and 2012E forecasts for net losses. We continue to believe that Tesla will face some delays implementing its vertical strategy. We believe its distribution strategy will prove costly and unnecessary and that competitor entrance in EVs will siphon away some customers. We have modestly reduced our price target from $22 to $19 to reflect our higher losses and reiterate our SELL rating.

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 2: Tesla Motors, Inc.: HISTORICAL AND PROJECTED INCOME STATEMENT

$M	2009					2010A					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1Q Mar-10	2Q Jun-10	3Q Sep-10	4Q Dec-10	2010A YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Automotive Revenues	$20.9	$26.9	$45.5	$18.6	$111.9	$20.6	$24.0	$23.4	$29.2	$97.1	$23.0	$30.3	$30.4	$23.1	$106.9	$532.1
Battery Packs, Develop. Service Revenue	0.0	0.0	0.0	0.0	0.0	0.2	4.4	7.9	7.1	19.7	14.8	15.8	16.8	16.7	64.0	57.1
Total Revenues	**$20.9**	**$26.9**	**$45.5**	**$18.6**	**$111.9**	**$20.8**	**$28.4**	**$31.2**	**$36.3**	**$116.7**	**$37.8**	**$46.2**	**$47.2**	**$39.8**	**$171.0**	**$589.2**
YoY Growth	*0%*	*0%*	*0%*	*0%*	*659%*	*0%*	*5%*	*-31%*	*95%*	*4%*	*82%*	*62%*	*51%*	*10%*	*46%*	*245%*
QoQ Growth	*NA*	*29%*	*69%*	*-59%*		*12%*	*36%*	*10%*	*16%*		*4%*	*22%*	*2%*	*-16%*		
Cost of Sales - Auto	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	25.0	86.0	26.6	33.8	34.5	28.0	122.9	502.8
Cost of Sales - Batteries, Develop. Services	0.0	0.0	0.0	0.0	0.0	0.1	1.9	2.5	1.6	6.0	5.9	5.9	5.9	5.8	23.5	18.6
Total COGS	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	25.0	86.0	26.6	33.8	34.5	28.0	122.9	502.8
Gross Profit	(2.0)	2.1	7.7	1.8	9.5	3.9	6.3	9.3	11.3	30.7	11.2	12.4	12.7	11.8	48.1	86.4
R & D	7.9	1.9	1.3	8.1	19.3	13.3	15.4	26.7	37.6	93.0	35.9	41.5	40.1	35.8	153.4	101.7
S G & A	6.6	8.2	10.7	16.6	42.2	16.6	22.2	20.4	25.3	84.6	25.7	26.3	26.4	26.3	104.7	119.1
Total Operating Expenses	14.5	10.2	12.0	24.7	61.4	29.9	37.6	47.1	63.0	177.6	61.6	67.9	66.6	62.1	258.1	220.8
EBIT	(16.6)	(8.1)	(4.3)	(22.9)	(51.9)	(26.0)	(31.4)	(37.8)	(51.6)	(146.8)	(50.5)	(55.5)	(53.8)	(50.3)	(210.1)	(134.4)
EBITDA	**(15.2)**	**(6.4)**	**(2.3)**	**(21.0)**	**(45.0)**	**(23.9)**	**(28.9)**	**(34.7)**	**(48.8)**	**(136.2)**	**(43.6)**	**(47.6)**	**(43.5)**	**(39.0)**	**(173.6)**	**(63.2)**
EBITDA Margin	*-73%*	*-24%*	*-5%*	*-113%*	*-40%*	*-115%*	*-102%*	*-111%*	*-134%*	*-117%*	*-115%*	*-103%*	*-92%*	*-98%*	*-102%*	*-11%*
Interest & Other Income, Net	0.6	(2.8)	(0.5)	(1.1)	(3.2)	(3.4)	(7.1)	3.0	0.3	(7.3)	0.9	0.7	0.8	0.6	3.0	(11.2)
Pretax Income	(16.0)	(10.9)	(4.8)	(24.0)	(55.1)	(29.4)	(38.5)	(34.9)	(51.4)	(154.2)	(49.6)	(54.7)	(53.1)	(49.7)	(207.1)	(145.6)
Taxes	0.0	0.0	(0.2)	0.2	0.0	0.1	0.0	0.1	(0.0)	0.2	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.3)
Tax Rate	*0.0%*	*-0.1%*	*4.5%*	*-1.0%*	*0.0%*	*-0.4%*	*0.0%*	*-0.2%*	*0.1%*	*-0.1%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
GAAP Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(55.1)**	**(29.5)**	**(38.5)**	**(34.9)**	**(51.4)**	**(154.3)**	**(49.5)**	**(54.6)**	**(52.9)**	**(49.6)**	**(206.6)**	**(145.3)**
GAAP Net Margin	*-77%*	*-40%*	*-10%*	*-130%*	*-49%*	*-142%*	*-136%*	*-112%*	*-142%*	*-132%*	*-131%*	*-118%*	*-112%*	*-125%*	*-121%*	*-25%*
GAAP EPS	**($0.77)**	**($0.52)**	**($0.22)**	**($1.15)**	**($2.65)**	**($1.35)**	**($1.68)**	**($0.38)**	**($0.54)**	**($3.04)**	**($0.52)**	**($0.57)**	**($0.55)**	**($0.51)**	**($2.15)**	**($1.47)**
YoY Growth	*NA*	*NA*	*NA*	*NA*	*3%*	*76%*	*223%*	*73%*	*-53%*	*-15%*	*-61%*	*-66%*	*45%*	*-6%*	*29%*	*32%*
QoQ Growth	*NA*	*32%*	*58%*	*-425%*		*-17%*	*-25%*	*77%*	*-44%*		*4%*	*-9%*	*4%*	*7%*		
Chg in Fair Value Warrants	0.1	0.0	0.3	0.0	0.4	2.3	6.3	(3.1)	(0.6)	5.0	(0.6)	(0.6)	(0.6)	(0.6)	(2.3)	(2.3)
Amort. Stock Comp. Expense	0.1	0.2	0.2	0.0	0.4	3.4	6.1	3.8	7.8	21.2	3.5	3.5	3.5	3.5	14.0	16.0
Pro Forma Net Income	($15.9)	($10.7)	($4.1)	($24.2)	($54.3)	($23.8)	($26.1)	($34.2)	($44.1)	($128.1)	($46.6)	($51.7)	($50.0)	($46.7)	($195.0)	($131.7)
Pro forma EPS						**($1.09)**	**($1.14)**	**($0.37)**	**($0.47)**	**($2.53)**	**($0.49)**	**($0.54)**	**($0.52)**	**($0.48)**	**($2.03)**	**($1.33)**
Average Shares Outstanding	20.9	20.9	21.0	21.1	21.1	21.9	22.9	92.3	94.2	50.7	95.0	95.7	96.5	97.2	96.1	99.1
Percent of Revenue																
Cost of Sales	109.8%	92.2%	83.1%	90.4%	91.5%	81.5%	78.0%	70.2%	68.8%	73.7%	70.5%	73.2%	73.0%	70.4%	71.9%	85.3%
Gross Profit	(9.8%)	7.8%	16.9%	9.6%	8.5%	18.5%	22.0%	29.8%	31.2%	26.3%	29.5%	26.8%	27.0%	29.6%	28.1%	14.7%
R & D	38.0%	7.2%	2.8%	43.8%	17.2%	63.7%	54.3%	85.5%	103.7%	79.7%	95.0%	90.0%	85.0%	90.0%	89.7%	17.3%
S G & A	31.6%	30.6%	23.6%	89.1%	37.7%	79.7%	78.2%	65.4%	69.9%	72.4%	68.0%	57.0%	56.0%	66.0%	61.3%	20.2%
Total Operating Expenses	69.7%	37.8%	26.3%	132.9%	54.9%	143.4%	132.5%	150.9%	173.5%	152.1%	163.0%	147.0%	141.0%	156.0%	151.0%	37.5%

Source: Company reports and CapStone Investments estimates

Figure 3: Tesla Motors, Inc.: HISTORICAL AND PROJECTED CASH FLOWS AND BALANCE SHEET

$M	2009					2010A					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1Q Mar-10	2Q Jun-10	3Q Sep-10	4Q Dec-10	2010A YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Operating Sources:																
Net Income	($16.0)	($10.9)	($4.6)	($24.2)	($55.7)	($29.5)	($38.5)	($34.9)	($51.4)	($154.3)	($49.5)	($54.6)	($52.9)	($49.6)	($206.6)	($145.3)
Depreciation and Amortization	1.4	1.7	1.9	1.9	6.9	2.1	2.5	3.1	2.9	10.6	6.9	7.9	10.4	11.3	36.5	71.2
Total	**(14.6)**	**(9.2)**	**(2.7)**	**(22.3)**	**(48.8)**	**(27.4)**	**(36.0)**	**(31.8)**	**(48.5)**	**(143.7)**	**(42.6)**	**(46.8)**	**(42.6)**	**(38.3)**	**(170.2)**	**(74.1)**
Change in Working Capital																
Accounts Receivable	2.8	(4.0)	3.2	(2.1)	(0.2)	(2.4)	(0.5)	(1.6)	1.4	(3.2)	(0.3)	(1.5)	(0.2)	1.4	(0.6)	(60.4)
Inventories	(4.9)	(3.8)	4.7	(3.9)	(7.9)	(5.5)	(1.1)	(10.3)	(5.7)	(22.6)	(8.1)	(14.3)	(13.6)	(12.3)	(48.3)	(43.4)
Other Current Assets	(0.2)	(2.3)	(0.3)	0.4	(2.5)	(0.1)	(1.3)	(8.5)	(2.0)	(11.8)	0.0	0.0	0.0	0.0	0.0	0.0
Non-Debt Current Liabilities	0.5	5.2	(29.3)	(3.4)	(27.0)	2.2	8.5	2.8	18.7	32.2	(8.0)	9.5	2.7	(4.7)	(0.5)	161.1
Total	(1.9)	(4.9)	(21.7)	(9.0)	(37.5)	(5.8)	5.5	(17.6)	12.5	(5.4)	(16.4)	(6.3)	(11.0)	(15.7)	(49.5)	57.3
Capital Expenditures	0.9	2.5	2.3	6.2	11.9	5.5	12.2	65.9	23.6	107.2	35.5	50.0	64.0	43.0	192.5	154.4
Operating Cash Flow	**($17.4)**	**($16.6)**	**($26.7)**	**($37.5)**	**($98.2)**	**($38.7)**	**($42.7)**	**($115.3)**	**($59.7)**	**($256.3)**	**($94.5)**	**($103.1)**	**($117.6)**	**($97.0)**	**($412.1)**	**($171.2)**
Cash Flow per Share	**($0.83)**	**($0.79)**	**($1.27)**	**($1.78)**	**($4.66)**	**($1.76)**	**($1.86)**	**($1.25)**	**($0.63)**	**($5.05)**	**($0.96)**	**($1.04)**	**($1.18)**	**($0.97)**	**($4.29)**	**($1.73)**
Non-Operating Activities:	8.1	16.6	133.2	0.6	158.6	30.6	28.5	164.5	62.7	286.2	68.7	68.7	93.7	93.7	324.7	167.0
Beginning Cash and Invest.	**$9.3**	**$0.0**	**$0.0**	**$106.5**	**$9.3**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$69.6**	**$99.6**	**$73.8**	**$39.4**	**$15.5**	**$99.6**	**$12.1**
Net Cash Flow	**(9.3)**	**0.0**	**106.5**	**(36.9)**	**60.4**	**(8.1)**	**(14.2)**	**49.3**	**3.0**	**29.9**	**(25.8)**	**(34.4)**	**(23.9)**	**(3.3)**	**(87.4)**	**(4.2)**
Ending Cash and Invest.	**$0.0**	**$0.0**	**$106.5**	**$69.6**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$99.6**	**$99.6**	**$73.8**	**$39.4**	**$15.5**	**$12.1**	**$12.1**	**$7.9**
Assets																
Cash & Equivalents				$69.6		$61.5	$47.3	$96.6	$99.6		$73.8	$39.4	$15.5	$12.1		
Restricted Cash				0.0		0.0	0.0	88.1	73.6		73.6	73.6	73.6	73.6		
Accounts Receivable				3.5		5.9	6.5	8.1	6.7		7.0	8.5	8.7	7.4		
Inventories				23.2		28.6	29.5	39.5	45.2		53.3	67.5	81.1	93.5		
Prepaid & Other CA				4.2		4.5	6.7	8.9	10.8		10.8	10.8	10.8	10.8		
Total Current Assets				**100.6**		**100.6**	**90.0**	**241.1**	**235.9**		**218.5**	**199.9**	**189.8**	**197.4**		
Operating Lease Vehicles				0.0		0.0	0.0	5.7	8.0		8.0	8.0	8.0	8.0		
Net PP&E				23.5		26.9	33.2	37.2	114.6		131.0	173.2	226.8	254.2		
Goodwill & Intangible Assets				3.6		7.5	5.4	57.5	4.9		4.9	4.9	4.9	4.9		
Other Assets				2.8		10.4	19.4	20.1	22.7		22.7	22.7	22.7	22.7		
Total Assets				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$386.1**		**$385.1**	**$408.6**	**$452.1**	**$487.1**		
Liabilities																
Accounts Payable				$15.1		$18.2	$25.6	$27.0	$37.9		$27.9	$35.4	$36.1	$29.4		
Accrued Liabilities				14.5		7.9	8.4	10.7	12.0		12.0	12.0	12.0	12.0		
Defd Development Compensation				0.2		0.0	0.0	0.0	3.6		3.6	3.6	3.6	3.6		
Deferred Revenue				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Capital Lease Obligations, Current				14.5		7.9	8.4	10.7	12.0		12.0	12.0	12.0	12.0		
Reservation Payments				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Current Liabilities				**$57.5**		**$59.1**	**$68.6**	**$69.3**	**$88.1**		**$80.1**	**$89.5**	**$92.3**	**$87.5**		
Common Stock Warrant Liability				0.0		0.0	16.7	6.7	6.1		0.0	0.0	0.0	0.0		
Convertible Pfd Stock Warrant Liability				1.7		10.4	0.0	0.0	0.0		0.0	0.0	0.0	0.0		
Capital Lease Obligations, Non-Current				0.8		0.7	0.6	0.6	0.8		0.0	0.0	0.0	0.0		
Deferred Revenue, less current				1.2		1.4	2.1	2.5	2.5		0.0	0.0	0.0	0.0		
Long-Term Debt - DoE Loan				0.0		29.9	45.4	56.6	71.8		140.5	209.2	277.8	345.8		
Other Long Term Liabilities				3.5		3.9	5.0	6.1	9.8		9.8	9.8	9.8	9.8		
Total Liabilities				**$64.7**		**$105.4**	**$138.5**	**$141.7**	**$179.0**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Total Convertible Pfd Stock				**$319.2**		**$319.2**	**$319.2**	**$0.0**	**$0.0**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Series A Convert. Pfd (7.2M shs)				3.5		3.5	3.5	0.0	0.0		0.0	0.0	0.0	0.0		
Series B Convert. Pfd (17.5M shs)				12.9		12.9	12.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series C Convert. Pfd (35.2M shs)				39.8		39.8	39.8	0.0	0.0		0.0	0.0	0.0	0.0		
Series D Convert. Pfd (18.4M shs)				44.9		44.9	44.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series E Convert. Pfd (102.8M shs)				135.7		135.7	135.7	0.0	0.0		0.0	0.0	0.0	0.0		
Series F Convert. Pfd (27.8M shs)				82.4		82.4	82.4	0.0	0.0		0.0	0.0	0.0	0.0		
Total Liabilities & Convert Pfd				**$383.9**		**$424.6**	**$457.7**	**$141.7**	**$179.0**		**$230.3**	**$308.5**	**$379.9**	**$443.1**		
Shareholders' Equity				**($253.5)**		**($279.3)**	**($309.8)**	**$219.9**	**$207.0**		**$154.7**	**$100.1**	**$72.2**	**$44.0**		
Total Liabilities and Equity				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$386.1**		**$385.1**	**$408.6**	**$452.1**	**$487.1**		
Key Financial Ratios																
Days Receivable Outstanding				17.1		26.0	20.8	23.5	16.9		16.9	16.9	16.9	16.9		
Inventory Turns				2.9x		2.4x	3.0x	2.2x	2.2x		2.0x	2.0x	1.7x	1.2x		
Days Payable				74.1		79.8	82.3	78.8	95.3		95.3	95.3	95.3	95.3		
Book Value				($12.03)		($12.75)	($13.51)	$2.38	$2.20		$1.58	$1.01	$0.73	$0.44		
Cash per Share				$3.31		$2.81	$2.06	$1.05	$1.06		$0.75	$0.40	$0.16	$0.12		

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES
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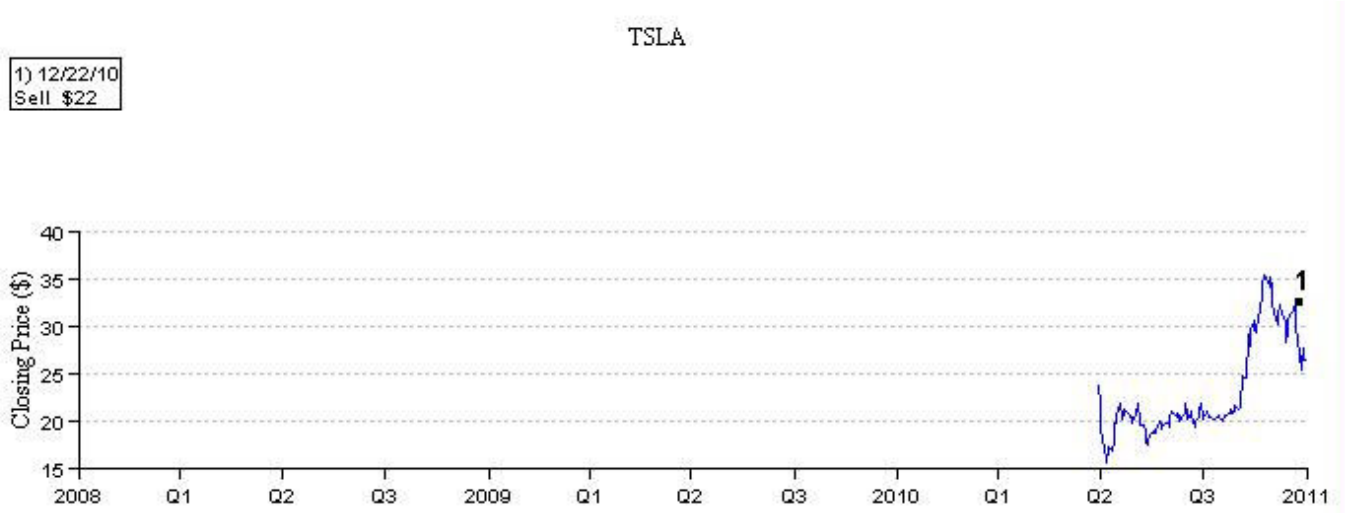

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CapStone Equity Research Disclosures as of February 16, 2011

Company	Disclosure
Tesla Motors, Inc. (TSLA)	None

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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Tesla Motors

More on Model X; 2011 Guidance Comments; Model S Launch Updates

Overweight

TSLA, TSLA US
Price: $24.73
Price Target: $30.00

Automobile Manufacture

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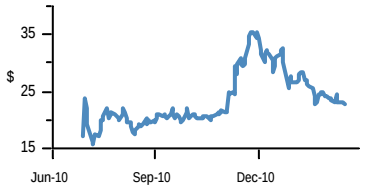
Price Performance



	YTD	1m	3m	12m
Abs	-14.2%	-11.3%	-25.8%	34.4%

Please note that we changed our EPS estimates across the board following 2011 revenue, SG&A, and R&D guidance from TSLA coupled with a slightly higher share count (109MM vs. 103MM earlier): 2011e: -$2.14 (vs. -$1.88 earlier); 2012e: -$1.56 (vs. -$1.46 earlier); 2013e: $1.45 (vs. $1.51 earlier); 2014e $1.15 (vs $1.07 earlier); and 2015e $3.10 (vs. $3.12 earlier)

Stock view: We retain our Overweight rating on TSLA, with a DCF-derived Dec-2011 price target of $30 and what we believe is three-year upside potential of $40-50. We remain bullish on this hardcore technology company that commands excellence in multiple areas of vehicle engineering and has notable cost advantage vs. peers on battery cost per kWh (about as much as 50% currently). We highlight that our price target is based on 8.5% terminal operating margin, which is significantly below *"midteen"* operating margin guidance long term. Higher margins could provide further upside to our DCF-based valuation; each percentage point in margin adds $4 to fair value. Reiterate Overweight.

Key conference call takeaways:

- **Details on Model X:** TSLA seemed to indicate that the Model X, a 3-row CUV variant built on the Model S platform, would have comparable pricing to the Model S (i.e., ~$60K). TSLA expects production volume of the Model X to be twice that of other premium luxury vehicles (in line with Model S) and will likely unveil a prototype by year-end. We note that the Model S was first revealed in March 2009 and an alpha prototype was launched in late 2010; however, the time to market for the Model X should be notably shorter given an already established platform and functioning manufacturing facility.

- **Thoughts on required funding for development of Model X:** Given the available liquidity of $566MM (cash + untapped DoE loan), launch costs related to Model S in 2011-2012 (2011 capex excluding Model X development cost guided to $190-215MM) and an incremental $100-150MM of capex required for the Model X vehicle, we suspect available liquidity may not be enough and Tesla may need to access external equity capital.

- **Model S launch update:** While reiterating that Model S is on track for mid-2012 launch, TSLA mentioned that the Fremont manufacturing facility will be fully up and running by year-end and the beta prototype of Model S will undergo intensive safety testing at the end of summer. Meanwhile, it was encouraging to see that Model S advance registrations popped up (to 3,700 vs. 3,400 at year-end) in the last few months after release of alpha version of the vehicle. Marketing campaign for Model S will be launched in H2:2011, but automotive media may or may not get beta version of the vehicle by year-end. Further, it seems that TSLA may have more range on the highest-range version (300 miles on a single charge) of the Model S.

Tesla Motors, Inc. (TSLA;TSLA US)

	2010A	2011E	2012E	2013E	2014E	2015E
EPS Reported ($)						
Q1 (Mar)						
Q2 (Jun)						
Q3 (Sep)	(0.37)					
Q4 (Dec)	(0.47)					
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 4 for analyst certification and important disclosures.

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- **2011 guidance commentary:** Management guided 2011 revenues to be $150-175MM (+40-50% y/y), and noted that Development Services will have the same run rate as 4Q while Powertrain revenues will be roughly flat with 2010; we estimate this implies a +10-15% increase in Roadster unit volumes in 2011. Gross margins in 2011 could be below 4Q (31.2%), largely a function of revenue mix. Development Services carry a high 50-70% gross margin, whereas Roadster and Powertrain have similar gross margins of ~20%. Further, SG&A and R&D are expected to moderately increase from Q4 run rate. Similarly, management guided 2011 capex to be in the range of $190-215MM, slightly higher than what we would have expected, likely explained by: a) incremental insourcing (i.e., stampings and plastics); b) newer technology in paint/body shop; c) more automation to produce 3,000 units in single shift (earlier plant required 2 shifts), and d) under-running of capex in 2010 ($105MM vs. $100-125MM guidance). We note that this year's capex will be largely funded by TSLA's DoE loan.

- **4Q:10 details:** Roadster volumes declined slightly q/q to 149 units (vs. 151 units in 3Q:10), likely due to seasonal reasons. Roadster ASP, however, grew sequentially and the increase was attributed to: higher Asian mix, higher option take rates in Europe, and favorable foreign exchange. Gross margins improved to 31.2% in 4Q (vs. 29.8% in 3Q) due to lower labor and overhead costs. R&D expenditure spiked up to $38MM (vs. $27MM in 3Q) on account of building the alpha version of Model S, relocation of employees from Los Angeles to Palo Alto, and higher headcount.

- **Expansion in Chinese market:** TSLA mentioned that it will enter the China market in 2013, at the earliest, as an anticipated strong demand for Model S in existing markets, which should outpace production in 2012, would make entry into new markets less attractive phenomena in the 2012 time frame. Further, mgmt. stated that it will not make significant modifications to Model S for Chinese market consumption, a strategy similar to the one used by German luxury OEMs. Also, TSLA is not looking for any partner with which to penetrate the Chinese market.

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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.

Analyst Certification:
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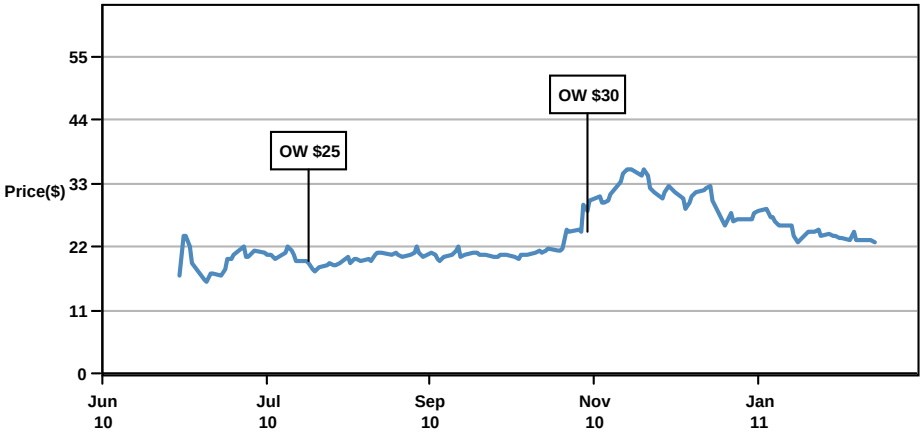
Tesla Motors (TSLA) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
09-Aug-10	OW	19.59	25.00
10-Nov-10	OW	24.63	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.
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IB clients*	53%	50%	38%
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February 16, 2011

Andrea James (206) 285-0080 ajames@doughertymarkets.com

TESLA MOTORS INC. (TSLA) BUY - $22.84

APPLIED TECHNOLOGIES

PLEASE REFER TO DISCLOSURES ON PAGES 5 & 6 FOR IMPORTANT INFORMATION

The Business is Building; Reiterate PT & Buy

Changes: FY11 Revenue to $168MM from $159MM
FY11 EPS to ($2.12) from ($1.74)-- reflects higher R&D estimate & higher share counts
FY12 Revenue to $135MM from $127MM
FY12 EPS to ($2.33) from ($2.16) -- reflects higher R&D estimate & higher share counts
Initiating FY13 estimates

Financial Summary*

Adj. EPS	2010	2011E	2012E	2013E
Mar	-3.26A	-0.54	-0.48	0.23
Jun	-3.41A	-0.55	-0.48	0.76
Sep	-0.37A	-0.52	-0.68	0.39
Dec	-0.47A	-0.51	-0.69	0.21
FY	-2.53	-2.12	-2.33	1.57
Revs ($'000)				
Mar	$20,812A	$39,059	$40,373	$344,570
Jun	$28,405A	$42,855	$40,176	$595,160
Sep	$31,241A	$47,869	$29,602	$430,100
Dec	$36,286A	$38,460	$24,722	$347,570
FY	$116,744	$168,244	$134,873	$1,717,401
Mkt Cap/Rev	18x	13x	16x	1x

Price	$22.84
12-Month Target	$30.00
52-Week Range	$14.98-$36.42
Diluted Shares ('000)	94,240
Market Cap ('000)	$2,152,442
Avg. Daily Vol	741,838
3-5 Yr. Revenue Growth	20%+
3-5 Yr. EPS Growth	20%+
Book Value	$2.20
LT Debt / Total Capital	26%
Insider Ownership	57%
Est. Q1 Reporting Date	May '11

*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.

Investment Thesis:

After the close last night, Tesla Motors reported Q410 revenue that was better than expectations, with strength driven by Roadster sales and development services work for Daimler and Toyota. Tesla also guided to FY11 revenue above street expectations, driven by development revenue from Toyota and higher-ASP Roadster sales in Europe and Asia. R&D costs were higher than we had modeled and should continue to rise in FY11. We have adjusted our estimates accordingly.

Our two biggest takeaways from the quarterly earnings call were:

1) While Model S development progresses on schedule, the company is making adjustments to its manufacturing plan for the vehicle. Tesla plans to invest in paint and body shop technologies that should help the company see higher margins on the Model S. It also is expanding the capacity of its automation lines to produce 20,000 units per year on one work shift, as opposed to two. Such investments should result in capital expenditures of $190MM to $215MM in 2011, which is higher than the $120MM previously planned. We note that the company appears to have enough cash available to bring the Model S to market. We believe that these investments should have a positive impact on long-term profitability.

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2) Tesla may decide to raise additional capital to fund Model X[1] development, according to management. We expect any capital raise to occur toward the end of FY11, after the company has revealed a beta version of the Model S. Development costs for the Model X are expected to be $100MM to $150MM, according to management. Though a capital raise is not certain, we have adjusted our Q411 share count in anticipation of one.

On the conference call, management also provided a favorable update on Model S development. The first Alpha build of the Model S was driven in December, and the company is now testing 15 builds. Next, the company plans to finish its beta build over the summer and offer test rides by year end. CEO Elon Musk says he drives the alpha build each week and that "it feels very light and agile on the road."

Development Services revenue continues to be strong and helps to fund Model S development. We believe that about $67MM in revenue still remains to be realized on the Toyota Rav4 contract over the next five quarters. Also, Daimler increased its orders for the Smart fortwo electric battery packs from 1,500 units to 1,800. This is the third increase from Daimler and an endorsement of Tesla's battery technology.

Given the solid results and favorable outlook, we reiterate our $30 PT and Buy rating. Our PT is based on a DCF that takes into account sales of Tesla's new Model S, slated for release in 2012.

Dougherty & Co. estimates:

TESLA	2010 A	2011 E	2012 E	2013 E	2014 E
Roadster Revenue	72,728	79,570	49,608	-	-
Model S Revenue	-	-	159	1,626,208	2,032,760
ZEV Credit Revenue	1,302	4,000	4,000	4,000	4,000
Dest. Charges & Leasing	1,607	1,474	1,107	26,193	32,491
Powertrain Revenue	21,441	21,200	32,000	33,000	36,000
Development Revenue	19,666	62,000	48,000	28,000	28,000
Total revenue	116,744	168,244	134,873	1,717,401	2,133,251
GM	26%	28%	10%	25%	25%
OM	-126%	-140%	-199%	9%	13%
EBITDA	(136,216)	(225,809)	(256,523)	166,984	285,914
EBITDA/Share	(2.69)	(2.34)	(2.51)	1.43	1.97
EPS	(2.53)	(2.12)	(2.33)	1.57	2.08
Assumptions					
Roadster Units	567	620	376	-	-
Model S Units	-	-	2	20,000	25,000

Q410 Quarterly highlights

- Tesla reported Q410 revenue of $36MM, which beat our $33MM estimate and beat the street average estimate of $34MM.

- Gross margin of 31% was better than our 23% estimate, but we do not believe that this margin level is sustainable as it was driven by revenue and expense recognition timing related to development services contracts. Gross margins from automotive sales were 19.8% and gross margins from development services were 78%.

- The Q410 net loss was $51MM, which was greater than our $41MM estimate and the street's $49MM estimate, mostly caused by higher-than-expected R&D costs. The Thomson Reuters consensus EPS figure was an amalgamation of GAAP and non-GAAP estimates, and thus, there is no reliable consensus comparison.

- Management issued FY11 revenue guidance of $160MM to $175MM, or growth of roughly 40% to 50%. The midpoint was 5% higher than our $159MM expectation and 10% higher than the street's $152MM expectation. We believe that the growth will come from development work related to the Toyota Rav4 and higher ASPs on the Roadster, helped in part by foreign sales.

[1] A variant on the Model S platform that will serve as a crossover SUV.

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- Tesla sold 149 Roadsters in the quarter. We estimate that the average selling price per Roadster was about $135,000 per vehicle, up 12% sequentially.

- Development services revenue of $7.1MM was better than our estimate of $5.5MM. We note that revenue recognition here can be lumpy.

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.)

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	Actual												Estimated							Model S Begins		
TESLA	FY 2007	FY 2008	Q1 2009 MAR	Q2 2009 JUN	Q3 2009 SEP	Q4 2009 DEC	FY 2009	Q1 2010 MAR	Q2 2010 JUN	Q3 2010 SEP	Q4 2010 DEC	FY 2010	Q1 2011E 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
Income Statement																						
YOY		20095%					659%	-0.4%	5.4%	-31.4%	95.2%	4%	87.7%	50.9%	53.2%	6.0%	44%	3.4%	-6.3%	-38.2%	-35.7%	-20%
QOQ				29.0%	69.0%	-59.2%		12.0%	36.5%	10.0%	16.1%			9.7%	11.7%	-19.7%			-0.5%	-26.3%	-16.5%	
Auto Sales	73	14,742	20,886	26,945	45,527	18,585	111,943	20,585	23,971	23,350	29,172	97,078	24,059	27,855	31,869	22,460	106,244	23,373	23,176	22,602	17,722	86,873
Development services sales	-	-	-				-	227	4,434	7,891	7,114	19,666	15,000	15,000	16,000	16,000	62,000	17,000	17,000	7,000	7,000	48,000
Total Revenue	73	14,742	20,886	26,945	45,527	18,585	111,943	20,812	28,405	31,241	36,286	116,744	39,059	42,855	47,869	38,460	168,244	40,373	40,176	29,602	24,722	134,873
Cost of Auto sales	9	15,883	22,932	24,844	37,828	16,804	102,408	16,858	20,266	19,457	23,401	79,982	21,653	25,069	27,089	20,214	94,026	18,699	18,541	33,084	29,180	99,504
Cost of development svs	-	-	-	-	-	-	-	102	1,878	2,488	1,564	6,032	6,750	6,750	7,200	7,200	27,900	7,650	7,650	3,150	3,150	21,600
Total COGS	9	15,883	22,932	24,844	37,828	16,804	102,408	16,960	22,144	21,945	24,965	86,014	28,403	31,819	34,289	27,414	121,926	26,349	26,191	36,234	32,330	121,104
Gross profit (loss)	64	(1,141)	(2,046)	2,101	7,699	1,781	9,535	3,852	6,261	9,296	11,321	30,730	10,656	11,035	13,580	11,046	46,318	14,025	13,985	(6,632)	(7,608)	13,770
GM	88%	-8%	-10%	8%	17%	10%	9%	19%	22%	30%	31%	26%	27%	26%	28%	29%	28%	35%	35%	-22%	-31%	10%
R&D	62,753	53,714	7,941	1,941	1,257	8,143	19,282	13,265	15,416	26,698	37,617	92,996	43,500	43,500	43,800	44,300	175,100	43,600	43,600	43,900	44,400	175,500
SG&A	17,244	23,649	6,607	8,247	10,733	16,563	42,150	16,585	22,207	20,432	25,349	84,573	26,300	27,000	26,700	26,500	106,500	27,000	27,000	26,700	26,500	107,200
Total OpEx	79,997	77,363	14,548	10,188	11,990	24,706	61,432	29,850	37,623	47,130	62,966	177,569	69,800	70,500	70,500	70,800	281,600	70,600	70,600	70,600	70,900	282,700
Op profit (loss)	(79,933)	(78,504)	(16,594)	(8,087)	(4,291)	(22,925)	(51,897)	(25,998)	(31,362)	(37,834)	(51,645)	(146,839)	(59,144)	(59,465)	(56,920)	(59,754)	(235,282)	(56,575)	(56,615)	(77,232)	(78,508)	(268,930)
OM	-109497%	-533%	-79%	-30%	-9%	-123%	-46%	-125%	-110%	-121%	-142%	-126%	-151%	-139%	-119%	-155%	-140%	-140%	-141%	-261%	-318%	-199%
Interest income	1,749	529	16	29	52	62	159	48	47	100	63	258	63	42	36	10	151	0	14	0	0	14
Interest expense	-	(3,747)	(1,402)	(1,086)	(18)	(25)	(2,531)	(230)	(464)	(298)	-	(992)	-	-	-	-	-	-	-	-	-	-
Other income (expense)	137	(963)	1,972	(1,715)	(577)	(1,125)	(1,445)	(3,221)	(6,729)	3,180	187	(6,583)	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax	(78,047)	(82,685)	(16,008)	(10,859)	(4,834)	(24,013)	(55,714)	(29,401)	(38,508)	(34,852)	(51,395)	(154,156)	(59,081)	(59,422)	(56,884)	(59,744)	(235,131)	(56,575)	(56,601)	(77,232)	(78,508)	(268,917)
Tax	110	97	8	8	(219)	229	26	118	9	83	(37)	173	133	134	128	135	530	127	127	174	177	606
Net Income (Loss)	(78,157)	(82,782)	(16,016)	(10,867)	(4,615)	(24,242)	(55,740)	(29,519)	(38,517)	(34,935)	(51,358)	(154,329)	(59,214)	(59,556)	(57,012)	(59,878)	(235,661)	(56,703)	(56,729)	(77,406)	(78,685)	(269,522)
Diluted shares	3,444	6,646	6,924	6,966	7,014	7,066	7,022	7,302	7,643													
QoQ Growth			4.2%	0.6%	0.7%	0.7%		3.3%	8.8%													
GAAP EPS	(22.69)	(12.46)	(2.31)	(1.56)	(0.66)	(3.43)	(7.94)	(4.04)	(5.04)													
Diluted (pro-forma)				71,828			77,694	77,974	91,208	92,271	94,240	50,718	94,334	94,429	95,373	101,572	96,427	101,877	102,182	102,489	102,796	102,336
QoQ Growth									17.0%	1.2%	2.1%		0.10%	0.10%	1.0%	6.5%		0.3%	0.30%	0.3%	0.3%	
EPS (calculated)				**(0.15)**			**(0.72)**	**(0.38)**	**(0.42)**	**(0.38)**	**(0.54)**	**(3.04)**	**(0.63)**	**(0.63)**	**(0.60)**	**(0.59)**	**(2.44)**	**(0.56)**	**(0.56)**	**(0.76)**	**(0.77)**	**(2.63)**
Reconciliation GAAP to Non-GAAP																						
Adjusted Net Income (Loss)				(10,689)	(4,103)			(23,800)	(26,053)	(34,195)	(44,102)	(128,150)	(51,371)	(51,713)	(49,169)	(52,035)	(204,289)	(48,860)	(48,886)	(69,563)	(70,842)	(238,150)
Adjusted EPS				**(1.53)**	**(0.58)**			**(3.26)**	**(3.41)**	**(0.37)**	**(0.47)**	**(2.53)**	**(0.54)**	**(0.55)**	**(0.52)**	**(0.51)**	**(2.12)**	**(0.48)**	**(0.48)**	**(0.68)**	**(0.69)**	**(2.33)**

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February 16, 2011

Stock Rating
Equal-weight

Industry View
In-Line

Tesla Motors Inc.

Q4 Results: Solid Execution Continues

Tesla reported solid Q4/10 results both on operating metrics (vehicle design and testing and production plant plans) and financial results (modest beat on top line and bottom line). Highlights from the quarter:

- Model S still on track for mid-2012 delivery with pre-launch reservations expected to cover all of 2012 production (3,700 reservations to date)
- Gross margins up to 32% with strength across powertrain, development services, and Roadster
- Roadster revenues up 10% q/q on higher ASPs from international sales, slightly offset by weaker volumes (149 units in Q4 vs 151 in Q3)
- Daimler increased orders for Smart ForTwo Electric packs to 1,800 units from 1,500 units – still small in total but positive momentum
- Toyota electric RAV4 on target for launch in 2012. Tesla will receive development revenues up to $69 million, mostly in 2011.

Possible capital raise late in 2011 to fund crossover SUV "Model X". On the conference call, management mentioned the possibility of a $100-150 million capital raise late in 2011 after the Model S Beta version is complete. The additional capital would be used for the Model X – an all-electric crossover SUV on the Model S platform at the Model S price point of $50K – $80K. Management stressed that they have enough capital resources (cash plus DOE loan = $566 MM at YE2010) to fund the company through Model S launch, even with expanded plans to increase capacity to 20,000 Model S units per year *per shift*, up from 20,000 units on two shifts.

What's next? The path to the Model S launch continues with testing, design refinements, sourcing, and crash tests of the Alpha build, Beta build, and release candidate.

Key Ratios and Statistics

Reuters: TSLA.O Bloomberg: TSLA US
Clean Tech / United States of America

Price target	**NA**
Shr price, close (Feb 15, 2011)	$22.84
Mkt cap, curr (mm)	$2,174
52-Week Range	$36.42-14.98

Fiscal Year ending	**12/09**	**12/10e**	**12/11e**	**12/12e**
ModelWare EPS ($)	**(7.96)**	**(3.04)**	**(2.19)**	**(1.46)**
EPS ($)**	(7.96)	(2.73)	(2.03)	(1.33)
Consensus EPS ($)§	**(1.59)**	**(2.24)**	**(1.93)**	**(1.24)**
EV/rev	3.7	20.9	14.0	4.4
Revenue, net ($mm)	112	117	174	605
Gross margin (%)	8.5	26.5	29.1	12.4
EBITDA margin (%)	(40.2)	(116.7)	(95.1)	(10.6)
Rev 3-yr CAGR (%)	75.5e	132.0	122.0	53.4

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates

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Risk-Reward Snapshot: Tesla Motors (TSLA, $22.84, Equal-weight)

Risk-Reward View: Continued Volatility Is Likely

Source: FactSet, Morgan Stanley Research

Valuation Methodology: We apply multiples of 12x EV/EBITDA and 2.1x EV/sales to our 2014 bull, bear, and base case forecasts, and discount the equity value at 15%. Our comp group is 80% clean tech and EV value chain and 20% traditional auto companies.
We also use a DCF analysis with an 11.3% WACC, 15% cost of equity, and 4% terminal growth.

Bull Case $35	2014e sales = $2.6 billion 2014e EBITDA = $518 million	**The future of the auto industry.** Tesla delivers the Model S on time (2Q12) and on budget with performance that rivals gasoline-powered luxury sedans. EV adoption takes off. EBITDA margins are 15-18%. OEM partnerships add powertrain volumes.
Base Case $20	2014e sales = $1.9 billion 2014e EBITDA = $205 million	**Solid execution and EV demand.** Model S deliveries start in 3Q12 and reach 20K per year in 2014. Slower ramp and modest cost overruns result in negative EPS until 2014. EBITDA margins are 7-9%. Powertrain sales a minor contributor.
Bear Case $10	2014e sales = $463 million 2014e EBITDA = $(7 million)	**Delays, cost overruns, lower demand.** A lot can go wrong in a product launch, especially with new manufacturing. We model a slight delay and lower Model S demand of 5,000 units per year. The company would likely need to raise additional capital to scale production.

Key Assumptions for Bull, Bear, and Base Cases

Key Assumptions for Bull, Bear, and Base Cases		Bear	Base	Bull
Gross Margin	2012	11.1%	12.4%	14.7%
	2013	10.8%	16.3%	25.1%
	2014	17.9%	22.2%	25.9%
EBIT Margin	2012	NM	NM	NM
	2013	NM	NM	14.4%
	2014	NM	6.2%	16.8%
Model S Volumes	2012	2,000	5,500	7,000
	2013	5,000	15,000	20,000
	2014	5,000	20,000	26,000

Source: Morgan Stanley Research

Why Equal-weight?

- The opportunity in electric vehicles is enormous, but so is the challenge of getting the Model S on the road on time and on budget. Our $20 base case is based on discounted equity-based multiples of EV/sales and EV/EBITDA and a DCF and reflects uncertain demand for electric vehicles (EVs), increasing competition from OEMs, and execution risk.

Key Value Drivers

- **Model S pre-orders** — the best indicator of demand.
- **Additional or larger OEM partnerships** would add scale, top line growth, and offer further proof of Tesla's technology leadership.
- **EV adoption and subsidies.** Competitors' EVs will launch before the Model S. Strong sales and/or higher government support are positive.

Potential Catalysts

- Production details for Toyota Electric RAV4 – current forecast is for 2,500 units over several years starting in 2012.
- Larger scale production orders from Daimler for Smart or A-class programs.
- Additional OEM partnerships for larger volumes.
- Model S — continued progress to Beta build and release candidate on final production tools.
- Accelerating Model S reservations.

Exhibit 1

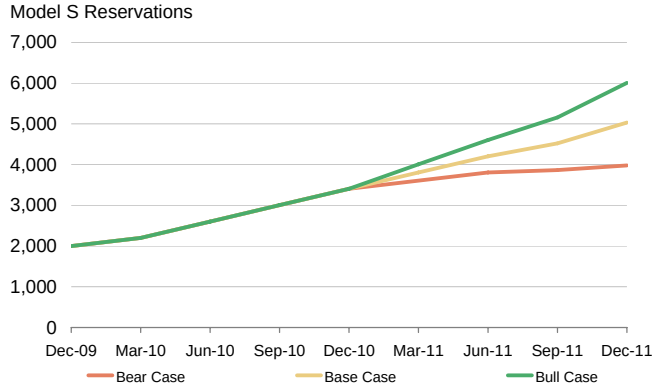
4Q10 Earnings Scorecard (Actual vs. Wall Street Estimates)

	Actual			4Q10 Estimates		Actual vs. Estimates	
	Dec-09	Sep-10	Dec-10	MS	Cons.	vs. MS	vs. Cons.
$MM							
Total Revenues	**18.6**	**31.2**	**36.3**	**32.7**	**34.3**	10.9%	5.8%
Total Cost of Revenue	**16.8**	**21.9**	**24.9**	**24.6**	**26.7**	**1.0%**	**(6.8%)**
Gross Profit – Total	**1.8**	**9.4**	**11.4**	**8.1**	**7.6**	**40.9%**	**49.6%**
Expenses							
Total SG&A	16.6	17.9	19.7	17.0		15.6%	
Stock-based Compensation	-	3.8	7.8	5.0		56.9%	
Total Expenses	**24.7**	**47.2**	**63.1**	**59.0**	**57.5**	**6.9%**	**9.7%**
Operating (Loss) Income	**(22.9)**	**(37.8)**	**(51.6)**	**(50.9)**	**(49.8)**	**1.5%**	**3.6%**
Operating Margin	*(123.4%)*	*(121.1%)*	*(142.3%)*	*(155.6%)*	*(145.3%)*	*1324bps*	*296bps*
Total Other Income (Expense)	**(1.1)**	**3.0**	**0.3**	**(0.4)**		**(162.7%)**	
Taxes, Recurring	**0.2**	**0.1**	**(0.0)**	**-**			
Effective Tax Rate	*(1.0%)*	*(0.2%)*	*0.1%*	*0.0%*		*7bps*	
Recurring Net Income	**(24.2)**	**(34.9)**	**(51.4)**	**(51.3)**	**(50.0)**	**(0.1%)**	**(2.8%)**
Recurring NI Margin	*(130.4%)*	*(111.8%)*	*(141.5%)*	*(156.8%)*	*(145.7%)*	*1525bps*	*415bps*
GAAP EPS		**($0.38)**	**($0.54)**	**($0.54)**		**0.1%**	
Non-GAAP EPS		**($0.35)**	**($0.47)**	**($0.50)**	**($0.50)**	**6.5%**	**5.3%**

Source: Company data, Morgan Stanley Research, FactSet

.Exhibit 2

Model S Reservations Appear to Be Tracking Slightly Better than our Base Case



Source: Company data, Morgan Stanley Research

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Exhibit 1

Base Case Quarterly Assumptions

	2009A				2010E				2011E				2012E				2013E			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Volumes																				
Model S	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	3,500	3,750	3,750	3,750	3,750
Roadster	182	200	324	134	126	141	151	149	145	145	140	140	140	140	100	45	-	-	500	300
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Vehicles	**182**	**200**	**324**	**134**	**126**	**141**	**151**	**149**	**145**	**145**	**140**	**140**	**140**	**140**	**2,100**	**3,545**	**3,750**	**3,750**	**4,250**	**4,050**
Powertrains	**-**	**-**	**-**	**-**	**105**	**200**	**240**	**430**	**450**	**450**	**450**	**500**	**650**	**700**	**750**	**800**	**875**	**875**	**875**	**875**
Powertrain ASP ($)	0.0k	0.0k	0.0k	0.0k	25.9k	24.1k	21.3k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k
Gross Margins																				
Model S	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	8.2%	8.2%	8.4%	13.3%	17.2%	19.5%
Roadster	(9.8%)	7.8%	16.9%	9.6%	17.7%	20.0%	17.0%	24.0%	21.4%	22.4%	23.5%	24.8%	24.6%	24.6%	24.6%	24.3%	0.0%	0.0%	31.5%	31.1%
Powertrain	NM	NM	NM	NM	23.7%	15.0%	4.4%	11.8%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Total	NM	7.8%	16.9%	9.6%	18.5%	22.2%	30.0%	31.5%	28.4%	28.8%	29.4%	29.8%	27.2%	26.0%	11.2%	9.8%	9.7%	14.1%	19.5%	20.9%
Roadster Leasing (as % of Total Vehicles Sold)	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	18.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Source: Company data, Morgan Stanley Research estimates

Exhibit 2

Base Case Annual Assumptions

	Fiscal Year													
	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Volumes														
Model S	-	-	-	-	-	5,500	15,000	20,000	23,000	26,450	30,000	30,000	30,000	30,000
Roadster	-	-	-	321	314	255	480	400	400	400	400	400	400	400
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	25,000	31,250	39,063	48,828
Total Vehicles	**-**	**-**	**-**	**321**	**314**	**5,755**	**15,480**	**20,400**	**23,400**	**26,850**	**55,400**	**61,650**	**69,463**	**79,228**
Powertrains	-	-	-	975	1,850	2,900	3,500	3,500	4,200	5,000	5,000	5,000	5,000	5,000
Powertrain ASP ($)	NM	NM	NM	22.2k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k	20.9k
Gross Margins														
Model S		NM	NM	NM	NM	8.2%	14.7%	21.4%	22.4%	21.5%	21.1%	21.1%	21.1%	21.1%
Roadster		NM	NM	19.8%	23.0%	24.6%	29.9%	38.1%	36.7%	37.2%	32.9%	38.0%	32.9%	32.9%
Next Gen Vehicle		NM	NM	NM	NM	NM	NM	15.0%	15.0%	15.0%	16.0%	17.0%	18.0%	19.0%
Powertrain		NM	NM	12.3%	24.0%	24.0%	24.0%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total		(7.6%)	8.5%	26.5%	29.1%	12.4%	16.3%	22.2%	23.0%	22.2%	20.0%	20.2%	20.2%	20.5%
Roadster Leasing (as % of Total Vehicles Sold)				10.8%	15.0%	15.0%	15.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Morgan Stanley Research estimates

Exhibit 3

Base Case Quarterly Income Statement

	2009A				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	31.2	36.3	43.5	43.4	42.8	43.8	39.0	37.2	203.4	325.2	335.4	345.2	397.6	379.2
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	21.9	24.9	31.2	30.9	30.2	30.8	28.4	27.5	180.7	293.4	303.0	296.5	320.1	300.1
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**9.4**	**11.4**	**12.4**	**12.5**	**12.6**	**13.1**	**10.6**	**9.7**	**22.7**	**31.8**	**32.4**	**48.7**	**77.5**	**79.1**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*30.0%*	*31.5%*	*28.4%*	*28.8%*	*29.4%*	*29.8%*	*27.2%*	*26.0%*	*11.2%*	*9.8%*	*9.7%*	*14.1%*	*19.5%*	*20.9%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.4	35.6	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	7.0	9.0	10.5	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	27.8	27.8	27.8	27.8
General and Administrative	6.6	8.2	10.7	16.6	7.2	9.7	8.9	9.2	10.1	10.4	10.7	11.0	11.3	11.6	11.9	12.2	12.5	12.8	13.1	13.4
Stock-based Compensation	-	-	-	-	3.4	6.1	3.8	7.8	5.1	5.1	5.2	5.2	4.2	4.3	4.3	4.3	5.2	4.8	4.9	4.5
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**47.2**	**63.1**	**63.7**	**64.1**	**64.4**	**64.7**	**53.1**	**53.4**	**53.7**	**54.1**	**65.5**	**60.4**	**60.8**	**55.6**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(37.8)**	**(51.6)**	**(51.4)**	**(51.5)**	**(51.8)**	**(51.6)**	**(42.5)**	**(43.7)**	**(31.0)**	**(22.2)**	**(33.1)**	**(11.7)**	**16.7**	**23.4**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.2%*	*6.2%*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(30.9)**	**(40.9)**	**(38.5)**	**(36.6)**	**(35.3)**	**(34.1)**	**(20.6)**	**(20.2)**	**(7.1)**	**1.3**	**(9.5)**	**12.2**	**40.9**	**46.9**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*0.4%*	*NM*	*3.5%*	*10.3%*	*12.4%*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.3)	0.1	(0.6)	(1.4)	(2.2)	(2.9)	(2.8)	(2.9)	(2.9)	(3.0)	(3.3)	(3.5)	(3.2)	(2.7)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	3.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**3.0**	**0.3**	**(0.4)**	**(1.2)**	**(2.0)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.8)**	**(3.1)**	**(3.3)**	**(3.0)**	**(2.5)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(34.9)**	**(51.4)**	**(51.8)**	**(52.8)**	**(53.8)**	**(54.4)**	**(45.1)**	**(46.4)**	**(33.7)**	**(25.1)**	**(36.3)**	**(15.0)**	**13.8**	**20.9**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.5%*	*5.5%*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	0.1	(0.0)	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**0.1**	**(0.0)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*(0.2%)*	*0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(34.9)**	**(51.4)**	**(51.8)**	**(52.8)**	**(53.8)**	**(54.4)**	**(45.1)**	**(46.4)**	**(33.7)**	**(25.1)**	**(36.3)**	**(15.0)**	**13.8**	**20.9**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.5%*	*5.5%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(34.9)**	**(51.4)**	**(51.8)**	**(52.8)**	**(53.8)**	**(54.4)**	**(45.1)**	**(46.4)**	**(33.7)**	**(25.1)**	**(36.3)**	**(15.0)**	**13.8**	**20.9**
GAAP EPS							**($0.38)**	**($0.54)**	**($0.54)**	**($0.55)**	**($0.56)**	**($0.55)**	**($0.44)**	**($0.45)**	**($0.33)**	**($0.24)**	**($0.35)**	**($0.14)**	**$0.12**	**$0.17**
Non-GAAP EPS							**($0.35)**	**($0.47)**	**($0.50)**	**($0.51)**	**($0.51)**	**($0.51)**	**($0.41)**	**($0.42)**	**($0.29)**	**($0.21)**	**($0.31)**	**($0.11)**	**$0.15**	**$0.20**

Source: Company data, Morgan Stanley Research estimates

Exhibit 4

Base Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	116.7	173.5	604.9	1,457.3	1,897.9	2,184.0	2,460.6	3,798.2	4,042.5	4,324.8	4,725.2
Cost of Revenue	0.0	15.9	102.4	85.8	123.0	530.1	1,219.7	1,475.9	1,680.9	1,914.8	3,038.9	3,225.2	3,449.1	3,757.4
Gross Profit	**0.1**	**(1.1)**	**9.5**	**30.9**	**50.5**	**74.9**	**237.7**	**422.0**	**503.2**	**545.8**	**759.4**	**817.3**	**875.7**	**967.7**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*26.5%*	*29.1%*	*12.4%*	*16.3%*	*22.2%*	*23.0%*	*22.2%*	*20.0%*	*20.2%*	*20.2%*	*20.5%*
Expenses														
Research and Development	62.7	53.6	19.3	89.1	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	32.5	44.0	61.0	111.0	132.9	152.9	172.2	265.9	283.0	302.7	330.8
General and Administrative	17.1	23.4	42.2	35.0	42.4	47.2	52.0	71.2	76.4	86.1	132.9	121.3	129.7	141.8
Stock-based Compensation	0.2	0.4	-	21.2	20.6	17.1	19.4	19.7	19.2	18.4	22.1	18.5	16.8	18.3
Total Expenses	**80.0**	**77.4**	**61.4**	**177.8**	**256.9**	**214.3**	**242.3**	**303.8**	**334.1**	**368.4**	**518.9**	**527.6**	**561.5**	**610.9**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(146.8)**	**(206.4)**	**(139.4)**	**(4.7)**	**118.2**	**169.0**	**177.4**	**240.5**	**289.7**	**314.1**	**356.8**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*6.2%*	*7.7%*	*7.2%*	*6.3%*	*7.2%*	*7.3%*	*7.6%*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(115.1)**	**(144.5)**	**(46.7)**	**90.6**	**205.2**	**268.4**	**291.6**	**367.8**	**436.8**	**463.2**	**517.7**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*6.2%*	*10.8%*	*12.3%*	*11.9%*	*9.7%*	*10.8%*	*10.7%*	*11.0%*
Interest Expense, net	1.7	(3.2)	(2.4)	(0.8)	(7.1)	(11.6)	(12.7)	(8.4)	(0.2)	1.2	2.0	3.1	4.4	5.7
Other Income (Expense), net	0.1	(1.0)	(1.4)	(6.5)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(7.3)**	**(6.3)**	**(10.9)**	**(11.9)**	**(7.6)**	**0.5**	**2.0**	**2.8**	**3.8**	**5.1**	**6.5**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(154.2)**	**(212.7)**	**(150.3)**	**(16.6)**	**110.6**	**169.6**	**179.4**	**243.3**	**293.5**	**319.3**	**363.3**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*5.8%*	*7.8%*	*7.3%*	*6.4%*	*7.3%*	*7.4%*	*7.7%*
Taxes, GAAP	0.1	0.1	0.0	0.2	-	-	-	-	-	-	-	48.4	76.6	87.2
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**48.4**	**76.6**	**87.2**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*16.5%*	*24.0%*	*24.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(154.3)**	**(212.7)**	**(150.3)**	**(16.6)**	**110.6**	**169.6**	**179.4**	**243.3**	**245.1**	**242.6**	**276.1**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*5.8%*	*7.8%*	*7.3%*	*6.4%*	*6.1%*	*5.6%*	*5.8%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(154.3)**	**(212.7)**	**(150.3)**	**(16.6)**	**110.6**	**169.6**	**179.4**	**243.3**	**245.1**	**242.6**	**276.1**
GAAP EPS				**($3.04)**	**($2.19)**	**($1.46)**	**($0.15)**	**$0.91**	**$1.36**	**$1.41**	**$1.87**	**$1.84**	**$1.77**	**$1.97**
Non-GAAP EPS				**($2.73)**	**($2.03)**	**($1.33)**	**($0.02)**	**$1.04**	**$1.48**	**$1.52**	**$2.00**	**$1.94**	**$1.87**	**$2.07**

Source: Company data, Morgan Stanley Research estimates

Exhibit 5

Base Case Annual Balance Sheet

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	99.4	215.1	100.0	100.0	100.0	359.5	661.7	1,034.3	1,509.5	2,000.5	2,558.1
Accounts receivable, net	0.1	3.3	3.5	6.7	13.1	11.8	13.7	13.1	16.0	18.9	18.8	18.7	18.4	18.3
Inventories, net	2.1	16.7	23.2	45.2	36.8	350.8	358.8	444.8	506.6	575.5	915.8	972.0	1,039.5	1,129.3
Prepaid expenses and other current assets	2.9	2.2	4.2	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Total Current Assets	**22.3**	**31.4**	**100.6**	**162.1**	**275.7**	**473.5**	**483.3**	**568.8**	**892.9**	**1,267.0**	**1,979.7**	**2,511.0**	**3,069.3**	**3,716.5**
Property, Plant and Equipment, net	12.0	18.8	23.5	114.6	275.7	283.8	259.9	324.0	388.0	453.7	525.4	569.9	614.1	661.9
Restricted cash	0.3	1.2	3.6	78.5	78.5	78.5	78.5	78.5	78.5	78.5	78.5	78.5	78.5	78.5
Other assets	0.3	0.3	2.8	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7
Total Assets	**34.8**	**51.7**	**130.4**	**385.9**	**670.2**	**880.2**	**868.9**	**1,011.5**	**1,394.6**	**1,828.6**	**2,613.1**	**3,182.2**	**3,784.5**	**4,479.7**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	38.8	30.1	287.0	293.6	363.9	414.5	470.8	749.3	795.3	850.5	924.0
Accrued liabilities	8.5	11.1	14.5	11.1	12.8	18.8	60.0	114.9	168.5	221.8	313.3	397.3	478.1	561.7
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Capital lease obligations, current portion	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Refundable reservation payments	37.3	48.0	26.0	30.8	35.4	12.4	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**88.4**	**86.0**	**326.0**	**361.3**	**486.5**	**590.7**	**700.4**	**1,070.3**	**1,200.3**	**1,336.3**	**1,493.4**
Convertible preferred stock warrant liability	0.2	2.1	1.7	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Capital lease obligations, less current portion	0.0	0.9	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other long-term liabilities	-	4.8	3.5	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	71.8	304.9	345.6	221.6	17.3	-	-	-	-	-	-
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**90.7**	**323.8**	**364.4**	**240.4**	**36.2**	**18.8**	**18.8**	**18.8**	**18.8**	**18.8**	**18.8**
Total Liabilities	**152.7**	**251.4**	**383.9**	**179.0**	**409.8**	**690.4**	**601.7**	**522.7**	**609.6**	**719.2**	**1,089.2**	**1,219.1**	**1,355.2**	**1,512.2**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Additional paid-in capital	4.3	5.2	7.1	621.9	888.1	967.9	1,062.0	1,172.9	1,299.6	1,444.6	1,615.8	1,809.9	2,033.6	2,295.5
Retained Earnings	(122.1)	(204.9)	(260.7)	(415.0)	(627.7)	(778.0)	(794.6)	(684.1)	(514.5)	(335.1)	(91.8)	153.3	395.9	672.0
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**207.0**	**260.5**	**190.0**	**267.4**	**489.0**	**785.2**	**1,109.6**	**1,524.0**	**1,963.2**	**2,429.5**	**2,967.6**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**386.1**	**670.3**	**880.4**	**869.1**	**1,011.6**	**1,394.8**	**1,828.8**	**2,613.2**	**3,182.4**	**3,784.7**	**4,479.8**

Source: Company data, Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Global Stock Ratings Distribution

(as of January 31, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1184**	**41%**	**449**	**44%**	**38%**
Equal-weight/Hold	**1210**	**42%**	**439**	**43%**	**36%**
Not-Rated/Hold	**122**	**4%**	**25**	**2%**	**20%**
Underweight/Sell	**390**	**13%**	**115**	**11%**	**29%**
Total	**2,906**		**1028**		

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.
Equal-weight (E). The stock's total return is expected to be in line with 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.
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.
Underweight (U). The stock's total return is expected to be below 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.
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.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
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.
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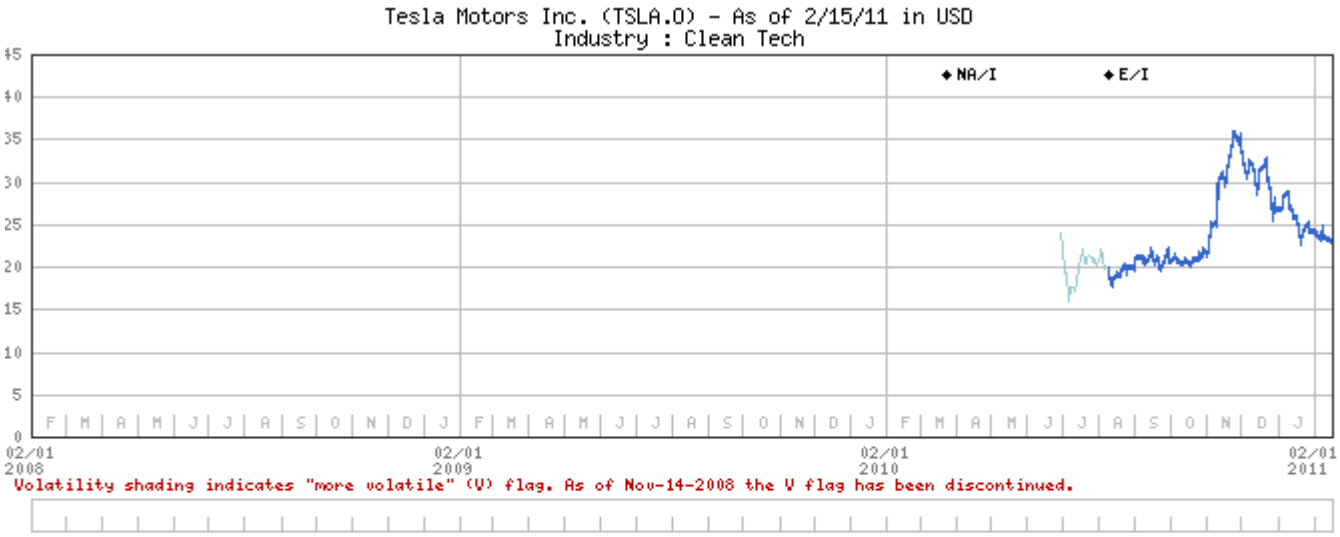
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 3/24/10 : NA/I; 8/9/10 : E/I
Price Target History: 8/9/10 : NA

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)

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Industry Coverage:Clean Tech

Company (Ticker)	Rating (as of)	Price* (02/15/2011)
Joshua Paradise, CFA		
A123 Systems Inc. (AONE.O)	E (11/10/2010)	$9.74
Cree, Inc. (CREE.O)	E (10/20/2010)	$55.06
EnerNoc, Inc. (ENOC.O)	E (01/12/2011)	$20
Energy Conversion Devices, Inc (ENER.O)	E (11/10/2010)	$4.07
Tesla Motors Inc. (TSLA.O)	E (08/09/2010)	$22.84
Smittipon Srethapramote		
American Superconductor Corporation (AMSC.O)	E (12/07/2010)	$27.68
Amyris Inc. (AMRS.O)	E (01/12/2011)	$31.72
First Solar Inc. (FSLR.O)	E (02/07/2011)	$166.26
SunPower Corporation (SPWRA.O)	E (10/08/2010)	$16.58

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* Historical prices are not split adjusted.

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North America United States
Consumer Autos & Auto Parts

Deutsche Bank

15 February 2011

Tesla Motors

Reuters: **TSLA.OQ** Bloomberg: **TSLA UN** Exchange: **NMS** Ticker: **TSLA**

Increased Confidence Based on Strong Execution

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Strong 4Q10 results; increased confidence for on-time launch of Model S
Tesla reported 4Q10 EPS of -$0.47 vs DB estimate of -$0.54. Overall, we continue to be impressed with Tesla's ability to post good near-term results vs the plan they laid out during their IPO marketing, grow the powertrain business, and hit key milestones with respect to the Model S development. The strong execution gives us increased confidence for an on-time launch of the Model S in mid-2012, which has led to increases to key out-year est's and an increase in our DCF-based target price to $21.50 from $17. Maintaining Hold based on valuation.

We noted the following positives from Tesla's earnings release and conference call:
1) According to management, the Model S is essentially 100% sourced and the company has already produced 15 Alpha prototypes. This is marginally ahead of our expectations at this point. 2) The Powertrain business continues to grow. Based on Tesla's comments, it appears that a production contract for the Toyota RAV4 is imminent (the company currently has a $69MM development contract) and Tesla is likely in the best position to win a production contract for the Smart Fortwo EV. 3) Tesla announced that they now plan to have enough capacity to produce 20k units of the Model S on one shift, compared to their original 10k units per shift plan. This will drive higher up-front capital costs, but substantial labor and overhead savings. We have been a bit concerned with the company's targeted 25% gross margin, but this type of action increases our confidence.

Tesla indicated that they may raise additional capital as early as late 2011
Tesla's management mentioned that they may look to raise $100MM-$150MM of additional capital to fund the development of Model X (a crossover vehicle developed off the Model S platform). This may be perceived by investors as an indication that the company is worried about liquidity and may have underestimated the capital that needs to be deployed to develop automobiles. We believe the company has ample liquidity to make it through 2012 and that if TSLA does raise capital in 2011 to fund the Model X, it would likely be to support accelerated timing for the launch of that vehicle. This could actually be a positive, as we believe that it is critical for Tesla to broaden its vehicle portfolio in front of major EV competition from more established automakers.

Our $21.50 target price is based on a Discounted Cash Flow analysis
Our DCF assumes a 7% terminal growth rate, a terminal EBIT margin of 11.9% and a weighted average cost of capital of 13.5% (cost of equity: 15.0% / cost of debt: 3.3%). Key downside risks include execution on the scale up from niche to volume manufacturing and demand / avg trans price assumptions. Upside could be derived from higher-than-expected Model S volumes or potential for the Powertrain business to be a long-term earnings generator.

Forecasts and ratios

Year End Dec 31	2010A	**2011E**	2012E
FY EPS (USD)	-2.55	**-2.08**	-1.11
Revenue (USDm)	116.7	**174.4**	712.1

Source: Deutsche Bank estimates, company data

Forecast Change

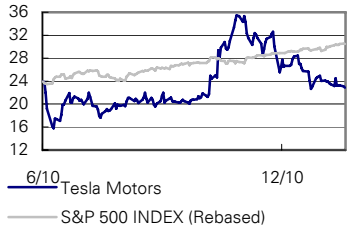
Hold

Price at 15 Feb 2011 (USD)	**22.85**
Price target	**21.50**
52-week range	**35.47 - 15.80**

Key changes

Price target	17.00 to 21.50	↑	**26.5%**
EPS (USD)	-2.08 to -2.08	↑	**-0.3%**
Revenue (USDm)	174.4 to 174.4	↓	**-0.0%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-11.3*	*-25.8*	–
S&P 500 INDEX	*2.7*	*10.9*	*23.5*

Stock & option liquidity data

Market Cap (USDm)	2,178.7
Shares outstanding (m)	95.4
Free float (%)	100
Volume (15 Feb 2011)	310,396
Option volume (und. shrs., 1M avg.)	–

Deutsche Bank Securities Inc.

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MICA(P) 007/05/2010

Model updated:16 February 2011

Running the numbers

North America

United States

Autos & Auto Parts

Tesla Motors

Reuters: TSLA.OQ Bloomberg: TSLA UN

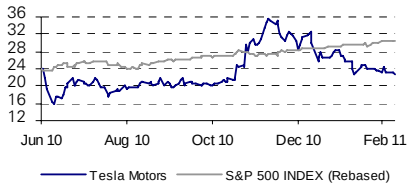
Hold

Price (15 Feb 11)	USD 22.85
Target price	USD 21.50
52-week Range	USD 15.80 - 35.47
Market Cap (m)	USDm 2,179 EURm 1,612

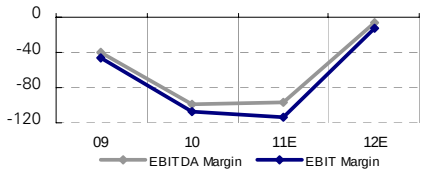
Company Profile

Tesla Motors designs, manufactures, and sells electric vehicles and EV powertrain components. Founded in 2003, the company introduced the first widely available highway-capable electrick vehicle in 2008. They plan to produce a higher-volume product (Model S) in 2012.

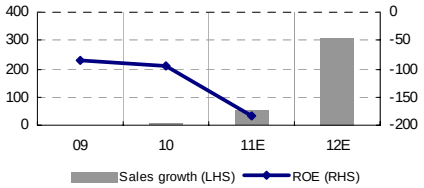
Price Performance



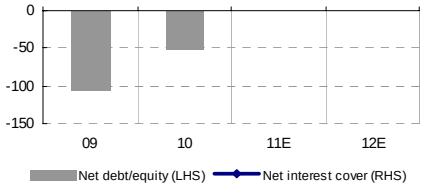
Margin Trends



Growth & Profitability



Solvency



Dan Galves
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Fiscal year end 31-Dec	2009	2010	2011E	2012E
Financial Summary				
DB EPS (USD)	na	-2.55	-2.08	-1.11
Reported EPS (USD)	-1.03	-2.38	-1.93	-1.03
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	1.30	4.11	0.10	-1.01
Valuation Metrics				
Price/Sales (x)	nm	10.1	12.5	3.1
P/E (DB) (x)	na	nm	nm	nm
P/E (Reported) (x)	nm	nm	nm	nm
P/BV (x)	0.0	6.5	237.4	nm
FCF yield (%)	na	nm	nm	nm
Dividend yield (%)	na	0.0	0.0	0.0
EV/Sales	nm	9.2	13.9	3.7
EV/EBITDA	nm	nm	nm	nm
EV/EBIT	nm	nm	nm	nm
Income Statement (USDm)				
Sales	112	117	174	712
EBITDA	-45	-115	-168	-43
EBIT	-52	-126	-196	-97
Pre-tax profit	-56	-128	-198	-107
Net income	**-56**	**-128**	**-198**	**-107**
Cash Flow (USDm)				
Cash flow from operations	**-81**	**-128**	**-151**	**-68**
Net Capex	-12	-127	-201	-119
Free cash flow	**-93**	**-255**	**-352**	**-187**
Equity raised/(bought back)	158	270	0	0
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	-5	56	270	116
Net cash flow	**60**	**71**	**-82**	**-71**
Change in working capital	*-38*	*-8*	*18*	*-15*
Balance Sheet (USDm)				
Cash and cash equivalents	70	178	96	25
Property, plant & equipment	24	123	319	385
Goodwill	0	0	0	0
Other assets	37	85	78	295
Total assets	**130**	**386**	**493**	**705**
Debt	0	72	348	465
Other liabilities	65	107	136	337
Total liabilities	**65**	**179**	**484**	**802**
Total shareholders' equity	**66**	**207**	**9**	**-97**
Net debt	*-70*	*-106*	*252*	*440*
Key Company Metrics				
Sales growth (%)	nm	4.3	49.4	308.4
DB EPS growth (%)	na	na	18.5	46.7
Payout ratio (%)	nm	nm	nm	nm
EBITDA Margin (%)	-40.2	-98.6	-96.3	-6.1
EBIT Margin (%)	-46.4	-107.7	-112.7	-13.6
ROE (%)	-84.8	-94.0	-183.0	nm
Net debt/equity (%)	-106.0	-51.3	nm	nm
Net interest cover (x)	nm	nm	nm	nm
DuPont Analysis				
EBIT margin (%)	-46.4	-107.7	-112.7	-13.6
x Asset turnover (x)	0.9	0.5	0.4	1.2
x Financial cost ratio (x)	1.0	1.0	1.0	1.1
x Tax and other effects (x)	1.0	1.0	1.0	1.0
= ROA (post tax) (%)	**-42.7**	**-49.7**	**-45.0**	**-17.8**
x Financial leverage (x)	2.0	1.9	4.1	-13.6
= ROE (%)	**-84.8**	**-94.0**	**-183.0**	**241.6**
annual growth (%)	*na*	*-10.9*	*-94.6*	*na*
x NTA/share (avg) (x)	1.2	2.5	1.1	-0.4
= Reported EPS	**-1.03**	**-2.38**	**-1.93**	**-1.03**
annual growth (%)	*na*	*-130.1*	*18.8*	*46.7*

Source: Company data, Deutsche Bank estimates

Tesla Motors reported 4Q10 EPS of -$0.47 (excluding stock-based comp) vs DB estimate of -$0.54. The bulk of the variance was related to gross profit ($11MM vs DBe of $7.4MM), driven by better powertrain revenue ($9MM vs our $5MM forecast) and unusually high margin on development services (driven by mismatch of timing between revenue and cost recognition). The company provided 2011 revenue guidance of $160MM-$175MM, which compares to $145MM run rate in 4Q10, consensus of $152MM, and our estimate of $174MM. We are maintaining our FY2011 / 2012 EPS estimates of -$2.08 / -$1.11 (we'd note that this excludes non-cash stock-based compensation expense).

Overall, we continue to be impressed with Tesla's ability to post good near-term results vs the plan they laid out during their IPO marketing, grow the powertrain business, and hit key milestones with respect to the Model S development. The strong execution gives us increased confidence for an on-time launch of the Model S in mid-2012. Additionally, the company announced that they are increasing Model S capital spending in 2011 (guidance is $190MM-$215MM vs our forecast of $130MM). In addition to deferral from the 2010 plan of ~$20MM, the higher spending is to enable increased component in-sourcing and, importantly, to enable Model S capacity of 20k units on only one shift (compared to their original plan of 10k units per shift). These increased investments should pay dividends in terms of unit costs, which increases our confidence in the 25% targeted gross margin for the Model S.

Based on these positives, we've made adjustments to the out-year volumes and margins in our DCF model which results in a higher valuation. We are raising our target price to $21.50 from $17 and maintaining our Hold rating based on valuation.

We noted the following key positives in Tesla's earnings release and conference call:

- Execution has been very strong vs. the plan laid out during marketing for TSLA's June IPO. According to management, the Model S is essentially 100% sourced and the company has already produced 15 Alpha prototypes. This is marginally ahead of our expectations at this point. Based on discussions with company engineers at the Detroit Auto Show, there do not appear to have been any major stumbling blocks discovered during the prototype build, which is impressive. Additionally, although we believe the actual near-term results are largely irrelevant, we believe it is important that Tesla has put up strong results vs the plan they laid out during the marketing for their June 2010 IPO.
- The Powertrain business continues to grow. Based on Tesla's comments, it appears that a production contract for the Toyota RAV4 is imminent (the company currently has a $69MM development contract) and Tesla is likely in the best position to win a production contract for the Smart Fortwo EV. Additionally, the company commented that they've had substantive discussions with other automakers but may limit themselves to current contracts, so as to not take resources away from the Model S development. We continue to be cautious about the sustainability of Tesla's powertrain business (our belief is that Tesla's OEM customers will develop their own technology over time), but in the near-term contracts for three Daimler vehicles (Smart Fortwo, Mercedes A-Class, and a Freightliner truck) and the Toyota RAV4 are providing a significant validation of the technology to be used in Tesla's own vehicles and an important liquidity boost (we forecast approximately $35MM of annual gross profit in 2011 and 2012).
- Tesla announced that they now plan to have enough capacity to produce 20k units of the Model S on one shift, compared to their original 10k units per shift plan. This will drive higher up-front capital costs, but will save in labor costs (significantly less headcount in the one shift than the original plan for two shifts) and overhead (keeping the plant open for two shifts would have driven significant overhead costs), each of which will show up in higher variable margins. We have been a bit concerned with the company's targeted 25% gross margin, but this type of action increases our confidence.

Tesla indicated that they may raise additional capital as early as late 2011
Tesla's management mentioned that they may look to raise $100MM-$150MM of additional capital to fund the development of Model X (a crossover vehicle developed off the Model S platform). Although a headline came across to this effect a few days ago, we expect that some investors may take this (along with the increased 2011 Capex outlook) as an indication that the company is worried about liquidity and may have underestimated the capital that needs to be deployed to develop automobiles.

We believe that the company has ample liquidity to make it through 2012. As of 12/31/10, the company had $571MM of available liquidity ($178MM of cash and $393MM available on its DOE loan). We're expecting a cash burn of $466MM over the next 6 quarters ($78MM per quarter), a substantial increase from the $58MM burn rate in 2010. We believe that if the company does raise capital to fund the Model X, it would likely be to support accelerated timing for the launch of that vehicle. Considering our belief that it is critical for Tesla to broaden its vehicle portfolio in front of major EV competition from more established automakers, we would consider this type of acceleration a positive development.

Valuation / Risks

Our price target is based on a DCF analysis. Valuing Tesla presents a unique set of challenges, given the fact that company revenue won't accelerate until 2012 and beyond. We believe that DCF is the most appropriate valuation method in this case. We assume 7% terminal growth beginning in 2020 (given our projection that Tesla will still be building out its vehicle portfolio and that only 9.5% of global sales will be vehicles able to be fueled from the grid in 2020, we believe that a 7% growth rate is reasonable). We assume a terminal EBIT margin of 11.9% and a weighted average cost of capital of 13.5% (we calculate WACC by using 15% cost of equity and 3.3% cost of DOE debt and weight this over the expected capital structure from 2010 - 2014).

Key downside risks include execution on the scale up from niche to volume manufacturing, risks associated with demand and average transaction price assumptions, risks associated with costs projections, and unknowns associated with the future competitive landscape. In addition, we anticipate limited near term revenue/earnings to support the stock and, consequently, we anticipate that Tesla's shares can exhibit high levels of near term volatility. Upside could be derived from higher-than-expected Model S volumes or Powertrain sales contract wins. Given volumes of competitor vehicles in the 50k - 200k range, there is the potential for Tesla Model S volume to be significantly higher-than-expected. Additional customers / contracts for Powertrain sales could add significantly to our revenue / profitability targets (i.e. if current Toyota / Daimler development contracts turn into commercial production contracts).

Figure 1: Tesla Discounted Cash Flow Analysis ($MM)

	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	116.7	174.4	712.1	1,986.2	2,223.4	2,717.1	3,332.7	3,817.0	4,596.7	5,350.0	6,011.2
Revenue Growth		49.4%	308.4%	178.9%	11.9%	22.2%	22.7%	14.5%	20.4%	16.4%	12.4%
Operating Expenses	242.4	370.8	809.0	1,754.2	1,936.8	2,345.5	2,842.7	3,253.6	4,089.7	4,729.6	5,296.1
Operating Income	($126)	($196)	($97)	$232	$287	$372	$490	$563	$507	$620	$715
Operating Margin	-107.7%	-112.7%	-13.6%	11.7%	12.9%	13.7%	14.7%	14.8%	11.0%	11.6%	11.9%
Depreciation and Amortizatic	$11	$29	$54	$59	$59	$65	$75	$86	$104	$121	$136
EBITDA	($115)	($168)	($43)	$291	$346	$436	$565	$650	$611	$741	$851
EBITDA Margin	-98.6%	-96.3%	-6.1%	14.7%	15.6%	16.1%	17.0%	17.0%	13.3%	13.9%	14.2%
Taxes	$0	($0)	($0)	($0)	($4)	($37)	($116)	($135)	($122)	($149)	($172)
Change \Working Capital		$18	($15)	($1)	$77	($12)	($17)	$1	($122)	($34)	($40)
Capex to Sales %	108.6%	115.0%	16.7%	3.0%	4.2%	4.8%	4.1%	4.1%	4.1%	4.1%	4.1%
CAPEX	($127)	($201)	($119)	($59)	($94)	($131)	($137)	($156)	($188)	($219)	($246)
Incremental Investment	($127)	($183)	($134)	($60)	($17)	($142)	($154)	($156)	($311)	($254)	($286)
Free Cash Flow	($242)	($351)	($178)	$231	$325	$257	$295	$358	$178	$339	$393
Terminal Value											$5,984
Present Value			($156)	$179	$222	$155	$156	$167	$73	$95	$1,574
Sum of PVs	$2,464										

Enterprise value	$2,464
Cash (2011YE)	($96)
Total Debt (2011YE)	$349
Shareholder Value	$2,212
Shares Outstanding	102.5
Per Share Value	$21.57

Normalized Assumptions			
Sales Growth	7.0%	Terminal Value	
Operating Margin	11.9%	WACC - g	6.6%
Tax Rate	24.0%	WACC	13.6%
W/C % Revenue	2.0%		
CAPEX % Rev.	3.7%		

Source: Deutsche Bank

Figure 2: Tesla Earnings Model ($MM)

	1Q10	2Q10	3Q10	4Q10	1Q11E	2Q11E	3Q11E	4Q11E	F2009	F2010	F2011E	F2012E	F2013E
Auto & PWT Revenue	20.6	24.0	23.4	29.2	27.9	30.1	30.1	30.3	94.8	97.1	118.4	686.6	1,971.2
Development Services	0.2	4.4	7.9	7.1	14.0	14.0	14.0	14.0	17.2	19.7	56.0	25.5	15.0
Total Revenue	**20.8**	**28.4**	**31.2**	**36.3**	**41.9**	**44.1**	**44.1**	**44.3**	**111.9**	**116.7**	**174.4**	**712.1**	**1,986.2**
Auto COGS	16.8	20.2	19.4	23.3									
Development Service COGS	0.1	1.9	2.5	1.6									
COGS	16.9	22.1	21.9	24.9	30.1	31.6	31.3	31.3	102.4	85.8	124.3	590.1	1,542.3
Gross Profit	3.9	6.3	9.4	11.4	11.8	12.4	12.8	13.0	9.5	31.0	50.1	122.0	443.9
Gross Margin	*18.7%*	*22.2%*	*30.0%*	*31.5%*	*28.2%*	*28.2%*	*29.1%*	*29.3%*		*26.5%*	*28.7%*	*17.1%*	*22.4%*
Product Gross Margin	*18.3%*	*15.6%*	*17.0%*	*20.1%*									
R&D	13.0	14.9	25.4	35.6	40.0	40.0	40.0	40.0	19.3	88.9	160.0	116.0	83.0
SG&A	13.5	16.7	17.9	19.7	20.7	21.5	21.8	22.5	42.2	67.8	86.5	102.9	128.9
Operating Profit	**(22.6)**	**(25.2)**	**(34.0)**	**(43.8)**	**(48.9)**	**(49.0)**	**(49.0)**	**(49.5)**	**(51.9)**	**(125.7)**	**(196.5)**	**(96.9)**	**232.1**
Operating Margin	*-108.6%*	*-88.9%*	*-108.9%*	*-120.7%*	*-116.8%*	*-111.3%*	*-111.0%*	*-111.8%*		*-107.7%*	*-112.7%*	*-13.6%*	*11.7%*
		20.7%										*18.5%*	*25.8%*
Interest Inc / (Exp)	(0.2)	(0.4)	(0.2)	0.1	(0.2)	(0.3)	(0.4)	(0.6)	(2.4)	(0.7)	(1.6)	(9.8)	(14.3)
Other gain / (loss)	(0.9)	(0.4)	-	(0.4)					(1.4)	(1.7)	-	-	-
Pretax Income	**(23.7)**	**(26.0)**	**(34.2)**	**(44.1)**	**(49.1)**	**(49.3)**	**(49.4)**	**(50.1)**	**(55.7)**	**(128.1)**	**(198.0)**	**(106.7)**	**217.8**
Taxes	(0.1)	(0.0)	(0.1)	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.2)	0.1	0.1	0.1
Tax Rate					0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	**(23.8)**	**(26.1)**	**(34.3)**	**(44.1)**	**(49.1)**	**(49.3)**	**(49.4)**	**(50.1)**	**(55.7)**	**(128.3)**	**(197.9)**	**(106.6)**	**217.9**
EPS	**(3.26)**	**(3.41)**	**(0.37)**	**(0.47)**	**(0.52)**	**(0.52)**	**(0.52)**	**(0.52)**		**(2.55)**	**(2.08)**	**(1.11)**	**2.08**
Basic Shares	7.3	7.6	92.3	94.2	95.0	95.2	95.5	95.7	50.4	50.4	95.4	96.4	97.4
Diluted Shares	7.3	7.6	99.5	101.4	102.1	102.4	102.7	102.9	54.0	54.0	102.5	103.6	104.6
EBITDA	**(20.5)**	**(22.8)**	**(30.9)**	**(40.9)**	**(43.9)**	**(42.9)**	**(41.4)**	**(39.7)**	**(45.0)**	**(115.1)**	**(167.9)**	**(43.4)**	**291.3**
EBITDA Margin											*-96%*	*-6%*	*15%*
R&D as % of Revenue	62.4%	52.3%	81.4%	98.0%	95.5%	90.8%	90.7%	90.2%	17%	76%	92%	16.3%	4.2%
SG&A as % of Revenue	65.0%	58.7%	57.5%	54.2%	49.5%	48.7%	49.4%	50.8%	38%	58%	50%	14.4%	6.5%

Source: Deutsche Bank, Company Filings

Figure 3: Tesla Cash Flow Model ($MM)

Cash Flow Statement	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	F2009	F2010	F2011	F2012	F2013
Reported net income	(23.8)	(26.1)	(34.3)	(44.1)	(49.1)	(49.3)	(49.4)	(50.1)	(55.7)	(128.3)	(197.9)	(106.6)	217.9
Depreciation and amortization	2.1	2.5	3.1	2.9	5.0	6.1	7.6	9.9	6.9	10.6	28.5	53.5	59.2
Other operating	0.1	(4.1)	4.7	(3.3)					5.5	(2.6)			
Change in working capital	(5.8)	9.8	(21.9)	10.2	15.5	(7.7)	5.0	5.2	(37.5)	(7.6)	18.0	(15.0)	(0.9)
Operating cash flow	**(27.3)**	**(17.9)**	**(48.3)**	**(34.3)**	**(28.6)**	**(50.9)**	**(36.8)**	**(35.0)**	**(80.8)**	**(127.8)**	**(151.4)**	**(68.1)**	**276.2**
Capital expenditures	(5.5)	(9.2)	(67.1)	(23.6)	(35.9)	(45.2)	(59.5)	(60.2)	(11.9)	(126.8)	(200.6)	(119.1)	(59.2)
Free cash flow	**(32.8)**	**(27.1)**	**(115.4)**	**(57.9)**	**(64.5)**	**(96.0)**	**(96.3)**	**(95.2)**	**(92.7)**	**(254.6)**	**(352.0)**	**(187.2)**	**217.0**
Cash used in acquisitions										-	-	-	-
Other investing	(3.9)	(0.9)	-						(2.4)	(4.8)	-	-	-
Dividends										-	-	-	-
Discretionary cash flow	**(36.7)**	**(27.9)**	**(115.4)**	**(57.9)**	**(64.5)**	**(96.0)**	**(96.3)**	**(95.2)**	**(95.1)**	**(259.4)**	**(352.0)**	**(187.2)**	**217.0**
Increase (decrease) in borrowings										-	-	-	-
Increase (decrease) in cap leas	(0.1)								(0.3)	(0.1)	-	-	-
Increase (decrease) in gov't bor	29.9	15.5	10.9	15.3	57.0	65.0	77.0	77.0		71.6	276.0	117.4	(52.8)
Change in vehicle lease investn	-	(1.9)	(2.4)	(2.7)	(1.7)	(1.6)	(1.5)	(1.2)		(6.9)	(6.1)	(1.0)	7.1
Governmental Grants										-	-	-	-
Equity Issuances	0.4	-	239.2	30.0					157.8	269.6	-	-	-
Other	(1.6)	0.1	(2.17)						(2.0)	(3.7)			
Net Financing flow	**28.6**	**13.7**	**245.6**	**42.6**	**55.3**	**63.4**	**75.5**	**75.8**	**155.4**	**330.5**	**269.9**	**116.4**	**(45.7)**
Effect of foreign currency													
Net change in cash position	**(8.1)**	**(14.2)**	**130.2**	**(15.4)**	**(9.2)**	**(32.7)**	**(20.7)**	**(19.4)**	**60.4**	**71.1**	**(82.0)**	**(70.7)**	**171.4**

Source: Deutsche Bank, Company Filings

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Tesla Motors	TSLA.OQ	22.85 (USD) 15 Feb 11	2,6,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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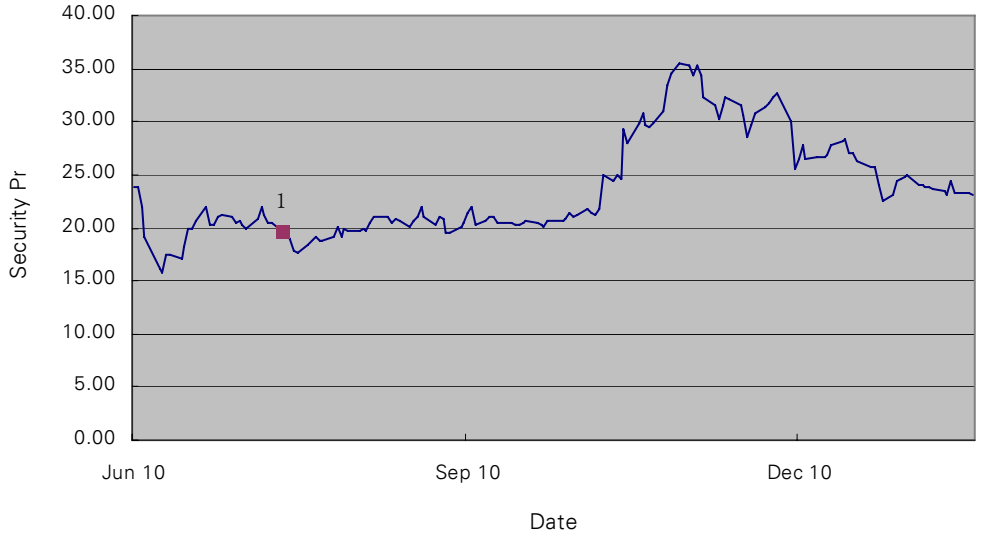
Historical recommendations and target price: Tesla Motors (TSLA.OQ)

(as of 2/15/2011)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1. 8/9/2010: Hold, Target Price Change USD17.00

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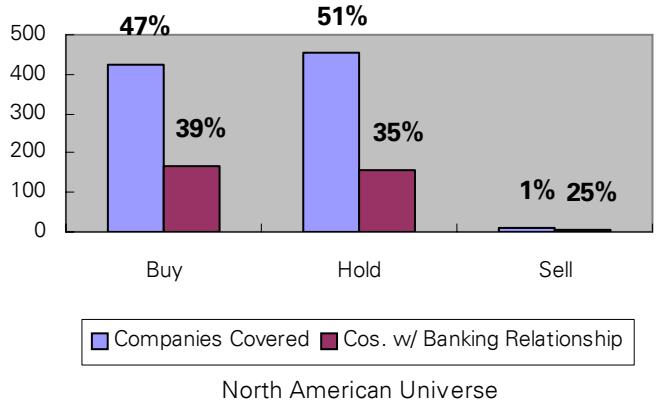
Equity rating dispersion and banking relationships



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CAPSTONE INVESTMENTS | Strategy, Vision, Innovation

Tesla Motors, Inc.

(TSLA: NNM; $23.08)

Sell | Target: $22

February 15, 2011

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Company Statistics

12-month Price Target:	$22
Current Price:	$23.08
Shares Outstanding (M):	92.3
Institutional Holdings:	40%
Market Cap (M):	$2,129.6
EV (M):	$2,089.6
EV/EBITDA:	NM
52-wk Range:	$14.98-$36.42
Avg. Daily Vol. (000):	1,272
Dividend:	NA
Price/Book Value:	9.7x
Book Value/sh:	$2.38

Financials

FYE Dec		**2009A**	**2010E**	**2011E**
EBITDA (M):		($45.0)	($142.6)	($161.7)
P/E Ratio:		NM	NM	NM
Revenue (M):	Q1	$20.9	$20.8	$41.1
	Q2	$26.9	$28.4	$41.3
	Q3	$45.5	$31.2	$41.5
	Q4	$18.6	$37.9	$41.7
Total		**$111.9**	**$118.3**	**$165.5**
EPS:	Q1	($0.77)	($1.35)A	($0.53)
	Q2	($0.52)	($1.68)A	($0.53)
	Q3	($0.22)	($0.38)A	($0.51)
	Q4	($1.15)	($0.60)E	($0.51)
Total		**($2.65)**	**($2.76)E**	**($2.09)**

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 ~ 1,400 vehicles sold through 3Q10. Tesla's next-generation EV called the Model S is set to launch in 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: USE EXPECTED 4Q10 HYPE TO SELL

- **Do earnings really matter?** TSLA reports 4Q10 results AMC with a 5pm call. We forecast sales of $37.9M and EPS of ($0.60), the latter we expect TSLA to surpass. Given that profitability is at least 2-3 years away we do not place much weight on quarterly results but expect a favorable reaction nonetheless, which we would use as an opportunity to sell. On the call we look for (1) Model S reservations (2) clearer indication of timing of Model S commercial introduction (3) gross margin trends (4) DoE loan facility usage (5) progress on joint developments with Toyota, Panasonic and Daimler (6) Model S prototype road test results (7) supplier sourcing.
- **Model S reservations.** At last count TSLA indicated they had secured ~3,500 reservations for the Model S. We would view 5,000 or more reservations as positive indication that Model S demand is improving.
- **EV rebate – will Republicans oppose it?** President Obama proposed front-loading $7,500 EV tax credit so auto dealers can reduce the vehicle price upfront rather than force potential purchasers to wait until they file their tax returns (making it a cash rebate). While we would expect a modest increase in EV sales if enacted, we do not believe potential TSLA customers would be much affected. We do not see TSLA customers as very price sensitive with a sticker of ~$57-70K (Model S) and $109K (Roadster). Introduction of the credit as a stand alone bill is unlikely but may become part of a larger energy bill. We believe passage would be at least 6-9 months away under ideal circumstances.
- **Maintain SELL**. We saw overwhelming evidence that major auto OEMs are aggressively entering the EV space during January's auto show. In addition, we believe TSLA has consistently underestimated the tremendous capital needed to become an integrated auto OEM. We do not believe offering one vehicle is sustainable business model and question both the timing of volume manufacturing and adoption rate of EVs. We believe the competitive landscape is increasing rapidly, shrinking the time frame in which TSLA has to introduce and capitalize on its Models S introduction. We maintain our SELL rating.

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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 $22 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	2009					2010E					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1QA Mar-10	2QA Jun-10	3QA Sep-10	4QE Dec-10	2010E YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Automotive Revenues	$20.9	$26.9	$45.5	$18.6	$111.9	$20.6	$24.0	$23.4	$18.2	$86.1	$20.0	$20.0	$20.0	$20.0	$80.1	$514.8
Battery Packs, Develop. Service Revenue	0.0	0.0	0.0	0.0	0.0	0.2	4.4	7.9	19.6	32.2	21.0	21.2	21.5	21.7	85.4	90.7
Total Revenues	**$20.9**	**$26.9**	**$45.5**	**$18.6**	**$111.9**	**$20.8**	**$28.4**	**$31.2**	**$37.9**	**$118.3**	**$41.1**	**$41.3**	**$41.5**	**$41.7**	**$165.5**	**$605.5**
YoY Growth	*0%*	*0%*	*0%*	*0%*	*659%*	*0%*	*5%*	*-31%*	*104%*	*6%*	*97%*	*45%*	*33%*	*10%*	*40%*	*266%*
QoQ Growth	*NA*	*29%*	*69%*	*-59%*		*12%*	*36%*	*10%*	*21%*		*8%*	*1%*	*1%*	*1%*		
Cost of Sales - Auto	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	29.7	90.8	29.5	30.0	30.5	29.9	119.9	526.5
Cost of Sales - Batteries, Develop. Services	0.0	0.0	0.0	0.0	0.0	0.1	1.9	2.5	7.9	12.3	9.5	9.6	9.7	8.7	37.3	31.7
Total COGS	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	29.7	90.8	29.5	30.0	30.5	29.9	119.9	526.5
Gross Profit	(2.0)	2.1	7.7	1.8	9.5	3.9	6.3	9.3	8.1	27.5	11.6	11.3	11.0	11.8	45.7	79.0
R & D	7.9	1.9	1.3	8.1	19.3	13.3	15.4	26.7	36.0	91.3	39.0	39.2	39.4	39.6	157.3	101.1
S G & A	6.6	8.2	10.7	16.6	42.2	16.6	22.2	20.4	30.3	89.5	24.6	23.9	21.6	21.5	91.6	109.6
Total Operating Expenses	14.5	10.2	12.0	24.7	61.4	29.9	37.6	47.1	66.2	180.9	63.7	63.2	61.0	61.1	248.9	210.7
EBIT	(16.6)	(8.1)	(4.3)	(22.9)	(51.9)	(26.0)	(31.4)	(37.8)	(58.1)	(153.3)	(52.1)	(51.9)	(50.0)	(49.3)	(203.2)	(131.7)
EBITDA	**(15.2)**	**(6.4)**	**(2.3)**	**(21.0)**	**(45.0)**	**(23.9)**	**(28.9)**	**(34.7)**	**(55.1)**	**(142.6)**	**(42.2)**	**(42.1)**	**(39.3)**	**(38.1)**	**(161.7)**	**(75.9)**
EBITDA Margin	*-73%*	*-24%*	*-5%*	*-113%*	*-40%*	*-115%*	*-102%*	*-111%*	*-146%*	*-121%*	*-103%*	*-102%*	*-95%*	*-91%*	*-98%*	*-13%*
Interest & Other Income, Net	0.6	(2.8)	(0.5)	(1.1)	(3.2)	(3.4)	(7.1)	3.0	0.6	(6.9)	0.4	0.5	(0.3)	(1.2)	(0.6)	(9.0)
Pretax Income	(16.0)	(10.9)	(4.8)	(24.0)	(55.1)	(29.4)	(38.5)	(34.9)	(57.5)	(160.2)	(51.6)	(51.4)	(50.3)	(50.5)	(203.8)	(140.8)
Taxes	0.0	0.0	(0.2)	0.2	0.0	0.1	0.0	0.1	0.1	0.3	0.0	0.1	0.1	0.1	0.3	0.2
Tax Rate	*0.0%*	*-0.1%*	*4.5%*	*-1.0%*	*0.0%*	*-0.4%*	*0.0%*	*-0.2%*	*-0.2%*	*-0.2%*	*0.0%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.1%*	*-0.1%*
GAAP Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(55.1)**	**(29.5)**	**(38.5)**	**(34.9)**	**(57.6)**	**(160.6)**	**(51.6)**	**(51.5)**	**(50.4)**	**(50.6)**	**(204.1)**	**(140.9)**
GAAP Net Margin	*-77%*	*-40%*	*-10%*	*-130%*	*-49%*	*-142%*	*-136%*	*-112%*	*-152%*	*-136%*	*-126%*	*-125%*	*-121%*	*-121%*	*-123%*	*-23%*
GAAP EPS	**($0.77)**	**($0.52)**	**($0.22)**	**($1.15)**	**($2.65)**	**($1.35)**	**($1.68)**	**($0.38)**	**($0.60)**	**($2.76)**	**($0.53)**	**($0.53)**	**($0.51)**	**($0.51)**	**($2.09)**	**($1.40)**
YoY Growth	*NA*	*NA*	*NA*	*NA*	*3%*	*76%*	*223%*	*73%*	*-48%*	*-4%*	*-60%*	*-69%*	*35%*	*-15%*	*24%*	*33%*
QoQ Growth	*NA*	*32%*	*58%*	*-425%*		*-17%*	*-25%*	*77%*	*-59%*		*11%*	*1%*	*3%*	*0%*		
Chg in Fair Value Warrants	0.1	0.0	0.3	0.0	0.4	2.3	6.3	(3.1)	0.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0
Amort. Stock Comp. Expense	0.1	0.2	0.2	0.0	0.4	3.4	6.1	3.8	4.0	17.3	3.5	3.5	3.5	3.5	14.0	16.0
Pro Forma Net Income	($15.9)	($10.7)	($4.1)	($24.2)	($54.3)	($23.8)	($26.1)	($34.2)	($53.6)	($137.7)	($48.1)	($48.0)	($46.9)	($47.1)	($190.1)	($124.9)
Pro forma EPS						**($1.09)**	**($1.14)**	**($0.37)**	**($0.56)**	**($2.36)**	**($0.50)**	**($0.49)**	**($0.48)**	**($0.48)**	**($1.94)**	**($1.24)**
Average Shares Outstanding	20.9	20.9	21.0	21.1	21.1	21.9	22.9	92.3	96.0	58.3	96.8	97.5	98.3	99.0	97.9	100.9
Percent of Revenue																
Cost of Sales	109.8%	92.2%	83.1%	90.4%	91.5%	81.5%	78.0%	70.2%	78.5%	76.7%	71.8%	72.7%	73.5%	71.7%	72.4%	87.0%
Gross Profit	(9.8%)	7.8%	16.9%	9.6%	8.5%	18.5%	22.0%	29.8%	21.5%	23.3%	28.2%	27.3%	26.5%	28.3%	27.6%	13.0%
R & D	38.0%	7.2%	2.8%	43.8%	17.2%	63.7%	54.3%	85.5%	95.0%	77.2%	95.0%	95.0%	95.0%	95.0%	95.0%	16.7%
S G & A	31.6%	30.6%	23.6%	89.1%	37.7%	79.7%	78.2%	65.4%	80.0%	75.7%	60.0%	58.0%	52.0%	51.5%	55.4%	18.1%
Total Operating Expenses	69.7%	37.8%	26.3%	132.9%	54.9%	143.4%	132.5%	150.9%	175.0%	152.9%	155.0%	153.0%	147.0%	146.5%	150.4%	34.8%

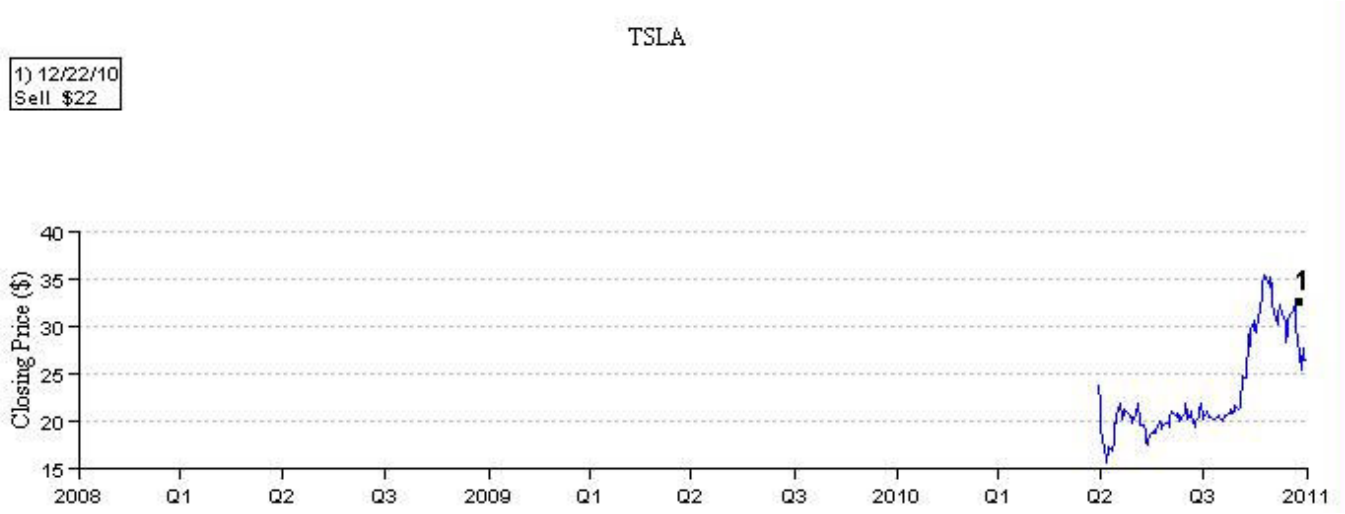
Source: Company reports and CapStone Investments estimates

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

$M	2009					2010E					2011E				
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1QA Mar-10	2QA Jun-10	3QA Sep-10	4QE Dec-10	2010E YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR
Operating Sources:															
Net Income	($16.0)	($10.9)	($4.6)	($24.2)	($55.7)	($29.5)	($38.5)	($34.9)	($57.6)	($160.6)	($51.6)	($51.5)	($50.4)	($50.6)	($204.1)
Depreciation and Amortization	1.4	1.7	1.9	1.9	6.9	2.1	2.5	3.1	3.0	10.7	9.9	9.8	10.6	11.2	41.6
Total	**(14.6)**	**(9.2)**	**(2.7)**	**(22.3)**	**(48.8)**	**(27.4)**	**(36.0)**	**(31.8)**	**(54.6)**	**(149.8)**	**(41.7)**	**(41.7)**	**(39.7)**	**(39.4)**	**(162.6)**
Change in Working Capital															
Accounts Receivable	2.8	(4.0)	3.2	(2.1)	(0.2)	(2.4)	(0.5)	(1.6)	(2.3)	(6.9)	(0.9)	(0.1)	(0.1)	(0.1)	(1.1)
Inventories	(4.9)	(3.8)	4.7	(3.9)	(7.9)	(5.5)	(1.1)	(10.3)	5.5	(11.4)	0.3	(0.6)	(0.6)	0.7	(0.2)
Other Current Assets	(0.2)	(2.3)	(0.3)	0.4	(2.5)	(0.1)	(1.3)	(8.5)	0.0	(9.9)	0.0	0.0	0.0	0.0	0.0
Non-Debt Current Liabilities	0.5	5.2	(29.3)	(3.4)	(27.0)	2.2	8.5	2.8	(1.5)	12.0	1.8	2.4	2.4	1.5	8.2
Total	(1.9)	(4.9)	(21.7)	(9.0)	(37.5)	(5.8)	5.5	(17.6)	1.7	(16.1)	1.2	1.8	1.8	2.1	6.9
Capital Expenditures	0.9	2.5	2.3	6.2	11.9	5.5	12.2	5.4	67.0	90.1	25.5	22.2	31.0	57.0	135.7
Operating Cash Flow	**($17.4)**	**($16.6)**	**($26.7)**	**($37.5)**	**($98.2)**	**($38.7)**	**($42.7)**	**($54.8)**	**($119.9)**	**($256.0)**	**($66.0)**	**($62.2)**	**($68.9)**	**($94.3)**	**($291.3)**
Cash Flow per Share	**($0.83)**	**($0.79)**	**($1.27)**	**($1.78)**	**($4.66)**	**($1.76)**	**($1.86)**	**($0.59)**	**($1.25)**	**($4.39)**	**($0.66)**	**($0.62)**	**($0.68)**	**($0.92)**	**($2.98)**
Non-Operating Activities:	8.1	16.6	133.2	0.6	158.6	30.6	28.5	104.0	110.0	273.1	68.7	68.7	93.7	93.7	324.7
Beginning Cash and Invest.	**$9.3**	**$0.0**	**$0.0**	**$106.5**	**$9.3**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$69.6**	**$86.7**	**$89.4**	**$95.9**	**$120.7**	**$86.7**
Net Cash Flow	**(9.3)**	**0.0**	**106.5**	**(36.9)**	**60.4**	**(8.1)**	**(14.2)**	**49.3**	**(9.9)**	**17.1**	**2.7**	**6.5**	**24.8**	**(0.6)**	**33.4**
Ending Cash and Invest.	**$0.0**	**$0.0**	**$106.5**	**$69.6**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$86.7**	**$86.7**	**$89.4**	**$95.9**	**$120.7**	**$120.1**	**$120.1**
Assets															
Cash & Equivalents				$69.6		$61.5	$47.3	$96.6	$86.7		$89.4	$95.9	$120.7	$120.1	
Restricted Cash				0.0		0.0	0.0	88.1	88.1		88.1	88.1	88.1	88.1	
Accounts Receivable				3.5		5.9	6.5	8.1	10.4		11.3	11.3	11.4	11.4	
Inventories				23.2		28.6	29.5	39.5	34.0		33.7	34.3	34.8	34.2	
Prepaid & Other CA				4.2		4.5	6.7	8.9	8.9		8.9	8.9	8.9	8.9	
Total Current Assets				**100.6**		**100.6**	**90.0**	**241.1**	**228.0**		**231.3**	**238.5**	**263.9**	**262.7**	
Operating Lease Vehicles				0.0		0.0	0.0	5.7	5.7		5.7	5.7	5.7	5.7	
Net PP&E				23.5		26.9	33.2	37.2	124.1		139.7	152.1	172.4	212.5	
Goodwill & Intangible Assets				3.6		7.5	5.4	57.5	57.5		57.5	57.5	57.5	57.5	
Other Assets				2.8		10.4	19.4	20.1	20.1		20.1	20.1	20.1	20.1	
Total Assets				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$435.5**		**$454.3**	**$473.9**	**$519.6**	**$558.5**	
Liabilities															
Accounts Payable				$15.1		$18.2	$25.6	$27.0	$24.5		$24.3	$24.7	$25.1	$24.6	
Accrued Liabilities				14.5		7.9	8.4	10.7	10.7		10.7	10.7	10.7	10.7	
Defd Development Compensation				0.2		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Deferred Revenue				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5	
Capital Lease Obligations, Current				14.5		7.9	8.4	10.7	10.7		10.7	10.7	10.7	10.7	
Reservation Payments				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5	
Current Liabilities				**$57.5**		**$59.1**	**$68.6**	**$69.3**	**$67.8**		**$69.6**	**$72.1**	**$74.5**	**$76.0**	
Common Stock Warrant Liability				0.0		0.0	16.7	6.7	4.7		0.0	0.0	0.0	0.0	
Convertible Pfd Stock Warrant Liability				1.7		10.4	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Capital Lease Obligations, Non-Current				0.8		0.7	0.6	0.6	0.6		0.0	0.0	0.0	0.0	
Deferred Revenue, less current				1.2		1.4	2.1	2.5	3.0		0.0	0.0	0.0	0.0	
Long-Term Debt - DoE Loan				0.0		29.9	45.4	56.6	56.6		56.6	56.6	206.6	356.6	
Other Long Term Liabilities				3.5		3.9	5.0	6.1	7.1		7.1	7.1	7.1	7.1	
Total Liabilities				**$64.7**		**$105.4**	**$138.5**	**$141.7**	**$139.7**		**$0.0**	**$0.0**	**$0.0**	**$0.0**	
Total Convertible Pfd Stock				**$319.2**		**$319.2**	**$319.2**	**$0.0**	**$0.0**		**$0.0**	**$0.0**	**$0.0**	**$0.0**	
Series A Convert. Pfd (7.2M shs)				3.5		3.5	3.5	0.0	0.0		0.0	0.0	0.0	0.0	
Series B Convert. Pfd (17.5M shs)				12.9		12.9	12.9	0.0	0.0		0.0	0.0	0.0	0.0	
Series C Convert. Pfd (35.2M shs)				39.8		39.8	39.8	0.0	0.0		0.0	0.0	0.0	0.0	
Series D Convert. Pfd (18.4M shs)				44.9		44.9	44.9	0.0	0.0		0.0	0.0	0.0	0.0	
Series E Convert. Pfd (102.8M shs)				135.7		135.7	135.7	0.0	0.0		0.0	0.0	0.0	0.0	
Series F Convert. Pfd (27.8M shs)				82.4		82.4	82.4	0.0	0.0		0.0	0.0	0.0	0.0	
Total Liabilities & Convert Pfd				**$383.9**		**$424.6**	**$457.7**	**$141.7**	**$139.7**		**$133.3**	**$135.7**	**$288.1**	**$439.6**	
Shareholders' Equity				**($253.5)**		**($279.3)**	**($309.8)**	**$219.9**	**$295.8**		**$321.1**	**$338.2**	**$231.5**	**$118.9**	
Total Liabilities and Equity				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$435.5**		**$454.3**	**$473.9**	**$519.6**	**$558.5**	
Key Financial Ratios															
Days Receivable Outstanding				17.1		26.0	20.8	23.5	25.0		25.0	25.0	25.0	25.0	
Inventory Turns				2.9x		2.4x	3.0x	2.2x	3.5x		3.5x	3.5x	3.5x	3.5x	
Days Payable				74.1		79.8	82.3	78.8	75.0		75.0	75.0	75.0	75.0	
Book Value				($12.03)		($12.75)	($13.51)	$2.38	$3.08		$3.22	$3.37	$2.29	$1.17	
Cash per Share				$3.31		$2.81	$2.06	$1.05	$0.90		$0.90	$0.95	$1.19	$1.18	

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES
Price charts generated by Jovus, Inc



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No Rating: Describes stocks we cover on which adequate information to make a recommendation is not available.

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Company	Disclosure
Tesla Motors, Inc. (TSLA)	None

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Tesla Motors

Mgmt. & Plant Visit; Model S On Track; Reiterate Overweight

Overweight

TSLA, TSLA US
Price: $23.04

Price Target: $30.00

Automobile Manufacture

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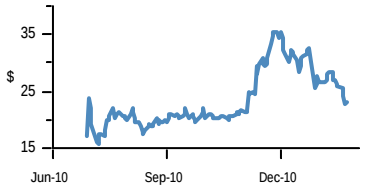
Price Performance



	YTD	1m	3m	12m
Abs	-13.4%	-28.6%	11.0%	35.5%

We recently met Tesla's senior management and toured its facilities in both Northern CA and Southern CA including the recently acquired Freemont assembly plant for Model S production. Nothing we heard substantively altered our bullish view on Tesla though our findings made us, at the margin, more comfortable on many fronts including overall Model S launch timing, manufacturing ramp at Freemont, organizational development, and the future of Tesla beyond the Model S. We continue to believe the majority of the investment community (and the majority of the automotive industry) is substantially underrating Tesla's potential, not just on electric vehicle power-train technology (where converts arguably have been made of Toyota and Daimler) but more broadly on its ability to deliver world-class non-powertrain related vehicle engineering and to eventually grow into a full-line premium carmaker with atypical cost competitiveness. Reiterate Overweight with a DCF-derived $30 Dec 2011 price target and see a three year upside potential to $40-50. It is worth noting that our DCF uses a 8.3% terminal value operating margin assumption (German luxury carmakers typically achieve 6-9%); while it is too early to see if TSLA can establish a mid-teens operating margin structure sustainably as per management guidance, it is worth noting that each 1 percentage point higher operating margin assumption adds $4 to the stock's fair value in our DCF.

- **Model S timing update.** Everything we heard continues to support mid-2012 timing for first customer deliveries of the Model S sedan. Major design freeze has occurred, and an Alpha version was just very recently released to internal executives for testing. From here onwards, a Beta version is expected to be available on Sept 1, 2011, manufacturing start-of-production is expected in mid-March 2012, implying full commercial start-of-production should occur sometime in Q2.2012 assuming no bumps along the way. On a side note, a video of the Alpha version engaged in real world road driving was released earlier this week, an event that apparently sparked 85,000 website hits in just the first few hours. It is difficult to read too much into this figure, but at the margin, it does suggests TSLA's 20,000 unit Model S volume target could be handily beaten if final production version remains true to its originally promised design, specs, and price point.

Tesla Motors, Inc. (TSLA;TSLA US)

	2010E	2011E	2012E	2013E	2014E	2015E
EPS Reported ($)						
Q1 (Mar)						
Q2 (Jun)						
Q3 (Sep)						
Q4 (Dec)						
FY	(1.38)	(1.88)	(1.46)	1.51	1.07	3.12

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

Company Data	
Price ($)	23.04
Date Of Price	21 Jan 11
52-week Range ($)	36.42 - 14.98
Mkt Cap ($ mn)	2,149.63
Fiscal Year End	Dec
Shares O/S (mn)	93
Price Target ($)	30.00
Price Target End Date	31 Dec 11

See page 6 for analyst certification and important disclosures.

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- **Future Vehicle Beyond Model S:** Beyond the Model S, it appears TSLA's next focus will be on a crossover (generically referred to as "Model X" internally) of the same footprint roughly as the Model S (i.e., a top hat of the Model S). CEO Musk has started discussing this in public, and Tesla's design head estimated that he spends about 85% of his time today on Model S, and the remaining 15% on the Model X (the CUV) and some non-model specific creative responsibilities he has for the corporation. The Model X is obviously planned to be on the same platform as the Model S – while common platform usage is a regular theme across the global auto industry, it is worth stepping back and remembering that most global OEMs are trying to harmonize existing different platforms down to a few common platforms while Tesla is going the other way (trying to proliferate a single model's platform). The execution of this strategy is probably easier for Tesla, suggesting its top hats may be considerably more profitable than what is typical for most OEMs.

- **Freemont Plant Manufacturing Ramp Observations.** The site is breathtaking in its scale, and equally so in how little TSLA paid for it and some of its key assets. NUMMI was contractually obliged to fully exit the Freemont facility by March 31, 2011, but it has already done so and Toyota/GM seem to have done an impressive job of fully clearing out the old equipment within the facility. The factory floor is clutter free for large swathes except for pieces of equipment TSLA has specifically chosen to buy from NUMMI, and except for a staging ground area for the on-site re-assembly of five massive stamping presses bought from Tower Automotive and recently relocated to the Freemont plant from Detroit. Tesla plans to use about 15% of the square footage of the NUMMI facility for its immediate needs, although this could be expanded if Toyota asks TSLA to do partial/final electric RAV4 assembly at NUMMI (to which TSLA management seems largely agnostic). As an outsider, it is hard for us to fully understand all of the work being done behind the scenes on the manufacturing side. But we could observe that the in-ground metal structural foundations of the five presses were lowered into their respective concrete pits in just the past few weeks, and the above-ground portion of these stamps were being prepped to be assembled in the coming weeks. Manufacturing head Gilbert Passin's organization currently has 80 employees (all white collar) and it plans to add another 500 (largely blue-collar workers) by Dec 2011. When fully ramped, TSLA expects the Freemont facility to be a fully integrated manufacturing site which, in addition to vehicle assembly, does powertrain assembly, plastics, and critical sub-component work on-site.

- **Freemont Plant Economics –** Tesla paid $42MM for the Freemont facility (which built nearly 500k units at peak under NUMMI's ownership) and another $17MM for the factory assets within the Freemont plant it chose to purchase. The $17MM included critical high cost items such as two paint shops (bought by TSLA for about $7MM excluding some refurbishment costs yet to be incurred) which would typically cost $150-250MM each to build from scratch. On top of the $42MM and $17MM, TSLA has agreed to contribute $15MM into an environmental liability claims fund, and NUMMI

has agreed to put in that much as well. However, TSLA's portion of the contribution is not required for four years and NUMMI will lend Tesla funds for environment claims up to that $15MM amount during that four year period. Should environment liabilities exceed the fund's $30MM size, all such costs beyond that are 100% Tesla responsibility, although there appear so far to be nothing more than modest soil and ground water contamination clean up costs.

- **OEM Partnership Update – 1) *Daimler* –**Daimler has recently expanded its order of Smart battery packs to 1,800 now (the figure has been steadily rising since it was originally announced at 1,000 units). The new order size was not revealed but it appears we will hear this on the next quarterly conference call. **2) *Toyota*** continues to aim for an electric RAV4 powered by Tesla's electrical powertrain (not just its battery pack) in 2012. It seems like the electric RAV4 assembly job could be shared between Toyota's Canada plant (the home of ICE RAV4 production today) and Tesla's Freemont plant. Beyond the electric RAV4, we sense the two companies are discussing one or two other vehicles (an electric luxury SUV has been reported in the media). On a separate note, the Magnesium battery chemistry Toyota was recently reported to be studying was characterized by Tesla as being largely for HEV (not EV) applications. On balance, both the Daimler and Toyota strategic partnerships seem to be progressing well, and we did not sense any conflicts of interest (at least not yet) between the two.

- **Panasonic Relationship Update –** Tesla and Panasonic continue to have a deep technical alliance, and are jointly developing a somewhat customized 18650 form factor battery for use in Tesla's electric vehicles. Management estimated that Tesla's eventual volume needs with the Model S could account for 20% of Panasonic's 18650 battery capacity today although this figure is rapidly changing as Panasonic is expanding capacity. The timing of Panasonic's investment in Tesla seems to have been partly driven by encouraging progress Panasonic saw on Model S development (though Panasonic apparently approached Tesla to make such an investment a few years ago as well and Tesla rebuffed at that time) and Panasonic's own internal initiatives to refocus the company on green initiatives.

- **Organization Observations –** The organization has grown by several hundred people since we last met the company face to face in CA immediately before the IPO. One of the things perhaps most under-appreciated about Tesla by outsiders is the simple fact that it continues to attract some of the highest quality professionals from both automotive and non-automotive backgrounds. The credibility CEO Musk brings to Tesla in terms of engineering and technical prowess is likely one of its most critical assets. Anecdotal observations from executives suggests recruiting efforts reached some type of tipping point about six months ago when the supply of candidates looking to work for Tesla now seem to vastly exceed the company's hiring pace.

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- **Revisiting the Tesla Investment Thesis –** We continue to be highly bullish on Tesla shares. While there are many electric company upstarts, we think TSLA stands unique in that it is focused on so much more than the electric powertrain which itself seems years ahead of anything we have seen so far in the global auto industry. At its heart, Tesla is a hardcore technical firm that strives for excellence in multiple areas of vehicle engineering (e.g., safety, suspension, paint finish, manufacturing cost efficiency, etc.). On the electric powertrain front, we continue to believe Tesla's cost per kWh for the Model S will likely be in the $200-300 range, about 50% better than all other carmakers. Lower cost per kWh in the electrified vehicle business translates into either a lower priced car (fewer batteries) or greater range (more batteries) – TSLA has effectively chosen the latter approach with the Model S and its impressive range. While other carmakers, who are largely working with large format prismatic batteries, are likely to see about a 50% improvement in their cost per kWh /energy density over five years, TSLA believes its 18650 form factor pack still offers 8% per year energy density improvement potential, suggesting its range/cost advantage with the competition may not necessarily narrow until the end of this decade. The strategic imperative for TSLA, therefore, must be to establish itself as a premium vehicle brand that just happens to make electric cars, hence why we believe the early focus on best-in-class vehicle engineering, service, distribution, etc. will pay long-term dividends.

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Valuation

We get to our $30 Dec-11 price target using both a DCF (11.7% discount rate, 4% terminal growth, exclusive of 2011 burn) and price/sales (1.4x which is the 1.5x average 2012 p/sales of A123, Ener1, BYD discounted one year as we apply it to Tesla's 2013 sales). Our $30 price target implies a somewhat lofty 26.1x P/E on tax rate adjusted 2013 EPS, although implied P/E is 16.5x 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 environment regulations and an increasingly green global consumer. Maintain Overweight.

Risk to 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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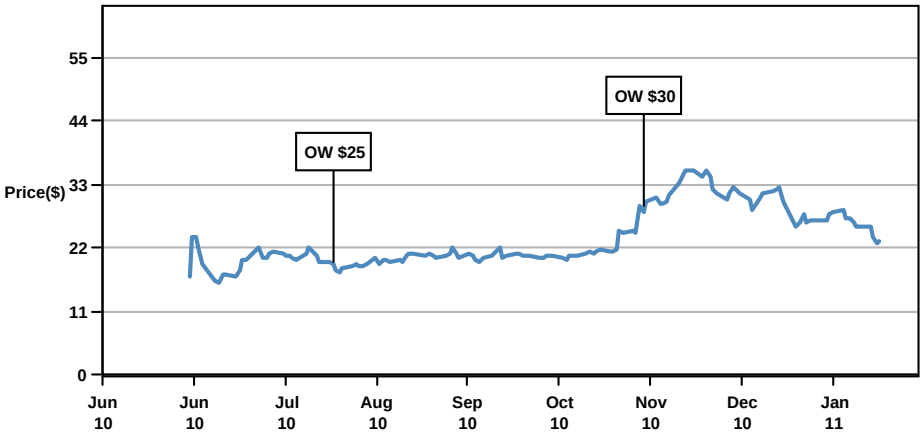
Tesla Motors (TSLA) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
09-Aug-10	OW	19.60	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.
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	Overweight (buy)	**Neutral** (hold)	**Underweight** (sell)
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IB clients*	53%	50%	38%
JPMS Equity Research Coverage	43%	49%	8%
IB clients*	71%	63%	59%

*Percentage of investment banking clients in each rating category.
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CAPSTONE INVESTMENTS | Strategy, Vision, Innovation

Tesla Motors, Inc.

(TSLA: NNM; $27.88)

Sell | Target: $22

January 7, 2011

Carter Driscoll, CFA / 973-821-4330 /
carter@capstoneinvestments.com

Company Statistics

12-month Price Target:	$22
Current Price:	$27.88
Shares Outstanding (M):	92.3
Institutional Holdings:	40%
Market Cap (M):	$2,572.5
EV (M):	$2,532.5
EV/EBITDA:	NM
52-wk Range:	$14.98-$36.42
Avg. Daily Vol. (000):	1,652
Dividend:	NA
Price/Book Value:	11.7x
Book Value/sh:	$2.38

Financials

FYE Dec		**2009A**	**2010E**	**2011E**
EBITDA (M):		($45.0)	($142.6)	($161.7)
P/E Ratio:		NM	NM	NM
Revenue (M):	Q1	$20.9	$20.8	$41.1
	Q2	$26.9	$28.4	$41.3
	Q3	$45.5	$31.2	$41.5
	Q4	$18.6	$37.9	$41.7
Total		**$111.9**	**$118.3**	**$165.5**
EPS:	Q1	($0.77)	($1.35)A	($0.53)
	Q2	($0.52)	($1.68)A	($0.53)
	Q3	($0.22)	($0.38)A	($0.51)
	Q4	($1.15)	($0.60)E	($0.51)
Total		**($2.65)**	**($2.76)E**	**($2.09)**

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 ~ 1,400 vehicles sold through 3Q10. Tesla's next-generation EV called the Model S is set to launch in 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: USE EXPECTED AUTO SHOW HYPE TO SELL

- **Alpha prototype Model S highlighted.** Yesterday Tesla previewed some of the design features of its Model S alpha prototype using videos led by its VP of Engineering Peter Rawlinson. We have always said it was a beautiful prototype. Our Sell thesis is predicated on expected production delays/cost overruns, high vehicle price, limited addressable market, lack of a brand name and EV adoption rate slower than anticipated.
- **NA auto show starts Monday in Detroit.** We believe the auto show (1/10-1/23/11) will give Tesla shares a boost as the show typically features beautiful, heavily hyped cars, which will not be produced anytime soon (much like our view of the Model S).
- **Competition ramping up.** By our count there are 11 major auto OEMs presenting at the show - not counting BYD, Tesla and Smart - that currently offer HEVs and/or will offer EVs ahead of the Model S. Tesla EV competitor CODA just received $76M in its latest private financing round, another sign of the crowded EV space. GM recently announced it would hire 1,000 engineers/researchers to expand its EV development.
- **Production delays?** Despite CODA's recent private funding round, the company said in November 2010 that it would delay the launch of its EV sedan until 3Q11 to allow time for additional tweaks to the production process. Unexpected manufacturing delays and cost overruns are extremely common, especially for new auto OEMs such as Tesla and CODA.
- **EVs are primarily powered by coal.** The dirty little secret about EVs is that, when one factors in the emissions from baseload electricity generation, they pollute nearly as much as internal combustion engines (ICE) since coal powers ~50% of the U.S. power grid.
- **Use auto show hype to sell the stock.** We believe Tesla is likely to trade up before and during the show, presenting a better price to exit the stock or initiate a short position. We apply a 50% premium multiple to its peer group on 3-year discounted 2015E EBITDA to arrive at our $22 target. We continue to believe the shares are priced for perfect execution and many pitfalls still exist.

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North American auto show is a dog and pony show

We have attended several auto shows in Detroit over the years. They are filled with beautiful cars that frequently have car enthusiasts salivating. However, the show is as much a media and social event as it is a way to primarily preview "concept" automobiles. We expect Tesla to put on an excellent show demonstrating its Model S sedan. The prototype is a beautiful car. We still have trouble getting over a few facts though such as ~1,400 Roadsters built since inception. And not by Tesla.

Building it from scratch

Let's review the strategy again. The current plan for Tesla is to build a low volume EV in California. Originally Tesla was planning to buy a chassis but is now building it from scratch. Yesterday Tesla VP of Engineering Peter Rawlinson walked through a prototype Model S discussing its physical design and layout, some materials (aluminum body shell), safety features, rear suspension, battery placement, low center of gravity and something they referred to as "package efficiency". What was missing during the discussion of all the benefits touted by Mr. Rawlinson was a discussion of cost. To build a car from scratch and manufacture it yourself requires new tooling, designs, changes to designs (which begets more new tooling), tryouts, pilot runs, debugging, training etc. We believe the costs could total $1.5-$2.0Bns since also Tesla lacks scale purchasing power of its larger OEMs. Contrast this with General Motors which spent ~$750M on the Chevrolet Volt since it rides on an existing platform. Tesla has impressively raised over $1Bn to date but can it raise another $400M-$1Bn? To build 20,000 cars annually at $50K-$70K per car? Does that sound like a recipe for success?

Competition is Ramping Up

We believe the auto show will begin to reinforce how crowded the HEV and EV space is becoming. We count 11 major auto OEMs that will present at the show that already offer HEVs and/or will offer an EV before or near the same time as Tesla's Model S.

Figure 1: Competition Ahead or Inline with Tesla's Model S Launch

PHEV and EV Competitor Launches are Proliferating

Source: Company reports, Plug-In America

In addition, outside of the beauty exterior design of the Model S, its extended range is its best selling feature. But is that truly a differentiator? One of the primary arguments in favor of EV adoption is that the ~80% of daily car usage is under 40 miles and therefore, a lack of range versus conventional vehicles is largely negated. However, we find two problems with that argument. First, there is a decided lack of infrastructure (electric charging stations at gas stations) once a user leaves their home. The workplace infrastructure is not yet available nor is there the retail distribution of fuel as for conventional vehicles. We believe that at a minimum the primary pace for charging one's EV will be the home, and to a lesser extent, the workplace, so "range anxiety" is a very real hindrance to EV adoption. Tesla's Roadster achieves ~245 miles of range on a single charge and one version of the Model S is expected to achieve up to 300 miles, which does help mitigate some of these range limitations but at a far higher price point that conventional vehicles.

Figure 2: Conventional ICE Dramatic Range Differences Are Not Offset by Fuel Cost Savings

Conventional ICE:					
Model - 2011	**Tank**	**Avg. MPG**	**Range (mi.)**	**Range vs. Exp. Model S**	**Price**
BMW Series 5 550I	18.4	17	313	196%	$59,700
Porsche Boxster Spyder	22	14.3	315	197%	$61,200
Lexus LS 460	22.4	19	426	266%	$65,380
Infiniti M56	20	21	420	263%	$57,600
HEVs / EVs:					
Model - 2011	**Type**	**Advertised Range (mi)**	**Expected Range (mi.)**	**Range vs. Model S**	**(w/ZEV) Price**
Tesla Model S – 230 mi	EV	230	160	100%	$60,500
Chevy Volt	EV/Gas Hybrid	300	300	188%	$33,500
Nissan Leaf	EV	100	70	44%	$25,280
Toyota Prius v5	Hybrid	595	595	372%	$20,570

Source: Company reports

We do not see the fuel savings (figure 2) offsetting the dramatic range differences offered by conventional vehicles at similar price points. Additionally, competing PHEVs and EVs soon to be on the road ahead of the mid-range Model S also offer lower prices points and better driving ranges (except the Nissan Leaf).

Figure 3: EV Fuel Costs are Lower but Enough to Offset Price and Gasoline Infrastructure?

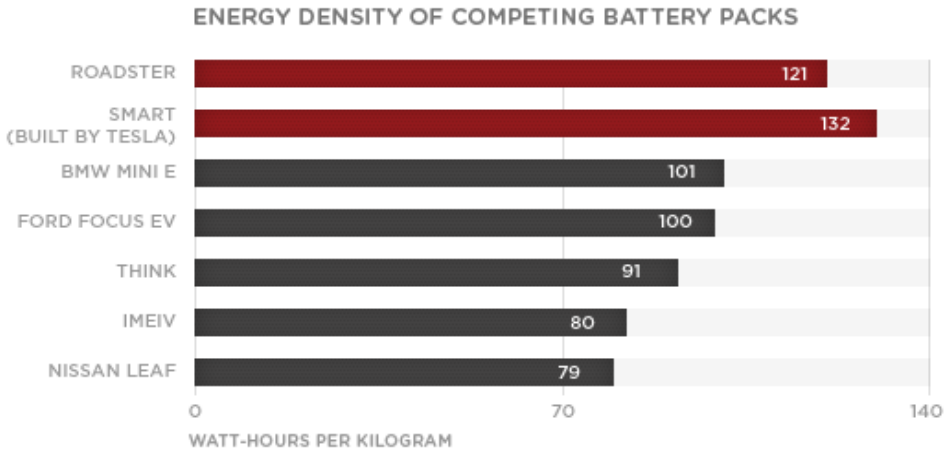
Gasoline Powered ICE		**Electricity**
Unit cost of energy	$2.75 ($/gallon)	$0.13 kW/hour (avg. across US.)
Energy consumer per mile (avg. fleet mpg)	25	3.3 miles per kW/hr. (~300w to move an EV one mile so (0.3kW.hr. = 3.3mi./kW/hr.
Cost of energy per mile	**$0.11**	**$0.04**
Avg. miles driven per year	12,000 / 15,000	12,000 / 15,000
Annual energy costs	$1,320 / $1,650	$480 / $600
Fuel Savings for EVs		**$840 / $1,050**

Source: BYD, DoE, NREL, CapStone Investments estimates

Battery technology – How big is their lead? How long will it last?

One of the competitive advantages cited by Tesla enthusiast is their lead in battery technology from both a cost and energy density perspective. We believe that as the energy density gap shrinks major auto OEMs will aggressively devote R&D spending to lower battery pack costs and negate Tesla's competitive advantage over the next few years.

Figure 4: Energy Density Gap is Closing



Source: Tesla

Conclusion – Use auto show strength to add to short positions or exit long ones

We believe the auto show will help propel the shares higher but we would use the opportunity to revisit why Tesla should command such a premium given our concerns regarding expected production delays/cost overruns, high vehicle price, limited addressable market, lack of a brand name and EV adoption rate slower than many anticipate. At over 17x our 2015E EV/EBITDA (discounted 3 years) versus 8.4x its peer group (on 2012E) we believe the stock is priced for perfection. We reiterate our SELL rating and $22 target.

Figure 5: Tesla is Expensive Using Any Relative Multiple - P/B, EV/Sales & EV/EBITDA

Comparable Valuations - Electric Vehicles, Applied Technologies, Battery Makers, Auto OEMs

01/06/11 (All Figures in $M except per share data and volume and where otherwise indicated)

(All Figures in $M except per share data and volume and where otherwise indicated)

Company	Ticker	FYE	Closing Price	Mkt Cap.	Cash	Debt	EV	Dil. Shs. Out. (Ms)	P/B	(per share) Book Value
Applied Technologies / EVs / Battery Makers										
A123	AONE	Dec	$9.71	$1,017	$457	$22	$582	105	1.9x	$5
Ener1	HEV	Dec	$3.50	$408	$52	$33	$390	117	0.2x	$17
Byd Co. Ltd.	BYDDY	Dec	$43.35	$92,936	$2,311	$3,654	$94,278	2,144	5.9x	$7
Advanced Battery Tech	ABAT	Dec	$3.80	$229	$74	$3	$157	60	2.0x	$2
UQM Technologies	UQM	Mar	$2.68	$71	$26	$0	$45	27	2.4x	$1
Johnson Controls	JCI	Dec	$40.34	$24,014	$601	$3,966	$27,379	595	2.9x	$14
Auto OEMs:										
Ford	F	Dec	$18.22	$60,345	$44,377	$133,087	$149,055	3,312	NM	($2)
Toyota	TM	Mar	$81.54	$128,035	$47,101	$129,594	$210,527	1,570	1.2x	$66
Honda	HMC	Dec	$38.96	$70,695	$15,170	$47,416	$102,942	1,815	1.7x	$23
Tesla Motors	TSLA	Dec	$26.83	$2,476	$97	$57	$2,436	92	11.3x	$2

Company	Ticker	Liquidity: Short Inter. (Ms)	Liquidity: 30-day Vol. (Ks)	Price: 52-Week High	Price: 52-Week Low	Earnings Estimates: FY09A EPS	FY10E EPS	FY11E EPS	2010E EBITDA	2011E EBITDA	2012E EBITDA
Applied Technologies / EVs / Battery Makers											
A123	AONE	14.9	1,360	$23.07	$6.32	($1.25)	($1.39)	($1.28)	($121)	($98)	($17)
Ener1	HEV	6.5	554	$6.60	$2.75	($0.55)	($0.50)	($0.27)	($47)	($28)	$22
Byd Co. Ltd.	BYDDY	NA	3,892	$84.00	$39.55	$2.26	$1.51	$1.94	$6,183	$7,935	$9,688
Advanced Battery Tech	ABAT	7.7	1,019	$4.60	$3.02	$0.59	$0.60	$0.60	$46	$49	$53
UQM Technologies	UQM	3.5	283	$6.71	$1.89	($0.11)	($0.06)	($0.02)	($3)	$3	$12
Johnson Controls	JCI	3.5	3,899	$40.90	$25.56	$2.00	$2.52	$2.98	$3,017	$3,529	$4,029
Auto OEMs:											
Ford	F	269.0	50,434	$18.09	$9.75	$2.05	$2.08	$2.14	$11,278	$12,722	$13,688
Toyota	TM	NA	326	$91.97	$67.56	$3.93	$2.35	$4.17	$16,938	$22,627	$24,658
Honda	HMC	NA	346	$40.14	$28.33	$1.59	$3.59	$3.23	$11,462	$13,084	$15,745
Tesla Motors	TSLA	7.4	1,652	$36.42	$14.98	($2.65)	($2.76)	($2.09)	($143)	($162)	($76)

Company	Ticker	P/E (FY): 2009A P/E	2010E P/E	2011E P/E	EV / Sales (FY): 2009A P/S	2010E P/S	2011E P/S	EV / EBITDA (FY): 2010E EV/EBITDA	2011E EV/EBITDA	2012E EV/EBITDA
Applied Technologies / EVs / Battery Makers										
A123	AONE	NM	NM	NM	6.4x	5.8x	2.7x	NM	NM	NM
Ener1	HEV	NM	NM	NM	11.2x	5.7x	1.8x	NM	NM	17.7x
Byd Co. Ltd.	BYDDY	19.2x	28.7x	22.4x	2.4x	2.0x	1.6x	15.2x	11.9x	9.7x
Advanced Battery Tech	ABAT	6.4x	6.3x	6.3x	2.5x	1.6x	1.1x	3.5x	3.2x	3.0x
UQM Technologies	UQM	NM	NM	NM	5.2x	3.5x	1.1x	NM	15.1x	3.8x
Johnson Controls	JCI	20.2x	16.0x	13.5x	0.8x	0.7x	0.7x	9.1x	7.8x	6.8x
Auto OEMs:										
Ford	F	8.9x	8.8x	8.5x	1.3x	1.2x	1.2x	13.2x	11.7x	10.9x
Toyota	TM	20.7x	34.6x	19.6x	1.0x	0.9x	0.9x	12.4x	9.3x	8.5x
Honda	HMC	24.5x	10.8x	12.1x	1.1x	0.9x	0.9x	9.0x	7.9x	6.5x
Tesla Motors	TSLA	NM	NM	NM	22.1x	20.9x	15.0x	NM	NM	NM
Mean (excludes Tesla)		16.7x	17.6x	13.7x	3.5x	2.5x	1.3x	10.4x	9.6x	8.4x
Median (excludes Tesla)		19.7x	13.4x	12.8x	2.4x	1.6x	1.1x	10.8x	9.3x	7.7x

Note: Mean First Call estimates used for all companies except Tesla

Source: Company reports and CapStone Investments estimates

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 $22 target price is the average relative multiples and our DCF - using 15x terminal EBITDA multiple and 14% WACC.

Figure 6: Tesla Motors, Inc.: HISTORICAL AND PROJECTED INCOME STATEMENT

$M	2009					2010E					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1QA Mar-10	2QA Jun-10	3QA Sep-10	4QE Dec-10	2010E YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Automotive Revenues	$20.9	$26.9	$45.5	$18.6	$111.9	$20.6	$24.0	$23.4	$18.2	$86.1	$20.0	$20.0	$20.0	$20.0	$80.1	$514.8
Battery Packs, Develop. Service Revenue	0.0	0.0	0.0	0.0	0.0	0.2	4.4	7.9	19.6	32.2	21.0	21.2	21.5	21.7	85.4	90.7
Total Revenues	**$20.9**	**$26.9**	**$45.5**	**$18.6**	**$111.9**	**$20.8**	**$28.4**	**$31.2**	**$37.9**	**$118.3**	**$41.1**	**$41.3**	**$41.5**	**$41.7**	**$165.5**	**$605.5**
YoY Growth	*0%*	*0%*	*0%*	*0%*	*659%*	*0%*	*5%*	*-31%*	*104%*	*6%*	*97%*	*45%*	*33%*	*10%*	*40%*	*266%*
QoQ Growth	*NA*	*29%*	*69%*	*-59%*		*12%*	*36%*	*10%*	*21%*		*8%*	*1%*	*1%*	*1%*		
Cost of Sales - Auto	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	29.7	90.8	29.5	30.0	30.5	29.9	119.9	526.5
Cost of Sales - Batteries, Develop. Services	0.0	0.0	0.0	0.0	0.0	0.1	1.9	2.5	7.9	12.3	9.5	9.6	9.7	8.7	37.3	31.7
Total COGS	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	29.7	90.8	29.5	30.0	30.5	29.9	119.9	526.5
Gross Profit	(2.0)	2.1	7.7	1.8	9.5	3.9	6.3	9.3	8.1	27.5	11.6	11.3	11.0	11.8	45.7	79.0
R & D	7.9	1.9	1.3	8.1	19.3	13.3	15.4	26.7	36.0	91.3	39.0	39.2	39.4	39.6	157.3	101.1
S G & A	6.6	8.2	10.7	16.6	42.2	16.6	22.2	20.4	30.3	89.5	24.6	23.9	21.6	21.5	91.6	109.6
Total Operating Expenses	14.5	10.2	12.0	24.7	61.4	29.9	37.6	47.1	66.2	180.9	63.7	63.2	61.0	61.1	248.9	210.7
EBIT	(16.6)	(8.1)	(4.3)	(22.9)	(51.9)	(26.0)	(31.4)	(37.8)	(58.1)	(153.3)	(52.1)	(51.9)	(50.0)	(49.3)	(203.2)	(131.7)
EBITDA	**(15.2)**	**(6.4)**	**(2.3)**	**(21.0)**	**(45.0)**	**(23.9)**	**(28.9)**	**(34.7)**	**(55.1)**	**(142.6)**	**(42.2)**	**(42.1)**	**(39.3)**	**(38.1)**	**(161.7)**	**(75.9)**
EBITDA Margin	*-73%*	*-24%*	*-5%*	*-113%*	*-40%*	*-115%*	*-102%*	*-111%*	*-146%*	*-121%*	*-103%*	*-102%*	*-95%*	*-91%*	*-98%*	*-13%*
Interest & Other Income, Net	0.6	(2.8)	(0.5)	(1.1)	(3.2)	(3.4)	(7.1)	3.0	0.6	(6.9)	0.4	0.5	(0.3)	(1.2)	(0.6)	(9.0)
Pretax Income	(16.0)	(10.9)	(4.8)	(24.0)	(55.1)	(29.4)	(38.5)	(34.9)	(57.5)	(160.2)	(51.6)	(51.4)	(50.3)	(50.5)	(203.8)	(140.8)
Taxes	0.0	0.0	(0.2)	0.2	0.0	0.1	0.0	0.1	0.1	0.3	0.0	0.1	0.1	0.1	0.3	0.2
Tax Rate	*0.0%*	*-0.1%*	*4.5%*	*-1.0%*	*0.0%*	*-0.4%*	*0.0%*	*-0.2%*	*-0.2%*	*-0.2%*	*0.0%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.1%*	*-0.1%*
GAAP Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(55.1)**	**(29.5)**	**(38.5)**	**(34.9)**	**(57.6)**	**(160.6)**	**(51.6)**	**(51.5)**	**(50.4)**	**(50.6)**	**(204.1)**	**(140.9)**
GAAP Net Margin	*-77%*	*-40%*	*-10%*	*-130%*	*-49%*	*-142%*	*-136%*	*-112%*	*-152%*	*-136%*	*-126%*	*-125%*	*-121%*	*-121%*	*-123%*	*-23%*
GAAP EPS	**($0.77)**	**($0.52)**	**($0.22)**	**($1.15)**	**($2.65)**	**($1.35)**	**($1.68)**	**($0.38)**	**($0.60)**	**($2.76)**	**($0.53)**	**($0.53)**	**($0.51)**	**($0.51)**	**($2.09)**	**($1.40)**
YoY Growth	*NA*	*NA*	*NA*	*NA*	*3%*	*76%*	*223%*	*73%*	*-48%*	*-4%*	*-60%*	*-69%*	*35%*	*-15%*	*24%*	*33%*
QoQ Growth	*NA*	*32%*	*58%*	*-425%*		*-17%*	*-25%*	*77%*	*-59%*		*11%*	*1%*	*3%*	*0%*		
Chg in Fair Value Warrants	0.1	0.0	0.3	0.0	0.4	2.3	6.3	(3.1)	0.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0
Amort. Stock Comp. Expense	0.1	0.2	0.2	0.0	0.4	3.4	6.1	3.8	4.0	17.3	3.5	3.5	3.5	3.5	14.0	16.0
Pro Forma Net Income	($15.9)	($10.7)	($4.1)	($24.2)	($54.3)	($23.8)	($26.1)	($34.2)	($53.6)	($137.7)	($48.1)	($48.0)	($46.9)	($47.1)	($190.1)	($124.9)
Pro forma EPS						**($1.09)**	**($1.14)**	**($0.37)**	**($0.56)**	**($2.36)**	**($0.50)**	**($0.49)**	**($0.48)**	**($0.48)**	**($1.94)**	**($1.24)**
Average Shares Outstanding	20.9	20.9	21.0	21.1	21.1	21.9	22.9	92.3	96.0	58.3	96.8	97.5	98.3	99.0	97.9	100.9
Percent of Revenue																
Cost of Sales	109.8%	92.2%	83.1%	90.4%	91.5%	81.5%	78.0%	70.2%	78.5%	76.7%	71.8%	72.7%	73.5%	71.7%	72.4%	87.0%
Gross Profit	(9.8%)	7.8%	16.9%	9.6%	8.5%	18.5%	22.0%	29.8%	21.5%	23.3%	28.2%	27.3%	26.5%	28.3%	27.6%	13.0%
R & D	38.0%	7.2%	2.8%	43.8%	17.2%	63.7%	54.3%	85.5%	95.0%	77.2%	95.0%	95.0%	95.0%	95.0%	95.0%	16.7%
S G & A	31.6%	30.6%	23.6%	89.1%	37.7%	79.7%	78.2%	65.4%	80.0%	75.7%	60.0%	58.0%	52.0%	51.5%	55.4%	18.1%
Total Operating Expenses	69.7%	37.8%	26.3%	132.9%	54.9%	143.4%	132.5%	150.9%	175.0%	152.9%	155.0%	153.0%	147.0%	146.5%	150.4%	34.8%

Source: Company reports and CapStone Investments estimates

Figure 7: Tesla Motors, Inc.: HISTORICAL AND PROJECTED CASH FLOWS AND BALANCE SHEET

$M	2009					2010E					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1QA Mar-10	2QA Jun-10	3QA Sep-10	4QE Dec-10	2010E YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Operating Sources:																
Net Income	($16.0)	($10.9)	($4.6)	($24.2)	($55.7)	($29.5)	($38.5)	($34.9)	($57.6)	($160.6)	($51.6)	($51.5)	($50.4)	($50.6)	($204.1)	($140.9)
Depreciation and Amortization	1.4	1.7	1.9	1.9	6.9	2.1	2.5	3.1	3.0	10.7	9.9	9.8	10.6	11.2	41.6	55.8
Total	**(14.6)**	**(9.2)**	**(2.7)**	**(22.3)**	**(48.8)**	**(27.4)**	**(36.0)**	**(31.8)**	**(54.6)**	**(149.8)**	**(41.7)**	**(41.7)**	**(39.7)**	**(39.4)**	**(162.6)**	**(85.1)**
Change in Working Capital																
Accounts Receivable	2.8	(4.0)	3.2	(2.1)	(0.2)	(2.4)	(0.5)	(1.6)	(2.3)	(6.9)	(0.9)	(0.1)	(0.1)	(0.1)	(1.1)	(58.5)
Inventories	(4.9)	(3.8)	4.7	(3.9)	(7.9)	(5.5)	(1.1)	(10.3)	5.5	(11.4)	0.3	(0.6)	(0.6)	0.7	(0.2)	(251.5)
Other Current Assets	(0.2)	(2.3)	(0.3)	0.4	(2.5)	(0.1)	(1.3)	(8.5)	0.0	(9.9)	0.0	0.0	0.0	0.0	0.0	0.0
Non-Debt Current Liabilities	0.5	5.2	(29.3)	(3.4)	(27.0)	2.2	8.5	2.8	(1.5)	12.0	1.8	2.4	2.4	1.5	8.2	267.9
Total	(1.9)	(4.9)	(21.7)	(9.0)	(37.5)	(5.8)	5.5	(17.6)	1.7	(16.1)	1.2	1.8	1.8	2.1	6.9	(42.1)
Capital Expenditures	0.9	2.5	2.3	6.2	11.9	5.5	12.2	5.4	67.0	90.1	25.5	22.2	31.0	57.0	135.7	95.0
Operating Cash Flow	**($17.4)**	**($16.6)**	**($26.7)**	**($37.5)**	**($98.2)**	**($38.7)**	**($42.7)**	**($54.8)**	**($119.9)**	**($256.0)**	**($66.0)**	**($62.2)**	**($68.9)**	**($94.3)**	**($291.3)**	**($222.2)**
Cash Flow per Share	**($0.83)**	**($0.79)**	**($1.27)**	**($1.78)**	**($4.66)**	**($1.76)**	**($1.86)**	**($0.59)**	**($1.25)**	**($4.39)**	**($0.66)**	**($0.62)**	**($0.68)**	**($0.92)**	**($2.98)**	**($2.20)**
Non-Operating Activities:	8.1	16.6	133.2	0.6	158.6	30.6	28.5	104.0	110.0	273.1	68.7	68.7	93.7	93.7	324.7	162.0
Beginning Cash and Invest.	**$9.3**	**$0.0**	**$0.0**	**$106.5**	**$9.3**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$69.6**	**$86.7**	**$89.4**	**$95.9**	**$120.7**	**$86.7**	**$120.1**
Net Cash Flow	**(9.3)**	**0.0**	**106.5**	**(36.9)**	**60.4**	**(8.1)**	**(14.2)**	**49.3**	**(9.9)**	**17.1**	**2.7**	**6.5**	**24.8**	**(0.6)**	**33.4**	**(60.2)**
Ending Cash and Invest.	**$0.0**	**$0.0**	**$106.5**	**$69.6**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$86.7**	**$86.7**	**$89.4**	**$95.9**	**$120.7**	**$120.1**	**$120.1**	**$59.9**
Assets																
Cash & Equivalents				$69.6		$61.5	$47.3	$96.6	$86.7		$89.4	$95.9	$120.7	$120.1		
Restricted Cash				0.0		0.0	0.0	88.1	88.1		88.1	88.1	88.1	88.1		
Accounts Receivable				3.5		5.9	6.5	8.1	10.4		11.3	11.3	11.4	11.4		
Inventories				23.2		28.6	29.5	39.5	34.0		33.7	34.3	34.8	34.2		
Prepaid & Other CA				4.2		4.5	6.7	8.9	8.9		8.9	8.9	8.9	8.9		
Total Current Assets				**100.6**		**100.6**	**90.0**	**241.1**	**228.0**		**231.3**	**238.5**	**263.9**	**262.7**		
Operating Lease Vehicles				0.0		0.0	0.0	5.7	5.7		5.7	5.7	5.7	5.7		
Net PP&E				23.5		26.9	33.2	37.2	124.1		139.7	152.1	172.4	212.5		
Goodwill & Intangible Assets				3.6		7.5	5.4	57.5	57.5		57.5	57.5	57.5	57.5		
Other Assets				2.8		10.4	19.4	20.1	20.1		20.1	20.1	20.1	20.1		
Total Assets				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$435.5**		**$454.3**	**$473.9**	**$519.6**	**$558.5**		
Liabilities																
Accounts Payable				$15.1		$18.2	$25.6	$27.0	$24.5		$24.3	$24.7	$25.1	$24.6		
Accrued Liabilities				14.5		7.9	8.4	10.7	10.7		10.7	10.7	10.7	10.7		
Defd Development Compensation				0.2		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0		
Deferred Revenue				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Capital Lease Obligations, Current				14.5		7.9	8.4	10.7	10.7		10.7	10.7	10.7	10.7		
Reservation Payments				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Current Liabilities				**$57.5**		**$59.1**	**$68.6**	**$69.3**	**$67.8**		**$69.6**	**$72.1**	**$74.5**	**$76.0**		
Common Stock Warrant Liability				0.0		0.0	16.7	6.7	4.7		0.0	0.0	0.0	0.0		
Convertible Pfd Stock Warrant Liability				1.7		10.4	0.0	0.0	0.0		0.0	0.0	0.0	0.0		
Capital Lease Obligations, Non-Current				0.8		0.7	0.6	0.6	0.6		0.0	0.0	0.0	0.0		
Deferred Revenue, less current				1.2		1.4	2.1	2.5	3.0		0.0	0.0	0.0	0.0		
Long-Term Debt - DoE Loan				0.0		29.9	45.4	56.6	56.6		56.6	56.6	206.6	356.6		
Other Long Term Liabilities				3.5		3.9	5.0	6.1	7.1		7.1	7.1	7.1	7.1		
Total Liabilities				**$64.7**		**$105.4**	**$138.5**	**$141.7**	**$139.7**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Total Convertible Pfd Stock				**$319.2**		**$319.2**	**$319.2**	**$0.0**	**$0.0**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Series A Convert. Pfd (7.2M shs)				3.5		3.5	3.5	0.0	0.0		0.0	0.0	0.0	0.0		
Series B Convert. Pfd (17.5M shs)				12.9		12.9	12.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series C Convert. Pfd (35.2M shs)				39.8		39.8	39.8	0.0	0.0		0.0	0.0	0.0	0.0		
Series D Convert. Pfd (18.4M shs)				44.9		44.9	44.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series E Convert. Pfd (102.8M shs)				135.7		135.7	135.7	0.0	0.0		0.0	0.0	0.0	0.0		
Series F Convert. Pfd (27.8M shs)				82.4		82.4	82.4	0.0	0.0		0.0	0.0	0.0	0.0		
Total Liabilities & Convert Pfd				**$383.9**		**$424.6**	**$457.7**	**$141.7**	**$139.7**		**$133.3**	**$135.7**	**$288.1**	**$439.6**		
Shareholders' Equity				**($253.5)**		**($279.3)**	**($309.8)**	**$219.9**	**$295.8**		**$321.1**	**$338.2**	**$231.5**	**$118.9**		
Total Liabilities and Equity				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$435.5**		**$454.3**	**$473.9**	**$519.6**	**$558.5**		
Key Financial Ratios																
Days Receivable Outstanding				17.1		26.0	20.8	23.5	25.0		25.0	25.0	25.0	25.0		
Inventory Turns				2.9x		2.4x	3.0x	2.2x	3.5x		3.5x	3.5x	3.5x	3.5x		
Days Payable				74.1		79.8	82.3	78.8	75.0		75.0	75.0	75.0	75.0		
Book Value				($12.03)		($12.75)	($13.51)	$2.38	$3.08		$3.22	$3.37	$2.29	$1.17		
Cash per Share				$3.31		$2.81	$2.06	$1.05	$0.90		$0.90	$0.95	$1.19	$1.18		

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES
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Company	Disclosure
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Tesla Motors, Inc.

(TSLA: NNM; $32.26)

Sell | Target: $22

December 22, 2010

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TSLA: INITIATE WITH SELL AND $22 TARGET; PRICED FOR PERFECTION

- **Initiate coverage of Tesla Motors with a SELL rating and $22 target price**. Tesla designs, manufactures and sells high-performance electric vehicles (EVs) and electric power train components including battery packs.
- **Market for EVs will not grow in the time frame anticipated**. We believe the premium cost and range anxiety will limit adoption of EVs. Tesla has sold ~1,400 vehicles since 2008 primarily because of a high sales price ($109K base price) but also because of the lack of recharging infrastructure, range limitations versus conventional vehicles and lack of a brand name. We expect that hybrid EVs (HEVs) and plug-in hybrid EVs (PHEVs) will continue to take the lion's share of green conscious automobile consumers given their lower price points, better driving ranges and availability from brand name OEMs such as General Motors, Nissan and Toyota.
- **Competition limits** Tesla's addressable market to the small luxury car segment. Tesla admits its target market, at least for the first Model S (due in mid-2012), is the mid-to-high tier luxury markets with total global sales of less than 2M units globally for 2009. Not only will Tesla compete with these more established OEMs conventional vehicles but also their HEVs and EVs as well.
- **Good battery technology but it is not a stand alone business.** We believe Tesla's competitive advantage in battery technology for EVs will begin to decline as key OEM partners become competitors as EV adoption begins to accelerate. We acknowledge their battery packs are among the best and lowest cost in the industry today. Longer-term we are skeptical Tesla can drive the next leg of growth as they must convince OEMs to utilize their powertrain technology as well as battery packs.
- **Reception of Model S is crucial.** We believe the niche market, competitive threats and substantial capital intensity will deliver margins below consensus expectations. Despite delivering the first federally compliant all-EV – the Roadster in 2008 - Tesla has never produced an EV at commercial production levels (nor profitably) and we do not believe they will achieve economies of scale to reach their projected EBIT targets of 14-16%. Delays in introducing the Model S would cause significant cash flow reductions. Investing in Tesla is a bet that the Model S will be on time and on budget and that customer adoption is robust and consistent. A lot of strong execution has to occur to justify the current valuation and management provides limited visibility.
- **Risks include** leveraging its competitive advantage in battery technology to OEMs, increased government financial and regulatory support and faster than expected introduction and/or adoption of the Model S.
- **Priced for perfection.** Profitability is several years away yet the stock trades at a premium on EV/Sales, EV/EBITDA and our 5-year DCF analysis. Given our concerns we believe the stock is overvalued and the risks outweigh the positives.

FOR INSTITUTIONAL CONSIDERATION ONLY.
FOR REQUIRED DISCLOSURES, INCLUDING ANALYST CERTIFICATION, PLEASE REFER TO THE IMPORTANT DISCLOSURES STARTING ON PAGE 34 OF THIS REPORT.

Tesla Motors, Inc.
3500 Deer Creek Road
Palo Alto, CA 94304
phn: 650-413-4000
http://www.tesla.com

Rating	**SELL**
Target Price	$22.00
Ticker Symbol	TSLA
Market	NASDAQ
Stock Price	$32.36
52 wk High	$36.42
52 wk Low	$14.98
Shares Outstanding:	93.1 M
Public Market Float:	15.5 M
Avg. Daily Volume	1,115,733
Market Capitalization:	$3,013 M
Institutional Holdings:	15.3%

Earnings Per Share

FYE - December	2008A	2009A	2010E	2011E
1Q - March	NA	($0.77)	($1.35)A	($0.53)
2Q - June	NA	($0.52)	($1.68)A	($0.53)
3Q - Sept	NA	($0.22)	($0.38)A	($0.51)
4Q - Dec	NA	($1.15)	($0.60)E	($0.51)
Year	**($4.15)**	**($2.65)**	**($2.76)E**	**($2.09)**
P/E	NM	NM	NM	NM
Revenue ($M)	**$15**	**$112**	**$118**	**$166**
EV/Sales	201.7x	26.6x	25.1x	18.0x

Senior Executives

Elon Musk	CEO, Product Architect
Deepak Ahuja	CFO
Jeffrey Straubel	CTO
George Blankenship	SVP, Sales
Franz von Holzhausen	Chief Designer
John Walker	VP, N. American Sales & Mktg
Gilbert Passin	VP, Manufacturing

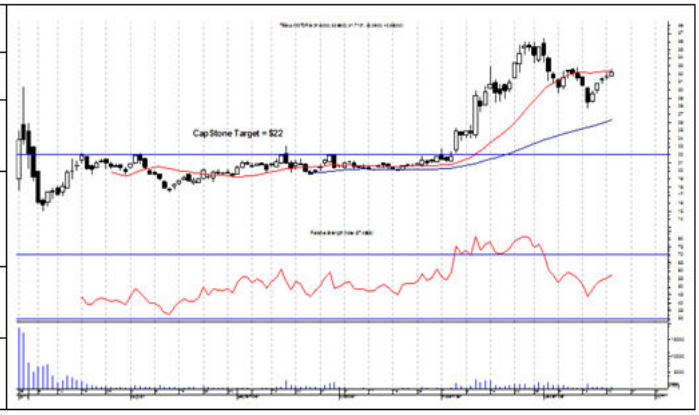
Common Institutional Ownership Profile (9/30/10)

Shareholder	Shares ('000)	% of Total
5% Shareholders	25,930	27.8%
Elon Musk (CEO)	27,394	29.4%
Directors & Other Officers	6,410	6.9%
Toyota	2,941	3.2%
Gilder, Gagnon, Howe	2,063	2.2%
Panasonic	1,419	1.5%
Invesco	699	0.8%
Blue Ridge	575	0.6%

Capitalization

Market Value Basis ($M)	**12/21/2010**	**%**
Long-Term Debt - DoE Loan	$57	2%
Plus Market Value of Equity	3,013	101%
Less Cash:	97	3%
Enterprise Value	$2,973	100%

Book Value Basis ($M)	**9/30/2010**	**%**
Long-Term Debt - DoE Loan	$57	16%
Other Liabilities	85	24%
Book Value of Equity	220	61%
Total Capital	$362	100%



Source: Company reports and CapStone Investments estimates.

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 ~ 1,300 vehicles sold through 3Q10. Tesla's next-generation EV called the Model S is set to launch in 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.

Technical Commentary

After failing to break resistance at the $22 level from the July IPO through September, TSLA shares recently broke out to the upside. However, this rally has now faded. Under the change in polarity principle, we see downside support at the $22 level, which is our price target.

Initiating Coverage of TSLA with SELL and $22 Target; Price for Perfection

We are initiating coverage of Tesla Motors with a Sell rating and $22 target price. Tesla designs, manufactures and sells high-performance fully electric vehicles and advanced electric vehicle powertrain components. In general, the bull case for Tesla centers around the rapid adoption of electric vehicles (EV), particularly their Model S series, at sufficient volumes to produce positive EBITDA margins through fixed cost absorption. These EVs must be delivered on budget and with performance characteristics that rival conventional luxury vehicles at similar price points. In addition the bull case generally calls for increasing OEM partnerships that add powertrain / battery pack volumes. We believe that the more exciting part of Tesla's story is their battery technology. Dramatically reducing the cost curve for battery technology (by far the most expensive power train component) has long been the holy grail for EVs and Tesla appears ahead of the curve. The bear case is that at the current valuation the stock has priced in stellar execution on all these fronts. We believe (1) EV adoption rate is overstated because of high total cost of ownership and range limitations (2) lower than expected production volumes will lead to higher COGS (3) competition from established automobile OEMs is becoming fierce (4) luxury EV positioning limits market opportunity (5) lack of brand name subjects Tesla to higher degree of exposure to product recalls / failure (6) lack of near-term profitability. We believe EVs have a place on U.S. roads but believe there are better ways to gain exposure. Therefore, we initiate coverage of Tesla Motors with a SELL rating and $22 target price.

Figure 1: Revenues at a Glance

	'09A Revenue - $111.9M	1st 3 Qtrs '10A Revenue - $80.5M
1. Electric Vehicles	$111.9M (100% of total)	$67.9M (84% of total)
2. Development Services – Battery Packs, Powertrain	$0M	$12.6M (16% of total)

Source: Company reports and CapStone Investments estimates

Reasons for Sell

Cost and range limitations will limit appeal of EVs

Cost: Tesla's focus on electric vehicles (EVs) limits itself to a niche market. Hybrid EVs (HEV) and plug-in HEVs (PHEVs), in particular, address a far wider audience of auto buyers. The "green" appeal of EV and PHEVs is clearly growing but economic reality (average MSRP for a light-duty vehicle, i.e. a non-commercial automobile, is ~$21,500) will limit their appeal. Tesla is targeting the luxury market, which is under 2M vehicles in total and an average price of $65,500.

Fewer than 2M luxury vehicles limits Tesla's TAM

Figure 2: Fewer than 2M Luxury Vehicles Limits Tesla's TAM

Luxury Segments Categories	(Ks Units) 2009 U.S. Segment Size	(Ks Units) 2009 Europe Segment Size	Approximate Price Range	($K) Blended Average Price	Model Examples
Middle Tier	194	954	$40-$67K	~$55K	Mercedes E Class, BMW Series 5, Infiniti GS, Porsche Cayman
Upper Tier	65	149	$75-$110K	~$85K	Mercedes S Class, BMW Series 7, Infiniti LS, Lexus LS
Expensive Tier	12	14	$210K+	$250K	Lexus LFA, Ferrari HY-KERS, Bentley Continental GT
Specialty	65	34	$40-$150K	~$67K	Mercedes CLK Class, BMW Series 6, Infiniti G
Sport Editions	89	109	$40-$135K	~$77K	Porsche 911, Infiniti 350Z
Total Luxury Mkt	**425**	**1,260**		**~$65.5K**	

Source: CSM Auto, Company reports and CapStone Investments estimates

Competitors are not just luxury sedans rather cheaper EV and PHEVs. One of the key questions for Tesla is – can they produce and sell enough cars before its better-funded, more diversified competitors, introduce their own EVs and PHEVs at far low price points? We do not think so. Why? First, the Chevy Volt was introduced in 4Q10 and the all-EV Nissan Leaf will be introduced in 1Q11. Both cars are slated to be between $10-$15K cheaper than the Tesla Model S, which is not due to be introduced until 2Q12 at the earliest. Tesla will introduce the Model S at $57,400 vs. ($41,000 for the Volt and $32,780 for the Leaf). Tesla may not be targeting the luxury market, and its limited total vehicle size, but we continue to believe the appeal is the EV market where the typical consumer remains very cost-focused.

Profitability is driven by cost reductions, which will be largely volume driven. Tesla may be one of the first all electric vehicle OEMs, which is progressive and environmentally friendly, but that does not equate to profitability. Look at the market for automobiles. Sales correlate most strongly with economic activity and disposable income. We contend that the market for the Roadster and Model S is very narrow so manufacturing economies of scale will prove difficult to achieve.

The keys to achieving profitability driven by the Model S are:

(1) Delivering a better battery that is more modular and easier to manufacture at a low enough cost that its higher energy density does not offset other cost savings.
(2) Source more components in-house to achieve better pricing.
(3) Produce dramatically higher vehicle units to cover higher fixed costs with new manufacturing facility

Tesla's profitability depends largely on the company cutting vehicle production costs by ~40% as it moves from the Roadster to the Model S. However, we lack visibility into exactly how Tesla will lower production costs so we project them based on management commentary.

Projected cost reductions are heavily dependent on economies of scale

Figure 3: Model S – Projected Cost Reductions from Roadster to Model S

Roadster – Starting Point	100%	Comments:
Battery – better energy density (lower cost per kW/hr.)	+ 7-10%	Energy density increase from 53kW/Hr. to 73 kW/hr. (estimated 20-25% price decline kW/hr.)
Improved design	-10-15%	Less expensive power train; modular battery
Pull manufacturing in-house	- 10-15%	Remove Lotus margin; source more components itself
Fixed cost absorption	- 20%+	20x higher units lowers component costs
Model S Cost (vs. Roadster)	**-30% to -43%**	

Source: Company reports and CapStone Investments estimates

Battery: The battery pack must have greater energy density because the Model S is heavier which must be offset by a reduction in the cost per kW/hr. at the cell level. Even with the reduction the battery cost is forecast to add to production costs not lower them.

Design improvements: The Roadster was built on a conventional chassis with a more modular battery, an integrated drive train unit and aluminum body (vs. hand built carbon fiber).

In-house manufacturing: Eliminating the Lotus glider and moving chassis production in-house is an easy margin enhancement but how they determine whether to source components vs. building them in-house will also play a role in potential cost reductions.

Fixed cost absorption: How Tesla can achieve economies of scale will play a crucial role in its ability to reduce costs. We estimate that Tesla must produce at least 15K units annually to achieve purchasing discounts and reach operating profitability.

Battery cost and ZEV credits are primary margin differences. Tesla has indicated they believe they can achieve EBIT margins ~13-15% EBIT margins, vs. auto OEMs typically between 5-8%. So a company that has never mass manufactured vehicles is now going to produce a luxury vehicle with ~2x the industry's operating margins? We believe the primary cost advantage will stem from Tesla's ability to drive down battery cost. In exhibit 4 we break down the expected cost structure for the Model S against a conventional luxury sedan.

Battery cost and ZEV credit are the primary margin differences between Tesla's Model S and typical conventional luxury sedan

Figure 4: Battery Cost and ZEV Credit are the Primary Margin Differences

Convential High Volume Luxury Sedan				Model S			
Auto part:	($) Cost	(%) Component Cost	(%) Sales Price		($) Cost	(%) Component Cost	(%) Sales Price
Engine / Electric Motor	$9,750	30%	15%	Power Elec. Module	$3,100	6%	4%
Transmission	$2,850	9%	4%				
HVAC	$950	3%	1%	HVAC	$2,250	4%	3%
Body Chassis	$4,850	15%	7%	All other	$19,875	37%	25%
Interior design	$3,250	10%	5%				
Suspension	$2,260	7%	3%				
Electronics	$1,900	6%	3%				
Other	$6,330	20%	10%				
Battery	$60	0.2%	0%	**Battery**	**$29,000**	**53%**	**36%**
Total bill of materials	**$32,200**		49%		**$54,225**		68%
Non-component variable costs (warranty, freight, labor, selling, mktg)	$10,975		17%		$10,900		14%
Total variable costs (VC)	**$43,175**		66%		**$65,125**		81%
Estimated fixed costs (FC)	$17,000		26%		$11,200		14%
Total VC & FC	**$60,175**		92%		**$76,325**		95%
ZEV Credit					$7,500		
Average sales price	**$65,500**				**$80,000**		
Sales price with ZEV Credit					**$87,500**		
Operating profit / margin	**$5,325**		**8%**		**$11,175**		**13%**
Operating profit / margin ex-ZEV	---------->				**$3,675**		**4%**

Source: Company reports and CapStone Investments estimates

The primary difference for the component costs are the engine vs. electric motor and battery cost. Our estimate uses a battery cost $400 kW/hr. assumption, which admittedly is higher than the ~$300 kW/hour that Tesla estimates. While it is true that Tesla is not burdened with traditional OEM legacy cost structures but also lacks their scale advantages in the bill of material costs. However, the margin difference arises primarily from the zero emission vehicle (ZEV) credit. Without it we believe Tesla is at best even with traditional OEMs operating margins.

Total cost of ownership is understated. Given that so few Roadsters are on the road we also believe the total cost of ownership will include higher repair and maintenance costs and higher insurance rates due to increased mechanical

complexity, somewhat offset by the difference between paying for greater electricity usage versus the absence of a gas bill. For example, we were quoted two auto insurances rate for our "hypothetical" Roadster at 4-5x our own $45,000 MSRP sedan ($109K Roadster is only 2.4x more expensive).

Range: One of the main arguments in favor of EV adoption is that the ~80% of daily car usage is under 40 miles and therefore, a lack of range versus conventional vehicles is largely negated. However, we find two problems with that argument. First, there is a decided lack of infrastructure (electric charging stations at gas stations) once a user leaves their home. The workplace infrastructure is not yet available nor is there the retail distribution of fuel as for conventional vehicles. We believe that at a minimum the primary pace for charging one's EV will be the home, and to a lesser extent, the workplace, so "range anxiety" is a very real hindrance to EV adoption. Tesla's Roadster achieves ~245 miles of range on a single charge and one version of the Model S is expected to achieve up to 300 miles, which does help mitigate some of these range limitations but at a far higher price point that conventional vehicles.

Conventional ICEs have dramatically higher driving ranges

Figure 5: Conventional ICE Dramatic Range Differences Are Not Offset by Fuel Cost Savings

Conventional ICE:					
Model – 2011	**Tank**	**Avg. MPG**	**Range (mi.)**	**Range vs. Exp. Model S**	**Price**
BMW Series 5 550I	18.4	17	313	196%	$59,700
Porsche Boxster Spyder	22	14.3	315	197%	$61,200
Lexus LS 460	22.4	19	426	266%	$65,380
Infiniti M56	20	21	420	263%	$57,600
HEVs / EVs:					
Model - 2011	**Type**	**Advertised Range (mi)**	**Expected Range (mi.)**	**Range vs. Model S**	**(w/ZEV) Price**
Tesla Model S – 230 mi	EV	230	160	100%	$60,500
Chevy Volt	EV/Gas Hybrid	300	300	188%	$33,500
Nissan Leaf	EV	100	70	44%	$25,280
Toyota Prius v5	Hybrid	595	595	372%	$20,570

Source: Company reports and CapStone Investments estimates

We do not see the fuel savings (figure 6) offsetting the dramatic range differences offered by conventional vehicles at similar price points. Additionally, competing PHEVs and EVs soon to be on the road ahead of the mid-range Model S also offer lower prices points and better driving ranges (except the Nissan Leaf).

Annual fuel costs are lower for EVs but enough to offset sticker price and lack of recharging infrastructure?

Figure 6: EV Fuel Costs are Lower but Enough to Offset Price and Gasoline Infrastructure?

Gasoline Powered ICE		**Electricity**
Unit cost of energy	$2.75 ($/gallon)	$0.13 kW/hour (avg. across US.)
Energy consumer per mile (avg. fleet mpg)	25	3.3 miles per kW/hr. (~300w to move an EV one mile so (0.3kW.hr. = 3.3mi./kW/hr.
Cost of energy per mile	**$0.11**	**$0.04**
Avg. miles driven per year	12,000 / 15,000	12,000 / 15,000
Annual energy costs	$1,320 / $1,650	$480 / $600
Fuel Savings for EVs		**$840 / $1,050**

Source: BYD, DoE, NREL, CapStone Investments estimates

Model S manufacturing delays and/or insufficient demand would prove costly

Tesla sources ~2,000 parts from 150 suppliers. When they were developing the Roadster the company did suffer some supply issues. Tesla's small size likely pushed the company to the back of the line. Delays in sourcing parts could push out the introduction of the Model S, which is critical to Tesla's future growth. It is difficult to gauge whether Tesla is ahead or behind on its targets for the Model S since they do not provide reservation figures on a quarterly basis. In addition the more important development and production targets are fairly vague.

Vague deadlines to track model S developments = limited visibility

Figure 7: Vague Deadlines to Track Model S Developments

YE10	Alpha build Supplier sourcing Engineering and external body design
YE11	Beta build Stamping facility, paint shop operational Tooling equipment in place Regulatory validation – crash & other safety tests
YE12	Production testing Start production and vehicle delivery

Source: Tesla

Tesla has no experience with mass production. Tesla has never mass produced automobiles. They have sold a very limited number of EVs since first introducing the Roadster in 2008. We believe one of the biggest risks for Tesla is the delivering the Model S and next-generation models on time and at sufficient volumes to produce positive gross margins. Currently potential customers reserve a yet-to-be produced Model S by paying a reservation deposit. In mid-2009 the original timeline to deliver the Model S was by the end of 2011, so Tesla has already missed one date. We calculate a delay of one year in introducing the Model S could cost $300M in cash flow.

The commitment to building the model S increases the capital base, raises capital intensity and makes Tesla closer to traditional OEMs (more than management may believe). Tesla spent ~$100M to develop the Roadster and expects to spend ~$400M to develop the Model S. Part of that expenditure is for in-house manufacturing. In May 2010, Tesla purchased the former NUMMI (**N**ew **U**nited **M**otor **M**anufacturing) plant in Fremont, CA for $42M and $17M in equipment. NUMMI was established at the site of a former General Motors Fremont Assembly site that closed in 1982. GM and Toyota reopened the factory as a joint venture in 1984 to manufacture vehicles to be sold under both brands. The joint venture ended in 2009 as GM pulled and several months later Toyota announced plans to pull out as well. GM wanted to learn about lean manufacturing from Toyota and Toyota gained its first manufacturing base in North America. Through May 2010, NUMMI built almost 8M cars and trucks (averaging 6K vehicles per week). Tesla and Toyota will collaborate on the development of EVs, components, and production systems. The plant will first be used to produce the Tesla Model S sedan and can produce ~200,000 vehicles a year to start but could be expanded.

Automobile start-ups have failed with regularity

Automotive OEMs face a capital intensive hurdle as designing, manufacturing and selling vehicles is inherently so. Automobile production requires substantial investments in manufacturing, equipment, R&D, product design, engineering, technology and marketing in order to meet both consumer preferences and regulatory requirements. Large OEMs are able to benefit from economies of scale by leveraging their investments and activities on a global basis across brands and models. The automotive industry is also cyclical and tends to track changes in the general economic environment. OEMs that have a diversified revenue base across geographies and products and have access to capital are well positioned to withstand industry downturns and to capitalize on industry growth. The largest automotive OEMs are GM, Toyota, Volkswagen and Ford, all of which operate on a global basis and produce cars and trucks across a broad range of vehicle segments. Tesla Motors is not a large OEM, it is a tiny one. Tesla is the first car company to go public since Ford in 1952! There is a reason why so few do so. It is a very difficult business to achieve profitability. Do these names ring a bell?

Automotive start-ups have short life spans

Figure 8: Automotive Start-ups Have Short Life Spans

Automotive OEM	Dates Operational
Crosley Motors	1939-1952, R.I.P.
Tucker Corp.	1944-1949, R.I.P.
Cunningham Motors	1950-1955, R.I.P.
Bricklin Motors	1974-1976, R.I.P.
DeLorean Motor Co.	1975-1982, R.I.P.
Vector Motors	1971-1993, R.I.P.

Source: Car & Driver

Outside of DeLorean, made famous through Hollywood's use in motion picture *Back-to-the Future*, do these name evoke brand names like GM and Ford? Coke or Pepsi? We did not think so either. Tesla has sold ~1,400 Roadsters to date. That figure is about 2 days total production from any major auto OEM so Tesla clearly lacks its competitors' selling prowess.

Competition from integrated OEMs is becoming fierce

We believe one of the biggest obstacles for Tesla will be the number of choices auto consumers face when the Model S becomes available in 2H12. In exhibit 7 we show several HEV models and EV models that are slated to be available before the Model S. The Model S would have extended range versus all these models but at a higher price point than most as well.

Examples of EV and PHEV launches likely before Tesla's Model S

Figure 9: Examples of EV and PHEV Vehicle Launches Likely Before Tesla's Model S

PHEV and EV Competitor Launches are Proliferating

Source: Company reports and CapStone Investments estimates

The first all-EV competitor to Tesla's Roadster is likely to be the Nissan Leaf. Nissan was a major beneficiary of the DoE loan program under the *Advanced Technology Vehicle Manufacturing Program*. At the same time that Tesla received $465M in loan commitments in January 2010, Nissan (North America) received $1.6Bn to retool its Smyrna, Tennessee factory to build EVs and batteries. We believe Nissan has a head start over Tesla. Nissan has aggressive plans to produce mass market EVs as do General Motors, Ford, Toyota, Honda, BMW, Porsche, etc.

The best judge of future demand for Model S is the number of reservation payments. At the end of 2Q10 and 3Q10 we believe there were ~2,600 and over ~3,000 reservations, respectively, approximately 1 ½ years before production is slated to begin. We estimate 5,500 vehicles will be produced in 2012. Contrast this with Nissan's plans to build 100,000 EVs by 2012. Not only will the learning curve be steep but we simply cannot believe each company they will have similar cost structures at such drastically different production output.

As mentioned Nissan plans to build as many as 100,000 vehicles by 2012 and believes it will do so at prices competitive with conventional vehicles (partly by leasing the battery pack, which is by far the most expensive component of EVs). Nissan has a joint venture with battery maker NEC, and a decade-old alliance with France-based Renault (who has long been an industry leaders partnering for EVs and conducting trials for charging infrastructure.

Lack of rechargeable infrastructure limits vehicle range and adds to "range anxiety"

Lack of rechargeable infrastructure feeds range anxiety

As of September 2010 there were 25 Tesla electric vehicle charger sites in California according to EV Charger News. The cities include Atascadero, Coalinga, Davis, Dixon, Fairfield, Goleta, Los Angeles, Menlo Park, Newport Beach, Orland, Rocklin, Salinas, San Luis Obispo, San Ramon, Santa Maria, Vacaville, Vallejo, Woodland and Yreka. Clearly the infrastructure does not remotely exist to support

EV recharging for Tesla vehicles even in the green-conscious state of California. The total number of EV commercially available charging infrastructure stations is clearly on the rise (perhaps few hundred stations to date) due to efforts such as General Motors, Nissan, Ecotality (E.V. Project believes 6,500 commercial charging sites could be in place by the summer of 2011). General Electric plans to deploy 25K-30K public and private WattStation chargers by 2015.

Ambitious projects are increasingly announced such as E.V. Project and Project Get Ready but charging station deployments are still scattered.

Figure 10: Tesla Charging Station – 25 Total Sites in California

Source: EV Charger News

On a positive note, the newly passed tax cut extension bill includes a one-year extension of a federal tax credit towards the purchase and installation of electric car charging stations. ON a negative note the credit was reduced from 50% of the purchase price up to $2,000 ($50K commercial) to 30% of the cost up to $1,000 (we do not know the commercial rate yet). The lack of charging infrastructure only adds to the "range anxiety" some cite as a primary reason that EV adoption will be slower than expected. Until a recharging infrastructure is in place we would expect EVs to be limited to the second car for most households.

Limited addressable customer base

We believe Tesla's customer base is limited to (1) luxury vehicle purchasers (2) progressive, "green-conscious" consumers seeking to bolster a lifestyle image. One would need to believe an overwhelming number of the HEV owners would switch to an EV rather than a hybrid, pay a far higher price than their current automobile (50-150% higher), deal with the lack of infrastructure and rely on a still commercially unproven technology (if it breaks, could a mechanic even fix it?).

Fast Growth Rate for PHEVs & EVs but Very Small Total Sales

Peaking market share forecast for Tesla in 2014 at 1.8%

Figure 11: Fast Growth Rate for PHEVs & EVs but Very Small Total Sales

Global Vehicle Sales
in Ks of vehicles

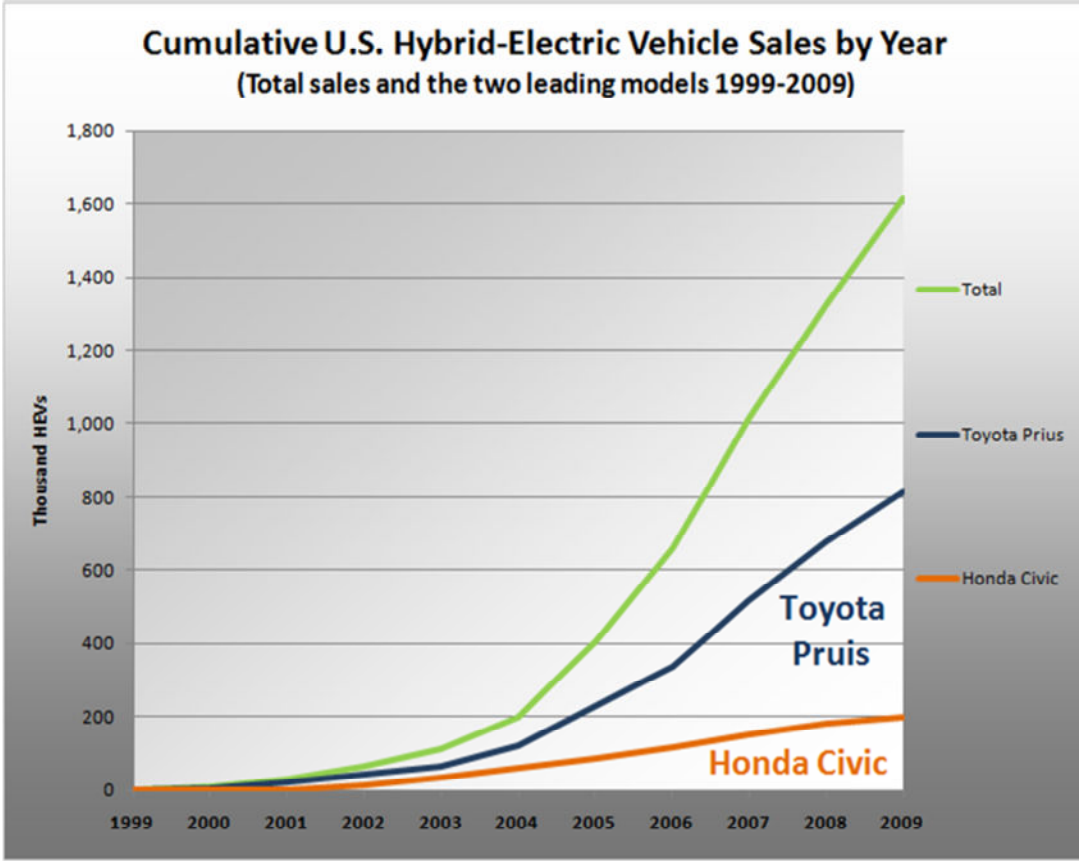
Total Units	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	CAGR '10-'15
Coventional vehicles	64,549	67,825	64,326	54,706	59,433	60,334	62,233	64,472	65,482	65,859	2%
HEVs	416	793	1,133	2,309	4,891	8,785	11,867	15,127	17,440	18,835	31%
PHEVs	1	1	4	4	30	103	348	625	688	1,305	113%
EVs	0	0	3	4	20	50	100	250	435	525	92%
Total	64,966	68,619	65,466	57,023	64,374	69,272	74,548	80,474	84,045	86,524	6%
% of Total											
HEVs	0.6%	1.2%	1.7%	4.0%	7.6%	12.7%	15.9%	18.8%	20.8%	21.8%	
PHEVs	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%	0.8%	0.8%	1.5%	
EVs	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%	0.5%	0.6%	
Tesla's Unit Volume:	0.00	0.00	0.10	0.83	0.55	0.55	6.00	16.05	20.45	31.80	125%
% of EVs & PHEVs	0.0%	0.0%	1.4%	10.4%	1.1%	0.4%	1.3%	1.8%	1.8%	1.7%	
% of EVs	0.0%	0.0%	3.3%	20.8%	2.8%	1.1%	6.0%	6.4%	4.7%	6.1%	

Source: CSM Auto

The total market size is forecast for PHEVs and EVs is only expected to reach ~150,000 vehicle in 2011 and 448,000 in 2012, ~ one-half of 1%. The typical auto plant makes 10,000 vehicles per month, which means 1-2 typical auto plants could make the entire production for 2011, highlighting the limited opportunity addressable market through 2012. Cumulatively only 1.6M HEVs were sold from 1999-2009.

U.S. HEVs sales shows adoption rates growing but unit sales remain low

Figure 12: U.S. HEVs Sales – U.S. Adoption Rates Growing but Unit Sales Remain Low



Source: Electric Drive Transportation Association

Lack of brand name (not cache) subjects Tesla to greater risk of product failure / recalls

In early October 2010 Tesla was faced with a recall of 439 Roadsters with a minor electrical problem with voltage system. The mechanical fix was minor and easily covered under Tesla's warranty reserve. We understand that recalls are a cost of doing business in the automobile industry but with such a small installed base of Roadsters 439 of out of ~1,400 is almost 33% of their total unit sales. The effect while not quantifiable could serve to dent Tesla's image if such recall become more common, as could be the case with a mass s produced vehicle such as the Model S.

Lockup ends December 27th, unleashing 3x current free floating shares

On December 27th the IPO lock up period ends, which will add ~3x the current free floating shares. Free float will be ~55M shares up from ~15M. While we do not expect to see massive selling pressure with so many shares held by insiders, partners and employees/directors the mere fact that they are available could add some selling pressure.

Reasons to Buy

OEM support validates technology

OEM support validates technology; could it become marriage?

One of the strongest reasons for the bull case for Tesla is the increasing OEM support for its battery packs and EV development. Tesla has relationships/partnerships with Toyota (3% equity stake, joint development for RAV4 model), Daimler (invested $50M in 2009, battery purchaser) and Panasonic (1.5% equity stake, powertrain development). Additional OEM partnerships and/or battery purchases would add scale, revenue growth and enhance market acceptance of Tesla's technology and system design. However, we believe the ultimate reason to buy Tesla is its attractiveness as an acquisition candidate. So many Silicon Valley companies see this route as the ultimate goal. Any of the three OEMs highlighted below could be potential takeover candidates.

Toyota investment: Toyota invested $50 million in Tesla in May 2010 (2.9M common shares or 3%+ equity stake) and has since invested another $60M to partner with Tesla in developing an all-electric powertrain for its RAV4 small SUV.

Panasonic investment: Japanese electronics giant Panasonic invested $30M in Tesla to jointly develop powertrains for 1.4M shares or a 1.5% equity stake. Panasonic currently manufacturers batteries for gasoline HEVs. Tesla currently uses Panasonic battery cells (and cells from other OEMs), in its battery modules and has collaborated with Panasonic in developing next generation power packs, along with potential joint marketing efforts. We believe Panasonic is positioning itself as a top supplier of batteries for EVs and PHEVs vehicles. It has a joint venture with Toyota (called Primearth EV Energy), to make nickel-metal hydride and lithium ion batteries. Panasonic just completed its merger with rival Sanyo Electric this month, another major manufacturer of nickel-metal hydride and lithium ion batteries. So Panasonic's investment could be both a blessing and a curse if Panasonic is able to eventually use its size and scale to cut costs for its own lithium ion batteries in larger form factors.

Daimler relationship: Daimler invested $50M for ~9.5% stake (Series E preferred stock now converted) in Tesla in May 2009. The investment came when Tesla was

close to depleting its cash position, providing a nice return on investment. Daimler is using Tesla's battery in its Smart fortwo EV program and is expected to use Tesla's battery packs and chargers for its A-class fleet expected to be introduced in Europe sometime in 2011. However, the battery pack technology may not be as important as Tesla's experience using them in EVs, specifically the battery management, charging technology and electric powertrain engineering. Daimler already holds a 49.1% share in Li-Tek, a battery subsidiary of the German firm Evonik, in a joint venture called Deutsche Accumotive. Daimler is working on both electric battery and hydrogen fuel cell technology.

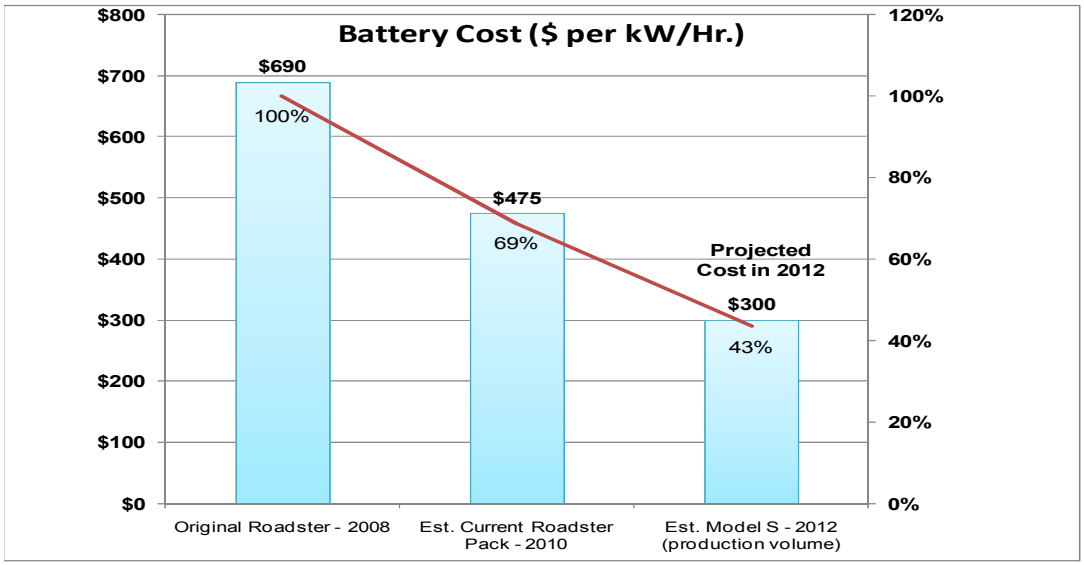
Low cost of battery pack is a competitive advantage – for now

The biggest drawback to establishing electric vehicles has always been the electricity storage – the battery. The key technological development has been to deliver greater energy and power density (amount of energy that can be stored per unit of weight / volume), at an acceptable consumer cost. Typical battery solutions (lead acid, nickel cadmium, nickel metal hydride) have improved their energy densities but not enough to significantly improve driving range (mass of vehicles meant batteries had to be huge). Lithium-ion technology has emerged as the primary method of lessening (but not yet eliminating) the storage problem.

The most exciting part of Tesla's story is its battery technology. Unlike its primary competitors (ENER1, A123 and BYD) that use large form factors and different chemical compositions, Tesla's uses 6,831 "18650" cells typically used in consumer electronics products which in total has a mass of ~1,000 lbs.. 18650 refers to the ubiquitous form factor most consumer electronics devices utilize per cell (a cylindrical 18mm diameter X 65mm length; just larger than AA battery). Tesla's proprietary cathode geometry and different chemical compositions allow their batteries to have greater energy density at lower costs. Competitors' advanced automotive (large from factor) batteries achieve energy densities ~150-160 watt hours per kilogram (wh/kg) versus Tesla's consumer electronics type batteries at ~220-230 wh/kg (cell level not pack level). The cost difference is $100-$150 per kW/hr ($350-400 for advance automotive vs. $250 kW/hr. for Tesla's). These two main advantages allow for a lower BOM and better performance, all else equal.

Tesla believes it can reduce its battery pack cost for Model S by another 31%

Figure 13: Tesla Believes it Can Reduce its Battery Pack Cost for Model S by Another 31%



Source: Company reports

We estimate the current battery pack for the Roadster (53kW/hr.) is ~$25-$26K (minimum 1K units annually) which equates to ~$475 kW/hr. versus competitor at $625-$650 kW/hr. on higher unit volumes (over 10K units annually).

Model S reservations (pre-orders) exceed expectations

Given that the Model S launch is ~18 months away at the earliest the closest way to determine demand is through reservations. If Tesla can demonstrate it has reservations equal to or above the expected 5,000-6,000 for 2012 and/or 19,000-20,000 unit sales forecast for 2013 then investors will likely see this as evidence that Tesla will exceed expectations, providing a boost for the stock.

Government support for EVs is strong but also highlights lack of profitability

EVs do receive support from several government entities including federal and state incentives. The most prominent is the $7,500 federal credit (direct subsidy) for the purchase of alternative fuel vehicles. We have identified another 20 federal programs that offer tax rebates, loan guarantees and cash grants for EVs. There are numerous state incentives as well. For example California has enacted ~29 laws to promote EV adoption from tax incentives for electric charging infrastructure development to mandating state purchase of EVs after commercial availability. California's Air Resources Board has a zero emission vehicle (ZEV) policy aimed at promoting zero tailpipe emissions over time.

Current Energy Secretary Stephen Chu just announced up to $184M for advanced vehicle R&D. The funding opportunity addresses the development of key technologies required to achieve large scale adoption of advanced vehicles such as PHEVs and EVs. Although the first of a new generation of electric drive vehicles is now entering the market, advancements in batteries, power electronics, and lightweight materials are required to be fully competitive. The funding (solicitations by 2/28/11 and awards in the summer of 2011) focus on the following:

Can Tesla take advantage of new government funding for advance vehicle R&D?

Figure 14: New Funding for Advance Vehicle R&D

Advanced fuels and lubricants	Improve today's vehicle fuels and lubricants to enable optimal performance of advanced combustion engines.
Light weighting materials	Accelerate commercial availability of lighter weight vehicles using advanced materials like magnesium and carbon fiber to dramatically reduce vehicle weight.
Multi-material light weight material prototype	Design, build, and test a light-weight vehicle that is 50% lighter than a baseline light-duty vehicle.
Advanced cells & design technology for electric drive batteries	Develop high energy or high power electric vehicles that significantly exceed existing state-of-the-art technologies in terms of performance and/or cost.
Advanced power electronics and electric motor technology	Develop the next generation of power inverters and electric motors to meet demanding performance targets while achieving significant reductions in cost.
Thermoelectric and enabling engine technology	Improve the efficiency of thermoelectric devices to convert engine waste heat to electricity. Develop early-stage enabling engine technologies to improve fuel efficiency and reduce emissions.
Fleet efficiency	Develop and demonstrate fuel efficient tire and driver feedback technologies that will positively affect efficiency of the fleet of passenger cars and commercial vehicles.
Advanced vehicle testing and evaluation	Conduct laboratory and field evaluations of advanced technology vehicles and related infrastructure, while developing new or modified test procedures.

Source: DoE

All these programs should help spur EV adoption. If Tesla is able to successfully wind awards from these and/or other government funded programs, our sell thesis could be negatively impacted. However, they also point out the lack of profitability of EVs and the inability of companies involved in EV development to stand alone.

Solid management team assembled

We believe Tesla has a strong management team with engineering and design strength and acknowledge that such talent is an important part of developing a profitable company. Tesla's culture is focused on engineering and product development. The assembled team does have a diverse set of skills from aerospace design to retail sales to more traditional automotive engineering and manufacturing. We have one concern that CEO Elon Musk appears to be a serial entrepreneur and there is a risk that he moves onto a new venture once the Model S is launched. He also currently fills the dual roles as CEO of both Tesla and SpaceX.

Diverse management talent at Tesla

Figure 15: Executive Management Biographies – Diverse Talent

Executive	Former Position(s)
Elon Musk - CEO	Co-founder of PayPal and chairman of spaceship developer Space Exploration Co; chairman Solar City
Deepak Ahuja – CFO	Ford Motor, Small Car Product Development; CFO Ford South Africa
Jeffrey Straubel – CTO, Co-Founder	CTO, Volacom (aerospace); Rosen Motors
Franz von Holzhausen	Director of Design Mazda NA; positions at GM and VW
John Walker - VP N. American Sales & Mktg	Audi – GM, NA Sales
VP Manufacturing – Gilbert Passin	Toyota – Production Engineering
George Blakenship – SVP, Sales	Gap, Apple

Source: Company reports

A glance at Tesla - focus on EVs and battery packs

Tesla's two operating segments are electric vehicles and powertrain components, mainly battery packs and some engineering services.

(1) Electric Vehicles – 75% of 3Q10 revenue

Tesla focus on designing, manufacturing and selling electric-only vehicles geared for the high performance luxury market. The company introduced the hand-built carbon fiber Roadster in 2008 and also offers an upgraded and slightly redesigned model called the Roadster Sport. As with the original Roadster, there is quick acceleration to a top speed of 125 mph. However, the Roadster Sport reaches 0-to-60 mph in an extremely quick 3.7 seconds (versus 3.9 seconds) with the same liquid-cooled 53 kWh lithium-ion battery pack. This 288 hp two-seater fully charges in 3.5 hours via a 240 volt /70 amp charger using any 120 volt outlet. Both the original Roadster and the Roadster Sport use Lotus Elise bodies built in the UK.

Figure 16: Tesla Realizes the Limited Roadster TAM; Trying to Launch More Affordable Models

2008-2012 Roadster & Roadster Sport	2012 Model S	Longer-Term Model - Unnamed
- High performance all EV sports car - Lotus body with Tesla powertrain - $109K base price, ~$140 realized price - 245 mile range - ~1,500 units sold since 2008	- Full size all EV sedan - All in-house design and manufacture - $57,400 base price before ZEV credit; ~ $80K avg. realized price - 160-300 mile range - 2012 expected launch date	- Lower cost sedan (<$40K) - 2015 launch date at the earliest

Source: Company reports and CapStone Investments estimates

Tesla began taking model reservations in 1Q09 and which we believe reached over 3,000 in 3Q10. In 1Q10 Tesla introduced a leasing program for the Roadster to make it more affordable.

Tesla is a bet on two EV models

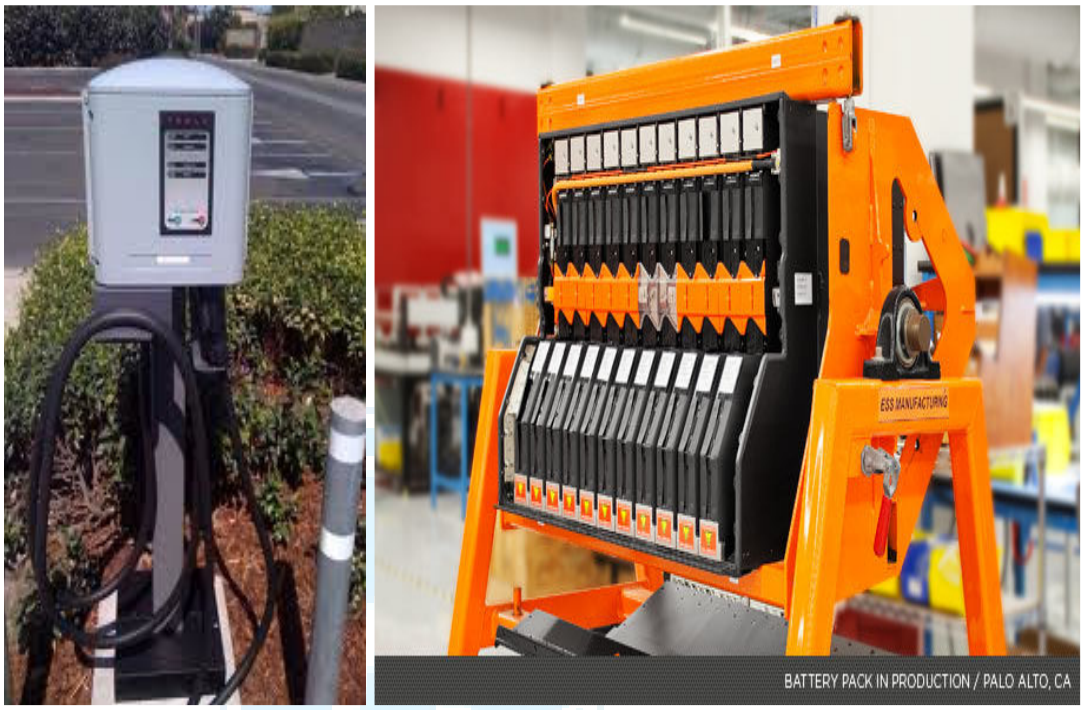
Figure 17: Tesla's Cars Are Aimed at Niche Luxury Market

Source: Company reports

(2) EV Powertrain components & engineering services – 25% of 3Q10 revenue

Tesla's powertrain business consists of Tesla's efforts to monetize its EV battery technology, chargers and engineering services.

Figure 18: Example of Tesla Charger and Roadster Battery Pack



Source: Company reports

Advantages of Tesla's battery pack:

1. Cheaper pack since they use generic cells / form factors - Currently most major battery manufacturers such as Panasonic/Sanyo, Sony and LG make the 18650 form factor. This helps Tesla keep costs down and they can seek out multiple bids to keep suppliers honest.
2. Improved range – the cost advantage enables longer range vehicles
3. Sleeker design – the flat, modular design of the pack may add to vehicle stability

Disadvantages of Tesla's battery pack:

1. Complexity increases - Tesla's choice in using smaller cells adds some complexity to the battery pack. The cell's state of charge must be optimized suing software while an active cooling system keeps it from overheating.
2. There is also a greater potential for failed cells (although this minimizes battery underperformance vs. large form factors, especially as the Model S pack has a higher energy density.

As we discussed earlier a major reason for Tesla to gain profitability is to achieve strong gross margins on its Model S production. The key drivers in the (projected) ~ 30% battery pack cost reductions (to $300 kW/hr. from today's ~$475kW/hr) are as follows:

1. Pack and cell level improvements – 35-40% higher pack densities and 10-15% higher energy density (cell chemistry changes from lithium cobalt to nickel cobalt aluminum lowers cobalt use and it is very expensive vs. nickel and aluminum).
2. Economies of scale – 20x greater production volumes = improved fixed cost absorption

EV Basics

Electricity can be used as a transportation fuel to power battery electric vehicles (EVs). EVs store electricity in an energy storage device, such as a battery. The electricity powers the vehicle's wheels via an electric motor. EVs have limited energy storage capacity, which must be replenished by plugging into an electrical source.

In an EV, a battery or other energy storage device (e.g. fuel cell) is used to store the electricity that powers the motor. Some EVs have onboard chargers; others plug into a charger located outside the vehicle. Both types use electricity that comes from the power grid. Although electricity production may contribute to air pollution, EVs are considered zero-emission vehicles because their motors produce no exhaust or emissions.

In contrast, hybrid electric vehicles (HEV) combine the benefits of high fuel economy and low emissions with the power, range, and convenience of conventional diesel and gasoline fuels. HEV technologies also have potential to be combined with alternative fuels and fuel cells to provide additional benefits. Typically HEVs combine the internal combustion engine of a conventional vehicle with the battery and electric motor of an EV. The combination offers low emissions and convenience **as HEVs never need to be plugged in**.

How does a hybrid electric vehicle work? Hybrid electric vehicles are powered by two energy sources (1) an energy conversion unit (such as an ICE or fuel cell) and an energy storage device (such as batteries or ultracapacitors). The energy conversion unit can be powered by gasoline, diesel, compressed natural gas, hydrogen or other fuels.

How does a plug-in hybrid electric vehicle (PHEV) work? A plug-in hybrid electric vehicle (PHEV) has two defining characteristics (1) it can be plugged in to an electrical outlet to be charged; (2) has some range that can be traveled on the energy it stored while plugged in. PHEVs can be charged with electricity like pure electric vehicles and run under engine power like hybrid electric vehicles. This combination offers increased driving range with potentially large fuel savings and emissions reductions.

Figure 19: Benefit Comparison of Various Categories of Electric Vehicles

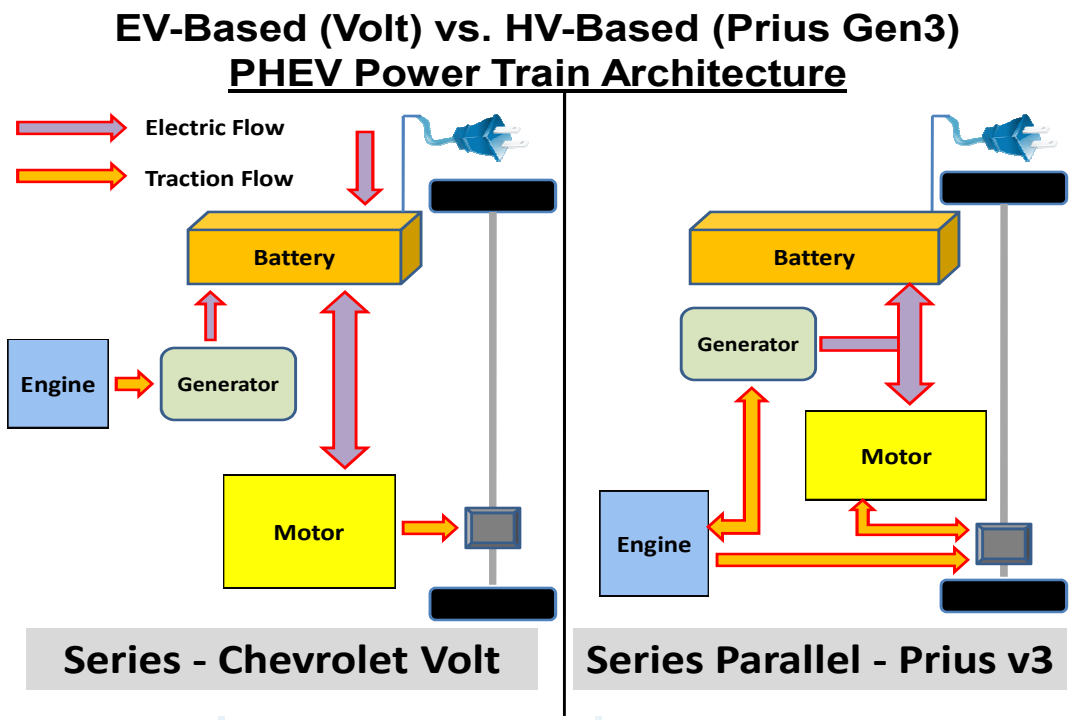
Benefits	HEVs	PHEVs	EVs
Fuel Economy	**Better than similar conventional vehicles** HEVs achieve 20-40% more mpg than conventional vehicles (e.g. the 2010 Honda Civic Hybrid gets 40 / 45 mpg city/highway versus conventional Civic at 25/36 mpg.	**Better than similar HEVs and conventional cars** PHEVs get about 40% better fuel economy than HEVs and permit driving at slow and high speeds using only electricity. Fuel economy above that of HEVs varies based on how often the vehicle is driven on only electricity.	**No liquid fuels** Fuel economy of all-electric vehicles is usually expressed as cost per mile.
Low Emissions	**Lower emissions than conventional vehicles** HEV emissions vary by vehicle and type of hybrid power system. HEVs are often used to offset fleet emissions to meet local air-quality improvement strategies and federal requirements.	**Lower emissions than HEVs and conventional** PHEV emissions are lower than HEV emissions because they are driven on electricity some of the time. Most categories of emissions are lower for electricity generated from power plants than from engines running on gasoline or diesel.	**Zero emissions** EV emissions do not come from the tailpipe, so EVs are considered zero-emission vehicles. However, emissions are produced from the electric power plant. Most categories of emissions are lower for electricity generated from power plants than from engines running on gasoline or diesel.
Fuel Cost Savings	**Less expensive to operate than a conventional vehicle** Because of their improved fuel economy, HEVs usually cost $0.05- $0.07 per mile to operate compared to conventional vehicles, which cost $0.10-$0.15 per mile to operate.	**Less expensive to operate than an HEV or conventional vehicle** When operating on electricity, a PHEV can be expected to cost $0.03-$0.04 per mile (based on average U.S. electricity price). When operating on gasoline, the same vehicle will cost $0.05-$0.07 per mile compared to conventional vehicles, which cost $0.10- $0.15 per mile to operate.	**Less expensive to operate than gasoline and diesel vehicles** Because EVs operate using only electricity, a typical electric vehicle costs $0.03-$0.04 per mile for fuel (based on average U.S. electricity price).
Energy Security	HEVs use less petroleum because they have better fuel economy than conventional vehicles. Some HEVs use renewable and domestically produced alternative fuels instead of gasoline or diesel.	PHEVs use electricity produced from coal, nuclear, natural gas, and renewable sources. Some PHEVs use renewable and domestically produced alternative fuels instead of gasoline or diesel.	EVs use electricity produced domestically from coal, nuclear, natural gas, and renewable sources.
Fuel Flexibility	Same as conventional	Can get fuel at gas stations or charge at home or public charging stations	Can charge at home or public charging stations
Vehicle Examples	Toyota Prius v1; Honda Insight v1; Ford Fusion; Mercedes Benz S400, Honda Civic Hybrid	Ford Escape, Fisker Karma, Chevy Volt?	Roadster, Nissan Leaf

Source: Company reports and CapStone Investments estimates

Differences in powertrain architecture

The two things that differentiate a PHEV from an HEV are the inclusion of a charge-depleting operating mode and a recharging plug. Therefore, a PHEV can be implemented using any of the typical HEV architectures – parallel, series or power-split. For example we compare and contrast the Chevrolet Volt with the Toyota Prius third generation to show the differences between series HEV and series parallel designs.

Figure 20: PHEV Power Train Differences for Brand Name Auto OEMs

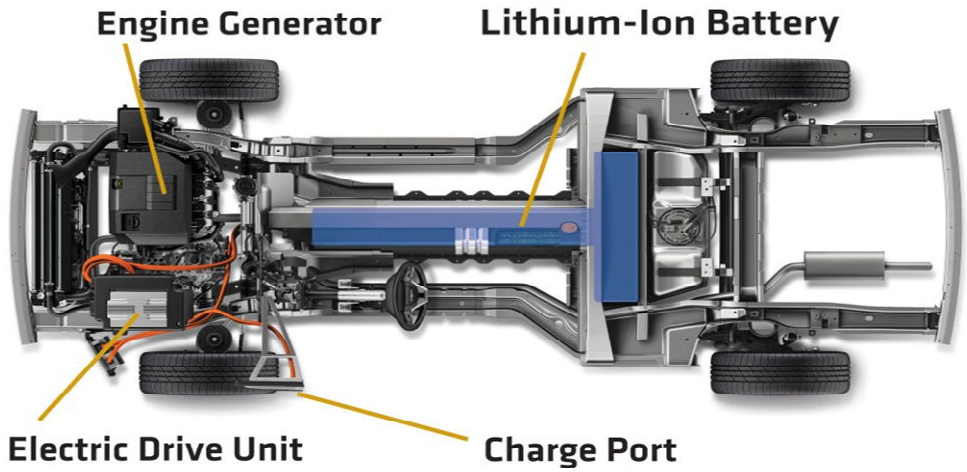


Source: Company reports and CapStone Investments estimates

There are advantages and disadvantages to each approach. Considering that ~80% of daily driving distances are less than 40 miles, the simplicity efficiency and zero emission (in city traffic) of a series design or topology is very attractive. Another variation is powers-split hybrids, which are parallel hybrids. They incorporate power-split devices allowing for power paths from the engine to the wheels that can be either mechanical or electrical. The main principle behind this system is the decoupling of the power supplied by the engine (or other primary source) from the power demanded by the driver.

Some controversy has recently surrounded the Volt. We believe the Volt is architected bit differently than originally thought but a little but of mystery still surrounds the powertrain architecture.

Figure 21: Is the Volt a Hybrid or and EV? Depends on who you ask.



Source: General Motors

GM calls it an "electric-plus-gas" system. The mystery is whether the engine serves only to feed the batteries (unconnected to the wheels) and will start up only when they need recharging. Or is the gas engine really hooked up to the electric drive train? If so, is it directly or indirectly connected? The Volt's 150-horsepower electric motor is backed up by a 1.4-liter four cylinder engine. However, the gas engine has no connection to the drive train. When the Volt reaches its battery range of 40 miles, the gas engine generates electricity to drive the electric motor. This "extended-range mode" gives the Chevy volt a range of 344 miles. In any case whether the Volt is an HEV or an EV the fact remains the Volt is now on the market and is eligible for the full $7,400 tax credit.

Figure 22: Advantages & Disadvantages of Series vs. Parallel Powertrain PHEV Architectures

	Series (e.g. Chevy Volt)	Series-Parallel (Toyota Prius)
Design / Topology	Internal combustion engine (ICE) is connected in a series to the generator-battery-electric motor and is not directly connected to the driveshaft	Includes the capability for the ICE simultaneously power the drive shaft and recharge the battery
Battery	Battery tends to be larger (e.g. Volt = 16 kw/Hr., 40-mile range, 90% <> 40% state of charge (SoC)	Battery is smaller (e.g. Prius Gen3 = 4kw/Hr., 9-mile range, 90% <> 30% state of charge (SoC)
Electric Motor	Motor tends to be larger (e.g. Volt = peak power of 140kW, 180HP	Motor tends to be smaller (e.g. Prius Gen3 peak power of 50kW, 67HP)
Combustion Engine	ICE tends to be smaller (e.g. Volt 1.4L, 53kW, 71HP)	ICE tends to be larger (e.g. Prius Gen3 1.8L, 70kW, 94HP)
Transmission	None (no gears involved) b/c the torque characteristics and wide RPM range of electric motors	Essentially none. Single gear than never shifts
Performance	Full performance (incl. improved acceleration) in EV alone	Combination of ICE and electric motor needed for full performance
Emissions	In city traffic Series design likely to pollute less	In highway traffic series parallel is likely to pollute less
Other notes	After series hybrid has exceeded its EV range (using ICE to turn generator to create elec. to then create mechanical energy by the motor to turn the drive shaft) there is **~15% efficiency loss**	In contrast a parallel series hybrid the loss of efficiency (after exceeding the EV range) **is only ~5%** since the ICE directly turns the driveshaft via the transmission.

Source: Company reports, Plug-in Vehicle, Libralato Holdings

As batteries become cheaper, longer-life commodity item, PHEVs with the most power and range will likely dominate this auto segment.

Cost premiums for EV and PHEVs partially offset by fuel cost savings and government subsidies

EVs are typically more expensive than similar conventional vehicles before tax credits or other incentives. The average incremental price—the additional price of an HEV over a comparative non-hybrid—was $5,500 for cars and $6,700 for light-duty trucks in 2009. This price is expected to drop to $1,500 for cars by 2015, according to a study by Argonne National Laboratory. Light-duty PHEVs and EVs that are nearing market availability are expected to be more expensive than similar conventional vehicles. However, the cost premiums for PHEVs and EVs can be offset by fuel cost savings, a federal tax credit, and state incentives.

Type of energy storage systems/battery is crucial to cost reductions

Energy storage systems, usually batteries, are essential for electric drive vehicles, whether they are HEVs, PHEV or EVs. Batteries must have a high energy-storage capacity per unit weight and per unit cost. Because the battery is the most expensive component in most electric drive systems, reducing the cost of the battery is crucial to producing affordable electric drive vehicles. The following energy storage systems are used in HEVs, PHEVs and EVs.

Lithium-ion batteries are currently the leading technology for EVs

Figure 23: Lithium-Ion Batteries are Currently the Leading Technology for EVs

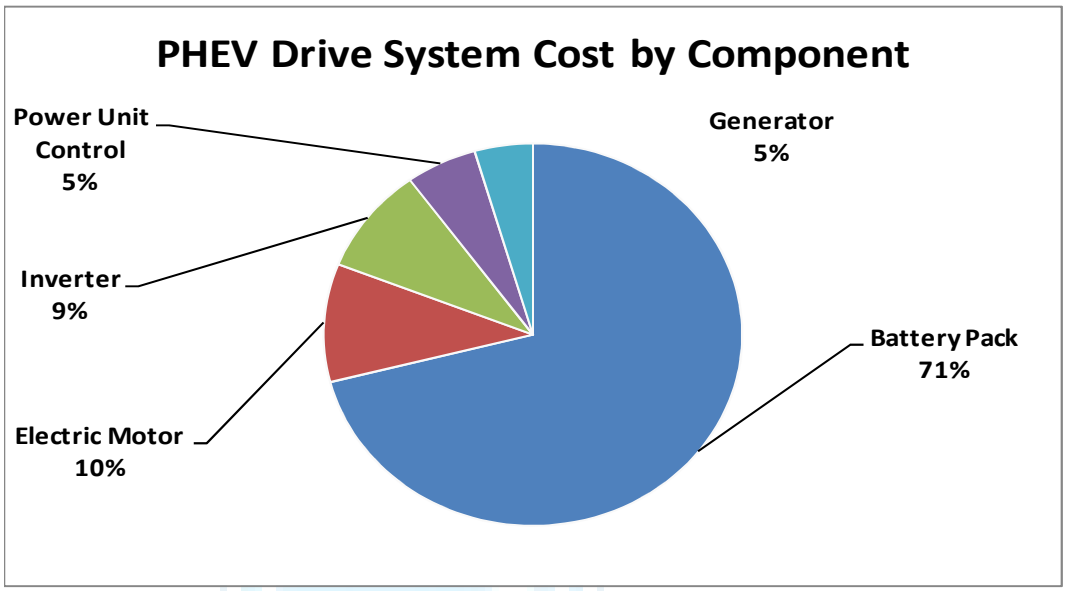
Battery Type	Characteristics:
Lithium-Ion	Lithium-ion batteries are currently used in most portable consumer electronics such as cell phones and laptops because of their high energy per unit mass. They also have a high power-to-weight ratio, high energy efficiency, good high-temperature performance, and low self-discharge. Some components of lithium-ion batteries can be recycled. Most near-term plug-in hybrid electric vehicles and all-electric vehicles will use lithium-ion batteries. Development is ongoing to reduce cost and improve calendar and life cycle.
Nickel-Metal Hydride	Nickel-metal hydride batteries, used routinely in computer and medical equipment, offer reasonable specific energy and specific power capabilities. Nickel-metal hydride batteries have a much longer life cycle than lead-acid batteries and are safe and abuse tolerant. These batteries have been used successfully in all-electric vehicles and are widely used in hybrid electric vehicles. The main challenges with nickel-metal hydride batteries are their high cost, high self-discharge and heat generation at high temperatures, and the need to control hydrogen loss.
Lead-Acid	Lead-acid batteries can be designed to be high power and are inexpensive, safe, and reliable. However, low specific energy, poor cold-temperature performance, and short calendar and life cycle impede their use. Advanced high-power lead-acid batteries are being developed, but these batteries are not currently used in most EVs other than for ancillary loads in some cases.
Lithium-Polymer	Lithium-polymer batteries with high specific energy, initially developed for electric vehicle applications, also can provide high specific power for hybrid electric vehicle applications. Like lithium-ion batteries, they could become commercially viable if the cost was lowered and life cycle improved.
Ultracapacitors	Ultracapacitors store energy in a polarized liquid between an electrode and an electrolyte. Energy storage capacity increases as the liquid's surface area increases. Ultracapacitors provide vehicles additional power during acceleration and hill climbing and help recover braking energy. They are also useful as secondary energy-storage devices in electric drive vehicles because they help electrochemical batteries level load power. Additional electronics are required to maintain a constant voltage due to low energy density.

Source: Company reports and CapStone Investments estimates

Driving component costs lower to reduce bill-of-materials (BOM). The battery is the most expensive component in an electric vehicle. For example, ~ 80% of a PHEV-40's drive system is due to the battery pack. Other major components include the electric motor, inverter, power control unit and generator.

Battery cost dominates PHEV drive system cost

Figure 24: Battery Cost Dominates PHEV Drive System Cost

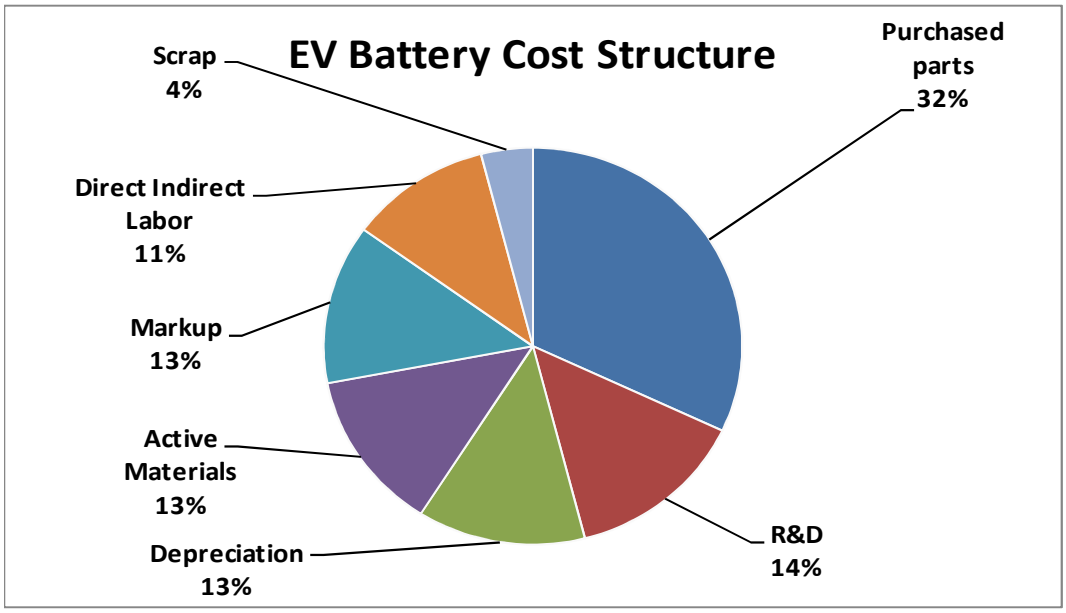


Source: MIT Energy

Where our sell thesis is perhaps weakest is that the strength of EVs derives from the drive train and battery technology. We believe Tesla's OEM investees (Daimler, Toyota and Panasonic) saw Tesla as an inexpensive way to partake of one leading battery pack form factor and cost rather than an investment in EVs. Tesla receives access to supplier lines at rates lower than they could have without these investees.

EV material costs often outweighed by manufacturing cost, which are heavily dependent on unit volume

Figure 25: Material Costs Often Outweighed by Manufacturing Cost, Dependent on Volume



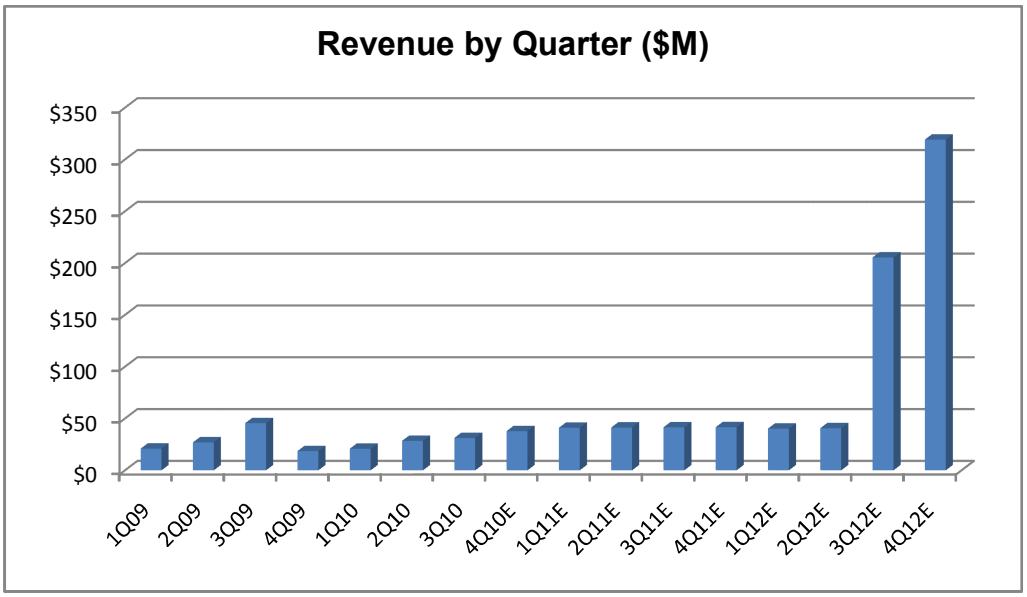
Source: MIT Energy

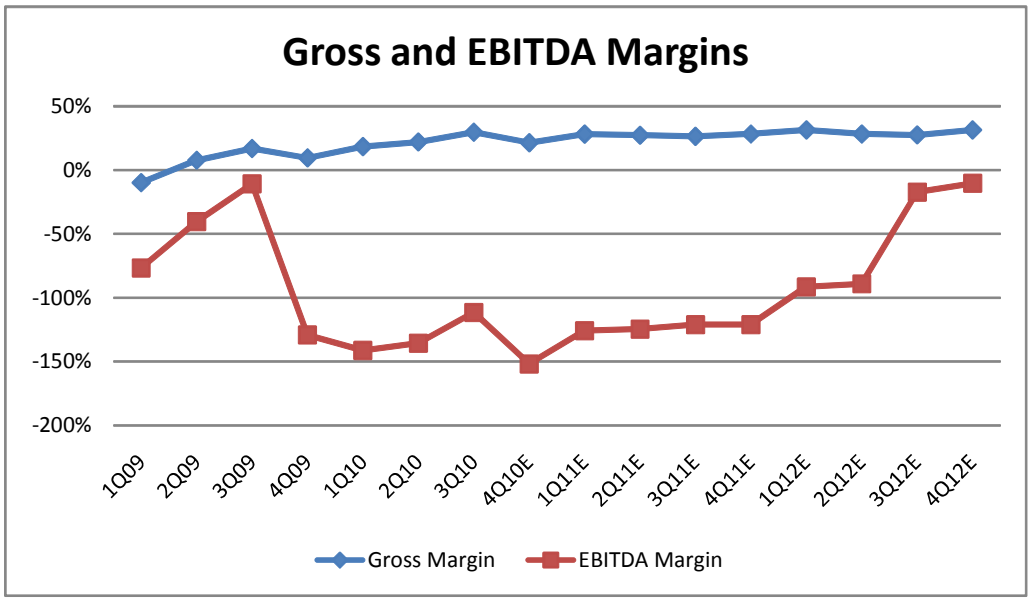
Financials – Tesla is well capitalized but significant losses through 2012

Tesla's future may be bright but it is still almost two years away from any meaningful revenue growth and probably three years away from realistic profitability. Tesla is heavily dependent on a successful introduction of the Model S vehicle for revenue growth and profitability. So many things have to go right for Tesla to justify its current valuation. Look how Tesla is still over 1.5 away from meaningful revenue growth and operating profitability is over 2 years away.

Tesla's revenue growth is far out; profitability is even farther out

Figure 26: Tesla's Revenue Growth is Far Out; Profitability is Even Farther Out





Source: Company reports and CapStone Investments estimates

We forecast sales below consensus. Or thesis that Tesla is attacking a niche market for luxury vehicles (at least the first Model S model) is the primary reason we see vehicle sales at lower levels than our competitors do. It is not because we are

discounting Tesla's suggested sales prices for its Model S to any degree. For battery pack sales we forecast an ASP of $25K (minimum 1K units) and expect packs sales to ramp from 1.125K in 2010 to 3.4K annually in 2015 with minimal ASP erosion.

We forecast margins below consensus. We forecast lower gross margin assumptions than the Street consensus. Our peak gross margins, which do not occur until 2014-2015 are 200-300 bp lower than current covering analysts' forecasts primarily due to our belief than Tesla's EV sales will be below forecasts and capital investment higher than expected. We also believe that Tesla's decision to open and operate its own retail store network adds unnecessary costs and would be better served with a distributor approach. Currently the company has 15 stores open and hopes to have stores globally over the next few years.

Zero emission vehicle (ZEV) credits. The ZEV program grants credits to auto OEMs that manufacture zero tailpipe emission vehicles. Originally designed by the California Air Resources Board and adopted in various degrees by at least 11 other states, ZEV credits are margin-enhancements for companies such as Tesla that make ZE vehicles. Since many states require that each auto OEM that sells vehicles in their state must sell a certain percentage of E vehicles, if an OEM cannot do so they could buy their credits from Tesla (partial credits are given for hybrid vehicles). Many similar type programs are proliferating in Europe where they have actively traded Co_2 markets. Currently the ZEV credit is $7.5K but we expect the figure to decline over the net several years.

The balance sheet is cleaner and stronger after the IPO. The convertible preferred stock is gone after the IPO. The cash position with the DoE loan (see below) along with the IPO ($184Min net proceeds) and equity investments from various OEMs equals a well-funded company. Tesla does have significant capital commitments now that they have purchased NUMMI's old factory and we expect capex to grow substantially.

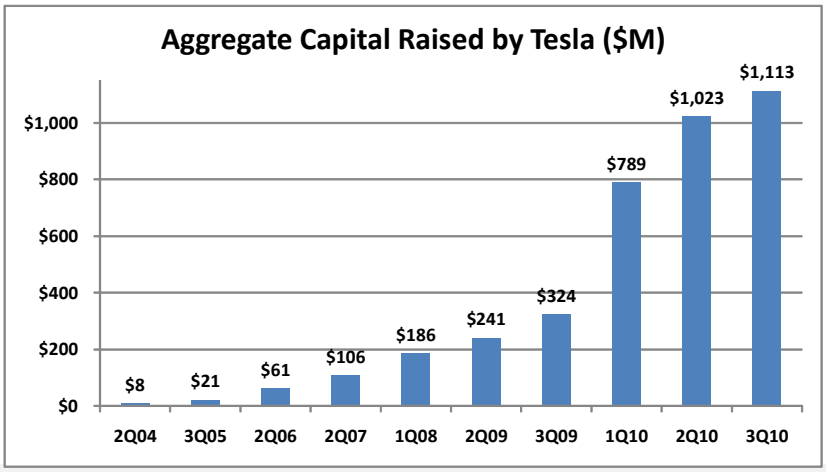
DoE loan repayment will not help cash flow. The DoE loaned Tesla $465M in January 2010 under section 136 of the 2007 Energy Independence and Security Act (also called the Advanced Technology Vehicle Manufacturing Program). The loan, technically a conditional loan commitment, was designed to aid Tesla in funding its Model S development and power train business. The loans are fixed to the treasury rates (3%) and Tesla must repay the loans by December 2018. The majority of the loans, $365M, will finance the production facility (purchasing and modifying NUMMI's old plant), with the remaining $100M aiding the manufacturing for battery packs and power train development.

Competitor Nissan (Nissan North America) is getting $1.6Bn to retool its Smyrna, Tennessee factory to build electric cars and batteries, so Tesla's competitor got a big boost as well. Should the Model S production ramp be delayed or sales fall short of estimates then Tesla must begin to repay the DoE loan starting in 4Q12. The $465M loan calls for $13M quarterly payments beginning in 4Q12.

Figure 27: Significant Capital Raised (> $1Bn)

Aggregate Capital Raised by Tesla

Investors	2Q04	3Q05	2Q06	2Q07	1Q08	2Q09	3Q09	1Q10	2Q10	3Q10
CEO Musk & Compass Technology	$8									
CEO Musk & Valor Equity		$13								
CEO Musk, GOOG Founders, JPM, Ebay 1st employee (Skoll), DFJ (VC)			$40							
Convert Preferred Stock - Series D				$45						
CEO Musk et al					$80					
Convert Preferred Stock - Series E						$55				
Convert Preferred Stock - Series F							$83			
DoE Loans								$465		
IPO									$184	
Toyota Investment									$50	
Panasonic Investment										$30
Toyota Investment - Develop RAV4										$60
Total Capital Raised (aggregate)	$8	$21	$61	$106	$186	$241	$324	$789	$1,023	$1,113



Source: Company reports and CapStone Investments estimates

Valuation – losses through 2013 make comparables difficult

We use three different metrics to value Tesla. Admittedly comparability is difficult since we forecast Tesla will continue to deliver net losses for several years. We use enterprise value (EV)-to-sales and EV-to-EBITDA and a 5-year discounted cash flow (DCF) to value Tesla. The average of the enterprise value multiples and our discounted cash flow analysis yields our $22 target price.

1. EV-to-Sales and EV-to-EBITDA multiples

We believe Tesla deserves a premium multiple to its peer group but we believe the stock more than reflects such a premium. Given the company's leading battery technology and first-to-market advantage we believe the shares should trade at a premium to its peer group. We define Tesla's peer group as automotive OEMs, battery companies, and applied technology companies. With Tesla potentially at the forefront of its growth trajectory we assign a 50% premium multiple to its peer group for both metrics. Even with this premium the shares appear starkly overvalued.

We project out to 2014 and 2015 for sales and EBITDA, apply the premium multiples, subtract forecast debt, discount both values by 20% (3 and 4 years for

sales and 2 and 3 years for EBITDA), divide by projected shares outstanding to arrive at our per share equity values, respectively.

Using these assumptions Tesla trades at $13.38-$20.01 per share on a multiple of EBITDA and $16.74-$21.54 on a multiple of sales, ~50% higher than the current share price if we take the mean of each of the two figures. **If we average the two higher figures per metric we arrive at a per share value of $20.77.**

Applying 50% multiple to peer group still highlights valuation gap

Figure 28: Applying 50% Multiple to Peer Group Still Highlights Valuation Gap

(1) EV-to-EBITDA

$M, except per share figures

	2011E	2012E	2013E	2014E	2015E
EBITDA	($162)	($76)	$35	$182	$321
Multiple (50% premium to comps on 2012E)	12.9x	12.9x	12.9x	12.9x	12.9x
EV	($2,085)	($979)	$445	$2,350	$4,139
Debt (end of period)	$357	$441	$389	$337	$285
Equity Value (undiscounted)				$2,013	$3,855
Discount rate - 20%				2- year factor	3-year factor
Factor				1.44	1.728
Equity Value Discounted by Factor				$1,398	$2,231
Shares Outstanding				104.5	111.5
Per Share Value				**$13.38**	**$20.01**

(2) EV-to-Sales

$M, except per share figures

	2011E	2012E	2013E	2014E	2015E
Sales	$166	$605	$1,428	$1,715	$2,620
Multiple (50% premium to comps on 2011E)	2.0x	2.0x	2.0x	2.0x	2.0x
EV	$324	$1,186	$2,798	$3,359	$5,132
Debt (end of period)	$357	$441	$389	$337	$285
Equity Value (undiscounted)				$3,022.9	$4,847.4
Discount rate - 20%				3- year factor	4-year factor
Factor				1.728	2.074
Equity Value Discounted by Factor				$1,749	$2,337
Shares Outstanding				104.5	108.5
Per Share Value				**$16.74**	**$21.54**

Average of 2015E metrics ----------> $20.77

Source: Company reports and CapStone Investments estimates

As mentioned above, we compare Tesla to companies that produce battery technologies for EVs & PHEVs, along with automotive OEMs. While Tesla is an early stage company it does not compare favorably using price-to-book value, enterprise value-to-sales. Since Tesla does not earn positive earnings we cannot compare it to its peers using a more traditional P/E ratio.

Tesla is expensive using any relative multiple - P/B, EV/Sales & EV/EBITDA

Figure 29: Tesla is Expensive Using Any Relative Multiple - P/B, EV/Sales & EV/EBITDA

Comparable Valuations - Electric Vehicles, Applied Technologies, Battery Makers, Auto OEMs

12/21/10 (All Figures in $M except per share data and volume and where otherwise indicated)

(All Figures in $M except per share data and volume and where otherwise indicated)

Company	Ticker	FYE	Closing Price	Mkt Cap.	Cash	Debt	EV	Dil. Shs. Out. (Ms)	P/B	(per share) Book Value
Applied Technologies / EVs / Battery Makers										
A123	AONE	Dec	$9.44	$989	$457	$22	$554	105	1.8x	$5
Ener1	HEV	Dec	$4.12	$481	$52	$33	$462	117	0.2x	$17
Byd Co. Ltd.	BYDDY	Dec	$42.50	$91,114	$2,311	$3,654	$92,456	2,144	5.8x	$7
Advanced Battery Tech	ABAT	Dec	$3.89	$234	$74	$3	$163	60	2.0x	$2
UQM Technologies	UQM	Mar	$2.39	$64	$26	$0	$38	27	2.2x	$1
Johnson Controls	JCI	Dec	$39.06	$23,252	$601	$3,966	$26,617	595	2.8x	$14
Auto OEMs:										
Ford	F	Dec	$16.99	$56,271	$44,377	$133,087	$144,981	3,312	NM	($2)
Toyota	TM	Mar	$78.01	$122,492	$47,101	$129,594	$204,984	1,570	1.2x	$66
Honda	HMC	Dec	$39.45	$71,584	$15,170	$47,416	$103,831	1,815	1.7x	$23
Tesla Motors	TSLA	Dec	$32.26	$2,977	$97	$57	$2,937	92	13.5x	$2

		Liquidity		Price		Earnings Estimates					
Company	Ticker	Short Inter. (Ms)	30-day Vol. (Ks)	52-Week High	52-Week Low	FY09A EPS	FY10E EPS	FY11E EPS	2010E EBITDA	2011E EBITDA	2012E EBITDA
Applied Technologies / EVs / Battery Makers											
A123	AONE	14.9	1,567	$23.46	$6.32	($1.25)	($1.39)	($1.28)	($121)	($98)	($17)
Ener1	HEV	6.5	447	$7.06	$2.75	($0.55)	($0.50)	($0.27)	($47)	($28)	$22
Byd Co. Ltd.	BYDDY	NA	3,812	$84.00	$41.25	$2.26	$1.54	$2.00	$6,268	$8,189	$10,008
Advanced Battery Tech	ABAT	7.7	1,794	$4.80	$3.02	$0.59	$0.60	$0.60	$46	$49	$53
UQM Technologies	UQM	3.5	257	$7.45	$1.89	($0.11)	($0.06)	($0.01)	($3)	$3	$12
Johnson Controls	JCI	3.5	4,455	$40.15	$25.56	$2.00	$2.52	$2.98	$3,002	$3,506	$3,974
Auto OEMs:											
Ford	F	269.0	63,461	$17.42	$9.71	$2.05	$2.08	$2.14	$11,278	$12,736	$13,708
Toyota	TM	NA	475	$91.97	$67.56	$3.35	$2.34	$4.14	$16,861	$22,513	$24,658
Honda	HMC	NA	426	$39.39	$28.33	$1.59	$3.53	$3.24	$10,863	$13,137	$15,745
Tesla Motors	TSLA	7.4	1,092	$36.42	$14.98	($2.65)	($2.76)	($2.09)	($143)	($162)	($76)

		P/E (FY)			EV / Sales (FY)			EV / EBITDA (FY)		
Company	Ticker	2009A P/E	2010E P/E	2011E P/E	2009A P/S	2010E P/S	2011E P/S	2010E EV/EBITDA	2011E EV/EBITDA	2012E EV/EBITDA
Applied Technologies / EVs / Battery Makers										
A123	AONE	NM	NM	NM	6.1x	5.6x	2.5x	NM	NM	NM
Ener1	HEV	NM	NM	NM	13.3x	6.8x	2.2x	NM	NM	21.0x
Byd Co. Ltd.	BYDDY	18.8x	27.7x	21.3x	2.3x	2.0x	1.6x	14.8x	11.3x	9.2x
Advanced Battery Tech	ABAT	6.6x	6.5x	6.5x	2.6x	1.6x	1.2x	3.6x	3.3x	3.1x
UQM Technologies	UQM	NM	NM	NM	4.3x	2.7x	0.8x	NM	12.6x	3.2x
Johnson Controls	JCI	19.5x	15.5x	13.1x	0.8x	0.7x	0.7x	8.9x	7.6x	6.7x
Auto OEMs:										
Ford	F	8.3x	8.2x	7.9x	1.2x	1.2x	1.2x	12.9x	11.4x	10.6x
Toyota	TM	23.3x	33.3x	18.8x	1.0x	0.9x	0.8x	12.2x	9.1x	8.3x
Honda	HMC	24.8x	11.2x	12.2x	1.1x	0.9x	0.9x	9.6x	7.9x	6.6x
Tesla Motors	TSLA	NM	NM	NM	26.6x	25.2x	18.0x	NM	NM	NM
Mean (excludes Tesla)		16.9x	17.1x	13.3x	3.6x	2.5x	1.3x	10.3x	9.0x	8.6x
Median (excludes Tesla)		19.2x	13.4x	12.6x	2.3x	1.6x	1.2x	10.9x	9.1x	7.5x

Note: Mean First Call estimates used for all companies except Tesla

Source: Company reports and CapStone Investments estimates

2. DCF Analysis

As a reality check and to provide some sensitivity analysis we conduct a 5-year discounted cash flow analysis. We calculate the DCF using the following assumptions and calculations:

- Our WACC calculation yields 14%.
- Terminal EBITDA multiple of 15x with a range of 13x-18x for sensitivity analysis. We use an EBITDA multiple as a proxy for FCF in perpetuity.
- Operational and maintenance capex is ~ 50% of total capex.

We believe these terminal multiples are appropriate given the rapid revenue growth, leading battery technology, early mover advantage and OEM support. **These metrics yield a value per share of $21.73,** with a range of $16.83-$27.41 per share.

Figure 30: Range of $16.83 to $27.41 per share value for Tesla

Tesla Motors, Inc. - DCF Valuation

Assumptions	
Discount rate	14%
Terminal multiple	13
	14
	15
	16
	17

	2011E	2012E	2013E	2014E	2015E
Net Income	(204)	(141)	(44)	100	206
D&A	42	56	69	72	76
Cap Ex, net PP&E	(68)	(47)	(40)	(86)	(93)
Non-cash expense/changes in WC	7	(42)	(19)	(13)	(39)
Free Cash Flow	(223)	(175)	(34)	73	150
EBITDA	(163)	(85)	25	172	282
Terminal value at: 13 x	0	0	0	0	3,667
14 x	0	0	0	0	3,949
15 x	0	0	0	0	4,231
16 x	0	0	0	0	4,513
17 x	0	0	0	0	4,795

multiple	13	14	15	16	17
NPV FCF	(232)	(232)	(232)	(232)	(232)
NPV Terminal Value	1,904	2,051	2,197	2,344	2,490
Firm Value	1,672	1,819	1,965	2,112	2,258
Cash	97	97	97	97	97
Debt	57	57	57	57	57
Equity Value	1,712	1,859	2,005	2,152	2,298
Shares Out.	92	92	92	92	92
Per Share Value	$18.56	$20.14	$21.73	$23.32	$24.91

DCF Matrix at Varying Multiple and Discount Rates

Discount Rate	Terminal Multiple 13x	14x	15x	16x	17x
12%	$20.47	$22.21	$23.94	$25.68	$27.41
13%	$19.49	$21.15	$22.81	$24.47	$26.13
14%	$18.56	$20.14	$21.73	$23.32	$24.91
15%	$17.67	$19.19	$20.71	$22.23	$23.75
16%	$16.83	$18.29	$19.75	$21.20	$22.66

Source: Company reports and CapStone Investments estimates

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 $22 target price is the average relative multiples and our DCF - using 15x terminal EBITDA multiple and 14% WACC.

Figure 31: Model S Revenue Model (ASP, Units, Gross Margins)

U.S. Model S Market

ASP ($K):	2012E	2013E	2014E	2015E	2016E
Base Price - 160 mile range	$57.4	$57.4	$56.3	$54.5	$52.8
230 mile range	68.9	68.9	67.5	65.4	63.4
300 mile range	77.5	77.5	75.9	73.6	71.3
Sales (%) - 160 mile range	30%	30%	30%	30%	30%
230 mile range	35%	35%	40%	45%	50%
300 mile range	35%	35%	30%	25%	20%
Average ASP across all 3 models	**$68.4**	**$68.4**	**$66.7**	**$64.2**	**$61.8**
Vehicle Options	7.5	7.5	7.0	7.0	6.5
Dest. & Delivery Charge	1.0	1.0	1.0	1.0	1.0
Zero Emission Vehcile (ZEV) Credit	5	5	3	3	1
Blended ASP ($K)	**$82**	**$82**	**$78**	**$75**	**$70**
Unit Volume	3,000	10,000	12,950	18,000	30,000
Revenue ($M)	**$246**	**$819**	**$1,006**	**$1,354**	**$2,109**

Europe & ROW Model S Markets

ASP ($€):	2010E	2011E	2012E	2013E	2014E
Base Price - 160 mile range	€ 77	€ 77	€ 76	€ 74	€ 71
230 mile range	€ 93	€ 93	€ 91	€ 88	€ 86
300 mile range	€ 105	€ 105	€ 103	€ 99	€ 96
Sales (%) - 160 mile range	30%	30%	30%	30%	30%
230 mile range	35%	35%	40%	45%	50%
300 mile range	35%	35%	30%	25%	20%
Average ASP across all 3 models (€)	**€ 92.4**	**€ 92.4**	**€ 90.0**	**€ 86.7**	**€ 83.4**
Vehicle Options	10.1	10.1	9.5	9.5	8.8
Dest. & Delivery Charge	1.4	1.4	1.4	1.4	1.3
Blended ASP (€)	**€ 104**	**€ 104**	**€ 101**	**€ 97**	**€ 93**
€ / $ FOREX Rate (assume constant)	1.32	1.32	1.32	1.32	1.32
Blended ASP ($K)	**$79**	**$79**	**$76**	**$74**	**$71**
Unit Volume	2,500	5,500	7,000	11,000	14,600
Revenue ($M)	**$197**	**$433**	**$534**	**$812**	**$1,033**

Total Model S Markets

ASP ($K)	$80	$81	$77	$75	$70
Gross Unit Cost ($K)	76	69	65	61	61
Gross Profit per Unit/Vehicle ($K)	$4.3	$12.2	$12.6	$13.2	$9.8
Gross Mgn per Unit (%)	*5.3%*	*15.1%*	*16.3%*	*17.7%*	*13.9%*
Total Volume / Units	5,500	15,500	19,950	29,000	44,600
y/y growth (%)		*182%*	*29%*	*45%*	*54%*
**Total Model S ($M) ----------> **	**$443**	**$1,252**	**$1,540**	**$2,166**	**$3,142**
Total COGS ($M)	$419	$1,063	$1,289	$1,783	$2,707
Total Gross Profit ($M)	$24	$189	$251	$383	$435
Gross Margin (%)	*5%*	*15%*	*16%*	*18%*	*14%*

Source: Company reports and CapStone Investments estimates

Figure 32: Roadster Revenue Model (ASP, Units, Gross Margins)

U.S. Market

ASP ($K):	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Base Price	$109	$109	$109	$109	$75	$71	$68	$64
Dest. & Delivery Charge	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95
Vehicle Options	26	25	25	24	18	17	16	15
Zero Emission Vehcile (ZEV) Credit	9	8	7	5	4	2	1	0
Total ASP ($K)	**$146**	**$144**	**$143**	**$140**	**$99**	**$92**	**$87**	**$82**
Unit Volume	630	300	300	300	500	700	900	900
Revenue ($M)	**$91.9**	**$43.3**	**$42.9**	**$42.1**	**$49.5**	**$64.6**	**$78.2**	**$73.5**

Europe & ROW Markets

ASP (€ in K):	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Base Price	€ 89	€ 89	€ 89	€ 89	€ 60	€ 59	€ 57	€ 55
Dest. & Delivery Charge	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Vehicle Options	20	19	19	19	14	13	12	12
Total ASP (€ in K)	€ 110	€ 109	€ 109	€ 109	€ 75	€ 73	€ 70	€ 68
€ / $ FOREX Rate (assume constant)	1.32	1.32	1.32	1.32	1.32	1.32	1.32	1.32
Total ASP ($K)	**$145**	**$144**	**$144**	**$143**	**$99**	**$96**	**$93**	**$89**
Unit Volume	200	250	250	200	300	350	350	350
Revenue ($M)	**$29.0**	**$36.1**	**$36.0**	**$28.7**	**$29.6**	**$33.8**	**$32.5**	**$31.3**

Total Roadster Markets

ASP ($K)	$146	$144	$143	$142	$99	$94	$89	$84
Gross Unit Cost ($K)	116	111	114	111	69	69	67	67
Gross Profit per Unit/Vehicle ($K)	$30.2	$33.3	$29.3	$30.4	$29.6	$24.3	$21.1	$16.4
Gross Mgn per Unit (%)	*20.7%*	*23.1%*	*20.4%*	*21.5%*	*29.9%*	*26.0%*	*23.9%*	*19.6%*
Total Volume / Units	830	550	550	500	800	1,050	1,250	1,250
y/y growth (%)		*-34%*	*0%*	*-9%*	*60%*	*31%*	*19%*	*0%*
Total Roadster Revenue ($M)	**$120.9**	**$79.4**	**$78.9**	**$70.8**	**$79.1**	**$98.4**	**$110.7**	**$104.8**
Total COGS ($M)	$95.9	$61.1	$62.8	$55.6	$55.4	$72.8	$84.3	$84.3
Total Gross Profit ($M)	$25.1	$18.3	$16.1	$15.2	$23.7	$25.6	$26.4	$20.5
Gross Margin (%)	*21%*	*23%*	*20%*	*21%*	*30%*	*26%*	*24%*	*20%*

Source: Company reports and CapStone Investments estimates

Figure 33: Tesla Motors, Inc.: HISTORICAL AND PROJECTED INCOME STATEMENT

$M	2009					2010E					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1QA Mar-10	2QA Jun-10	3QA Sep-10	4QE Dec-10	2010E YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Automotive Revenues	$20.9	$26.9	$45.5	$18.6	$111.9	$20.6	$24.0	$23.4	$18.2	$86.1	$20.0	$20.0	$20.0	$20.0	$80.1	$514.8
Battery Packs, Develop. Service Revenue	0.0	0.0	0.0	0.0	0.0	0.2	4.4	7.9	19.6	32.2	21.0	21.2	21.5	21.7	85.4	90.7
Total Revenues	**$20.9**	**$26.9**	**$45.5**	**$18.6**	**$111.9**	**$20.8**	**$28.4**	**$31.2**	**$37.9**	**$118.3**	**$41.1**	**$41.3**	**$41.5**	**$41.7**	**$165.5**	**$605.5**
YoY Growth	*0%*	*0%*	*0%*	*0%*	*659%*	*0%*	*5%*	*-31%*	*104%*	*6%*	*97%*	*45%*	*33%*	*10%*	*40%*	*266%*
QoQ Growth	*NA*	*29%*	*69%*	*-59%*		*12%*	*36%*	*10%*	*21%*		*8%*	*1%*	*1%*	*1%*		
Cost of Sales - Auto	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	29.7	90.8	29.5	30.0	30.5	29.9	119.9	526.5
Cost of Sales - Batteries, Develop. Services	0.0	0.0	0.0	0.0	0.0	0.1	1.9	2.5	7.9	12.3	9.5	9.6	9.7	8.7	37.3	31.7
Total COGS	22.9	24.8	37.8	16.8	102.4	17.0	22.1	21.9	29.7	90.8	29.5	30.0	30.5	29.9	119.9	526.5
Gross Profit	(2.0)	2.1	7.7	1.8	9.5	3.9	6.3	9.3	8.1	27.5	11.6	11.3	11.0	11.8	45.7	79.0
R & D	7.9	1.9	1.3	8.1	19.3	13.3	15.4	26.7	36.0	91.3	39.0	39.2	39.4	39.6	157.3	101.1
S G & A	6.6	8.2	10.7	16.6	42.2	16.6	22.2	20.4	30.3	89.5	24.6	23.9	21.6	21.5	91.6	109.6
Total Operating Expenses	14.5	10.2	12.0	24.7	61.4	29.9	37.6	47.1	66.2	180.9	63.7	63.2	61.0	61.1	248.9	210.7
EBIT	(16.6)	(8.1)	(4.3)	(22.9)	(51.9)	(26.0)	(31.4)	(37.8)	(58.1)	(153.3)	(52.1)	(51.9)	(50.0)	(49.3)	(203.2)	(131.7)
EBITDA	**(15.2)**	**(6.4)**	**(2.3)**	**(21.0)**	**(45.0)**	**(23.9)**	**(28.9)**	**(34.7)**	**(55.1)**	**(142.6)**	**(42.2)**	**(42.1)**	**(39.3)**	**(38.1)**	**(161.7)**	**(75.9)**
EBITDA Margin	*-73%*	*-24%*	*-5%*	*-113%*	*-40%*	*-115%*	*-102%*	*-111%*	*-146%*	*-121%*	*-103%*	*-102%*	*-95%*	*-91%*	*-98%*	*-13%*
Interest & Other Income, Net	0.6	(2.8)	(0.5)	(1.1)	(3.2)	(3.4)	(7.1)	3.0	0.6	(6.9)	0.4	0.5	(0.3)	(1.2)	(0.6)	(9.0)
Pretax Income	(16.0)	(10.9)	(4.8)	(24.0)	(55.1)	(29.4)	(38.5)	(34.9)	(57.5)	(160.2)	(51.6)	(51.4)	(50.3)	(50.5)	(203.8)	(140.8)
Taxes	0.0	0.0	(0.2)	0.2	0.0	0.1	0.0	0.1	0.1	0.3	0.0	0.1	0.1	0.1	0.3	0.2
Tax Rate	*0.0%*	*-0.1%*	*4.5%*	*-1.0%*	*0.0%*	*-0.4%*	*0.0%*	*-0.2%*	*-0.2%*	*-0.2%*	*0.0%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.1%*	*-0.1%*
GAAP Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(55.1)**	**(29.5)**	**(38.5)**	**(34.9)**	**(57.6)**	**(160.6)**	**(51.6)**	**(51.5)**	**(50.4)**	**(50.6)**	**(204.1)**	**(140.9)**
GAAP Net Margin	*-77%*	*-40%*	*-10%*	*-130%*	*-49%*	*-142%*	*-136%*	*-112%*	*-152%*	*-136%*	*-126%*	*-125%*	*-121%*	*-121%*	*-123%*	*-23%*
GAAP EPS	**($0.77)**	**($0.52)**	**($0.22)**	**($1.15)**	**($2.65)**	**($1.35)**	**($1.68)**	**($0.38)**	**($0.60)**	**($2.76)**	**($0.53)**	**($0.53)**	**($0.51)**	**($0.51)**	**($2.09)**	**($1.40)**
YoY Growth	*NA*	*NA*	*NA*	*NA*	*3%*	*76%*	*223%*	*73%*	*-48%*	*-4%*	*-60%*	*-69%*	*35%*	*-15%*	*24%*	*33%*
QoQ Growth	*NA*	*32%*	*58%*	*-425%*		*-17%*	*-25%*	*77%*	*-59%*		*11%*	*1%*	*3%*	*0%*		
Chg in Fair Value Warrants	0.1	0.0	0.3	0.0	0.4	2.3	6.3	(3.1)	0.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0
Amort. Stock Comp. Expense	0.1	0.2	0.2	0.0	0.4	3.4	6.1	3.8	4.0	17.3	3.5	3.5	3.5	3.5	14.0	16.0
Pro Forma Net Income	($15.9)	($10.7)	($4.1)	($24.2)	($54.3)	($23.8)	($26.1)	($34.2)	($53.6)	($137.7)	($48.1)	($48.0)	($46.9)	($47.1)	($190.1)	($124.9)
Pro forma EPS						**($1.09)**	**($1.14)**	**($0.37)**	**($0.56)**	**($2.36)**	**($0.50)**	**($0.49)**	**($0.48)**	**($0.48)**	**($1.94)**	**($1.24)**
Average Shares Outstanding	20.9	20.9	21.0	21.1	21.1	21.9	22.9	92.3	96.0	58.3	96.8	97.5	98.3	99.0	97.9	100.9
Percent of Revenue																
Cost of Sales	109.8%	92.2%	83.1%	90.4%	91.5%	81.5%	78.0%	70.2%	78.5%	76.7%	71.8%	72.7%	73.5%	71.7%	72.4%	87.0%
Gross Profit	(9.8%)	7.8%	16.9%	9.6%	8.5%	18.5%	22.0%	29.8%	21.5%	23.3%	28.2%	27.3%	26.5%	28.3%	27.6%	13.0%
R & D	38.0%	7.2%	2.8%	43.8%	17.2%	63.7%	54.3%	85.5%	95.0%	77.2%	95.0%	95.0%	95.0%	95.0%	95.0%	16.7%
S G & A	31.6%	30.6%	23.6%	89.1%	37.7%	79.7%	78.2%	65.4%	80.0%	75.7%	60.0%	58.0%	52.0%	51.5%	55.4%	18.1%
Total Operating Expenses	69.7%	37.8%	26.3%	132.9%	54.9%	143.4%	132.5%	150.9%	175.0%	152.9%	155.0%	153.0%	147.0%	146.5%	150.4%	34.8%

Source: Company reports and CapStone Investments estimates

Figure 34: Tesla Motors, Inc.: HISTORICAL AND PROJECTED CASH FLOWS AND BALANCE SHEET

$M	2009					2010E					2011E					
	1Q Mar-09	2Q Jun-09	3Q Sep-09	4Q Dec-09	2009 YEAR	1QA Mar-10	2QA Jun-10	3QA Sep-10	4QE Dec-10	2010E YEAR	1Q Mar-11	2Q Jun-11	3Q Sep-11	4Q Dec-11	2011E YEAR	2012E YEAR
Operating Sources:																
Net Income	($16.0)	($10.9)	($4.6)	($24.2)	($55.7)	($29.5)	($38.5)	($34.9)	($57.6)	($160.6)	($51.6)	($51.5)	($50.4)	($50.6)	($204.1)	($140.9)
Depreciation and Amortization	1.4	1.7	1.9	1.9	6.9	2.1	2.5	3.1	3.0	10.7	9.9	9.8	10.6	11.2	41.6	55.8
Total	**(14.6)**	**(9.2)**	**(2.7)**	**(22.3)**	**(48.8)**	**(27.4)**	**(36.0)**	**(31.8)**	**(54.6)**	**(149.8)**	**(41.7)**	**(41.7)**	**(39.7)**	**(39.4)**	**(162.6)**	**(85.1)**
Change in Working Capital																
Accounts Receivable	2.8	(4.0)	3.2	(2.1)	(0.2)	(2.4)	(0.5)	(1.6)	(2.3)	(6.9)	(0.9)	(0.1)	(0.1)	(0.1)	(1.1)	(58.5)
Inventories	(4.9)	(3.8)	4.7	(3.9)	(7.9)	(5.5)	(1.1)	(10.3)	5.5	(11.4)	0.3	(0.6)	(0.6)	0.7	(0.2)	(251.5)
Other Current Assets	(0.2)	(2.3)	(0.3)	0.4	(2.5)	(0.1)	(1.3)	(8.5)	0.0	(9.9)	0.0	0.0	0.0	0.0	0.0	0.0
Non-Debt Current Liabilities	0.5	5.2	(29.3)	(3.4)	(27.0)	2.2	8.5	2.8	(1.5)	12.0	1.8	2.4	2.4	1.5	8.2	267.9
Total	(1.9)	(4.9)	(21.7)	(9.0)	(37.5)	(5.8)	5.5	(17.6)	1.7	(16.1)	1.2	1.8	1.8	2.1	6.9	(42.1)
Capital Expenditures	0.9	2.5	2.3	6.2	11.9	5.5	12.2	5.4	67.0	90.1	25.5	22.2	31.0	57.0	135.7	95.0
Operating Cash Flow	**($17.4)**	**($16.6)**	**($26.7)**	**($37.5)**	**($98.2)**	**($38.7)**	**($42.7)**	**($54.8)**	**($119.9)**	**($256.0)**	**($66.0)**	**($62.2)**	**($68.9)**	**($94.3)**	**($291.3)**	**($222.2)**
Cash Flow per Share	**($0.83)**	**($0.79)**	**($1.27)**	**($1.78)**	**($4.66)**	**($1.76)**	**($1.86)**	**($0.59)**	**($1.25)**	**($4.39)**	**($0.66)**	**($0.62)**	**($0.68)**	**($0.92)**	**($2.98)**	**($2.20)**
Non-Operating Activities:	8.1	16.6	133.2	0.6	158.6	30.6	28.5	104.0	110.0	273.1	68.7	68.7	93.7	93.7	324.7	162.0
Beginning Cash and Invest.	**$9.3**	**$0.0**	**$0.0**	**$106.5**	**$9.3**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$69.6**	**$86.7**	**$89.4**	**$95.9**	**$120.7**	**$86.7**	**$120.1**
Net Cash Flow	**(9.3)**	**0.0**	**106.5**	**(36.9)**	**60.4**	**(8.1)**	**(14.2)**	**49.3**	**(9.9)**	**17.1**	**2.7**	**6.5**	**24.8**	**(0.6)**	**33.4**	**(60.2)**
Ending Cash and Invest.	**$0.0**	**$0.0**	**$106.5**	**$69.6**	**$69.6**	**$61.5**	**$47.3**	**$96.6**	**$86.7**	**$86.7**	**$89.4**	**$95.9**	**$120.7**	**$120.1**	**$120.1**	**$59.9**
Assets																
Cash & Equivalents				$69.6		$61.5	$47.3	$96.6	$86.7		$89.4	$95.9	$120.7	$120.1		
Restricted Cash				0.0		0.0	0.0	88.1	88.1		88.1	88.1	88.1	88.1		
Accounts Receivable				3.5		5.9	6.5	8.1	10.4		11.3	11.3	11.4	11.4		
Inventories				23.2		28.6	29.5	39.5	34.0		33.7	34.3	34.8	34.2		
Prepaid & Other CA				4.2		4.5	6.7	8.9	8.9		8.9	8.9	8.9	8.9		
Total Current Assets				**100.6**		**100.6**	**90.0**	**241.1**	**228.0**		**231.3**	**238.5**	**263.9**	**262.7**		
Operating Lease Vehicles				0.0		0.0	0.0	5.7	5.7		5.7	5.7	5.7	5.7		
Net PP&E				23.5		26.9	33.2	37.2	124.1		139.7	152.1	172.4	212.5		
Goodwill & Intangible Assets				3.6		7.5	5.4	57.5	57.5		57.5	57.5	57.5	57.5		
Other Assets				2.8		10.4	19.4	20.1	20.1		20.1	20.1	20.1	20.1		
Total Assets				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$435.5**		**$454.3**	**$473.9**	**$519.6**	**$558.5**		
Liabilities																
Accounts Payable				$15.1		$18.2	$25.6	$27.0	$24.5		$24.3	$24.7	$25.1	$24.6		
Accrued Liabilities				14.5		7.9	8.4	10.7	10.7		10.7	10.7	10.7	10.7		
Defd Development Compensation				0.2		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0		
Deferred Revenue				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Capital Lease Obligations, Current				14.5		7.9	8.4	10.7	10.7		10.7	10.7	10.7	10.7		
Reservation Payments				1.4		6.7	8.1	3.5	3.5		3.5	3.5	3.5	3.5		
Current Liabilities				**$57.5**		**$59.1**	**$68.6**	**$69.3**	**$67.8**		**$69.6**	**$72.1**	**$74.5**	**$76.0**		
Common Stock Warrant Liability				0.0		0.0	16.7	6.7	4.7		0.0	0.0	0.0	0.0		
Convertible Pfd Stock Warrant Liability				1.7		10.4	0.0	0.0	0.0		0.0	0.0	0.0	0.0		
Capital Lease Obligations, Non-Current				0.8		0.7	0.6	0.6	0.6		0.0	0.0	0.0	0.0		
Deferred Revenue, less current				1.2		1.4	2.1	2.5	3.0		0.0	0.0	0.0	0.0		
Long-Term Debt - DoE Loan				0.0		29.9	45.4	56.6	56.6		56.6	56.6	206.6	356.6		
Other Long Term Liabilities				3.5		3.9	5.0	6.1	7.1		7.1	7.1	7.1	7.1		
Total Liabilities				**$64.7**		**$105.4**	**$138.5**	**$141.7**	**$139.7**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Total Convertible Pfd Stock				**$319.2**		**$319.2**	**$319.2**	**$0.0**	**$0.0**		**$0.0**	**$0.0**	**$0.0**	**$0.0**		
Series A Convert. Pfd (7.2M shs)				3.5		3.5	3.5	0.0	0.0		0.0	0.0	0.0	0.0		
Series B Convert. Pfd (17.5M shs)				12.9		12.9	12.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series C Convert. Pfd (35.2M shs)				39.8		39.8	39.8	0.0	0.0		0.0	0.0	0.0	0.0		
Series D Convert. Pfd (18.4M shs)				44.9		44.9	44.9	0.0	0.0		0.0	0.0	0.0	0.0		
Series E Convert. Pfd (102.8M shs)				135.7		135.7	135.7	0.0	0.0		0.0	0.0	0.0	0.0		
Series F Convert. Pfd (27.8M shs)				82.4		82.4	82.4	0.0	0.0		0.0	0.0	0.0	0.0		
Total Liabilities & Convert Pfd				**$383.9**		**$424.6**	**$457.7**	**$141.7**	**$139.7**		**$133.3**	**$135.7**	**$288.1**	**$439.6**		
Shareholders' Equity				**($253.5)**		**($279.3)**	**($309.8)**	**$219.9**	**$295.8**		**$321.1**	**$338.2**	**$231.5**	**$118.9**		
Total Liabilities and Equity				**$130.4**		**$145.3**	**$148.0**	**$361.6**	**$435.5**		**$454.3**	**$473.9**	**$519.6**	**$558.5**		
Key Financial Ratios																
Days Receivable Outstanding				17.1		26.0	20.8	23.5	25.0		25.0	25.0	25.0	25.0		
Inventory Turns				2.9x		2.4x	3.0x	2.2x	3.5x		3.5x	3.5x	3.5x	3.5x		
Days Payable				74.1		79.8	82.3	78.8	75.0		75.0	75.0	75.0	75.0		
Book Value				($12.03)		($12.75)	($13.51)	$2.38	$3.08		$3.22	$3.37	$2.29	$1.17		
Cash per Share				$3.31		$2.81	$2.06	$1.05	$0.90		$0.90	$0.95	$1.19	$1.18		

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES
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Company	Disclosure
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November 22, 2010

Stock Rating
Equal-weight

Industry View
In-Line

Tesla Motors Inc.

Update from Mgmt Meetings – Model S on Track

We met with Tesla management last week at the LA Auto Show. Progress on the Model S appears on track and the possibility of additional OEM contracts remains open. Highlights from our meetings:

Model S Alpha build on track. The first body structure made on soft tools is on its way from Detroit to Palo Alto where Tesla engineers will spend the next few weeks assembling the Alpha build – a production-intent drivable prototype to test the driving experience modeled on computers. Tesla plans to exhibit the Model S at the Detroit Auto Show in January 2011.

Target: 100,000 vehicles on the Model S platform, 500,000 vehicles in the NUMMI factory. CEO Elon Musk believes Tesla can add new top hats to the Model S platform to sell 100,000/year of combined body types on the Model S platform. Later plans are to launch a less expensive "Model X" that could sell an additional 400,000/year, growing to fill the capacity of NUMMI. Those volumes are well in excess of what we have modeled in our bull case.

Possible OEM Partnerships. Elon reiterated that discussions are underway with OEMs other than Daimler and Toyota, and that Tesla would only work on powertrain deals that could develop into mass market electric vehicles. Other OEM partnerships would bolster Tesla's reputation as a leader in battery pack and system design and could be a positive catalyst.

Valuation has run up. TSLA is up 49% in the last month and is approaching our $35 bull case. So far, Tesla has executed above our base case – we didn't forecast the equity investment from Panasonic or the $60 MM from Toyota for the RAV4 – and we don't have additional powertrain agreements in our model, so there is room for upside to our numbers.

What's next? The IPO lockup expires December 27, 2010, expanding the free float over 3x.

Key Ratios and Statistics

Reuters: TSLA.O Bloomberg: TSLA US
Clean Tech / United States of America

Shr price, close (Nov 19, 2010)	$30.99
Mkt cap, curr (mm)	$2,892
52-Week Range	$32.94-14.98

Fiscal Year ending	12/09	12/10e	12/11e	12/12e
ModelWare EPS ($)	**(7.96)**	**(3.06)**	**(2.21)**	**(1.39)**
EPS ($)**	(7.96)	(2.79)	(2.08)	(1.27)
Consensus EPS ($)§	**(1.59)**	**(2.31)**	**(1.92)**	**(1.25)**
EV/rev	3.7	24.5	20.6	5.3
Revenue, net ($mm)	112	113	150	628
Gross margin (%)	8.5	24.4	23.9	12.6
EBITDA margin (%)	(40.2)	(119.3)	(118.6)	(11.0)
Rev hist grth, y/y (%)	-	1.1	32.9	317.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates

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Risk-Reward Snapshot: Tesla Motors (TSLA, $30.99, Equal-weight)

Risk-Reward View: Continued Volatility Is Likely

Source: FactSet, Morgan Stanley Research

Valuation Methodology: We apply multiples of 12x EV/EBITDA and 2.1x EV/sales to our 2014 bull, bear, and base case forecasts, and discount the equity value at 15%. Our comp group is 80% clean tech and EV value chain and 20% traditional auto companies.
We also use a DCF analysis with an 11.3% WACC, 15% cost of equity, and 4% terminal growth.

Bull Case $35	2014e sales = $2.6 billion 2014e EBITDA = $516 million	**The future of the auto industry.** Tesla delivers the Model S on time (2Q12) and on budget with performance that rivals gasoline-powered luxury sedans. EV adoption takes off. EBITDA margins are 15-18%. OEM partnerships add powertrain volumes.
Base Case $19	2014e sales = $1.9 billion 2014e EBITDA = $199 million	**Solid execution and EV demand.** Model S deliveries start in 3Q12 and reach 20K per year in 2014. Slower ramp and modest cost overruns result in negative EPS until 2014. EBITDA margins are 7-9%. Powertrain sales a minor contributor.
Bear Case $10	2014e sales = $472 million 2014e EBITDA = $(7 million)	**Delays, cost overruns, lower demand.** A lot can go wrong in a product launch, especially with new manufacturing. We model a slight delay and lower Model S demand of 5,000 units per year. The company would likely need to raise additional capital to scale production.

Key Assumptions for Bull, Bear, and Base Cases

Key Assumptions for Bull, Bear, and Base Cases		Bear	Base	Bull
Gross Margin	2012	9.9%	12.6%	13.8%
	2013	9.3%	16.1%	23.5%
	2014	16.5%	22.4%	24.5%
EBIT Margin	2012	NM	NM	NM
	2013	NM	NM	13.7%
	2014	NM	5.6%	15.3%
Model S Volumes	2012	2,000	5,500	7,000
	2013	5,000	15,000	20,000
	2014	5,000	20,000	26,000

Source: Morgan Stanley Research

Why Equal-weight?

- The opportunity in electric vehicles is substantial, but so is the challenge of getting the Model S on the road on time and on budget. Our $19 base case is based on discounted equity-based multiples of EV/sales and EV/EBITDA and a DCF and reflects uncertain demand for electric vehicles (EVs), increasing competition from OEMs, and execution risk.

Key Value Drivers

- **Model S pre-orders** — the best indicator of demand.
- **Additional or larger OEM partnerships** would add scale, top line growth, and offer further proof of Tesla's technology leadership.
- **EV adoption and subsidies.** Competitors' EVs will launch before the Model S. Strong sales and/or higher government support are positive.

Potential Catalysts

- Expansion of Daimler or Toyota plans or new OEM partnerships.
- Model S — final prototype on factory tools.
- Accelerating Model S reservations.

What Could Make Us Overweight

- Higher Model S pre-orders.
- Increased government subsidies.
- Lower risk of Model S delays.
- Additional and/or larger OEM partnerships.
- More attractive valuation.

…or Underweight

- Significant Model S delays.
- Management turnover in manufacturing, engineering, technology, or design.

Exhibit 1

Base Case Quarterly Assumptions

	2009A				2010E				2011E				2012E				2013E			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Volumes																				
Model S	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	3,500	3,750	3,750	3,750	3,750
Roadster	182	200	324	134	126	141	151	155	150	150	150	150	150	150	100	98	-	-	500	300
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Vehicles	**182**	**200**	**324**	**134**	**126**	**141**	**151**	**155**	**150**	**150**	**150**	**150**	**150**	**150**	**2,100**	**3,598**	**3,750**	**3,750**	**4,250**	**4,050**
Powertrains	**-**	**-**	**-**	**-**	**105**	**200**	**240**	**430**	**450**	**650**	**700**	**770**	**800**	**800**	**800**	**800**	**875**	**875**	**875**	**875**
Powertrain ASP ($)	0.0k	0.0k	0.0k	0.0k	25.9k	24.1k	21.3k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins																				
Model S	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	8.2%	8.2%	8.4%	13.3%	17.2%	19.5%
Roadster	(9.8%)	7.8%	16.9%	9.6%	17.7%	20.0%	17.0%	22.0%	19.9%	21.8%	23.6%	25.4%	25.4%	25.4%	25.3%	25.3%	0.0%	0.0%	30.4%	29.4%
Powertrain	NM	NM	NM	NM	23.7%	15.0%	18.8%	22.5%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Total	NM	7.8%	16.9%	9.6%	18.5%	22.2%	30.0%	24.8%	22.1%	23.5%	24.4%	25.2%	25.2%	25.2%	11.3%	10.1%	9.7%	14.1%	19.2%	20.6%
Roadster Leasing (as % of Total Vehicles Sold)	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	18.0%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%

Source: Company data, Morgan Stanley Research estimates

Exhibit 2

Base Case Annual Assumptions

	Fiscal Year													
	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Volumes														
Model S	-	-	-	-	-	5,500	15,000	20,000	23,000	26,450	30,000	30,000	30,000	30,000
Roadster	-	-	-	294	300	249	400	400	400	400	400	400	400	400
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	25,000	31,250	39,063	48,828
Total Vehicles	**-**	**-**	**-**	**294**	**300**	**5,749**	**15,400**	**20,400**	**23,400**	**26,850**	**55,400**	**61,650**	**69,463**	**79,228**
Powertrains	-	-	-	975	2,570	3,200	3,500	3,500	4,200	5,000	5,000	5,000	5,000	5,000
Powertrain ASP ($)	NM	NM	NM	24.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins														
Model S		NM	NM	NM	NM	8.2%	14.7%	21.4%	22.4%	21.5%	21.1%	21.1%	21.1%	21.1%
Roadster		NM	NM	19.2%	22.7%	25.4%	28.0%	40.2%	38.7%	38.6%	32.3%	40.9%	32.3%	32.3%
Next Gen Vehicle		NM	NM	NM	NM	NM	NM	15.0%	15.0%	15.0%	16.0%	17.0%	18.0%	19.0%
Powertrain		NM	NM	20.3%	24.0%	24.0%	24.0%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total														
Roadster Leasing (as % of Total Vehicles Sold)				12.6%	22.5%	22.5%	22.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Morgan Stanley Research estimates

Exhibit 3

Base Case Quarterly Income Statement

	2009A				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	31.2	32.7	31.5	37.7	39.5	41.8	42.9	43.1	207.5	334.9	339.7	349.5	398.2	382.2
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	21.9	24.6	24.5	28.9	29.8	31.3	32.1	32.3	184.1	301.0	306.8	300.4	321.7	303.4
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**9.4**	**8.1**	**7.0**	**8.8**	**9.6**	**10.5**	**10.8**	**10.9**	**23.4**	**33.9**	**32.8**	**49.1**	**76.5**	**78.8**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*30.0%*	*24.8%*	*22.1%*	*23.5%*	*24.4%*	*25.2%*	*25.2%*	*25.2%*	*11.3%*	*10.1%*	*9.7%*	*14.1%*	*19.2%*	*20.6%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.4	37.0	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	7.0	9.0	9.0	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	27.8	27.8	27.8	27.8
General and Administrative	6.6	8.2	10.7	16.6	7.2	9.7	8.9	8.0	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock-based Compensation	-	-	-	-	3.4	6.1	3.8	5.0	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.6	4.2	4.2	3.8
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**47.2**	**59.0**	**60.7**	**60.7**	**60.7**	**60.7**	**50.3**	**50.3**	**50.3**	**50.3**	**61.1**	**55.7**	**55.7**	**50.3**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(37.8)**	**(50.9)**	**(53.7)**	**(51.8)**	**(51.1)**	**(50.2)**	**(39.5)**	**(39.4)**	**(26.9)**	**(16.4)**	**(28.3)**	**(6.6)**	**20.8**	**28.5**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*5.2%*	*7.5%*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(30.9)**	**(42.5)**	**(45.4)**	**(41.4)**	**(39.0)**	**(36.8)**	**(24.2)**	**(22.0)**	**(8.7)**	**1.8**	**(9.8)**	**12.4**	**40.4**	**48.6**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*0.5%*	*NM*	*3.6%*	*10.2%*	*12.7%*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.3)	(0.4)	(0.4)	(1.1)	(1.8)	(2.5)	(3.2)	(3.7)	(4.1)	(4.5)	(4.5)	(4.5)	(4.5)	(4.4)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**3.0**	**(0.4)**	**(0.4)**	**(1.1)**	**(1.8)**	**(2.5)**	**(3.2)**	**(3.7)**	**(4.1)**	**(4.5)**	**(4.5)**	**(4.5)**	**(4.5)**	**(4.4)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(34.9)**	**(51.3)**	**(54.2)**	**(53.0)**	**(52.9)**	**(52.7)**	**(42.6)**	**(43.2)**	**(30.9)**	**(20.9)**	**(32.8)**	**(11.1)**	**16.3**	**24.1**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.1%*	*6.3%*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*(0.2%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(34.9)**	**(51.3)**	**(54.2)**	**(53.0)**	**(52.9)**	**(52.7)**	**(42.6)**	**(43.2)**	**(30.9)**	**(20.9)**	**(32.8)**	**(11.1)**	**16.3**	**24.1**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.1%*	*6.3%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(34.9)**	**(51.3)**	**(54.2)**	**(53.0)**	**(52.9)**	**(52.7)**	**(42.6)**	**(43.2)**	**(30.9)**	**(20.9)**	**(32.8)**	**(11.1)**	**16.3**	**24.1**
GAAP EPS							**($0.38)**	**($0.54)**	**($0.57)**	**($0.55)**	**($0.55)**	**($0.54)**	**($0.44)**	**($0.44)**	**($0.31)**	**($0.21)**	**($0.33)**	**($0.11)**	**$0.14**	**$0.21**
Adjusted EPS							**($0.35)**	**($0.50)**	**($0.54)**	**($0.52)**	**($0.52)**	**($0.51)**	**($0.40)**	**($0.41)**	**($0.28)**	**($0.18)**	**($0.29)**	**($0.08)**	**$0.17**	**$0.24**

Source: Company data, Morgan Stanley Research estimates

Exhibit 4

Base Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	113.2	150.5	628.5	1,469.5	1,915.3	2,204.0	2,482.9	3,817.7	4,067.4	4,344.3	4,744.7
Cost of Revenue	0.0	15.9	102.4	85.6	114.5	549.5	1,232.3	1,486.9	1,694.1	1,930.6	3,054.6	3,241.0	3,464.9	3,773.2
Gross Profit	**0.1**	**(1.1)**	**9.5**	**27.6**	**35.9**	**79.0**	**237.2**	**428.4**	**509.9**	**552.3**	**763.1**	**826.4**	**879.4**	**971.5**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*24.4%*	*23.9%*	*12.6%*	*16.1%*	*22.4%*	*23.1%*	*22.2%*	*20.0%*	*20.3%*	*20.2%*	*20.5%*
Expenses														
Research and Development	62.7	53.6	19.3	90.6	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	31.0	44.0	61.0	111.0	134.1	154.3	173.8	267.2	284.7	304.1	332.1
General and Administrative	17.1	23.4	42.2	33.8	33.0	35.0	35.0	71.8	77.1	86.9	133.6	122.0	130.3	142.3
Stock-based Compensation	0.2	0.4	-	18.3	15.8	16.1	16.7	19.9	19.3	18.5	22.1	18.6	16.9	18.4
Total Expenses	**80.0**	**77.4**	**61.4**	**173.7**	**242.8**	**201.1**	**222.7**	**305.8**	**336.4**	**370.8**	**521.0**	**530.2**	**563.5**	**612.9**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(146.1)**	**(206.8)**	**(122.1)**	**14.5**	**122.6**	**173.5**	**181.5**	**242.1**	**296.2**	**315.9**	**358.6**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*1.0%*	*6.4%*	*7.9%*	*7.3%*	*6.3%*	*7.3%*	*7.3%*	*7.6%*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(116.7)**	**(162.6)**	**(53.1)**	**91.6**	**198.8**	**266.0**	**291.0**	**364.3**	**445.5**	**462.9**	**518.3**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*6.2%*	*10.4%*	*12.1%*	*11.7%*	*9.5%*	*11.0%*	*10.7%*	*10.9%*
Interest Expense, net	1.7	(3.2)	(2.4)	(1.3)	(5.9)	(15.5)	(17.9)	(15.3)	(7.8)	0.8	1.6	2.6	3.9	5.2
Other Income (Expense), net	0.1	(1.0)	(1.4)	(6.7)	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(8.0)**	**(5.9)**	**(15.5)**	**(17.9)**	**(15.3)**	**(7.8)**	**0.8**	**1.6**	**2.6**	**3.9**	**5.2**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(154.1)**	**(212.8)**	**(137.6)**	**(3.4)**	**107.3**	**165.7**	**182.3**	**243.7**	**298.8**	**319.8**	**363.8**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*5.6%*	*7.5%*	*7.3%*	*6.4%*	*7.3%*	*7.4%*	*7.7%*
Taxes, GAAP	0.1	0.1	0.0	0.2	-	-	-	-	-	-	-	55.0	76.7	87.3
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**55.0**	**76.7**	**87.3**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*18.4%*	*24.0%*	*24.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(154.3)**	**(212.8)**	**(137.6)**	**(3.4)**	**107.3**	**165.7**	**182.3**	**243.7**	**243.8**	**243.0**	**276.5**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*5.6%*	*7.5%*	*7.3%*	*6.4%*	*6.0%*	*5.6%*	*5.8%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(154.3)**	**(212.8)**	**(137.6)**	**(3.4)**	**107.3**	**165.7**	**182.3**	**243.7**	**243.8**	**243.0**	**276.5**
GAAP EPS				**($3.06)**	**($2.21)**	**($1.39)**	**($0.03)**	**$0.92**	**$1.39**	**$1.49**	**$1.95**	**$1.90**	**$1.85**	**$2.06**
Adjusted EPS				**($2.79)**	**($2.08)**	**($1.27)**	**$0.09**	**$1.05**	**$1.51**	**$1.61**	**$2.08**	**$2.01**	**$1.95**	**$2.16**

Source: Company data, Morgan Stanley Research estimates

Exhibit 5

Base Case Annual Balance Sheet

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	101.3	100.0	54.4	100.0	100.0	147.8	442.3	803.7	1,272.2	1,752.8	2,299.4
Accounts receivable, net	0.1	3.3	3.5	1.8	12.4	12.2	13.8	13.3	16.1	19.1	18.9	18.8	18.5	18.4
Inventories, net	2.1	16.7	23.2	32.1	37.4	359.9	362.8	448.1	510.6	580.2	920.6	976.7	1,044.2	1,134.0
Prepaid expenses and other current assets	2.9	2.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Current Assets	**22.3**	**31.4**	**100.6**	**140.2**	**154.8**	**431.6**	**481.5**	**566.4**	**679.5**	**1,046.7**	**1,748.2**	**2,272.8**	**2,820.6**	**3,456.8**
Property, Plant and Equipment, net	12.0	18.8	23.5	49.9	161.8	194.9	190.5	270.6	346.4	420.7	498.4	547.2	594.1	643.8
Restricted cash	0.3	1.2	3.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6
Other assets	0.3	0.3	2.8	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1
Total Assets	**34.8**	**51.7**	**130.4**	**366.4**	**508.8**	**827.6**	**878.2**	**1,032.1**	**1,212.3**	**1,645.2**	**2,424.4**	**2,985.7**	**3,580.3**	**4,266.4**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	24.1	30.6	294.5	296.8	366.6	417.7	474.7	753.2	799.2	854.4	927.8
Accrued liabilities	8.5	11.1	14.5	9.0	10.4	16.8	58.2	113.3	167.2	220.7	312.3	396.6	477.5	561.2
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital lease obligations, current portion	0.1	0.3	0.3	-	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	37.3	48.0	26.0	29.5	33.9	11.9	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**63.5**	**76.0**	**324.2**	**356.0**	**480.9**	**585.9**	**696.4**	**1,066.5**	**1,196.8**	**1,332.9**	**1,490.1**
Convertible preferred stock warrant liability	0.2	2.1	1.7	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	0.0	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	-	-	-	-	-	-	-	-	-	-	-
Other long-term liabilities	-	4.8	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	62.0	333.3	465.0	398.8	212.9	-	-	-	-	-	-
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**64.8**	**336.1**	**467.9**	**401.6**	**215.8**	**2.9**	**2.9**	**2.9**	**2.9**	**2.9**	**2.9**
Total Liabilities	**152.7**	**251.4**	**383.9**	**128.4**	**412.1**	**792.0**	**757.6**	**696.7**	**588.8**	**699.2**	**1,069.3**	**1,199.6**	**1,335.7**	**1,492.9**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	4.3	5.2	7.1	634.1	705.5	782.0	870.4	977.8	1,100.4	1,240.5	1,405.8	1,593.0	1,808.5	2,060.8
Retained Earnings	(122.1)	(204.9)	(260.7)	(396.0)	(608.8)	(746.4)	(749.8)	(642.5)	(476.8)	(294.5)	(50.7)	193.1	436.1	712.6
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**238.1**	**96.7**	**35.6**	**120.6**	**335.4**	**623.6**	**946.0**	**1,355.0**	**1,786.0**	**2,244.6**	**2,773.4**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**366.4**	**508.8**	**827.6**	**878.2**	**1,032.1**	**1,212.3**	**1,645.2**	**2,424.4**	**2,985.7**	**3,580.3**	**4,266.4**

Source: Company data, Morgan Stanley Research estimates

Exhibit 6

Base Case Cash Flow Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Activities:														
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(154.3)**	**(212.8)**	**(137.6)**	**(3.4)**	**107.3**	**165.7**	**182.3**	**243.7**	**243.8**	**243.0**	**276.5**
Depreciation and Amortization	2.9	4.2	6.9	11.1	28.4	52.9	60.4	56.3	73.1	91.0	100.1	130.7	130.2	141.3
Change in fair value of convertible preferred stock warrant liability	(0.0)	2.8	1.1	8.7	-	-	-	-	-	-	-	-	-	-
Gain on extinguishment of convertible notes and warrants	-	(1.2)	(1.5)	-	-	-	-	-	-	-	-	-	-	-
Stock compensation expense	0.2	0.4	1.4	18.3	15.8	16.1	16.7	19.9	19.3	18.5	22.1	18.6	16.9	18.4
Loss on abandonment of fixed assets	2.4	-	0.4	-	-	-	-	-	-	-	-	-	-	-
Inventory write-downs	-	-	1.4	0.4	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	-	3.7	2.7	-	-	-	-	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(0.1)	(3.3)	(0.2)	1.7	(10.7)	0.3	(1.6)	0.5	(2.9)	(3.0)	0.2	0.1	0.3	0.1
Inventories	(2.1)	(14.5)	(7.9)	(9.2)	(5.3)	(322.6)	(2.8)	(85.3)	(62.4)	(69.7)	(340.4)	(56.2)	(67.5)	(89.8)
Prepaid expenses and other current assets	(1.9)	0.8	(2.0)	0.9	-	-	-	-	-	-	-	-	-	-
Other assets	(0.1)	0.0	(0.4)	(17.2)	-	-	-	-	-	-	-	-	-	-
Accounts payable	0.5	8.8	0.9	4.4	6.5	263.9	2.3	69.8	51.1	57.0	278.5	46.0	55.2	73.5
Accrued liabilities	7.6	2.6	3.4	(3.8)	1.5	6.3	41.4	55.1	53.9	53.5	91.6	84.3	80.9	83.7
Other long-term liabilities	-	1.2	2.2	(1.5)	-	-	-	-	-	-	-	-	-	-
Deferred development compensation	-	10.2	(10.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	(1.5)	(1.6)	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	15.2	10.7	(22.0)	3.4	4.5	(22.0)	(11.9)	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	**19.2**	**20.5**	**(37.5)**	**(23.1)**	**(3.5)**	**(74.1)**	**27.4**	**40.1**	**39.7**	**37.9**	**29.9**	**74.2**	**68.9**	**67.5**
Net Cash Flow from Operating Activities	**(53.5)**	**(52.4)**	**(80.8)**	**(138.9)**	**(172.1)**	**(142.7)**	**101.1**	**223.6**	**297.8**	**329.7**	**395.9**	**467.3**	**459.0**	**503.7**
Investing activities:														
Purchases of property and equipment excluding capital leases	(9.8)	(9.6)	(11.9)	(89.9)	(136.5)	(78.8)	(42.0)	(125.3)	(140.2)	(156.7)	(177.7)	(167.4)	(177.1)	(191.1)
Decrease (increase) in restricted cash	0.0	(1.0)	(2.4)	(96.1)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(9.8)**	**(10.6)**	**(14.2)**	**(195.1)**	**(156.1)**	**(95.0)**	**(61.0)**	**(125.3)**	**(140.2)**	**(156.7)**	**(177.7)**	**(167.4)**	**(177.1)**	**(191.1)**
Financing activities:														
Proceeds from issuance of convertible preferred stock, net of issuance	44.9	-	131.8	-	-	-	-	-	-	-	-	-	-	-
Proceeds from DOE Loan	-	-	-	62.0	271.3	131.7	(66.2)	(185.8)	(212.9)	-	-	-	-	-
Principal payments on capital leases and other debt	-	(0.2)	(0.3)	(0.2)	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible notes and warrants	-	54.8	25.5	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock	-	0.0	-	273.8	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0.1	0.5	0.5	35.0	55.6	60.4	71.7	87.6	103.2	121.5	143.2	168.6	198.6	234.0
Deferred common stock and loan facility issuance costs	-	-	(2.0)	(3.5)	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by financing activities	**45.0**	**55.1**	**155.4**	**367.1**	**326.9**	**192.1**	**5.5**	**(98.3)**	**(109.7)**	**121.5**	**143.2**	**168.6**	**198.6**	**234.0**
Effect of Exchange Rate Changes	-	-	-	(1.3)	-	-	-	-	-	-	-	-	-	-
Cash Restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Cash and Cash Equivalents	**(18.2)**	**(7.9)**	**60.4**	**31.7**	**(1.3)**	**(45.6)**	**45.6**	**(0.0)**	**47.8**	**294.5**	**361.4**	**468.5**	**480.6**	**546.6**
Cash and cash equivalents at beginning of the year	35.4	17.2	9.3	69.6	101.3	100.0	54.4	100.0	100.0	147.8	442.3	803.7	1,272.2	1,752.8
Cash and cash equivalents at end of year	**17.2**	**9.3**	**69.6**	**101.3**	**100.0**	**54.4**	**100.0**	**100.0**	**147.8**	**442.3**	**803.7**	**1,272.2**	**1,752.8**	**2,299.4**

Source: Company data, Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Not-Rated/Hold	**121**	**4%**	**22**	**2%**	**18%**
Underweight/Sell	**393**	**14%**	**103**	**11%**	**26%**
Total	**2,794**		**949**		

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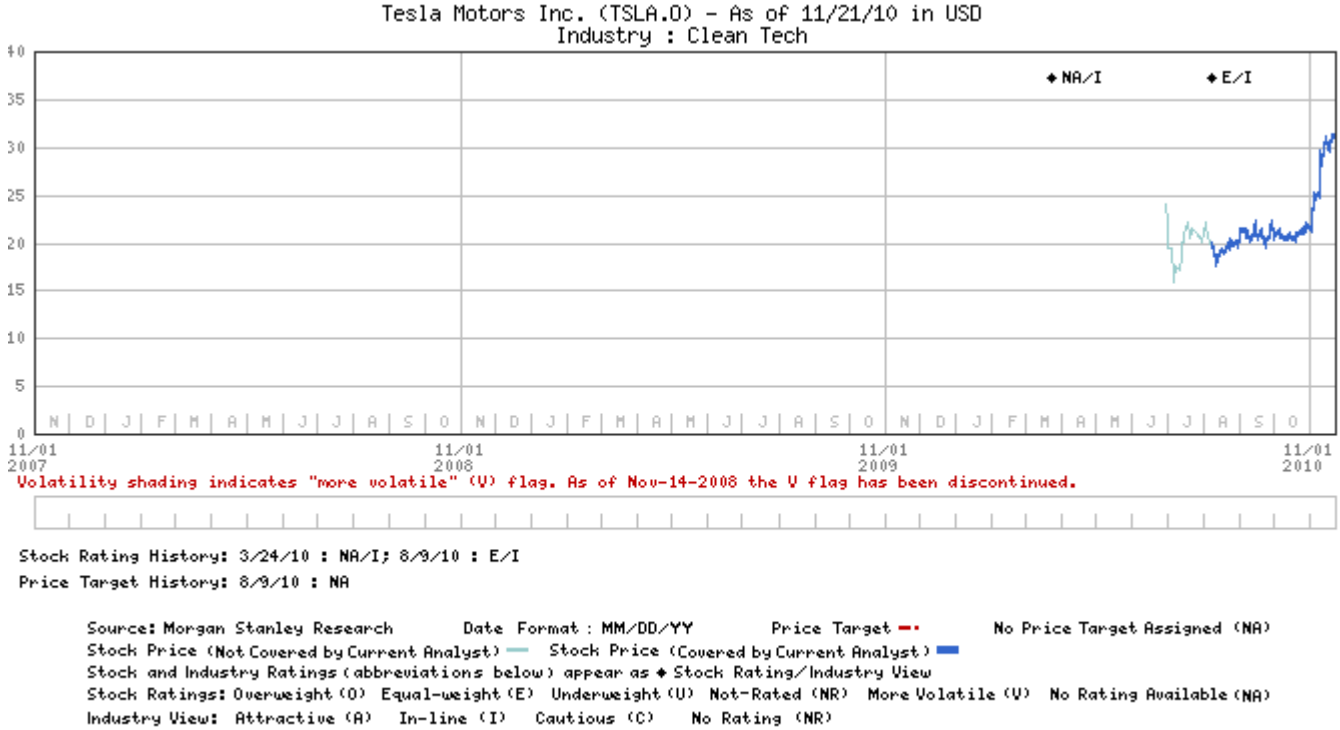
Stock Price, Price Target and Rating History (See Rating Definitions)



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Industry Coverage:Clean Tech

Company (Ticker)	Rating (as of)	Price* (11/19/2010)
Joshua Paradise, CFA		
A123 Systems Inc. (AONE.O)	E (11/10/2010)	$8.91
Cree, Inc. (CREE.O)	E (10/20/2010)	$58.34
Energy Conversion Devices, Inc (ENER.O)	E (11/10/2010)	$4.87
Tesla Motors Inc. (TSLA.O)	E (08/09/2010)	$30.99
Smittipon Srethapramote		
Amyris Inc. (AMRS.O)	O (11/08/2010)	$19.34
Evergreen Solar Inc (ESLR.O)	E (03/24/2010)	$.84
First Solar Inc. (FSLR.O)	O (03/24/2010)	$126.75
SunPower Corporation (SPWRA.O)	E (10/08/2010)	$12.31

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TESLA

DOUGHERTY & COMPANY LLC

November 10, 2010

Jeff Evanson (612) 376-4123 jevanson@doughertymarkets.com

TESLA MOTORS INC. (TSLA) BUY - $24.63

APPLIED TECHNOLOGIES

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

Model S on Track As Powertrain Drives Solid Results; Reiterate PT & Buy

Changes: FY10 Revenue to $113MM, from $109MM

Financial Summary*

EPS	2009	2010E	2011E	2012E
Mar		-0.35A	-0.39	-0.40
Jun		-0.28A	-0.44	-0.38
Sep		-0.38A	-0.46	-0.53
Dec		-0.42	-0.39	-0.48
FY		-1.61	-1.53	-1.79
EBITDA	($44,957)	($112,600)	($116,199)	($112,480)
Revs ($'000)				
Mar	$20,886	$20,812A	$31,338	$27,778
Jun	$26,945	$28,405A	$35,190	$26,238
Sep	$45,527	$31,241A	$37,479	$25,743
Dec	$18,585	$32,678	$30,908	$22,863
FY	$111,943	$113,136	$134,915	$102,622
Mkt Cap/Rev	22x	21x	18x	23x

Price	$24.63
12-Month Target	$30.00
52-Week Range	$14.98-$30.41
Diluted Shares ('000)	97,800
Market Cap ('000)	$2,408,814
Avg. Daily Vol	741,838
3-5 Yr. Revenue Growth	20%+
3-5 Yr. EPS Growth	20%+
Book Value	$1.89
Net Cash/Share*	$2.55
LT Debt / Total Capital	23%
Insider Ownership	57%
Est. Q4 Reporting Date	Feb '11

*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.

Investment Thesis:

After the close last night, Tesla Motors reported Q310 results that were better than expectations. The strength was driven by 16% more Roadster sales than we expected (151 units, up 7% QOQ) and strong Development services work for Daimler.

On the conference call, management also provided a favorable update on Model S development. The first Alpha build of the Model S is expected to be completed by the end of this year. Also, management expects to highlight the Model S at the North American International Auto Show in Detroit in mid January. Tesla has more than 3,000 reservations for the Model S, and expects that by mid 2012, it can have the first full year of production pre-sold, which is about 20,000 units.

Development Services has vastly exceeded expectations for the past two quarters, and the company hasn't even begun to realize material revenues from Toyota. In our opinion, current contracts with Toyota far exceed the existing opportunities with Daimler. To date, we believe Tesla has delivered battery packs for only about half the A-Class pilot program vehicles.

Given the solid results and favorable outlook, we reiterate our $30 PT and Buy rating. Our PT is based on a DCF that takes into account sales of Tesla's new Model S, slated for release in 2012.

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Q310 Quarterly highlights

- Tesla reported Q310 revenue of $31MM, which beat our $27.9MM estimate and beat the street average estimate of $28.1MM.

- Gross margin of 30% was better than our 21.4% estimate. The beat was driven entirely by a shift toward Development services revenue.

- The Q310 net loss was $35MM, which was greater than our $31MM estimate but less than the street's $39MM estimate. EPS estimates varied because of different street calculations of share counts, which should now be cleared up after the Q3 results.

- Management reiterated its previous revenue guidance of $110MM to $115MM. This implies a Q410 revenue range of $29.5MM-$34.5MM that affirms our $32.7MM estimate.

- Tesla sold 151 Roadsters in the quarter, which was more than our estimate of 130. In addition, Roadster backlog increased sequentially. Leasing drove 20% of sales, up from previous quarters.

- Development services revenue of $7.9MM was better than our estimate of $4.7MM. The strength was driven almost entirely by the delivery of batteries for Daimler's A-Class prototypes.

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.)

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	Actual										Estimated										Model S Begins	
TESLA	FY 2007	FY 2008	Q1 2009 MAR	Q2 2009 JUN	Q3 2009 SEP	Q4 2009 DEC	FY 2009	Q1 2010 MAR	Q2 2010 JUN	Q3 2010 SEP	Q4 2010E DEC	FY 2010E	Q1 2011E 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
Income Statement																						
YOY		20095%					659%	-0.4%	5.4%	-31.4%	75.8%	-15%	50.6%	23.9%	20.0%	-5.4%	18%	-11.4%	-25.4%	-31.3%	-26.0%	-30%
QOQ				29.0%	69.0%	-59.2%		12.0%	36.5%	10.0%	4.6%			12.3%	6.5%	-17.5%			-5.5%	-1.9%	-11.2%	
Auto Sales	73	14,742	20,886	26,945	45,527	18,585	111,943	20,585	23,971	23,350	27,154	95,060	25,759	29,555	31,788	25,160	112,262	21,973	20,374	19,821	16,882	79,050
Development services sales	-	-	-				-	227	4,434	7,891	5,524	18,076	5,579	5,635	5,691	5,748	22,653	5,805	5,864	5,922	5,981	23,573
Total Revenue	73	14,742	20,886	26,945	45,527	18,585	111,943	20,812	28,405	31,241	32,678	113,136	31,338	35,190	37,479	30,908	134,915	27,778	26,238	25,743	22,863	102,622
Cost of Auto sales	9	15,883	22,932	24,844	37,828	16,804	102,408	16,858	20,266	19,457	23,081	79,662	23,183	26,599	27,020	22,644	99,447	17,578	16,299	30,859	28,508	93,245
Cost of development svs	-	-	-	-	-	-	-	102	1,878	2,488	2,209	6,677	2,511	2,536	2,561	2,587	10,194	2,612	2,639	2,665	2,692	10,608
Total COGS	9	15,883	22,932	24,844	37,828	16,804	102,408	16,960	22,144	21,945	25,291	86,340	25,693	29,135	29,581	25,231	109,641	20,191	18,938	33,524	31,200	103,852
Gross profit (loss)	64	(1,141)	(2,046)	2,101	7,699	1,781	9,535	3,852	6,261	9,296	7,387	26,796	5,644	6,055	7,898	5,677	25,275	7,588	7,300	(7,781)	(8,336)	(1,230)
GM	88%	-8%	-10%	8%	17%	10%	9%	19%	22%	30%	23%	24%	18%	17%	21%	18%	19%	27%	28%	-30%	-36%	-1%
R&D	62,753	53,714	7,941	1,941	1,257	8,143	19,282	13,265	15,416	26,698	26,142	81,521	18,803	21,114	22,488	18,545	80,949	20,000	18,891	18,535	16,461	73,888
SG&A	17,244	23,649	6,607	8,247	10,733	16,563	42,150	16,585	22,207	20,432	22,875	82,099	25,070	28,152	29,984	24,727	107,932	26,945	25,451	24,971	22,177	99,543
Total OpEx	79,997	77,363	14,548	10,188	11,990	24,706	61,432	29,850	37,623	47,130	49,017	163,620	43,873	49,265	52,471	43,272	188,881	46,945	44,342	43,506	38,639	173,431
Op profit (loss)	(79,933)	(78,504)	(16,594)	(8,087)	(4,291)	(22,925)	(51,897)	(25,998)	(31,362)	(37,834)	(41,630)	(136,824)	(38,229)	(43,211)	(44,573)	(37,594)	(163,607)	(39,358)	(37,042)	(51,287)	(46,975)	(174,662)
OM	-109497%	-533%	-79%	-30%	-9%	-123%	-46%	-125%	-110%	-121%	-127%	-121%	-122%	-123%	-119%	-122%	-121%	-142%	-141%	-199%	-205%	-170%
Interest income	1,749	529	16	29	52	62	159	48	47	100	484	679	169	75	0	0	243	0	0	0	0	-
Interest expense	-	(3,747)	(1,402)	(1,086)	(18)	(25)	(2,531)	(230)	(464)	(298)	(298)	(1,290)	(345)	(345)	(345)	(345)	(1,379)	(345)	(345)	(345)	(345)	(1,379)
Other income (expense)	137	(963)	1,972	(1,715)	(577)	(1,125)	(1,445)	(3,221)	(6,729)	3,180	-	(6,770)	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax	(78,047)	(82,685)	(16,008)	(10,859)	(4,834)	(24,013)	(55,714)	(29,401)	(38,508)	(34,852)	(41,443)	(144,204)	(38,404)	(43,481)	(44,918)	(37,939)	(164,742)	(39,702)	(37,387)	(51,632)	(47,320)	(176,040)
Tax	110	97	8	8	(219)	229	26	118	9	83	99	309	87	98	101	85	371	89	84	116	107	397
Net Income (Loss)	(78,157)	(82,782)	(16,016)	(10,867)	(4,615)	(24,242)	(55,740)	(29,519)	(38,517)	(34,935)	(41,542)	(144,513)	(38,491)	(43,579)	(45,019)	(38,024)	(165,113)	(39,792)	(37,471)	(51,748)	(47,426)	(176,437)
Diluted (pro-forma)				71,828			77,694	77,974	91,208	92,271	97,800	89,813	97,898	97,996	98,094	98,192	98,045	98,290	98,388	98,487	98,585	98,438
QoQ Growth									0.5%	0.5%	0.5%		0.10%	0.10%	0.1%	0.1%		0.1%	0.10%	0.1%	0.1%	
EPS (calculated)				**(0.15)**			**(0.72)**	**(0.38)**	**(0.42)**	**(0.38)**	**(0.42)**	**(1.61)**	**(0.39)**	**(0.44)**	**(0.46)**	**(0.39)**	**(1.68)**	**(0.40)**	**(0.38)**	**(0.53)**	**(0.48)**	**(1.79)**

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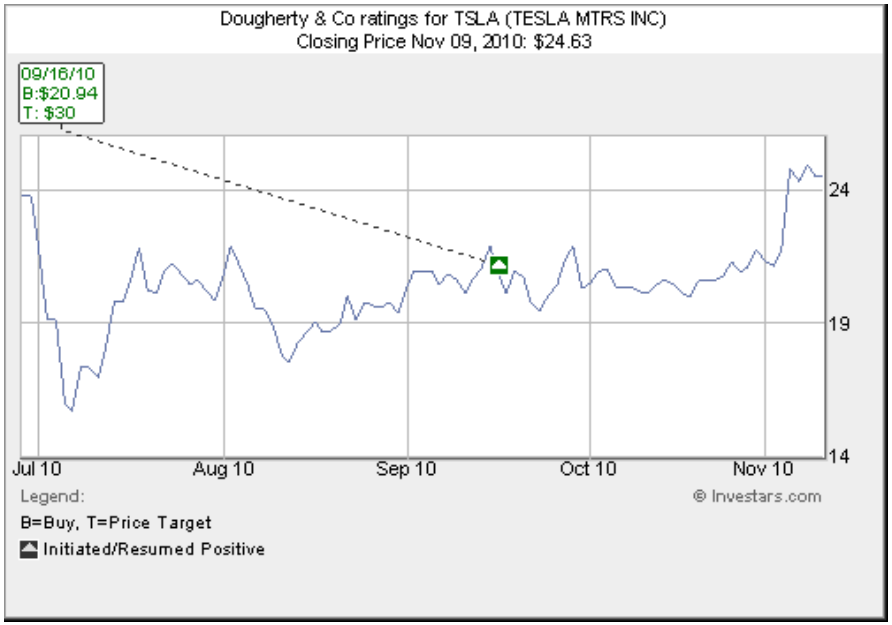

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Tesla Motors

Model S On-Track; Panasonic Tie-Up Further Validates TSLA Technology

Overweight

TSLA, TSLA US
Price: $24.63

▲ **Price Target: $30.00**
Previous: $25.00

Automobile Manufacture

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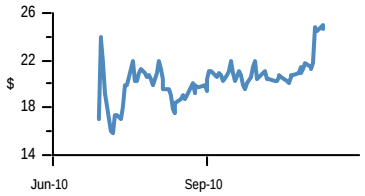
Summary: Tesla's Q3 financials were largely uneventful, but the combination of multiple qualitative developments and comments serve to 1) support the view that the Model S launch is progressing in a timely fashion and 2) that TSLA does have a unique technology that is being increasingly recognized by others (most recently, Panasonic). We leave future period estimates largely unchanged, and establish a Dec 2011 price target of $30 using DCF (prior $25 target was a Dec 2010 target). While positive earnings are still a couple of years away, we are bullish on TSLA as we believe it is at the vanguard of improving battery costs/durability which should support the creation of a well-received Tesla-badged product line up in this decade but also what seems like an increasingly viable powertrain supply revenue stream. Reiterate Overweight.

- **3Q:10 Details:** Roadster sales increased +7% y/y to 151 (vs. 141 in 2Q:10) in 3Q:10 with half of the deliveries made outside the US, mainly Europe. Revenues, however, were lower despite sequentially flat ASP due to higher lease mix in the US and one-time catch-up in options. Company stated that balance of the leasing revenues will be recognized in 4Q. Gross margins improved to 30% (vs. 22% in 2Q:10) driven by higher Development sales (+78% q/q) during the quarter. Automotive gross margin, net of Warranty costs, was 16.7% in the quarter (vs. 15.5% in 2Q), while margins at Development business were 68.5% in 3Q:10 (vs. 57.6% in 2Q:10). Further, TSLA reported that Model S reservation increased to 3K units at 3Q-end (vs. 2.8K at the end of 2Q).

Price Performance



	YTD	1m	3m	12m
Abs	44.9%	21.7%	25.7%	44.9%

Tesla Motors, Inc. (TSLA;TSLA US)

	2010E	2011E	2012E	2013E	2014E	2015E
EPS Reported ($)						
Q1 (Mar)						
Q2 (Jun)						
Q3 (Sep)						
Q4 (Dec)						
FY	(1.38)	(1.88)	(1.46)	1.51	1.07	3.12

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

Company Data	
Price ($)	24.63
Date Of Price	09 Nov 10
52-week Range ($)	30.42 - 14.98
Mkt Cap ($ mn)	
Fiscal Year End	Dec
Shares O/S (mn)	
Price Target ($)	30.00
Price Target End Date	31 Dec 11

See page 7 for analyst certification and important disclosures.

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- **Panasonic's $30MM Investment in Tesla:** The recent $30MM investment by Panasonic in TSLA equity offers yet another (in addition Daimler's and Toyota's) piece of a strong TSLA technology validation in our view. Panasonic is the world's leading supplier of small format lithium battery cells, and Panasonic (starting with its Sanyo subsidiary) has had deep commercial links with Tesla for six years. It is interesting to note that despite the investment, TSLA is not required to sole source batteries from Panasonic (the Model S batteries will be dual sourced, and we suspect TSLA is searching for another non-Japanese supplier, partly to limit Yen exposure). The CEO described the Panasonic investment as an endorsement of TSLA's technology and a sign of "friendship" between the two companies. Practically speaking, Panasonic was already TSLA's preferred battery vendor, and Panasonic batteries will be the primary source for batteries to the Model S, and the packs for the EV versions of the Daimler smart, Mercedes A-Class, and the Toyota RAV4. More strategically, having Panasonic directly invested in TSLA's future provides a greater level of confidence that TSLA will be able to further reduce battery cost per kwh, particularly relevant for the third-gen car to follow the Model S.

- **TSLA could announce partnership with one more global automaker:** Management mentioned that TLSA is in discussions with several automotive companies for potential commercial relationships, but stayed away from specifics except to say that at least one additional relationship (in addition to Daimler and Toyota) was likely. We think this is a positive, as it would indicate that up to three traditional carmakers are seeing the virtues of Tesla's low cost battery technology.

- **Model-S vehicle and launch updates:** A few incremental points discussed in the call regarding launch of Model-S in mid-2012 are listed below: **(1)** Mgmt. seemed confident on the mid-2012 launch timing and 20K volume in 2013 of Model-S vehicles and suggested that final systems integration (particularly related to crash testing) was one of the major areas of risks to launch timing. **(2)** Nearly 100% of supplier sourcing decisions are expected to be done by end of 4Q:10. **(3)** Management suggested that TSLA is making good progress towards an 80kW fast charger (the default chargers with Model S will be a 10kW or 20kW charger) which will require *just* 45 minutes of charge Model-S (70kWh battery pack to be charged up-to 85%). Company is expecting to make these chargers available with the launch of Model-S and is now planning to install these chargers in public roadways. **(4)** TSLA signaled it made some modest design tweaks to the Model S in recent months (eg, a Panoramic roof option, and the use of NVIDIA graphics chips for the IP and center console) which broadly reinforces the view that this EV-powertrain focused company is striving for equally high/impressive vehicle engineering attributes for the Model S.

- **Toyota RAV4 Details:** Toyota earlier announced to plan to jointly develop a EV power-train for its future RAV4. TSLA mentioned that this contract will generate $60MM of development revenues and that it will be realized over 6 quarters after the commencement of the contract (which we suspect is sometime early next year). TSLA will also derive an additional $9MM of revenues to develop a prototype RAV4 for Toyota. Mgmt. suggested that there are a lot of similarities between Model S and RAV4 power-trains but with a different systems integration challenge. Core IP in RAV4 development will be owned by TSLA and system integration related IP will generally be owned by Toyota. Company also mentioned that RAV4 will have a 40kWh battery pack (smaller than Model-S' 70kWh), similar to Mercedes A-class. It was suggested that RAV4 may initially be manufactured in NUMMI plant and may eventually be moved to Toyota plant depending on the volumes.

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Table 1: DCF Based Valuation Yields Dec-2011 Price Target of $30

	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	112	109	147	628	1,846	2,173	3,672	4,971	6,590	7,209	8,346	8,420
EBITDA	-46	-135	-182	-119	196	149	472	610	686	619	749	748
Less: D&A	-5	-10	-16	-35	-43	-45	-45	-50	-50	-50	-50	-50
EBIT	-51	-145	-198	-154	153	104	427	560	636	569	699	698
Interest Expense	-2	-3	-10	-14	-13	-10	-9	-7	-6	0	0	0
Taxes	0	0	0	0	0	0	-100	-133	-151	-137	-168	-167
Net Income	**-54**	**-148**	**-208**	**-168**	**140**	**93**	**318**	**420**	**479**	**433**	**531**	**530**
Add: D&A	+5	+10	+16	+35	+43	+45	+45	+50	+50	+50	+50	+50
Add: Stock based compensation		+17	+14	+16	+19	+20	+22	+24	+26	+28	+30	+30
Change in Working Capital	0	36	17	25	87	35	101	96	117	59	91	27
Capital Expenditure	-68	-100	-136	-83	-136	-180	-360	-100	-138	-158	-195	-213
Free Cash Flow to Equity	**-117**	**-185**	**-297**	**-175**	**153**	**13**	**126**	**490**	**534**	**412**	**507**	**425**
PV of FCF to Equity		-185	-266	-141	110	8	73	255	250	173	191	144
Terminal Value												5,919
Implied Terminal Growth rate												14x
PV of Terminal Value												1,999

DCF Assumptions		Comments
(1) Risk-free rate*	2.656%	
(2) Beta	1.0	
(3) Risk Premium**	8.5%	
(1)+ (2)*(3) = Cost of Equity	11.5%	
LT Growth Rate	4.0%	

* US 10-yr Treasury yield

** Source: Bloomberg's US Country Risk Premium

Equity Value Calculation	
PV of FCFs	1,064
PV of Terminal Value	1,999
Equity Value (fully distributed)	**3,062**
Implied Stock Price	**30**

Source: Company reports and J.P. Morgan estimates.

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Valuation

We get to our $30 Dec-11 price target using both a DCF (11.7% discount rate, 4% terminal growth, exclusive of 2011 burn) and price/sales (1.4x which is the 1.5x average 2012 p/sales of A123, Ener1, BYD discounted one year as we apply it to Tesla's 2013 sales). Our $30 price target implies a somewhat lofty 26.1x P/E on tax rate adjusted 2013 EPS, although implied P/E is 16.5x 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 environment regulations and an increasingly green global consumer. Maintain Overweight.

Risk to 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: Summary of Financials

Income Statement - Annual	FY09A	FY10E	FY11E	FY12E
Revenues	112	109	147	628
Cost of goods sold	102	84	115	520
Gross profit	10	25	32	108
SG&A	-	-	-	-
D&A	-	-	-	-
Operating income	(51)	(145)	(198)	(154)
EBITDA	(46)	(135)	(182)	(119)
Net interest income / (expense)	-	-	-	-
Other income / (expense)	-	-	-	-
Pretax income	-	-	-	-
Income taxes	-	-	-	-
Net income - GAAP	-	-	-	-
Net income - recurring	-	(141)	(194)	(152)
Diluted shares outstanding	-	102	103	104
EPS - GAAP	-	(1.38)	(1.88)	(1.46)
EPS - recurring	-	(1.38)	(1.88)	(1.46)

Income Statement - Quarterly	1Q10A	2Q10A	3Q10A	4Q10E
Revenues	-	-	-	-
Cost of goods sold	-	-	-	-
Gross profit	-	-	-	-
SG&A	-	-	-	-
D&A	-	-	-	-
Operating income	-	-	-	-
EBITDA	-	-	-	-
Net interest income / (expense)	-	-	-	-
Other income / (expense)	-	-	-	-
Pretax income	-	-	-	-
Income taxes	-	-	-	-
Net income - GAAP	-	-	-	-
Net income - recurring	-	-	-	-
Diluted shares outstanding	-	-	-	-
EPS - GAAP	-	-	-	-
EPS - recurring	-	-	-	-

Balance Sheet and Cash Flow Data	FY09A	FY10E	FY11E	FY12E
Cash and cash equivalents	-	-	-	-
Accounts receivable	-	-	-	-
Inventories	-	-	-	-
Other current assets	-	-	-	-
Current assets	-	-	-	-
PP&E	-	-	-	-
Total assets	-	-	-	-
Total debt	-	-	-	-
Total liabilities	-	-	-	-
Shareholders' equity	-	-	-	-
Net income (including charges)	-	-	-	-
D&A	-	-	-	-
Change in working capital	-	-	-	-
Other	-	-	-	-
Cash flow from operations	-	-	-	-
Capex	-	-	-	-
Free cash flow	-	-	-	-
Cash flow from investing activities	-	-	-	-
Cash flow from financing activities	-	-	-	-
Dividends	-	-	-	-

Ratio Analysis	FY09A	FY10E	FY11E	FY12E
Sales growth	-	-	-	-
EBITDA growth	-	-	-	-
EPS growth	-	-	-	-
Gross margin	-	-	-	-
EBIT margin	-	-	-	-
EBITDA margin	-	-	-	-
Tax rate	-	-	-	-
Net margin	-	-	-	-
Net debt / EBITDA	-	-	-	-
Net debt / capital (book)	-	-	-	-
Return on assets (ROA)	-	-	-	-
Return on equity (ROE)	-	-	-	-
Return on invested capital (ROIC)	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data). Fiscal year ends Dec

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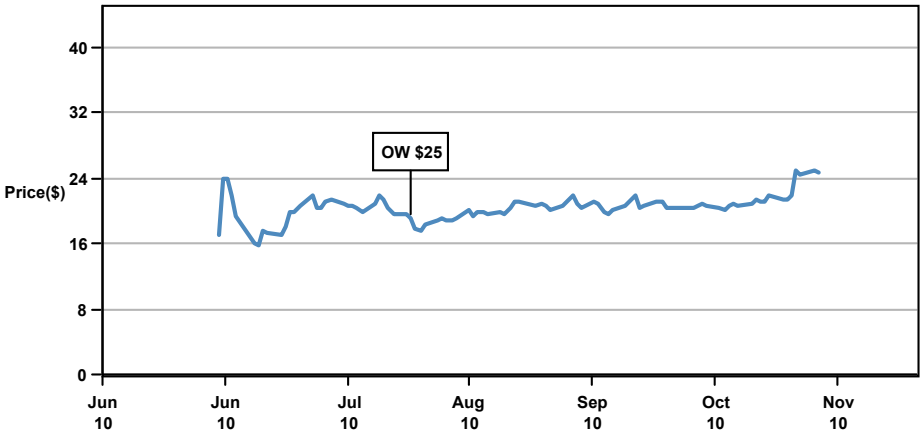
Tesla Motors (TSLA) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
09-Aug-10	OW	19.59	25.00

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.
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“Other Disclosures” last revised September 1, 2010.

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North America United States
Consumer Autos & Auto Parts

Deutsche Bank

10 November 2010

Tesla Motors

Reuters: **TSLA.OQ** Bloomberg: **TSLA UN** Exchange: **NMS** Ticker: **TSLA**

Remains On Track

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Tesla reports higher-than-consensus results
Tesla reported EPS of -$0.37 (ex items) vs cons of -$0.43. Rev was up 10% sequentially and product gross margin rose to 19.1% (vs 15.6% in 2Q10). After an est'd ~$45 MM cash burn in the quarter, Tesla still has $242 MM cash and $408 MM avail under its DOE loan facility. We believe this should be sufficient to bridge the company to est'd FCF-positive in late 2012, particularly given recent positives ($30MM investment from Panasonic (in Q4) and $60MM development contract with Toyota. We maintain Hold on valuation.

Model S development on-track…
Although Tesla's 3Q financials were not particularly meaningful in terms of assessing the company's long term earnings potential, we were nonetheless encouraged by continued progress in two important areas: 1) Progress towards comm'l production of the (20,000 unit/yr) Model S, expected to launch in mid-2012 is on-track - Tesla completed the purchase of its production facility in Fremont, Ca; Model S Powertrain prototypes are being road tested; Alpha build prototypes of the Model S vehicle (80-90% of a production vehicle, but built as a low volume prototype) will be on the road at the end of this quarter; nearly 100% of supplier sourcing will be complete by the end of the quarter; 15 dealerships are now open.

…and external validations continue
2) Tesla continues to gain external validation of its technology, through supply agreements with Daimler (Tesla is now delivering production parts for the A-Class and Smart fortwo) and Toyota (Tesla formalized a $60 MM contract for development of an entire electric powertrain and battery pack for an electric version of the RAV4), and a new $30 MM investment from Panasonic, a world leader in lithium ion battery technology. In addition, we have noted that these development contracts are reasonably profitable in their own right (68% margin in Q3; likely 40%-45% over time). In other words, the new $60 MM Toyota development contract likely reduces the cash burn that we had been anticipating through Model S launch by $20-$25 MM.

Maintain $17 target price based on DCF; our long-term thesis is unchanged
We continue to view this company as a leader in the burgeoning Vehicle Electrification space. Our DCF assumes a 7% terminal growth rate, a terminal EBIT margin of 11.7% and a weighted average cost of capital of 13.5%. Key downside risks include execution on the scale up from niche to volume manufacturing and risks associated with demand and average transaction price assumptions. Upside could be derived from higher-than-expected Model S volumes or potential for the the company's powertrain supply business (i.e. to third party automakers) become a significant long term earnings generator.

Forecasts and ratios

Year End Dec 31	2009A	2010E	2011E
FY EPS (USD)	–	**-2.67**	-2.08
OLD FY EPS (USD)	–	**-3.08**	-2.15

Source: Deutsche Bank estimates, company data

[1] Includes the impact of FAS123R requiring the expensing of stock options.

Results

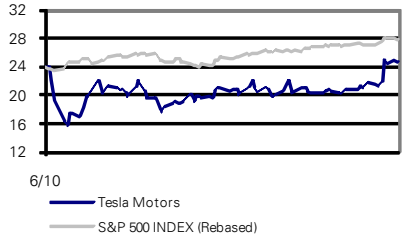
Hold

Price at 9 Nov 2010 (USD)	**24.63**
Price target	**17.00**
52-week range	**24.98 - 15.80**

Key changes

EPS (USD)	-3.08 to -2.67	↑	**-13.2%**
Revenue (USDm)	110.5 to 110.7	↑	**0.2%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*20.6*	*25.7*	–
S&P 500 INDEX	*4.1*	*7.6*	*11.0*

Stock & option liquidity data

Market Cap (USDm)	1,240.3
Shares outstanding (m)	50.4
Free float (%)	100
Volume (9 Nov 2010)	956,200
Option volume (und. shrs., 1M avg.)	–

Deutsche Bank Securities Inc.

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MICA(P) 007/05/2010

Model updated:10 November 2010

Running the numbers

North America

United States

Autos & Auto Parts

Tesla Motors

Reuters: TSLA.OQ Bloomberg: TSLA UN

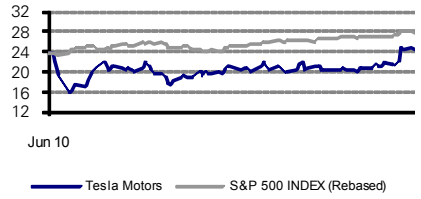
Hold

Price (9 Nov 10)	USD 24.63
Target price	USD 17.00
52-week Range	USD 15.80 - 24.98
Market Cap (m)	USDm 1,240 EURm 892

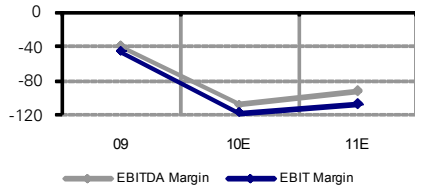
Company Profile

Tesla Motors designs, manufactures, and sells electric vehicles and EV powertrain components. Founded in 2003, the company introduced the first widely available highway-capable electrick vehicle in 2008. They plan to produce a higher-volume product (Model S) in 2012.

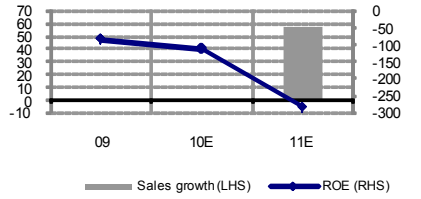
Price Performance



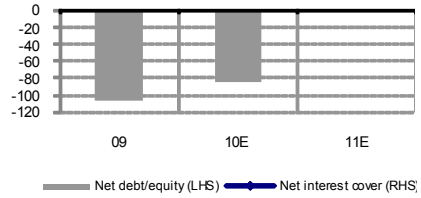
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2009	2010E	2011E
Financial Summary			
DB EPS (USD)	na	-2.67	-2.08
Reported EPS (USD)	-1.03	-2.49	-1.93
DPS (USD)	0.00	0.00	0.00
BVPS (USD)	1.30	3.36	-0.31
Valuation Metrics			
Price/Sales (x)	nm	11.2	13.5
P/E (DB) (x)	na	nm	nm
P/E (Reported) (x)	nm	nm	nm
P/BV (x)	0.0	7.3	nm
FCF yield (%)	na	nm	nm
Dividend yield (%)	na	0.0	0.0
EV/Sales	nm	9.9	14.5
EV/EBITDA	nm	nm	nm
EV/EBIT	nm	nm	nm
Income Statement (USDm)			
Sales	112	111	174
EBITDA	-45	-120	-162
EBIT	-52	-131	-190
Pre-tax profit	-56	-134	-198
Net income	**-56**	**-134**	**-198**
Cash Flow (USDm)			
Cash flow from operations	**-81**	**-104**	**-181**
Net Capex	-12	-129	-129
Free cash flow	**-93**	**-233**	**-309**
Equity raised/(bought back)	158	269	0
Dividends paid	0	0	0
Net inc/(dec) in borrowings	0	0	0
Other investing/financing cash flows	-5	104	194
Net cash flow	**60**	**141**	**-116**
Change in working capital	*-38*	*24*	*-10*
Balance Sheet (USDm)			
Cash and cash equivalents	70	259	143
Property, plant & equipment	24	152	258
Goodwill	0	0	0
Other assets	37	70	86
Total assets	**130**	**481**	**487**
Debt	0	117	316
Other liabilities	65	195	200
Total liabilities	**65**	**312**	**516**
Total shareholders' equity	**66**	**169**	**-29**
Net debt	*-70*	*-142*	*173*
Key Company Metrics			
Sales growth (%)	nm	-1.1	57.5
DB EPS growth (%)	na	na	22.0
Payout ratio (%)	nm	nm	nm
EBITDA Margin (%)	-40.2	-108.5	-93.0
EBIT Margin (%)	-46.4	-118.3	-108.9
ROE (%)	-84.8	-114.5	-283.6
Net debt/equity (%)	-106.0	-84.2	nm
Net interest cover (x)	nm	nm	nm
DuPont Analysis			
EBIT margin (%)	-46.4	-118.3	-108.9
x Asset turnover (x)	0.9	0.4	0.4
x Financial cost ratio (x)	1.0	1.0	1.0
x Tax and other effects (x)	1.0	1.0	1.0
= ROA (post tax) (%)	**-42.7**	**-44.0**	**-41.0**
x Financial leverage (x)	2.0	2.6	6.9
= ROE (%)	**-84.8**	**-114.5**	**-283.6**
annual growth (%)	*na*	*-34.9*	*-147.8*
x NTA/share (avg) (x)	1.2	2.2	0.7
= Reported EPS	**-1.03**	**-2.49**	**-1.93**
annual growth (%)	*na*	*-141.1*	*22.3*

Source: Company data, Deutsche Bank estimates

Although Tesla's 3Q financials were not particularly meaningful in terms of assessing the company's long term earnings potential (Tesla's Q3 results were primarily driven by 151 Roadster units, and approximately $8 MM of Product Development Services for Daimler and Toyota), we were nonetheless encouraged by continued progress in two important areas:

- Tesla continues to make progress towards commercial production of the (20,000 unit/yr) Model S, expected to launch in mid-2012—Tesla completed the purchase of its production facility in Fremont, Ca; Model S Powertrain prototypes are being road tested; Alpha build prototypes of the Model S vehicle (80-90% of a production vehicle, but built as a low volume prototype) will be on the road at the end of this quarter; the company is on track to produce Beta Prototypes (95-99% of production design, 50% built with production tooling) by the middle of next year; nearly 100% of supplier sourcing will be complete by the end of the quarter; 15 dealerships are now open.
- Tesla continues to gain external validation of its technology, through supply agreements with Daimler (Tesla is now delivering production parts for the A-Class and Smart fortwo) and Toyota (Tesla formalized a $60 MM contract for development of an entire electric powertrain and battery pack for an electric version of the RAV4), and a new $30 MM investment from Panasonic, a world leader in lithium ion battery technology. In addition, we have noted that these development contracts are reasonably profitable in their own right (68% margin in Q3; likely 40%-45% over time). In other words, the new $60 MM Toyota development contract likely reduces the cash burn that we had been anticipating through Model S launch by $20-$25 MM.

In terms of quarterly financial performance, Tesla's revenue rose by 10% sequentially but declined yoy (Roadster production was strong in 3Q09 while the company worked down a large backlog of orders). Gross profit rose to $9.3 MM from $6.3 MM in Q2 and $7.7 MM in 3Q09. Operating expenses rose to $47 MM, which was slightly lower than the $52 MM we were expecting due to timing of Supplier R&D reimbursements. Operating loss was $38 MM vs. our $46 MM estimate. We estimate that cash burn was ~$45 MM in the quarter, and that Tesla still has $242 MM cash and $408 MM available under its DOE loan facility, which we believe should be sufficient to bridge the company to the launch of the Model S.

Our long term investment thesis on Tesla is unchanged. We continue to view this company as a leader in the burgeoning Vehicle Electrification space. Our DCF valuation implies a $17 target for TSLA's shares, with potential upside should the company' powertrain supply business (i.e. to third party automakers) become a significant long term earnings generator.

Valuation / Risks

Our price target is based on a DCF analysis. Valuing Tesla presents a unique set of challenges, given the fact that company revenue won't accelerate until 2012 and beyond. We believe that DCF is the most appropriate valuation method in this case. We assume 7% terminal growth beginning in 2020 (given our projection that Tesla will still be building out its vehicle portfolio and that only 9.5% of global sales will be vehicles able to be fueled from the grid in 2020, we believe that a 7% growth rate is reasonable). We assume a terminal EBIT margin of 11.7% and a weighted average cost of capital of 13.5% (we calculate WACC by using 15% cost of equity and 3.3% cost of DOE debt and weight this over the expected capital structure from 2010 - 2014).

Key downside risks include execution on the scale up from niche to volume manufacturing, risks associated with demand and average transaction price assumptions, risks associated with costs projections, and unknowns associated with the future competitive landscape. In addition, we anticipate limited near term revenue/earnings to support the stock and, consequently, we anticipate that Tesla's shares can exhibit high levels of near term volatility. Upside could be derived from higher-than-expected Model S volumes or Powertrain sales contract wins. Given volumes of competitor vehicles in the 50k - 200k range, there is the potential for Tesla Model S volume to be significantly higher-than-expected. Additional customers / contracts for Powertrain sales could add significantly to our revenue / profitability targets (i.e. if current Toyota / Daimler development contracts turn into commercial production contracts).

Figure 1: TSLA Earnings Model ($000's)

	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	F2009	F2010E	F2011E	F2012E	F2013E	F2014
Auto & PWT Revenue	20.6	24.0	24.0	19.6	19.7	25.1	40.8	38.8	94.8	88.2	124.4	688.1	1,953.0	2,169.8
Development Services	0.2	4.4	7.9	10.0	12.5	12.5	12.5	12.5	17.2	22.6	50.0	26.3	15.0	15.0
Total Revenue	**20.8**	**28.4**	**31.9**	**29.6**	**32.2**	**37.6**	**53.3**	**51.3**	**111.9**	**110.7**	**174.4**	**714.4**	**1,968.0**	**2,184.8**
Auto COGS	16.8	20.2	19.4											
Development Service COGS	0.1	1.9	2.5											
COGS	16.9	22.1	21.9	22.2	23.0	26.8	39.2	38.0	102.4	83.1	127.0	596.2	1,528.8	1,670.4
Gross Profit	3.9	6.3	10.0	7.4	9.1	10.9	14.1	13.3	9.5	27.6	47.3	118.1	439.2	514.4
Gross Margin	*18.7%*	*22.2%*	*31.4%*	*25.1%*	*28.4%*	*28.9%*	*26.4%*	*25.9%*		*24.9%*	*27.1%*	*16.5%*	*22.3%*	*23.5%*
Product Gross Margin	*18.3%*	*15.6%*	*19.1%*											
R&D	13.0	14.9	25.4	37.7	37.0	37.0	37.0	37.0	19.3	91.0	148.0	101.0	78.0	87.5
SG&A	13.5	16.7	17.9	19.5	20.7	21.8	23.0	23.8	42.2	67.6	89.3	110.4	135.4	156.5
Operating Profit	**(22.6)**	**(25.2)**	**(33.4)**	**(49.8)**	**(48.5)**	**(48.0)**	**(46.0)**	**(47.5)**	**(51.9)**	**(131.0)**	**(190.0)**	**(93.2)**	**225.9**	**270.4**
Operating Margin	*-108.6%*	*-88.9%*	*-104.8%*	*-167.9%*	*-150.8%*	*-127.5%*	*-86.2%*	*-92.6%*		*-118.3%*	*-108.9%*	*-13.1%*	*11.5%*	*12.4%*
		20.7%										*17.9%*	*25.5%*	*20.6%*
Interest Inc / (Exp)	(0.2)	(0.4)	(0.2)	(1.0)	(1.4)	(1.8)	(2.2)	(2.6)	(2.4)	(1.8)	(8.0)	(13.2)	(14.3)	(13.7)
Other gain / (loss)	(0.9)	(0.4)	-						(1.4)	(1.3)	-	-	-	-
Pretax Income	**(23.7)**	**(26.0)**	**(33.6)**	**(50.8)**	**(49.9)**	**(49.8)**	**(48.2)**	**(50.1)**	**(55.7)**	**(134.1)**	**(198.0)**	**(106.5)**	**211.5**	**256.8**
Taxes	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)	(0.3)	(0.3)	(0.3)	(0.3)	(4.0)
Tax Rate					0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	**(23.8)**	**(26.1)**	**(33.7)**	**(50.8)**	**(50.0)**	**(49.9)**	**(48.3)**	**(50.2)**	**(55.7)**	**(134.4)**	**(198.3)**	**(106.8)**	**211.2**	**252.8**
EPS	**(3.26)**	**(3.41)**	**(0.37)**	**(0.54)**	**(0.53)**	**(0.52)**	**(0.51)**	**(0.52)**		**(2.67)**	**(2.08)**	**(1.11)**	**2.02**	**2.39**
Basic Shares	7.3	7.6	92.3	94.2	94.9	95.2	95.5	95.7	50.4	50.4	95.3	96.4	97.4	98.4
Diluted Shares	7.3	7.6	99.5	101.4	102.1	102.4	102.7	102.9	54.0	54.0	102.5	103.6	104.6	105.6
EBITDA	**(20.5)**	**(22.8)**	**(30.4)**	**(46.5)**	**(43.1)**	**(41.6)**	**(38.6)**	**(38.9)**	**(45.0)**	**(120.1)**	**(162.2)**	**(50.2)**	**275.6**	**321.1**
EBITDA Margin											*-93%*	*-7%*	*14%*	*15%*
R&D as % of Revenue	62.4%	52.3%	79.9%	127.2%	115.0%	98.3%	69.4%	72.2%	17%	82%	85%	14.1%	4.0%	4.0%
SG&A as % of Revenue	65.0%	58.7%	56.3%	65.8%	64.2%	58.0%	43.2%	46.4%	38%	61%	51%	15.5%	6.9%	7.2%

Source: Company Filings, Deutsche Bank

Figure 2: TSLA DCF Analysis ($MM)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	110.7	174.4	714.4	1,968.0	2,184.8	2,550.1	3,090.2	3,339.9	3,797.5	4,230.6	4,541.1
Revenue Growth		57.5%	309.6%	175.5%	11.0%	16.7%	21.2%	8.1%	13.7%	11.4%	7.3%
Operating Expenses	241.8	364.4	807.6	1,742.1	1,914.4	2,232.0	2,647.0	2,868.8	3,435.4	3,772.5	4,018.2
Operating Income	($131)	($190)	($93)	$226	$270	$318	$443	$471	$362	$458	$523
Operating Margin	-118.3%	-108.9%	-13.1%	11.5%	12.4%	12.5%	14.3%	14.1%	9.5%	10.8%	11.5%
Depreciation and Amortizatic	$11	$28	$43	$50	$51	$55	$67	$72	$82	$92	$98
EBITDA	($120)	($162)	($50)	$276	$321	$373	$510	$544	$444	$550	$621
EBITDA Margin	-108.5%	-93.0%	-7.0%	14.0%	14.7%	14.6%	16.5%	16.3%	11.7%	13.0%	13.7%
Taxes	$0	$0	$0	$0	($4)	($91)	($105)	($104)	($80)	($101)	($115)
Change \Working Capital		($10)	($9)	($2)	$78	($10)	($18)	($10)	($105)	($25)	($27)
Capex to Sales %	116.1%	73.8%	14.8%	3.0%	3.5%	5.1%	4.4%	3.9%	3.9%	3.9%	3.9%
CAPEX	($129)	($129)	($106)	($59)	($77)	($131)	($137)	($130)	($148)	($165)	($177)
Incremental Investment	($129)	($139)	($115)	($61)	$1	($141)	($155)	($141)	($253)	($190)	($204)
Free Cash Flow	($248)	($301)	($165)	$215	$318	$141	$250	$299	$112	$259	$302
Terminal Value											$4,644
Present Value		($233)	($113)	$129	$169	$66	$103	$109	$36	$73	$1,228
Sum of PVs	**$1,567**										

Enterprise value	**$1,567**
Cash (post-offering)	($242)
Total Debt	$46
Shareholder Value	$1,762
Shares Outstanding	102.5
Per Share Value	$17

Source: Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Tesla Motors	TSLA.OQ	24.63 (USD) 9 Nov 10	1,2,7,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

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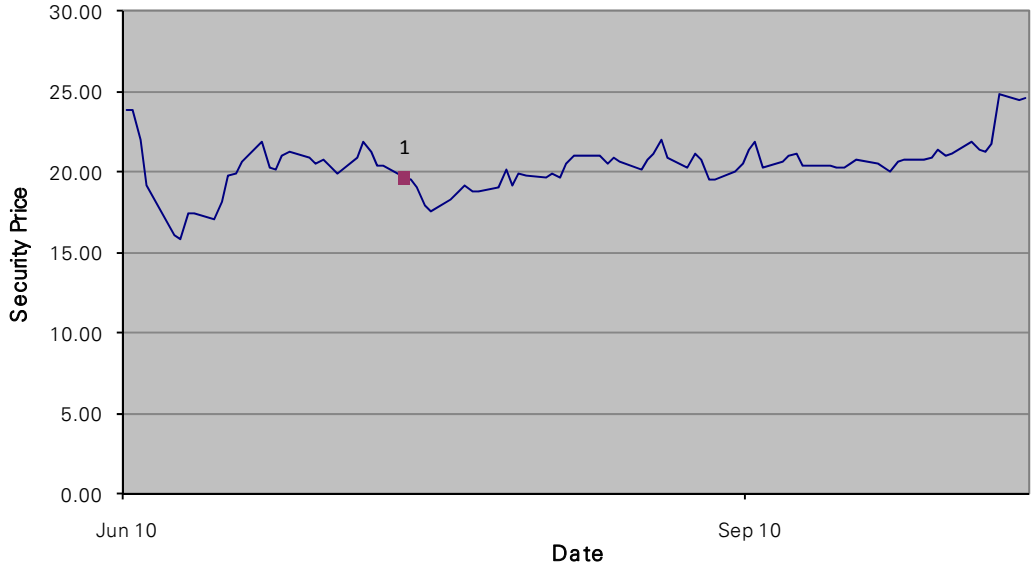
Historical recommendations and target price: Tesla Motors (TSLA.OQ)

(as of 11/9/2010)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1. 8/9/2010: Hold, Target Price Change USD17.00

Equity rating key

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

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2. Ratings definitions prior to 27 January, 2007 were:
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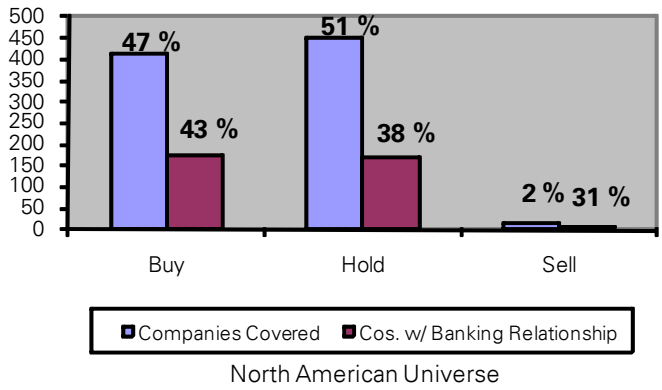
Equity rating dispersion and banking relationships



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November 10, 2010

Stock Rating
Equal-weight

Industry View
In-Line

Tesla Motors Inc.

Solid Quarter. Progress on Track.

Tesla delivered a solid quarter. Revenues and EPS were above our estimates and above consensus, but given the early stage of the company, they don't matter much. More importantly, Model S appears on track and we saw no cause for concern.

Highlights:

- ~400 new Model S reservations in the quarter bring the total to over 3,000 – still on track to pre-sell the first six months of production.
- Model S Alpha build in progress with assembly on track for YE2010 – consistent with earlier targets.
- Model S supplier sourcing on track – will be nearly 100% complete by YE2010.
- Developing custom battery chemistries with Panasonic to reduce cost and improve performance in autos.
- 151 Roadsters sold. Approx 50% in US.
- 30% of US Roadster sales on lease.

Executing well. Tesla is controlling what it can – the quality and timing of Model S deliveries – still set for mid-2012. On the call, management noted some new design features such as the panoramic roof, which they are designing in house. They are leaving ~12 months from the Alpha build at YE2010 to the final design to ensure that "they get all the nuances just right."

What's next? Management alluded to possible partnerships with other OEMs, but wants to ensure that any partnership would be a good use of Tesla's limited resources and recognizes that distractions could increase risks to the Model S timetable.
The IPO lockup expires December 27, 2010, expanding the potential free float from ~15% today to ~55%.

Key Ratios and Statistics

Reuters: TSLA.O Bloomberg: TSLA US
Clean Tech / United States of America

Shr price, close (Nov 9, 2010)	$24.63
Mkt cap, curr (mm)	$2,298
52-Week Range	$30.42-14.98

Fiscal Year ending	12/09	12/10e	12/11e	12/12e
ModelWare EPS ($)	**(7.96)**	**(3.12)**	**(2.25)**	**(1.44)**
EPS ($)**	(7.96)	(2.84)	(2.12)	(1.31)
Consensus EPS ($)§	**(1.59)**	**(2.57)**	**(1.89)**	**(1.22)**
EV/rev	3.7	19.8	16.9	4.4
Revenue, net ($mm)	112	110	148	627
Gross margin (%)	8.5	22.7	21.6	11.9
EBITDA margin (%)	(40.2)	(124.8)	(122.9)	(11.7)
Rev hist grth, y/y (%)	-	(1.5)	34.7	322.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates

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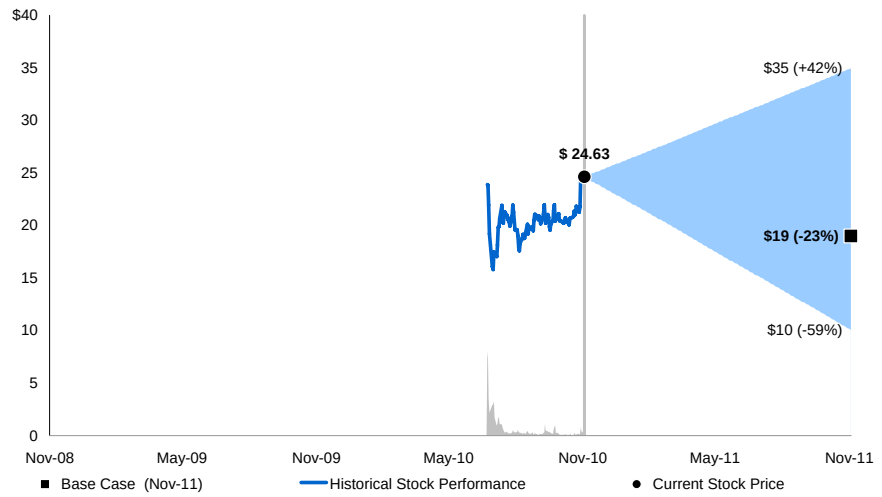
Risk-Reward Snapshot: Tesla Motors (TSLA, $24.63, Equal-weight)

Risk-Reward View: Continued Volatility Is Likely



Source: FactSet, Morgan Stanley Research estimates

Valuation Methodology: We apply multiples of 12x EV/EBITDA and 2.1x EV/sales to our 2014 bull, bear, and base case forecasts, and discount the equity value at 15%. Our comp group is 80% clean tech and EV value chain and 20% traditional auto companies.
We also use a DCF analysis with an 11.3% WACC, 15% cost of equity, and 4% terminal growth.

Bull Case $35	2014e sales = $2.6 billion 2014e EBITDA = $463 million	**The future of the auto industry.** Tesla delivers the Model S on time (2Q12) and on budget with performance that rivals gasoline-powered luxury sedans. EV adoption takes off. EBITDA margins are 15-18%. OEM partnerships add powertrain volumes.
Base Case $19	2014e sales = $1.9 billion 2014e EBITDA = $161 million	**Solid execution and EV demand.** Model S deliveries start in 3Q12 and reach 20K per year in 2014. Slower ramp and modest cost overruns result in negative EPS until 2014. EBITDA margins are 7-9%. Powertrain sales a minor contributor.
Bear Case $10	2014e sales = $461 million 2014e EBITDA = $(26 million)	**Delays, cost overruns, lower demand.** A lot can go wrong in a product launch, especially with new manufacturing. We model a slight delay and lower Model S demand of 5,000 units per year. The company would likely need to raise additional capital to scale production.

Key Assumptions for Bull, Bear, and Base Cases

		Bear	Base	Bull
Gross Margin	**2012**	9.9%	12.0%	13.8%
	2013	9.3%	15.0%	23.5%
	2014	16.5%	20.7%	24.5%
EBIT Margin	**2012**	NM	NM	NM
	2013	NM	NM	13.7%
	2014	NM	4.7%	15.3%
Model S Volumes	**2012**	2,000	5,500	7,000
	2013	5,000	15,000	20,000
	2014	5,000	20,000	26,000

Source: Morgan Stanley Research estimates

Why Equal-weight?

- The opportunity in electric vehicles is potentially enormous, but so is the challenge of getting the Model S on the road on time and on budget. At $24.63, we think the stock fairly reflects the upside and downside potential. Our $19 base case is based on discounted equity-based multiples of EV/sales and EV/EBITDA and a DCF and reflects uncertain demand for electric vehicles (EVs), increasing competition from OEMs, and execution risk.

Key Value Drivers

- **Model S pre-orders** — the best indicator of demand.
- **Additional or larger OEM partnerships** would add scale, top line growth, and offer further proof of Tesla's technology leadership.
- **EV adoption and subsidies.** Competitors' EVs will launch before the Model S. Strong sales and/or higher government support are positive.

Potential Catalysts

- Expansion of Daimler or Toyota plans or new OEM partnerships.
- Model S — final prototype on factory tools.
- Accelerating Model S reservations.

What Could Make Us Overweight

- Higher Model S pre-orders.
- Increased government subsidies.
- Lower risk of Model S delays.
- Additional and/or larger OEM partnerships.
- More attractive valuation.

…or Underweight

- Significant Model S delays.
- Management turnover in manufacturing, engineering, technology, or design.

Exhibit 1

Base Case Quarterly Assumptions

	2009A				2010E				2011E				2012E				2013E			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Volumes																				
Model S	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	3,500	3,750	3,750	3,750	3,750
Roadster	182	200	324	134	126	141	151	155	150	150	150	150	150	150	100	98	-	-	500	300
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Vehicles	**182**	**200**	**324**	**134**	**126**	**141**	**151**	**155**	**150**	**150**	**150**	**150**	**150**	**150**	**2,100**	**3,598**	**3,750**	**3,750**	**4,250**	**4,050**
Powertrains	**-**	**-**	**-**	**-**	**105**	**200**	**240**	**340**	**450**	**650**	**700**	**770**	**800**	**800**	**800**	**800**	**875**	**875**	**875**	**875**
Powertrain ASP ($)	0.0k	0.0k	0.0k	0.0k	25.9k	24.1k	21.3k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins																				
Model S	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	8.2%	8.2%	8.4%	12.2%	15.5%	17.8%
Roadster	(9.8%)	7.8%	16.9%	9.6%	17.7%	20.0%	17.0%	18.3%	17.7%	19.6%	21.5%	23.3%	23.3%	23.3%	23.2%	23.2%	0.0%	0.0%	29.8%	28.8%
Powertrain	NM	NM	NM	NM	23.7%	15.0%	18.8%	18.8%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total	NM	7.8%	16.9%	9.6%	18.5%	22.2%	30.0%	18.5%	19.8%	21.1%	22.0%	22.9%	22.9%	22.9%	10.8%	9.8%	9.5%	12.9%	17.6%	19.0%
Roadster Leasing (as % of Total Vehicles Sold)	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	18.0%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%

Source: Company data, Morgan Stanley Research estimates; E = Morgan Stanley Research estimates

Exhibit 2

Base Case Annual Assumptions

	Fiscal Year													
	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Volumes														
Model S	-	-	-	-	-	5,500	15,000	20,000	23,000	26,450	30,000	30,000	30,000	30,000
Roadster	-	-	-	294	300	249	400	400	400	400	400	400	400	400
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	25,000	31,250	39,063	48,828
Total Vehicles	**-**	**-**	**-**	**294**	**300**	**5,749**	**15,400**	**20,400**	**23,400**	**26,850**	**55,400**	**61,650**	**69,463**	**79,228**
Powertrains	-	-	-	885	2,570	3,200	3,500	3,500	4,200	5,000	5,000	5,000	5,000	5,000
Powertrain ASP ($)	NM	NM	NM	23.9k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins														
Model S		NM	NM	NM	NM	8.2%	13.5%	19.7%	20.8%	19.9%	19.5%	19.5%	19.5%	19.5%
Roadster		NM	NM	18.3%	20.6%	23.3%	27.5%	39.5%	38.0%	38.0%	31.6%	40.3%	31.6%	31.6%
Next Gen Vehicle		NM	NM	NM	NM	NM	NM	15.0%	15.0%	15.0%	16.0%	17.0%	18.0%	19.0%
Powertrain		NM	NM	18.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total														
Roadster Leasing (as % of Total Vehicles Sold)				12.6%	22.5%	22.5%	22.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Morgan Stanley Research estimates; E = Morgan Stanley Research estimates

Exhibit 3

Base Case Quarterly Income Statement

	2009A				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	31.2	29.8	31.0	37.2	39.0	41.3	42.4	42.6	207.2	334.6	339.6	345.5	391.1	375.3
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	21.9	24.3	24.9	29.4	30.4	31.8	32.7	32.9	184.7	301.6	307.4	301.0	322.3	304.0
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**9.4**	**5.5**	**6.1**	**7.9**	**8.6**	**9.4**	**9.7**	**9.7**	**22.5**	**32.9**	**32.2**	**44.5**	**68.8**	**71.3**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*30.0%*	*18.5%*	*19.8%*	*21.1%*	*22.0%*	*22.9%*	*22.9%*	*22.9%*	*10.8%*	*9.8%*	*9.5%*	*12.9%*	*17.6%*	*19.0%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.4	37.0	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	7.0	9.0	9.0	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	27.8	27.8	27.8	27.8
General and Administrative	6.6	8.2	10.7	16.6	7.2	9.7	8.9	8.0	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock-based Compensation	-	-	-	-	3.4	6.1	3.8	5.0	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.6	4.2	4.2	3.8
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**47.2**	**59.0**	**60.7**	**60.7**	**60.7**	**60.7**	**50.3**	**50.3**	**50.3**	**50.3**	**61.1**	**55.7**	**55.7**	**50.3**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(37.8)**	**(53.5)**	**(54.6)**	**(52.8)**	**(52.1)**	**(51.3)**	**(40.6)**	**(40.5)**	**(27.8)**	**(17.3)**	**(28.9)**	**(11.1)**	**13.2**	**21.1**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.4%*	*5.6%*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(30.9)**	**(45.1)**	**(46.3)**	**(42.4)**	**(40.0)**	**(37.9)**	**(25.4)**	**(23.2)**	**(9.7)**	**0.8**	**(10.5)**	**7.8**	**32.7**	**41.0**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*0.2%*	*NM*	*2.3%*	*8.4%*	*10.9%*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.3)	(0.4)	(0.5)	(1.2)	(1.9)	(2.6)	(3.2)	(3.8)	(4.2)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**3.0**	**(0.4)**	**(0.5)**	**(1.2)**	**(1.9)**	**(2.6)**	**(3.2)**	**(3.8)**	**(4.2)**	**(4.5)**	**(4.5)**	**(4.5)**	**(4.5)**	**(4.5)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(34.9)**	**(53.9)**	**(55.0)**	**(54.0)**	**(54.0)**	**(53.8)**	**(43.8)**	**(44.3)**	**(32.0)**	**(21.8)**	**(33.4)**	**(15.7)**	**8.7**	**16.6**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*2.2%*	*4.4%*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*(0.2%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(34.9)**	**(53.9)**	**(55.0)**	**(54.0)**	**(54.0)**	**(53.8)**	**(43.8)**	**(44.3)**	**(32.0)**	**(21.8)**	**(33.4)**	**(15.7)**	**8.7**	**16.6**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*2.2%*	*4.4%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(34.9)**	**(53.9)**	**(55.0)**	**(54.0)**	**(54.0)**	**(53.8)**	**(43.8)**	**(44.3)**	**(32.0)**	**(21.8)**	**(33.4)**	**(15.7)**	**8.7**	**16.6**
GAAP EPS							**($0.38)**	**($0.57)**	**($0.58)**	**($0.56)**	**($0.56)**	**($0.55)**	**($0.45)**	**($0.45)**	**($0.32)**	**($0.22)**	**($0.33)**	**($0.16)**	**$0.08**	**$0.14**
Adjusted EPS							**($0.35)**	**($0.53)**	**($0.55)**	**($0.53)**	**($0.53)**	**($0.52)**	**($0.42)**	**($0.42)**	**($0.29)**	**($0.19)**	**($0.30)**	**($0.12)**	**$0.10**	**$0.17**

Source: Company data, Morgan Stanley Research estimates; E = Morgan Stanley Research estimates

Exhibit 4

Base Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	110.2	148.5	626.7	1,451.5	1,879.7	2,163.0	2,436.9	3,766.5	4,015.9	4,293.1	4,693.5
Cost of Revenue	0.0	15.9	102.4	85.2	116.5	551.9	1,234.7	1,487.4	1,694.7	1,931.2	3,055.3	3,241.6	3,465.5	3,773.8
Gross Profit	**0.1**	**(1.1)**	**9.5**	**25.0**	**32.0**	**74.8**	**216.9**	**392.3**	**468.4**	**505.8**	**711.3**	**774.3**	**827.5**	**919.6**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*22.7%*	*21.6%*	*11.9%*	*14.9%*	*20.9%*	*21.7%*	*20.8%*	*18.9%*	*19.3%*	*19.3%*	*19.6%*
Expenses														
Research and Development	62.7	53.6	19.3	90.6	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	31.0	44.0	61.0	111.0	131.6	151.4	170.6	263.7	281.1	300.5	328.5
General and Administrative	17.1	23.4	42.2	33.8	33.0	35.0	35.0	70.5	75.7	85.3	131.8	120.5	128.8	140.8
Stock-based Compensation	0.2	0.4	-	18.3	15.8	16.1	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Total Expenses	**80.0**	**77.4**	**61.4**	**173.7**	**242.8**	**201.1**	**222.7**	**301.7**	**331.8**	**365.8**	**515.4**	**524.8**	**558.3**	**607.6**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(148.7)**	**(210.8)**	**(126.3)**	**(5.8)**	**90.6**	**136.6**	**140.0**	**195.9**	**249.5**	**269.3**	**312.0**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.8%*	*6.3%*	*5.7%*	*5.2%*	*6.2%*	*6.3%*	*6.6%*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(119.3)**	**(166.7)**	**(57.4)**	**71.0**	**166.3**	**228.1**	**248.3**	**316.7**	**397.0**	**414.7**	**470.0**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.9%*	*8.8%*	*10.5%*	*10.2%*	*8.4%*	*9.9%*	*9.7%*	*10.0%*
Interest Expense, net	1.7	(3.2)	(2.4)	(1.3)	(6.1)	(15.7)	(18.1)	(16.5)	(10.4)	(1.5)	1.2	2.1	3.4	4.6
Other Income (Expense), net	0.1	(1.0)	(1.4)	(6.7)	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(8.0)**	**(6.1)**	**(15.7)**	**(18.1)**	**(16.5)**	**(10.4)**	**(1.5)**	**1.2**	**2.1**	**3.4**	**4.6**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(156.7)**	**(216.9)**	**(142.0)**	**(23.9)**	**74.1**	**126.2**	**138.5**	**197.1**	**251.6**	**272.7**	**316.6**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*5.8%*	*5.7%*	*5.2%*	*6.3%*	*6.4%*	*6.7%*
Taxes, GAAP	0.1	0.1	0.0	0.2	-	-	-	-	-	-	-	-	62.4	76.0
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**62.4**	**76.0**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*22.9%*	*24.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(156.9)**	**(216.9)**	**(142.0)**	**(23.9)**	**74.1**	**126.2**	**138.5**	**197.1**	**251.6**	**210.3**	**240.6**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*5.8%*	*5.7%*	*5.2%*	*6.3%*	*4.9%*	*5.1%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(156.9)**	**(216.9)**	**(142.0)**	**(23.9)**	**74.1**	**126.2**	**138.5**	**197.1**	**251.6**	**210.3**	**240.6**
GAAP EPS				**($3.12)**	**($2.25)**	**($1.44)**	**($0.22)**	**$0.64**	**$1.06**	**$1.13**	**$1.57**	**$1.96**	**$1.60**	**$1.79**
Adjusted EPS				**($2.84)**	**($2.12)**	**($1.31)**	**($0.10)**	**$0.76**	**$1.18**	**$1.25**	**$1.71**	**$2.07**	**$1.70**	**$1.89**

Source: Company data, Morgan Stanley Research estimates; E = Morgan Stanley Research estimates

Exhibit 5

Base Case Annual Balance Sheet

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	101.3	100.0	44.0	100.0	100.0	100.0	294.9	609.1	1,084.5	1,531.8	2,041.8
Accounts receivable, net	0.1	3.3	3.5	1.6	12.3	12.2	13.5	13.0	15.8	18.7	18.6	18.6	18.3	18.2
Inventories, net	2.1	16.7	23.2	31.7	38.1	360.7	363.4	448.3	510.7	580.4	920.8	976.9	1,044.4	1,134.2
Prepaid expenses and other current assets	2.9	2.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Current Assets	**22.3**	**31.4**	**100.6**	**139.6**	**155.4**	**421.9**	**481.9**	**566.3**	**631.6**	**899.1**	**1,553.5**	**2,085.0**	**2,599.5**	**3,199.2**
Property, Plant and Equipment, net	12.0	18.8	23.5	49.9	161.8	194.9	190.5	268.6	342.9	416.0	492.7	541.0	587.6	637.1
Restricted cash	0.3	1.2	3.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6	145.6
Other assets	0.3	0.3	2.8	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1
Total Assets	**34.8**	**51.7**	**130.4**	**365.6**	**508.7**	**817.0**	**877.8**	**1,029.5**	**1,160.5**	**1,492.7**	**2,223.8**	**2,791.8**	**3,352.8**	**4,002.1**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	23.7	31.1	295.1	297.3	366.8	417.9	474.9	753.3	799.3	854.5	928.0
Accrued liabilities	8.5	11.1	14.5	9.0	10.4	16.6	57.7	111.7	164.4	216.8	307.4	390.8	470.9	553.9
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital lease obligations, current portion	0.1	0.3	0.3	-	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	37.3	48.0	26.0	29.5	33.9	11.9	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**63.2**	**76.4**	**324.6**	**356.1**	**479.4**	**583.3**	**692.7**	**1,061.7**	**1,191.1**	**1,326.4**	**1,482.9**
Convertible preferred stock warrant liability	0.2	2.1	1.7	-	-	-	-	-	-	-	-	-	-	-
Capital lease obligations, less current portion	0.0	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	-	-	-	-	-	-	-	-	-	-	-
Other long-term liabilities	-	4.8	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	64.2	339.4	465.0	429.8	276.8	55.6	-	-	-	-	-
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**67.0**	**342.2**	**467.9**	**432.6**	**279.7**	**58.4**	**2.9**	**2.9**	**2.9**	**2.9**	**2.9**
Total Liabilities	**152.7**	**251.4**	**383.9**	**130.2**	**418.7**	**792.5**	**788.7**	**759.1**	**641.7**	**695.6**	**1,064.6**	**1,193.9**	**1,329.3**	**1,485.7**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	4.3	5.2	7.1	634.1	705.5	782.0	870.4	977.6	1,099.8	1,239.7	1,404.7	1,591.7	1,807.1	2,059.3
Retained Earnings	(122.1)	(204.9)	(260.7)	(398.6)	(615.5)	(757.4)	(781.3)	(707.2)	(581.0)	(442.6)	(245.5)	6.1	216.4	457.0
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**235.5**	**90.0**	**24.5**	**89.1**	**270.4**	**518.8**	**797.1**	**1,159.3**	**1,597.8**	**2,023.5**	**2,516.3**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**365.6**	**508.7**	**817.0**	**877.8**	**1,029.5**	**1,160.5**	**1,492.7**	**2,223.8**	**2,791.8**	**3,352.8**	**4,002.1**

Source: Company data, Morgan Stanley Research estimates; E = Morgan Stanley Research estimates

Exhibit 6

Base Case Cash Flow Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Activities:														
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(156.9)**	**(216.9)**	**(142.0)**	**(23.9)**	**74.1**	**126.2**	**138.5**	**197.1**	**251.6**	**210.3**	**240.6**
Depreciation and Amortization	2.9	4.2	6.9	11.1	28.3	52.8	60.1	56.0	72.4	90.0	98.9	129.1	128.7	139.8
Change in fair value of convertible preferred stock warrant liability	(0.0)	2.8	1.1	8.7	-	-	-	-	-	-	-	-	-	-
Gain on extinguishment of convertible notes and warrants	-	(1.2)	(1.5)	-	-	-	-	-	-	-	-	-	-	-
Stock compensation expense	0.2	0.4	1.4	18.3	15.8	16.1	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Loss on abandonment of fixed assets	2.4	-	0.4	-	-	-	-	-	-	-	-	-	-	-
Inventory write-downs	-	-	1.4	0.4	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	-	3.7	2.7	-	-	-	-	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(0.1)	(3.3)	(0.2)	1.9	(10.7)	0.1	(1.3)	0.5	(2.8)	(2.9)	0.1	0.1	0.3	0.1
Inventories	(2.1)	(14.5)	(7.9)	(8.8)	(6.4)	(322.6)	(2.8)	(84.8)	(62.5)	(69.7)	(340.4)	(56.2)	(67.5)	(89.8)
Prepaid expenses and other current assets	(1.9)	0.8	(2.0)	0.9	-	-	-	-	-	-	-	-	-	-
Other assets	(0.1)	0.0	(0.4)	(17.2)	-	-	-	-	-	-	-	-	-	-
Accounts payable	0.5	8.8	0.9	4.1	7.4	263.9	2.3	69.4	51.1	57.0	278.5	46.0	55.2	73.5
Accrued liabilities	7.6	2.6	3.4	(3.9)	1.4	6.3	41.1	53.9	52.8	52.4	90.5	83.4	80.1	83.0
Other long-term liabilities	-	1.2	2.2	(1.5)	-	-	-	-	-	-	-	-	-	-
Deferred development compensation	-	10.2	(10.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	(1.5)	(1.6)	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	15.2	10.7	(22.0)	3.4	4.5	(22.0)	(11.9)	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	**19.2**	**20.5**	**(37.5)**	**(22.9)**	**(3.8)**	**(74.3)**	**27.4**	**39.0**	**38.6**	**36.8**	**28.8**	**73.3**	**68.1**	**66.8**
Net Cash Flow from Operating Activities	**(53.5)**	**(52.4)**	**(80.8)**	**(141.3)**	**(176.5)**	**(147.4)**	**80.3**	**188.7**	**256.2**	**283.6**	**346.7**	**472.3**	**423.9**	**465.4**
Investing activities:														
Purchases of property and equipment excluding capital leases	(9.8)	(9.6)	(11.9)	(89.9)	(136.5)	(78.8)	(42.0)	(123.4)	(138.2)	(154.7)	(175.7)	(165.6)	(175.3)	(189.3)
Decrease (increase) in restricted cash	0.0	(1.0)	(2.4)	(96.1)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(9.8)**	**(10.6)**	**(14.2)**	**(194.9)**	**(155.6)**	**(94.6)**	**(60.8)**	**(123.4)**	**(138.2)**	**(154.7)**	**(175.7)**	**(165.6)**	**(175.3)**	**(189.3)**
Financing activities:														
Proceeds from issuance of convertible preferred stock, net of issuance	44.9	-	131.8	-	-	-	-	-	-	-	-	-	-	-
Proceeds from DOE Loan	-	-	-	64.2	275.2	125.6	(35.2)	(152.9)	(221.3)	(55.6)	-	-	-	-
Principal payments on capital leases and other debt	-	(0.2)	(0.3)	(0.2)	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible notes and warrants	-	54.8	25.5	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock	-	0.0	-	273.8	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0.1	0.5	0.5	35.0	55.6	60.4	71.7	87.6	103.2	121.5	143.2	168.6	198.6	234.0
Deferred common stock and loan facility issuance costs	-	-	(2.0)	(3.5)	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by financing activities	**45.0**	**55.1**	**155.4**	**369.2**	**330.8**	**186.0**	**36.5**	**(65.4)**	**(118.1)**	**66.0**	**143.2**	**168.6**	**198.6**	**234.0**
Effect of Exchange Rate Changes	-	-	-	(1.3)	-	-	-	-	-	-	-	-	-	-
Cash Restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Cash and Cash Equivalents	**(18.2)**	**(7.9)**	**60.4**	**31.7**	**(1.3)**	**(56.0)**	**56.0**	**0.0**	**0.0**	**194.9**	**314.2**	**475.4**	**447.2**	**510.1**
Cash and cash equivalents at beginning of the year	35.4	17.2	9.3	69.6	101.3	100.0	44.0	100.0	100.0	100.0	294.9	609.1	1,084.5	1,531.8
Cash and cash equivalents at end of year	**17.2**	**9.3**	**69.6**	**101.3**	**100.0**	**44.0**	**100.0**	**100.0**	**100.0**	**294.9**	**609.1**	**1,084.5**	**1,531.8**	**2,041.8**

Source: Company data, Morgan Stanley Research estimates; E = Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of October 31, 2010)

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Total	**2,794**		**949**		

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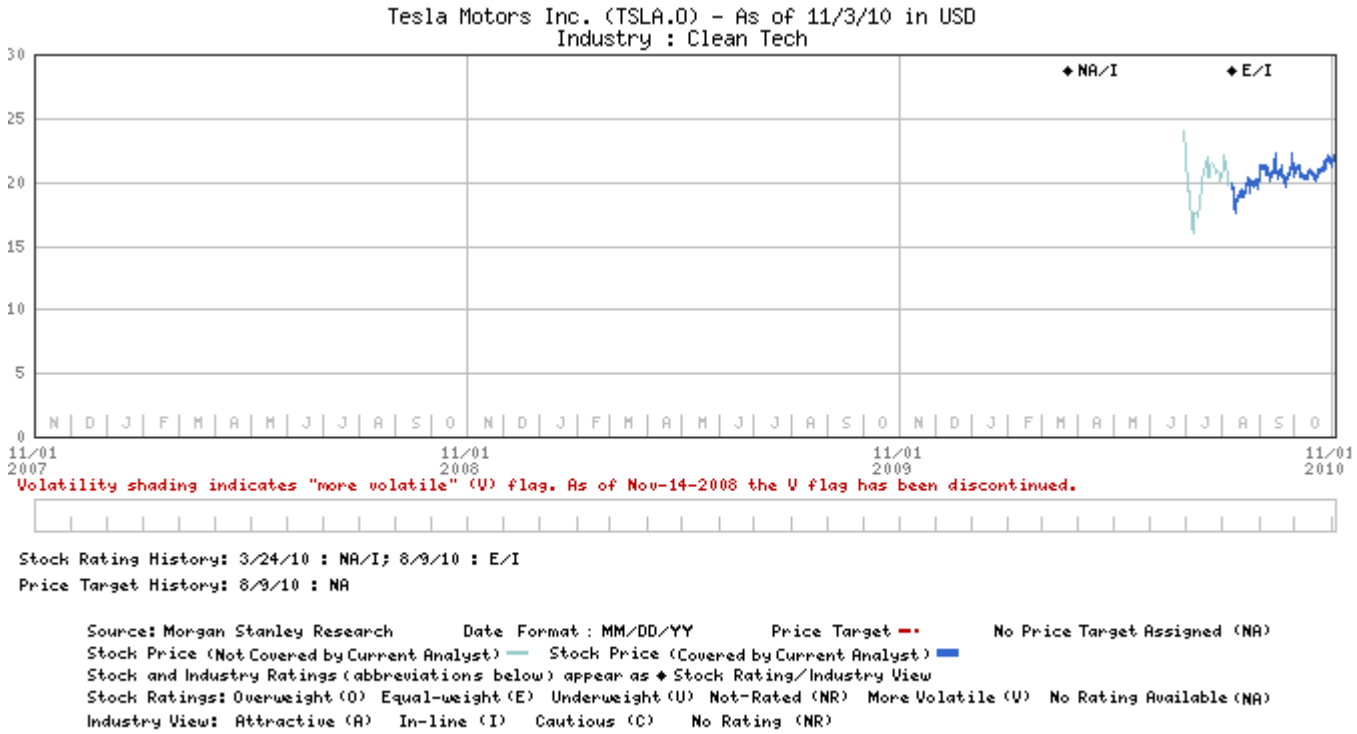
Stock Price, Price Target and Rating History (See Rating Definitions)



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Industry Coverage:Clean Tech

Company (Ticker)	Rating (as of)	Price* (11/09/2010)
Joshua Paradise		
Cree, Inc. (CREE.O)	E (10/20/2010)	$54.46
Energy Conversion Devices, Inc (ENER.O)	E (11/10/2010)	$4.86
Tesla Motors Inc. (TSLA.O)	E (08/09/2010)	$24.63
Smittipon Srethapramote		
Amyris Inc. (AMRS.O)	O (11/08/2010)	$17.48
Evergreen Solar Inc (ESLR.O)	E (03/24/2010)	$.93
First Solar Inc. (FSLR.O)	O (03/24/2010)	$138.62
SunPower Corporation (SPWRA.O)	E (10/08/2010)	$14.05

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* Historical prices are not split adjusted.

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November 3, 2010

Stock Rating
Equal-weight

Industry View
In-Line

Tesla Motors Inc.

Another Partner, Another Positive: Panasonic Invests $30MM

Another Partner, Another Positive. Tesla announced a $30 million investment from Panasonic/Sanyo, the largest manufacturer of lithium-ion cells globally. Panasonic is the third major company to invest in Tesla as a supplier/customer, following Daimler and Toyota. We see three significant positives from this announcement:

- External validation in Tesla's battery strategy from the largest battery maker
- Extra $30MM of cash provides additional cushion
- Additional partner to help in execution

De-risking execution. In our view, the biggest risk to Tesla's success is whether they can execute on manufacturing ramp-up to deliver the Model S on time, on budget, and to promised specs in mid-2012. Partnerships with Toyota, Daimler, and now Panasonic reduce that risk by giving Tesla access to supply chains and by aligning incentives with critical suppliers.

Adoption still unknowable. The second biggest risk for Tesla is whether consumers will buy electric-only vehicles in sufficient numbers. We forecast Model S sales of 20,000 units by 2014, slightly less than 1% of total sales for all mid and high-end sedans. For context, traditional performance sedans such as the Mercedes Benz E class, the BMW 5-series, and the Audi A6 each sell over 200,000 units in a mid-cycle year, but hybrid sales account for less than 3% of total autos.

What's next: Tesla is scheduled to report Q3 earnings Tuesday after the close. Focus will be on targets for Model S design and production and new reservations for Model S. Given the early stage of the company, EPS is largely irrelevant.

Key Ratios and Statistics

Reuters: TSLA.O Bloomberg: TSLA US
Clean Tech / United States of America

Shr price, close (Nov 3, 2010)	$21.77
Mkt cap, curr (mm)	$2029
52-Week Range	$30.42-14.98

Fiscal Year ending	**12/09**	**12/10e**	**12/11e**	**12/12e**
ModelWare EPS ($)	**(7.96)**	**(3.24)**	**(2.21)**	**(1.36)**
EPS ($)**	(7.96)	(2.98)	(2.09)	(1.25)
Consensus EPS ($)§	**(1.59)**	**(2.57)**	**(1.90)**	**(1.23)**
EV/rev	3.7	2.9	4.2	1.4
Revenue, net ($mm)	112	105	153	629
Gross margin (%)	8.5	18.8	21.6	12.0
EBITDA margin (%)	(40.2)	(136.3)	(126.7)	(14.1)
Rev hist grth, y/y (%)	-	(6.3)	45.6	311.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates

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Risk-Reward Snapshot: Tesla Motors (TSLA, $21.77, Equal-weight)

Risk-Reward View: Continued Volatility Is Likely

Source: FactSet, Morgan Stanley Research

Valuation Methodology: We apply multiples of 12x EV/EBITDA and 2.1x EV/sales to our 2014 bull, bear, and base case forecasts, and discount the equity value at 15%. Our comp group is 80% clean tech and EV value chain and 20% traditional auto companies.
We also use a DCF analysis with an 11.3% WACC, 15% cost of equity, and 4% terminal growth.

Bull Case $35	2014e sales = $2.6 billion 2014e EBITDA = $463 million	**The future of the auto industry.** Tesla delivers the Model S on time (2Q12) and on budget with performance that rivals gasoline-powered luxury sedans. EV adoption takes off. EBITDA margins are 15-18%. OEM partnerships add powertrain volumes.
Base Case $19	2014e sales = $1.9 billion 2014e EBITDA = $161 million	**Solid execution and EV demand.** Model S deliveries start in 3Q12 and reach 20K per year in 2014. Slower ramp and modest cost overruns result in negative EPS until 2014. EBITDA margins are 7-9%. Powertrain sales a minor contributor.
Bear Case $10	2014e sales = $461 million 2014e EBITDA = $(26 million)	**Delays, cost overruns, lower demand.** A lot can go wrong in a product launch, especially with new manufacturing. We model a slight delay and lower Model S demand of 5,000 units per year. The company would likely need to raise additional capital to scale production.

Key Assumptions for Bull, Bear, and Base Cases

		Bear	Base	Bull
Gross Margin	**2012**	9.9%	12.0%	13.8%
	2013	9.3%	15.0%	23.5%
	2014	16.5%	20.7%	24.5%
EBIT Margin	**2012**	NM	NM	NM
	2013	NM	NM	13.7%
	2014	NM	4.7%	15.3%
Model S Volumes	**2012**	2,000	5,500	7,000
	2013	5,000	15,000	20,000
	2014	5,000	20,000	26,000

Source: Morgan Stanley Research

Why Equal-weight?

- The opportunity in electric vehicles is enormous, but so is the challenge of getting the Model S on the road on time and on budget. At $21.77, we think the stock fairly reflects the upside and downside potential. Our $19 base case is based on discounted equity-based multiples of EV/sales and EV/EBITDA and a DCF and reflects uncertain demand for electric vehicles (EVs), increasing competition from OEMs, and execution risk.

Key Value Drivers

- **Model S pre-orders** — the best indicator of demand.
- **Additional or larger OEM partnerships** would add scale, top line growth, and offer further proof of Tesla's technology leadership.
- **EV adoption and subsidies.** Competitors' EVs will launch before the Model S. Strong sales and/or higher government support are positive.

Potential Catalysts

- Expansion of Daimler or Toyota plans or new OEM partnerships.
- Model S — final prototype on factory tools.
- Accelerating Model S reservations.

What Could Make Us Overweight

- Higher Model S pre-orders.
- Increased government subsidies.
- Lower risk of Model S delays.
- Additional and/or larger OEM partnerships.
- More attractive valuation.

…or Underweight

- Significant Model S delays.
- Management turnover in manufacturing, engineering, technology, or design.

Exhibit 1

Base Case Quarterly Assumptions

	2009A				2010E				2011E				2012E				2013E			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Volumes																				
Model S	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	3,500	3,750	3,750	3,750	3,750
Roadster	182	200	324	134	126	141	145	150	150	150	150	150	150	150	100	98	-	-	500	300
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Vehicles	**182**	**200**	**324**	**134**	**126**	**141**	**145**	**150**	**150**	**150**	**150**	**150**	**150**	**150**	**2,100**	**3,598**	**3,750**	**3,750**	**4,250**	**4,050**
Powertrains	**-**	**-**	**-**	**-**	**105**	**200**	**240**	**340**	**450**	**650**	**700**	**770**	**800**	**800**	**800**	**800**	**875**	**875**	**875**	**875**
Powertrain ASP ($)	0.0k	0.0k	0.0k	0.0k	25.9k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins																				
Model S	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	8.2%	8.2%	8.4%	12.2%	15.5%	17.8%
Roadster	(9.8%)	7.8%	16.9%	9.6%	17.7%	16.2%	16.4%	16.4%	17.7%	19.7%	21.6%	23.5%	23.5%	23.5%	23.4%	23.4%	0.0%	0.0%	30.9%	30.4%
Powertrain	NM	NM	NM	NM	23.7%	15.0%	18.8%	18.8%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total	NM	7.8%	16.9%	9.6%	18.5%	22.2%	17.1%	17.2%	19.7%	21.1%	22.1%	22.9%	22.9%	22.9%	10.9%	9.9%	9.5%	12.9%	17.8%	19.1%
Roadster Leasing (as % of Total Vehicles Sold)	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	10.0%	10.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Source: Company data, Morgan Stanley Research estimates

Exhibit 2

Base Case Annual Assumptions

	Fiscal Year													
	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Volumes														
Model S	-	-	-	-	-	5,500	15,000	20,000	23,000	26,450	30,000	30,000	30,000	30,000
Roadster	-	-	-	289	300	249	400	400	400	400	400	400	400	400
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	25,000	31,250	39,063	48,828
Total Vehicles	**-**	**-**	**-**	**289**	**300**	**5,749**	**15,400**	**20,400**	**23,400**	**26,850**	**55,400**	**61,650**	**69,463**	**79,228**
Powertrains	-	-	-	885	2,570	3,200	3,500	3,500	4,200	5,000	5,000	5,000	5,000	5,000
Powertrain ASP ($)	NM	NM	NM	25.1k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins														
Model S		NM	NM	NM	NM	8.2%	13.5%	19.7%	20.8%	19.9%	19.5%	19.5%	19.5%	19.5%
Roadster		NM	NM	16.7%	20.6%	23.4%	29.3%	37.0%	36.0%	36.0%	31.6%	37.8%	31.6%	31.6%
Next Gen Vehicle		NM	NM	NM	NM	NM	NM	15.0%	15.0%	15.0%	16.0%	17.0%	18.0%	19.0%
Powertrain		NM	NM	18.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total														
Roadster Leasing (as % of Total Vehicles Sold)				7.5%	15.0%	15.0%	15.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Morgan Stanley Research estimates

Exhibit 3

Base Case Quarterly Income Statement

	2009A				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	26.0	29.7	32.2	38.3	40.0	42.2	43.3	43.4	207.4	334.8	338.8	344.8	393.1	375.3
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	21.6	24.6	25.9	30.3	31.2	32.5	33.4	33.5	184.9	301.8	306.7	300.2	323.1	303.5
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**4.4**	**5.1**	**6.3**	**8.1**	**8.8**	**9.7**	**9.9**	**10.0**	**22.5**	**33.0**	**32.2**	**44.5**	**69.9**	**71.8**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*17.1%*	*17.2%*	*19.7%*	*21.1%*	*22.1%*	*22.9%*	*22.9%*	*22.9%*	*10.9%*	*9.9%*	*9.5%*	*12.9%*	*17.8%*	*19.1%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.0	37.0	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	7.0	9.0	9.0	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	27.8	27.8	27.8	27.8
General and Administrative	6.6	8.2	10.7	16.6	7.2	9.7	9.0	8.0	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock-based Compensation	-	-	-	-	3.4	6.1	3.0	5.0	3.9	3.9	3.9	3.9	3.5	3.5	3.5	3.5	4.6	4.2	4.2	3.8
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**46.0**	**59.0**	**60.7**	**60.7**	**60.7**	**60.7**	**49.7**	**49.7**	**49.7**	**49.7**	**61.1**	**55.7**	**55.7**	**50.3**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(41.6)**	**(53.9)**	**(54.4)**	**(52.6)**	**(51.9)**	**(51.0)**	**(39.8)**	**(39.8)**	**(27.2)**	**(16.7)**	**(28.9)**	**(11.1)**	**14.3**	**21.5**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.6%*	*5.7%*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(36.3)**	**(46.0)**	**(47.7)**	**(44.7)**	**(43.6)**	**(41.8)**	**(29.0)**	**(27.7)**	**(14.5)**	**(3.8)**	**(14.9)**	**4.9**	**29.9**	**37.3**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*1.4%*	*7.6%*	*10.0%*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.4)	(0.6)	(0.8)	(0.9)	(0.9)	(1.4)	(2.1)	(2.7)	(3.0)	(3.5)	(3.6)	(3.6)	(3.6)	(3.6)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**(0.4)**	**(0.6)**	**(0.8)**	**(0.9)**	**(0.9)**	**(1.4)**	**(2.1)**	**(2.7)**	**(3.0)**	**(3.5)**	**(3.6)**	**(3.6)**	**(3.6)**	**(3.6)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(42.0)**	**(54.4)**	**(55.2)**	**(53.5)**	**(52.8)**	**(52.4)**	**(41.9)**	**(42.4)**	**(30.2)**	**(20.3)**	**(32.5)**	**(14.7)**	**10.7**	**18.0**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*2.7%*	*4.8%*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(42.0)**	**(54.4)**	**(55.2)**	**(53.5)**	**(52.8)**	**(52.4)**	**(41.9)**	**(42.4)**	**(30.2)**	**(20.3)**	**(32.5)**	**(14.7)**	**10.7**	**18.0**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*2.7%*	*4.8%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(42.0)**	**(54.4)**	**(55.2)**	**(53.5)**	**(52.8)**	**(52.4)**	**(41.9)**	**(42.4)**	**(30.2)**	**(20.3)**	**(32.5)**	**(14.7)**	**10.7**	**18.0**
GAAP EPS							**($0.45)**	**($0.58)**	**($0.58)**	**($0.55)**	**($0.54)**	**($0.54)**	**($0.43)**	**($0.43)**	**($0.30)**	**($0.20)**	**($0.32)**	**($0.15)**	**$0.09**	**$0.16**
Adjusted EPS							**($0.43)**	**($0.54)**	**($0.54)**	**($0.52)**	**($0.51)**	**($0.51)**	**($0.40)**	**($0.40)**	**($0.28)**	**($0.18)**	**($0.29)**	**($0.11)**	**$0.12**	**$0.18**

Source: Company data, Morgan Stanley Research estimates

Exhibit 4

Base Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	104.9	152.8	628.9	1,452.0	1,876.1	2,160.2	2,434.1	3,766.5	4,012.2	4,293.1	4,693.5
Cost of Revenue	0.0	15.9	102.4	85.2	119.8	553.5	1,233.5	1,487.4	1,694.7	1,931.2	3,055.3	3,241.6	3,465.5	3,773.8
Gross Profit	**0.1**	**(1.1)**	**9.5**	**19.7**	**32.9**	**75.4**	**218.4**	**388.7**	**465.5**	**502.9**	**711.3**	**770.6**	**827.5**	**919.6**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*18.8%*	*21.6%*	*12.0%*	*15.0%*	*20.7%*	*21.6%*	*20.7%*	*18.9%*	*19.2%*	*19.3%*	*19.6%*
Expenses														
Research and Development	62.7	53.6	19.3	90.1	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	31.0	44.0	61.0	111.0	131.3	151.2	170.4	263.7	280.9	300.5	328.5
General and Administrative	17.1	23.4	42.2	33.9	33.0	35.0	35.0	70.4	75.6	85.2	131.8	120.4	128.8	140.8
Stock-based Compensation	0.2	0.4	-	17.5	15.8	13.9	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Total Expenses	**80.0**	**77.4**	**61.4**	**172.5**	**242.8**	**198.9**	**222.7**	**301.3**	**331.5**	**365.4**	**515.4**	**524.4**	**558.3**	**607.6**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(152.8)**	**(209.8)**	**(123.5)**	**(4.3)**	**87.5**	**134.1**	**137.5**	**195.9**	**246.1**	**269.3**	**312.0**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.7%*	*6.2%*	*5.6%*	*5.2%*	*6.1%*	*6.3%*	*6.6%*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(125.5)**	**(177.7)**	**(75.0)**	**57.3**	**160.6**	**216.8**	**231.7**	**301.1**	**371.4**	**394.4**	**449.7**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*8.6%*	*10.0%*	*9.5%*	*8.0%*	*9.3%*	*9.2%*	*9.6%*
Interest Expense, net	1.7	(3.2)	(2.4)	(1.6)	(4.1)	(11.3)	(14.3)	(12.3)	(6.3)	0.4	1.1	1.9	3.1	4.3
Other Income (Expense), net	0.1	(1.0)	(1.4)	(10.0)	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(11.5)**	**(4.1)**	**(11.3)**	**(14.3)**	**(12.3)**	**(6.3)**	**0.4**	**1.1**	**1.9**	**3.1**	**4.3**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(164.3)**	**(213.9)**	**(134.8)**	**(18.6)**	**75.2**	**127.8**	**137.9**	**196.9**	**248.0**	**272.4**	**316.3**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.0%*	*5.9%*	*5.7%*	*5.2%*	*6.2%*	*6.3%*	*6.7%*
Taxes, GAAP	0.1	0.1	0.0	0.1	-	-	-	-	-	-	-	-	63.8	75.9
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**63.8**	**75.9**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*23.4%*	*24.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(164.5)**	**(213.9)**	**(134.8)**	**(18.6)**	**75.2**	**127.8**	**137.9**	**196.9**	**248.0**	**208.6**	**240.4**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.0%*	*5.9%*	*5.7%*	*5.2%*	*6.2%*	*4.9%*	*5.1%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(164.5)**	**(213.9)**	**(134.8)**	**(18.6)**	**75.2**	**127.8**	**137.9**	**196.9**	**248.0**	**208.6**	**240.4**
GAAP EPS				**($3.24)**	**($2.21)**	**($1.36)**	**($0.17)**	**$0.64**	**$1.07**	**$1.13**	**$1.57**	**$1.94**	**$1.59**	**$1.79**
Adjusted EPS				**($2.98)**	**($2.09)**	**($1.25)**	**($0.05)**	**$0.77**	**$1.19**	**$1.24**	**$1.71**	**$2.04**	**$1.69**	**$1.89**

Source: Company data, Morgan Stanley Research estimates

Exhibit 5

Base Case Annual Balance Sheet

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	274.4	100.0	59.1	100.0	100.0	149.3	384.0	681.0	1,128.9	1,552.0	2,039.0
Accounts receivable, net	0.1	3.3	3.5	1.6	12.6	12.2	13.5	13.0	15.8	18.7	18.6	18.5	18.3	18.2
Inventories, net	2.1	16.7	23.2	32.1	38.9	360.8	362.8	448.3	510.7	580.4	920.8	976.9	1,044.4	1,134.2
Prepaid expenses and other current assets	2.9	2.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Current Assets	**22.3**	**31.4**	**100.6**	**313.1**	**156.5**	**437.1**	**481.4**	**566.2**	**680.8**	**988.1**	**1,625.4**	**2,129.4**	**2,619.7**	**3,196.4**
Property, Plant and Equipment, net	12.0	18.8	23.5	82.9	215.8	270.6	280.2	349.9	424.2	502.8	595.1	653.7	720.6	790.4
Restricted cash	0.3	1.2	3.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Other assets	0.3	0.3	2.8	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
Total Assets	**34.8**	**51.7**	**130.4**	**420.8**	**397.1**	**732.4**	**786.4**	**940.9**	**1,129.8**	**1,515.7**	**2,245.3**	**2,807.9**	**3,365.1**	**4,011.6**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	24.1	31.8	295.2	296.9	366.8	417.9	474.9	753.3	799.3	854.5	928.0
Accrued liabilities	8.5	11.1	14.5	8.9	10.4	16.8	57.8	111.6	164.3	216.6	307.2	390.5	470.7	553.7
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital lease obligations, current portion	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Refundable reservation payments	37.3	48.0	26.0	28.8	32.5	10.8	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**63.0**	**76.1**	**324.1**	**356.0**	**479.6**	**583.4**	**692.8**	**1,061.8**	**1,191.1**	**1,326.5**	**1,483.0**
Convertible preferred stock warrant liability	0.2	2.1	1.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Capital lease obligations, less current portion	0.0	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other long-term liabilities	-	4.8	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	102.4	213.4	361.7	314.6	163.9	-	-	-	-	-	-
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**123.9**	**234.8**	**383.2**	**336.1**	**185.4**	**21.5**	**21.5**	**21.5**	**21.5**	**21.5**	**21.5**
Total Liabilities	**152.7**	**251.4**	**383.9**	**186.9**	**310.9**	**707.3**	**692.0**	**665.0**	**604.9**	**714.2**	**1,083.3**	**1,212.6**	**1,347.9**	**1,504.4**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	4.3	5.2	7.1	640.1	706.3	780.1	867.8	974.2	1,095.5	1,234.1	1,397.7	1,583.0	1,796.2	2,045.9
Retained Earnings	(122.1)	(204.9)	(260.7)	(406.2)	(620.1)	(754.9)	(773.5)	(698.3)	(570.5)	(432.6)	(235.7)	12.3	220.9	461.3
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**233.9**	**86.2**	**25.2**	**94.3**	**275.9**	**524.9**	**801.5**	**1,162.0**	**1,595.3**	**2,017.2**	**2,507.2**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**420.8**	**397.1**	**732.4**	**786.4**	**940.9**	**1,129.8**	**1,515.7**	**2,245.3**	**2,807.9**	**3,365.1**	**4,011.6**

Source: Company data, Morgan Stanley Research estimates

Exhibit 6

Base Case Cash Flow Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Activities:														
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(164.5)**	**(213.9)**	**(134.8)**	**(18.6)**	**75.2**	**127.8**	**137.9**	**196.9**	**248.0**	**208.6**	**240.4**
Depreciation and Amortization	2.9	4.2	6.9	9.8	16.3	34.6	44.8	53.6	63.7	76.0	83.3	106.9	108.4	119.4
Change in fair value of convertible preferred stock warrant liability	(0.0)	2.8	1.1	8.7	-	-	-	-	-	-	-	-	-	-
Gain on extinguishment of convertible notes and warrants	-	(1.2)	(1.5)	-	-	-	-	-	-	-	-	-	-	-
Stock compensation expense	0.2	0.4	1.4	17.5	15.8	13.9	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Loss on abandonment of fixed assets	2.4	-	0.4	-	-	-	-	-	-	-	-	-	-	-
Inventory write-downs	-	-	1.4	0.4	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	-	3.7	2.7	-	-	-	-	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(0.1)	(3.3)	(0.2)	1.9	(11.0)	0.4	(1.3)	0.5	(2.8)	(2.9)	0.1	0.1	0.2	0.1
Inventories	(2.1)	(14.5)	(7.9)	(9.2)	(6.8)	(321.9)	(2.0)	(85.4)	(62.5)	(69.7)	(340.4)	(56.2)	(67.5)	(89.8)
Prepaid expenses and other current assets	(1.9)	0.8	(2.0)	0.9	-	-	-	-	-	-	-	-	-	-
Other assets	(0.1)	0.0	(0.4)	(0.5)	-	-	-	-	-	-	-	-	-	-
Accounts payable	0.5	8.8	0.9	4.4	7.8	263.4	1.7	69.9	51.1	57.0	278.5	46.0	55.2	73.5
Accrued liabilities	7.6	2.6	3.4	(4.0)	1.6	6.3	41.0	53.8	52.7	52.3	90.6	83.3	80.2	83.0
Other long-term liabilities	-	1.2	2.2	(1.5)	-	-	-	-	-	-	-	-	-	-
Deferred development compensation	-	10.2	(10.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	(1.5)	0.5	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	15.2	10.7	(22.0)	2.7	3.8	(21.7)	(10.8)	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	**19.2**	**20.5**	**(37.5)**	**(4.9)**	**(4.7)**	**(73.5)**	**28.5**	**38.8**	**38.5**	**36.8**	**28.8**	**73.2**	**68.1**	**66.8**
Net Cash Flow from Operating Activities	**(53.5)**	**(52.4)**	**(80.8)**	**(133.1)**	**(186.5)**	**(159.8)**	**71.5**	**187.1**	**249.0**	**268.9**	**330.9**	**446.4**	**401.8**	**444.8**
Investing activities:														
Purchases of property and equipment excluding capital leases	(9.8)	(9.6)	(11.9)	(72.6)	(149.2)	(89.3)	(54.5)	(123.2)	(138.0)	(154.5)	(175.7)	(165.4)	(175.3)	(189.3)
Decrease (increase) in restricted cash	0.0	(1.0)	(2.4)	(1.8)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(9.8)**	**(10.6)**	**(14.2)**	**(74.4)**	**(149.2)**	**(89.3)**	**(54.5)**	**(123.2)**	**(138.0)**	**(154.5)**	**(175.7)**	**(165.4)**	**(175.3)**	**(189.3)**
Financing activities:														
Proceeds from issuance of convertible preferred stock, net of issuance	44.9	-	131.8	-	-	-	-	-	-	-	-	-	-	-
Proceeds from DOE Loan	-	-	-	102.4	110.9	148.3	(47.1)	(150.7)	(163.9)	-	-	-	-	-
Principal payments on capital leases and other debt	-	(0.2)	(0.3)	(0.2)	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible notes and warrants	-	54.8	25.5	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock	-	0.0	-	273.8	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0.1	0.5	0.5	39.7	50.4	59.9	71.1	86.8	102.2	120.4	141.7	166.9	196.5	231.4
Deferred common stock and loan facility issuance costs	-	-	(2.0)	(3.5)	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by financing activities	**45.0**	**55.1**	**155.4**	**412.2**	**161.3**	**208.2**	**24.0**	**(63.9)**	**(61.7)**	**120.4**	**141.7**	**166.9**	**196.5**	**231.4**
Effect of Exchange Rate Changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Cash and Cash Equivalents	**(18.2)**	**(7.9)**	**60.4**	**204.8**	**(174.4)**	**(40.9)**	**40.9**	**-**	**49.3**	**234.7**	**297.0**	**447.9**	**423.1**	**487.0**
Cash and cash equivalents at beginning of the year	35.4	17.2	9.3	69.6	274.4	100.0	59.1	100.0	100.0	149.3	384.0	681.0	1,128.9	1,552.0
Cash and cash equivalents at end of year	**17.2**	**9.3**	**69.6**	**274.4**	**100.0**	**59.1**	**100.0**	**100.0**	**149.3**	**384.0**	**681.0**	**1,128.9**	**1,552.0**	**2,039.0**

Source: Company data, Morgan Stanley Research estimates

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Total	**2,794**		**949**		

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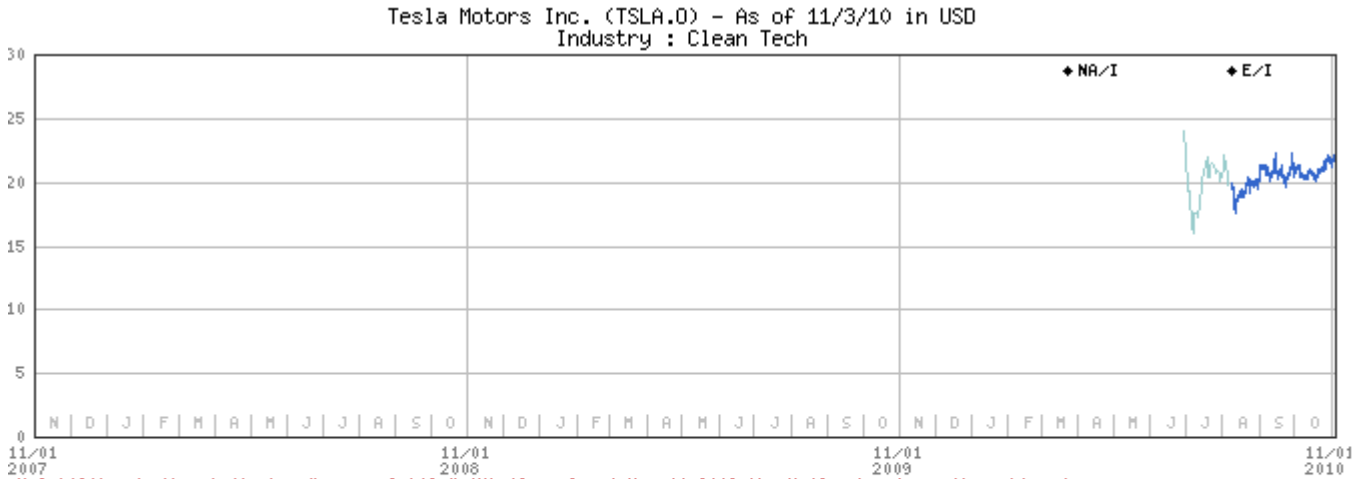

Stock Rating History: 3/24/10 : NA/I; 8/9/10 : E/I
Price Target History: 8/9/10 : NA

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)
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Industry Coverage:Clean Tech

Company (Ticker)	Rating (as of)	Price* (11/03/2010)
Joshua Paradise		
Cree, Inc. (CREE.O)	E (10/20/2010)	$51.95
Energy Conversion Devices, Inc (ENER.O)	U (03/24/2010)	$4.29
Tesla Motors Inc. (TSLA.O)	E (08/09/2010)	$21.77
Smittipon Srethapramote		
Evergreen Solar Inc (ESLR.O)	E (03/24/2010)	$.98
First Solar Inc. (FSLR.O)	O (03/24/2010)	$137.64
SunPower Corporation (SPWRA.O)	E (10/08/2010)	$13.58

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* Historical prices are not split adjusted.

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TESLA

DOUGHERTY & COMPANY LLC

October 22, 2010

Jeff Evanson (612) 376-4123 jevanson@doughertymarkets.com

TESLA MOTORS INC. (TSLA) BUY - $20.75

APPLIED TECHNOLOGIES

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

Expecting Positive Update on Model S and Powertrain Business; Reiterate PT & Buy

Changes: None

Financial Summary*

EPS	2009	2010E	2011E	2012E
Mar		-0.35A	-0.37	-0.38
Jun		-0.28A	-0.42	-0.36
Sep		-0.30	-0.44	-0.50
Dec		-0.34	-0.37	-0.45
FY		-1.44	-1.36	-1.69
EBITDA	($44,957)	($101,844)	($121,475)	($121,757)
Revs ($'000)				
Mar	$20,886	$20,812A	$30,327	$26,727
Jun	$26,945	$28,405A	$34,169	$25,176
Sep	$45,527	$27,904	$36,449	$24,670
Dec	$18,585	$31,677	$29,867	$21,780
FY	$111,943	$108,799	$130,812	$98,352
Mkt Cap/Rev	19x	19x	16x	21x

Price	$20.75
12-Month Target	$30.00
52-Week Range	$14.98-$30.41
Diluted Shares ('000)	101,000
Market Cap ('000)	$2,095,750
Avg. Daily Vol	741,838
3-5 Yr. Revenue Growth	20%+
3-5 Yr. EPS Growth	20%+
Book Value	$1.82
Net Cash/Share*	$1.87
LT Debt / Total Capital	20%
Insider Ownership	57%
Est. Q3 Reporting Date	Nov'10

*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.

Investment Thesis:

We expect Tesla Motors to report its third quarter earnings next month. The primary focus for the quarter will be updates on Model S development.

We reiterate $30 PT and Buy rating ahead of the quarter. Our PT is based on a DCF that takes into account sales of Tesla's new Model S, slated for release in 2012.

For a more detailed update, please contact your Dougherty & Co. sales representative.

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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.)

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	Actual									Estimated											Model S Begins	
TESLA	FY 2007	FY 2008	Q1 2009 MAR	Q2 2009 JUN	Q3 2009 SEP	Q4 2009 DEC	FY 2009	Q1 2010 MAR	Q2 2010 JUN	Q3 2010E SEP	Q4 2010E DEC	FY 2010E	Q1 2011E 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
Income Statement																						
YOY		20095%					659%	-0.4%	5.4%	-38.7%	70.4%	-15%	45.7%	20.3%	30.6%	-5.7%	18%	-11.9%	-26.3%	-32.3%	-27.1%	-30%
QOQ				29.0%	69.0%	-59.2%		12.0%	36.5%	-1.8%	13.5%			12.7%	6.7%	-18.1%			-5.8%	-2.0%	-11.7%	
Auto Sales	73	14,742	20,886	26,945	45,527	18,585	111,943	20,585	23,971	23,426	27,154	95,136	25,759	29,555	31,788	25,160	112,262	21,973	20,374	19,821	16,882	79,050
Development services sales	-	-	-				-	227	4,434	4,478	4,523	13,662	4,568	4,614	4,660	4,707	18,549	4,754	4,801	4,849	4,898	19,303
Total Revenue	73	14,742	20,886	26,945	45,527	18,585	111,943	20,812	28,405	27,904	31,677	108,799	30,327	34,169	36,449	29,867	130,812	26,727	25,176	24,670	21,780	98,352
Cost of Auto sales	9	15,883	22,932	24,844	37,828	16,804	102,408	16,858	20,266	19,912	23,081	80,117	23,183	26,599	27,020	22,644	99,447	17,578	16,299	30,859	28,508	93,245
Cost of development svs	-	-	-	-	-	-	-	102	1,878	2,015	2,035	6,031	2,056	2,076	2,097	2,118	8,347	2,139	2,161	2,182	2,204	8,686
Total COGS	9	15,883	22,932	24,844	37,828	16,804	102,408	16,960	22,144	21,927	25,116	86,148	25,239	28,676	29,117	24,762	107,794	19,717	18,460	33,041	30,712	101,931
Gross profit (loss)	64	(1,141)	(2,046)	2,101	7,699	1,781	9,535	3,852	6,261	5,977	6,561	22,651	5,088	5,493	7,331	5,105	23,018	7,009	6,716	(8,371)	(8,932)	(3,579)
GM	88%	-8%	-10%	8%	17%	10%	9%	19%	22%	21%	21%	21%	17%	16%	20%	17%	18%	26%	27%	-34%	-41%	-4%
R&D	62,753	53,714	7,941	1,941	1,257	8,143	19,282	13,265	15,416	16,743	19,006	64,430	18,196	20,501	21,869	17,920	78,487	19,243	18,126	17,763	15,681	70,814
SG&A	17,244	23,649	6,607	8,247	10,733	16,563	42,150	16,585	22,207	19,533	22,174	80,499	24,262	27,335	29,159	23,894	104,649	25,925	24,420	23,930	21,126	95,402
Total OpEx	79,997	77,363	14,548	10,188	11,990	24,706	61,432	29,850	37,623	36,276	41,181	144,929	42,458	47,837	51,028	41,814	183,137	45,168	42,547	41,693	36,808	166,215
Op profit (loss)	(79,933)	(78,504)	(16,594)	(8,087)	(4,291)	(22,925)	(51,897)	(25,998)	(31,362)	(30,299)	(34,620)	(122,279)	(37,370)	(42,343)	(43,697)	(36,709)	(160,119)	(38,159)	(35,831)	(50,064)	(45,740)	(169,794)
OM	-109497%	-533%	-79%	-30%	-9%	-123%	-46%	-125%	-110%	-109%	-109%	-112%	-123%	-124%	-120%	-123%	-122%	-143%	-142%	-203%	-210%	-173%
Interest income	1,749	529	16	29	52	62	159	48	47	47	146	288	84	51	0	0	135	0	0	0	0	-
Interest expense	-	(3,747)	(1,402)	(1,086)	(18)	(25)	(2,531)	(230)	(464)	(464)	(464)	(1,622)	(665)	(665)	(665)	(665)	(2,662)	(665)	(665)	(665)	(665)	(2,662)
Other income (expense)	137	(963)	1,972	(1,715)	(577)	(1,125)	(1,445)	(3,221)	(6,729)	-	-	(9,950)	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax	(78,047)	(82,685)	(16,008)	(10,859)	(4,834)	(24,013)	(55,714)	(29,401)	(38,508)	(30,716)	(34,938)	(133,562)	(37,951)	(42,958)	(44,362)	(37,375)	(162,646)	(38,824)	(36,497)	(50,729)	(46,405)	(172,456)
Tax	110	97	8	8	(219)	229	26	118	9	7	8	142	45	51	52	44	192	46	43	60	55	203
Net Income (Loss)	(78,157)	(82,782)	(16,016)	(10,867)	(4,615)	(24,242)	(55,740)	(29,519)	(38,517)	(30,723)	(34,946)	(133,705)	(37,996)	(43,009)	(44,414)	(37,419)	(162,838)	(38,870)	(36,540)	(50,789)	(46,460)	(172,659)
Diluted shares	3,444	6,646	6,924	6,966	7,014	7,066	7,022	7,302	7,643	7,643	7,643											
QoQ Growth			4.2%	0.6%	0.7%	0.7%		3.3%	8.8%	0.5%	0.5%											
GAAP EPS	(22.69)	(12.46)	(2.31)	(1.56)	(0.66)	(3.43)	(7.94)	(4.04)	(5.04)													
Diluted (pro-forma)				71,828			77,694	77,974	91,208	101,000	101,505	92,922	101,607	101,708	101,810	101,912	101,759	102,014	102,116	102,218	102,320	102,167
QoQ Growth									0.5%	0.5%	0.5%		0.10%	0.10%	0.1%	0.1%		0.1%	0.10%	0.1%	0.1%	
EPS (calculated)				**(0.15)**			**(0.72)**	**(0.38)**	**(0.42)**	**(0.30)**	**(0.34)**	**(1.44)**	**(0.37)**	**(0.42)**	**(0.44)**	**(0.37)**	**(1.60)**	**(0.38)**	**(0.36)**	**(0.50)**	**(0.45)**	**(1.69)**
EPS (given pro-forma)							(0.70)	(0.35)	(0.28)													

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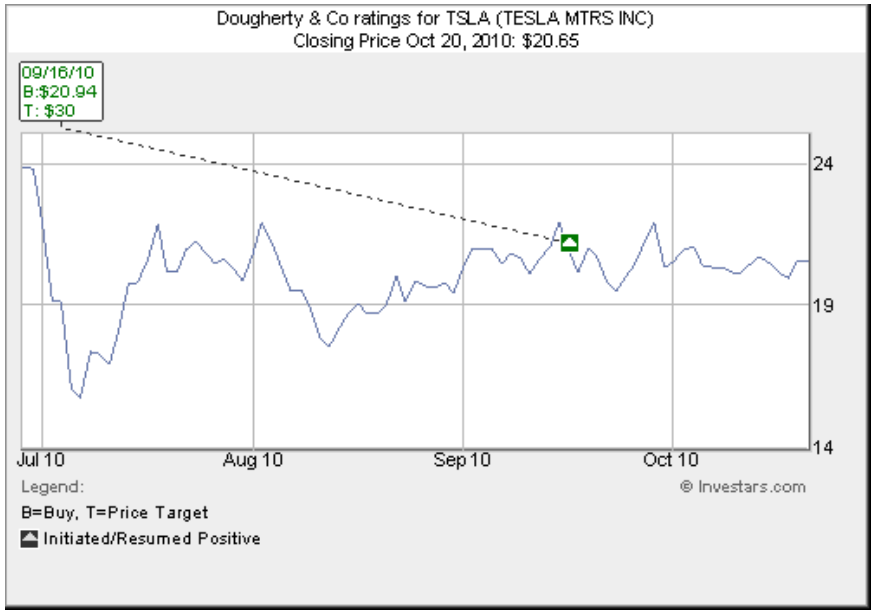

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Buy	72.81
Neutral	24.56
Sell	2.63

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October 4, 2010

Stock Rating
Equal-weight

Industry View
In-Line

Tesla Motors Inc.

Roadster Recall: One Small Bump on a Long Road

What's New? On Friday evening Tesla announced a minor recall of 439 Roadsters to fix an electrical problem on a voltage system that powers headlamps, taillights, turn signals and hazard lights. The fix is simple: it takes approximately 1 hour for a Tesla mechanic to install a protective sleeve over the electrical cable. We estimate that the repair, even if Tesla travels to a customer's home or office, will cost less than $300 per vehicle. Tesla reserves ~$3,000 per vehicle, so the warranty reserve should be sufficient to cover all associated repairs.

No direct impact to earnings, but could slow momentum. Even if Tesla took a charge of $1,000 per vehicle, the direct impact on EPS should be less than $0.01 per share because the number of vehicles affected (and the total number of vehicles sold to date) is so low. However, Tesla has established itself as a brand leader and the recall could tarnish the brand and temporarily slow Roadster sales. We forecast 150 Roadster sales per quarter globally; with absolute sales volumes so low, assessing the impact of the recall on customers' buying decisions is difficult.

Recalls are a fact of life in the auto industry. The National Highway Traffic Safety Administration (NHTSA) reports over 500 recalls so far in 2010, including top tier brands such as Rolls-Royce, Bentley, and Ferrari.

What's Next? Tesla has not confirmed the date for 3Q earnings. On the call, we'll be looking for updates on three key measures: (1) Model S reservations (which were 2,600 as of June 30, (2) Roadster sales, (3) the timeline to Model S launch, set for mid-2012. Mercedes-Benz also announced that they will begin production of 500 units of the A-class E-Cell with Tesla's 36kWh battery pack – as planned. Mercedes-Benz plans to market the vehicles in Germany, France, and the Netherlands in early 2011.

Key Ratios and Statistics

Reuters: TSLA.O Bloomberg: TSLA US
Clean Tech / United States of America

Shr price, close (Oct 1, 2010)	$20.60
Mkt cap, curr (mm)	$1,920
52-Week Range	$30.42-14.98

Fiscal Year ending	**12/09**	**12/10e**	**12/11e**	**12/12e**
ModelWare EPS ($)	**(7.96)**	**(3.25)**	**(2.25)**	**(1.41)**
EPS ($)**	(7.96)	(2.99)	(2.13)	(1.30)
Consensus EPS ($)§	**(1.59)**	**(2.23)**	**(1.95)**	**(1.24)**
P/E	NM	NM	NM	NM
EV/EBITDA	NM	NM	NM	NM
EV/rev	3.7	2.8	4.1	1.4
Revenue, net ($mm)	112	105	153	629
Gross margin (%)	8.5	18.8	21.6	12.0
EBITDA margin (%)	(40.2)	(136.3)	(126.7)	(14.1)
Rev hist grth, y/y (%)	-	(6.3)	45.6	311.7
Rev grth, 5-year CAGR (%)	75.7e	83.1	74.0	43.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates

:

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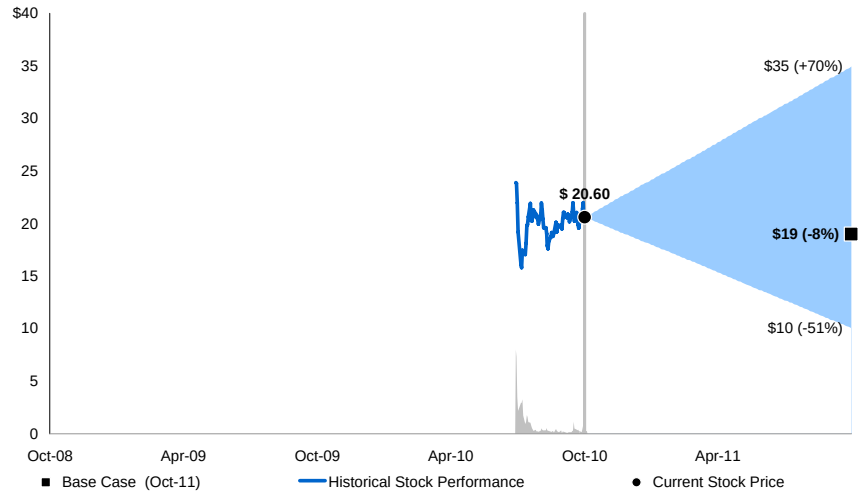
For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Risk-Reward Snapshot: Tesla Motors (TSLA, $20.60, Equal-weight)

Risk-Reward View: Continued Volatility Is Likely



Source: FactSet, Morgan Stanley Research

Valuation Methodology: We apply multiples of 12x EV/EBITDA and 2.1x EV/sales to our 2014 bull, bear, and base case forecasts, and discount the equity value at 15%. Our comp group is 80% clean tech and EV value chain and 20% traditional auto companies.
We also use a DCF analysis with an 11.3% WACC, 15% cost of equity, and 4% terminal growth.

Bull Case $35	2014e sales = $2.6 billion 2014e EBITDA = $463 million	**The future of the auto industry.** Tesla delivers the Model S on time (2Q12) and on budget with performance that rivals gasoline-powered luxury sedans. EV adoption takes off. EBITDA margins are 15-18%. OEM partnerships add powertrain volumes.
Base Case $19	2014e sales = $1.9 billion 2014e EBITDA = $161 million	**Solid execution and EV demand.** Model S deliveries start in 3Q12 and reach 20K per year in 2014. Slower ramp and modest cost overruns result in negative EPS until 2014. EBITDA margins are 7-9%. Powertrain sales a minor contributor.
Bear Case $10	2014e sales = $461 million 2014e EBITDA = $(26 million)	**Delays, cost overruns, lower demand.** A lot can go wrong in a product launch, especially with new manufacturing. We model a slight delay and lower Model S demand of 5,000 units per year. The company would likely need to raise additional capital to scale production.

Key Assumptions for Bull, Bear, and Base Cases

		Bear	Base	Bull
Gross Margin	**2012**	9.9%	12.0%	13.8%
	2013	9.3%	15.0%	23.5%
	2014	16.5%	20.7%	24.5%
EBIT Margin	**2012**	NM	NM	NM
	2013	NM	NM	13.7%
	2014	NM	4.7%	15.3%
Model S Volumes	**2012**	2,000	5,500	7,000
	2013	5,000	15,000	20,000
	2014	5,000	20,000	26,000

Source: Morgan Stanley Research estimates

Why Equal-weight?

- The opportunity in electric vehicles is enormous, but so is the challenge of getting the Model S on the road on time and on budget. At $20.60, we think the stock fairly reflects the upside and downside potential. Our $19 base case is based on discounted equity-based multiples of EV/sales and EV/EBITDA and a DCF and reflects uncertain demand for electric vehicles (EVs), increasing competition from OEMs, and execution risk.

Key Value Drivers

- **Model S pre-orders** — the best indicator of demand.
- **Additional or larger OEM partnerships** would add scale, top line growth, and offer further proof of Tesla's technology leadership.
- **EV adoption and subsidies.** Competitors' EVs will launch before the Model S. Strong sales and/or higher government support are positive.

Potential Catalysts

- Expansion of Daimler or Toyota plans or new OEM partnerships.
- Model S — final prototype on factory tools.
- Accelerating Model S reservations.

What Could Make Us Overweight…

- Higher Model S pre-orders.
- Increased government subsidies.
- Lower risk of Model S delays.
- Additional and/or larger OEM partnerships.
- More attractive valuation.

…or Underweight

- Significant Model S delays.
- Management turnover in manufacturing, engineering, technology, or design.

Exhibit 1

Base Case Quarterly Assumptions

	2009A				2010E				2011E				2012E				2013E			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Volumes																				
Model S	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	3,500	3,750	3,750	3,750	3,750
Roadster	182	200	324	134	126	141	145	150	150	150	150	150	150	150	100	98	-	-	500	300
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Vehicles	**182**	**200**	**324**	**134**	**126**	**141**	**145**	**150**	**150**	**150**	**150**	**150**	**150**	**150**	**2,100**	**3,598**	**3,750**	**3,750**	**4,250**	**4,050**
Powertrains	**-**	**-**	**-**	**-**	**105**	**200**	**240**	**340**	**450**	**650**	**700**	**770**	**800**	**800**	**800**	**800**	**875**	**875**	**875**	**875**
Powertrain ASP ($)	0.0k	0.0k	0.0k	0.0k	25.9k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins																				
Model S	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	8.2%	8.2%	8.4%	12.2%	15.5%	17.8%
Roadster	(9.8%)	7.8%	16.9%	9.6%	17.7%	16.2%	16.4%	16.4%	17.7%	19.7%	21.6%	23.5%	23.5%	23.5%	23.4%	23.4%	0.0%	0.0%	30.9%	30.4%
Powertrain	NM	NM	NM	NM	23.7%	15.0%	18.8%	18.8%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total	NM	7.8%	16.9%	9.6%	18.5%	22.2%	17.1%	17.2%	19.7%	21.1%	22.1%	22.9%	22.9%	22.9%	10.9%	9.9%	9.5%	12.9%	17.8%	19.1%
Roadster Leasing (as % of Total Vehicles Sold)	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	10.0%	10.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 2

Base Case Annual Assumptions

	Fiscal Year													
	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Volumes														
Model S	-	-	-	-	-	5,500	15,000	20,000	23,000	26,450	30,000	30,000	30,000	30,000
Roadster	-	-	-	289	300	249	400	400	400	400	400	400	400	400
Next Gen Vehicle	-	-	-	-	-	-	-	-	-	-	25,000	31,250	39,063	48,828
Total Vehicles	**-**	**-**	**-**	**289**	**300**	**5,749**	**15,400**	**20,400**	**23,400**	**26,850**	**55,400**	**61,650**	**69,463**	**79,228**
Powertrains	-	-	-	885	2,570	3,200	3,500	3,500	4,200	5,000	5,000	5,000	5,000	5,000
Powertrain ASP ($)	NM	NM	NM	25.1k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k	25.0k
Gross Margins														
Model S		NM	NM	NM	NM	8.2%	13.5%	19.7%	20.8%	19.9%	19.5%	19.5%	19.5%	19.5%
Roadster		NM	NM	16.7%	20.6%	23.4%	29.3%	37.0%	36.0%	36.0%	31.6%	37.8%	31.6%	31.6%
Next Gen Vehicle		NM	NM	NM	NM	NM	NM	15.0%	15.0%	15.0%	16.0%	17.0%	18.0%	19.0%
Powertrain		NM	NM	18.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Total														
Roadster Leasing (as % of Total Vehicles Sold)				7.5%	15.0%	15.0%	15.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 3

Base Case Quarterly Income Statement

	2009A				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	26.0	29.7	32.2	38.3	40.0	42.2	43.3	43.4	207.4	334.8	338.8	344.8	393.1	375.3
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	21.6	24.6	25.9	30.3	31.2	32.5	33.4	33.5	184.9	301.8	306.7	300.2	323.1	303.5
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**4.4**	**5.1**	**6.3**	**8.1**	**8.8**	**9.7**	**9.9**	**10.0**	**22.5**	**33.0**	**32.2**	**44.5**	**69.9**	**71.8**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*17.1%*	*17.2%*	*19.7%*	*21.1%*	*22.1%*	*22.9%*	*22.9%*	*22.9%*	*10.9%*	*9.9%*	*9.5%*	*12.9%*	*17.8%*	*19.1%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.0	37.0	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	7.0	9.0	9.0	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	27.8	27.8	27.8	27.8
General and Administrative	6.6	8.2	10.7	16.6	7.2	9.7	9.0	8.0	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock-based Compensation	-	-	-	-	3.4	6.1	3.0	5.0	3.9	3.9	3.9	3.9	3.5	3.5	3.5	3.5	4.6	4.2	4.2	3.8
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**46.0**	**59.0**	**60.7**	**60.7**	**60.7**	**60.7**	**49.7**	**49.7**	**49.7**	**49.7**	**61.1**	**55.7**	**55.7**	**50.3**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(41.6)**	**(53.9)**	**(54.4)**	**(52.6)**	**(51.9)**	**(51.0)**	**(39.8)**	**(39.8)**	**(27.2)**	**(16.7)**	**(28.9)**	**(11.1)**	**14.3**	**21.5**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.6%*	*5.7%*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(36.3)**	**(46.0)**	**(47.7)**	**(44.7)**	**(43.6)**	**(41.8)**	**(29.0)**	**(27.7)**	**(14.5)**	**(3.8)**	**(14.9)**	**4.9**	**29.9**	**37.3**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*1.4%*	*7.6%*	*10.0%*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.4)	(0.6)	(0.9)	(0.9)	(1.3)	(2.0)	(2.7)	(3.3)	(3.6)	(4.2)	(4.2)	(4.2)	(4.2)	(4.2)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**(0.4)**	**(0.6)**	**(0.9)**	**(0.9)**	**(1.3)**	**(2.0)**	**(2.7)**	**(3.3)**	**(3.6)**	**(4.2)**	**(4.2)**	**(4.2)**	**(4.2)**	**(4.2)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(42.0)**	**(54.4)**	**(55.2)**	**(53.5)**	**(53.2)**	**(53.0)**	**(42.5)**	**(43.0)**	**(30.8)**	**(20.9)**	**(33.1)**	**(15.3)**	**10.1**	**17.3**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*2.6%*	*4.6%*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(42.0)**	**(54.4)**	**(55.2)**	**(53.5)**	**(53.2)**	**(53.0)**	**(42.5)**	**(43.0)**	**(30.8)**	**(20.9)**	**(33.1)**	**(15.3)**	**10.1**	**17.3**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*2.6%*	*4.6%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(42.0)**	**(54.4)**	**(55.2)**	**(53.5)**	**(53.2)**	**(53.0)**	**(42.5)**	**(43.0)**	**(30.8)**	**(20.9)**	**(33.1)**	**(15.3)**	**10.1**	**17.3**
GAAP EPS							**($0.45)**	**($0.58)**	**($0.58)**	**($0.56)**	**($0.56)**	**($0.55)**	**($0.44)**	**($0.44)**	**($0.31)**	**($0.21)**	**($0.33)**	**($0.15)**	**$0.09**	**$0.15**
Adjusted EPS							**($0.43)**	**($0.54)**	**($0.55)**	**($0.53)**	**($0.52)**	**($0.52)**	**($0.41)**	**($0.41)**	**($0.29)**	**($0.19)**	**($0.30)**	**($0.12)**	**$0.12**	**$0.18**

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 4

Base Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	104.9	152.8	628.9	1,452.0	1,876.1	2,160.2	2,434.1	3,766.5	4,012.2	4,293.1	4,693.5
Cost of Revenue	0.0	15.9	102.4	85.2	119.8	553.5	1,233.5	1,487.4	1,694.7	1,931.2	3,055.3	3,241.6	3,465.5	3,773.8
Gross Profit	**0.1**	**(1.1)**	**9.5**	**19.7**	**32.9**	**75.4**	**218.4**	**388.7**	**465.5**	**502.9**	**711.3**	**770.6**	**827.5**	**919.6**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*18.8%*	*21.6%*	*12.0%*	*15.0%*	*20.7%*	*21.6%*	*20.7%*	*18.9%*	*19.2%*	*19.3%*	*19.6%*
Expenses														
Research and Development	62.7	53.6	19.3	90.1	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	31.0	44.0	61.0	111.0	131.3	151.2	170.4	263.7	280.9	300.5	328.5
General and Administrative	17.1	23.4	42.2	33.9	33.0	35.0	35.0	70.4	75.6	85.2	131.8	120.4	128.8	140.8
Stock-based Compensation	0.2	0.4	-	17.5	15.8	13.9	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Total Expenses	**80.0**	**77.4**	**61.4**	**172.5**	**242.8**	**198.9**	**222.7**	**301.3**	**331.5**	**365.4**	**515.4**	**524.4**	**558.3**	**607.6**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(152.8)**	**(209.8)**	**(123.5)**	**(4.3)**	**87.5**	**134.1**	**137.5**	**195.9**	**246.1**	**269.3**	**312.0**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.7%*	*6.2%*	*5.6%*	*5.2%*	*6.1%*	*6.3%*	*6.6%*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(125.5)**	**(177.7)**	**(75.0)**	**57.3**	**160.6**	**216.8**	**231.7**	**301.1**	**371.4**	**394.4**	**449.7**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*8.6%*	*10.0%*	*9.5%*	*8.0%*	*9.3%*	*9.2%*	*9.6%*
Interest Expense, net	1.7	(3.2)	(2.4)	(1.6)	(5.1)	(13.7)	(16.8)	(15.0)	(9.1)	(0.7)	0.8	1.7	2.9	4.1
Other Income (Expense), net	0.1	(1.0)	(1.4)	(10.0)	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(11.5)**	**(5.1)**	**(13.7)**	**(16.8)**	**(15.0)**	**(9.1)**	**(0.7)**	**0.8**	**1.7**	**2.9**	**4.1**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(164.3)**	**(214.9)**	**(137.2)**	**(21.1)**	**72.5**	**125.0**	**136.8**	**196.7**	**247.8**	**272.2**	**316.0**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*5.8%*	*5.6%*	*5.2%*	*6.2%*	*6.3%*	*6.7%*
Taxes, GAAP	0.1	0.1	0.0	0.1	-	-	-	-	-	-	-	-	60.6	75.9
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60.6**	**75.9**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*22.3%*	*24.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(164.5)**	**(214.9)**	**(137.2)**	**(21.1)**	**72.5**	**125.0**	**136.8**	**196.7**	**247.8**	**211.6**	**240.2**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*5.8%*	*5.6%*	*5.2%*	*6.2%*	*4.9%*	*5.1%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(164.5)**	**(214.9)**	**(137.2)**	**(21.1)**	**72.5**	**125.0**	**136.8**	**196.7**	**247.8**	**211.6**	**240.2**
GAAP EPS				**($3.25)**	**($2.25)**	**($1.41)**	**($0.20)**	**$0.63**	**$1.06**	**$1.14**	**$1.60**	**$1.96**	**$1.64**	**$1.81**
Adjusted EPS				**($2.99)**	**($2.13)**	**($1.30)**	**($0.08)**	**$0.76**	**$1.19**	**$1.25**	**$1.73**	**$2.07**	**$1.73**	**$1.92**

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 5

Base Case Annual Balance Sheet

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	216.5	100.0	58.2	100.0	100.0	100.0	306.3	601.0	1,046.2	1,469.3	1,952.7
Accounts receivable, net	0.1	3.3	3.5	1.6	12.6	12.2	13.5	13.0	15.8	18.7	18.6	18.5	18.3	18.2
Inventories, net	2.1	16.7	23.2	32.1	38.9	360.8	362.8	448.3	510.7	580.4	920.8	976.9	1,044.4	1,134.2
Prepaid expenses and other current assets	2.9	2.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Current Assets	**22.3**	**31.4**	**100.6**	**255.2**	**156.5**	**436.2**	**481.4**	**566.2**	**631.5**	**910.4**	**1,545.4**	**2,046.7**	**2,537.1**	**3,110.1**
Property, Plant and Equipment, net	12.0	18.8	23.5	82.9	215.8	270.6	280.2	349.9	424.2	502.8	595.1	653.7	720.6	790.4
Restricted cash	0.3	1.2	3.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Other assets	0.3	0.3	2.8	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
Total Assets	**34.8**	**51.7**	**130.4**	**362.9**	**397.1**	**731.6**	**786.4**	**940.9**	**1,080.5**	**1,438.0**	**2,165.3**	**2,725.1**	**3,282.4**	**3,925.4**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	24.1	31.8	295.2	296.9	366.8	417.9	474.9	753.3	799.3	854.5	928.0
Accrued liabilities	8.5	11.1	14.5	8.9	10.4	16.8	57.8	111.6	164.3	216.6	307.2	390.5	470.7	553.7
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital lease obligations, current portion	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Refundable reservation payments	37.3	48.0	26.0	28.8	32.5	10.8	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**63.0**	**76.1**	**324.1**	**356.0**	**479.6**	**583.4**	**692.8**	**1,061.8**	**1,191.1**	**1,326.5**	**1,483.0**
Convertible preferred stock warrant liability	0.2	2.1	1.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Capital lease obligations, less current portion	0.0	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other long-term liabilities	-	4.8	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	102.4	273.0	423.8	381.1	234.4	25.5	-	-	-	-	-
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**123.9**	**294.5**	**445.3**	**402.6**	**255.8**	**47.0**	**21.5**	**21.5**	**21.5**	**21.5**	**21.5**
Total Liabilities	**152.7**	**251.4**	**383.9**	**186.9**	**370.6**	**769.4**	**758.6**	**735.5**	**630.4**	**714.2**	**1,083.3**	**1,212.6**	**1,347.9**	**1,504.4**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	4.3	5.2	7.1	582.2	647.7	720.6	807.3	912.3	1,032.1	1,169.0	1,330.5	1,513.3	1,723.6	1,969.9
Retained Earnings	(122.1)	(204.9)	(260.7)	(406.2)	(621.1)	(758.4)	(779.4)	(706.9)	(582.0)	(445.2)	(248.5)	(0.7)	210.9	451.1
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**176.0**	**26.5**	**(37.8)**	**27.8**	**205.4**	**450.1**	**723.8**	**1,082.0**	**1,512.6**	**1,934.5**	**2,420.9**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**362.9**	**397.1**	**731.6**	**786.4**	**940.9**	**1,080.5**	**1,438.0**	**2,165.3**	**2,725.1**	**3,282.4**	**3,925.4**

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 6

Base Case Cash Flow Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Activities:														
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(164.5)**	**(214.9)**	**(137.2)**	**(21.1)**	**72.5**	**125.0**	**136.8**	**196.7**	**247.8**	**211.6**	**240.2**
Depreciation and Amortization	2.9	4.2	6.9	9.8	16.3	34.6	44.8	53.6	63.7	76.0	83.3	106.9	108.4	119.4
Change in fair value of convertible preferred stock warrant liability	(0.0)	2.8	1.1	8.7	-	-	-	-	-	-	-	-	-	-
Gain on extinguishment of convertible notes and warrants	-	(1.2)	(1.5)	-	-	-	-	-	-	-	-	-	-	-
Stock compensation expense	0.2	0.4	1.4	17.5	15.8	13.9	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Loss on abandonment of fixed assets	2.4	-	0.4	-	-	-	-	-	-	-	-	-	-	-
Inventory write-downs	-	-	1.4	0.4	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	-	3.7	2.7	-	-	-	-	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(0.1)	(3.3)	(0.2)	1.9	(11.0)	0.4	(1.3)	0.5	(2.8)	(2.9)	0.1	0.1	0.2	0.1
Inventories	(2.1)	(14.5)	(7.9)	(9.2)	(6.8)	(321.9)	(2.0)	(85.4)	(62.5)	(69.7)	(340.4)	(56.2)	(67.5)	(89.8)
Prepaid expenses and other current assets	(1.9)	0.8	(2.0)	0.9	-	-	-	-	-	-	-	-	-	-
Other assets	(0.1)	0.0	(0.4)	(0.5)	-	-	-	-	-	-	-	-	-	-
Accounts payable	0.5	8.8	0.9	4.4	7.8	263.4	1.7	69.9	51.1	57.0	278.5	46.0	55.2	73.5
Accrued liabilities	7.6	2.6	3.4	(4.0)	1.6	6.3	41.0	53.8	52.7	52.3	90.6	83.3	80.2	83.0
Other long-term liabilities	-	1.2	2.2	(1.5)	-	-	-	-	-	-	-	-	-	-
Deferred development compensation	-	10.2	(10.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	(1.5)	0.5	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	15.2	10.7	(22.0)	2.7	3.8	(21.7)	(10.8)	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	**19.2**	**20.5**	**(37.5)**	**(4.9)**	**(4.7)**	**(73.5)**	**28.5**	**38.8**	**38.5**	**36.8**	**28.8**	**73.2**	**68.1**	**66.8**
Net Cash Flow from Operating Activities	**(53.5)**	**(52.4)**	**(80.8)**	**(133.1)**	**(187.5)**	**(162.2)**	**69.0**	**184.4**	**246.2**	**267.8**	**330.7**	**446.2**	**404.8**	**444.7**
Investing activities:														
Purchases of property and equipment excluding capital leases	(9.8)	(9.6)	(11.9)	(72.6)	(149.2)	(89.3)	(54.5)	(123.2)	(138.0)	(154.5)	(175.7)	(165.4)	(175.3)	(189.3)
Decrease (increase) in restricted cash	0.0	(1.0)	(2.4)	(1.8)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(9.8)**	**(10.6)**	**(14.2)**	**(74.4)**	**(149.2)**	**(89.3)**	**(54.5)**	**(123.2)**	**(138.0)**	**(154.5)**	**(175.7)**	**(165.4)**	**(175.3)**	**(189.3)**
Financing activities:														
Proceeds from issuance of convertible preferred stock, net of issuance	44.9	-	131.8	-	-	-	-	-	-	-	-	-	-	-
Proceeds from DOE Loan	-	-	-	102.4	170.6	150.8	(42.7)	(146.7)	(208.9)	(25.5)	-	-	-	-
Principal payments on capital leases and other debt	-	(0.2)	(0.3)	(0.2)	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible notes and warrants	-	54.8	25.5	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock	-	0.0	-	243.8	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	0.1	0.5	0.5	11.7	49.7	59.0	70.0	85.5	100.7	118.6	139.6	164.4	193.6	228.0
Deferred common stock and loan facility issuance costs	-	-	(2.0)	(3.5)	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by financing activities	**45.0**	**55.1**	**155.4**	**354.3**	**220.3**	**209.8**	**27.3**	**(61.3)**	**(108.2)**	**93.1**	**139.6**	**164.4**	**193.6**	**228.0**
Effect of Exchange Rate Changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Cash and Cash Equivalents	**(18.2)**	**(7.9)**	**60.4**	**146.8**	**(116.5)**	**(41.8)**	**41.8**	**-**	**(0.0)**	**206.3**	**294.7**	**445.2**	**423.2**	**483.4**
Cash and cash equivalents at beginning of the year	35.4	17.2	9.3	69.6	216.5	100.0	58.2	100.0	100.0	100.0	306.3	601.0	1,046.2	1,469.3
Cash and cash equivalents at end of year	**17.2**	**9.3**	**69.6**	**216.5**	**100.0**	**58.2**	**100.0**	**100.0**	**100.0**	**306.3**	**601.0**	**1,046.2**	**1,469.3**	**1,952.7**

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

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Total	**2,656**		**910**		

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Industry Coverage:Clean Tech

Company (Ticker)	Rating (as of)	Price* (10/01/2010)
Joshua Paradise		
Cree, Inc. (CREE.O)	O (08/25/2010)	$53.49
Energy Conversion Devices, Inc (ENER.O)	U (03/24/2010)	$5.08
Tesla Motors Inc. (TSLA.O)	E (08/09/2010)	$20.6
Smittipon Srethapramote		
Evergreen Solar Inc (ESLR.O)	E (03/24/2010)	$.75
First Solar Inc. (FSLR.O)	O (03/24/2010)	$147.23

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* Historical prices are not split adjusted.

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Jeff Evanson (612) 376-4123 jevanson@doughertymarkets.com

TESLA MOTORS INC. (TSLA) BUY - $21.98

APPLIED TECHNOLOGIES

PLEASE REFER TO DISCLOSURES ON PAGES 16 & 17 FOR IMPORTANT INFORMATION

As the Archetypal EV, Model S Changes Everything; Initiating Coverage with $30 PT

Changes: Initiation of coverage

Financial Summary*

EPS	2009	2010E	2011E	2012E
Mar		-0.35A	-0.37	-0.38
Jun		-0.28A	-0.42	-0.36
Sep		-0.30	-0.44	-0.50
Dec		-0.34	-0.37	-0.45
FY		-1.44	-1.36	-1.69
EBITDA	($44,957)	($101,844)	($121,475)	($121,757)
Revs ($'000)				
Mar	$20,886	$20,812A	$30,327	$26,727
Jun	$26,945	$28,405A	$34,169	$25,176
Sep	$45,527	$27,904	$36,449	$24,670
Dec	$18,585	$31,677	$29,867	$21,780
FY	$111,943	$108,799	$130,812	$98,352
Mkt Cap/Rev	20x	20x	17x	23x

Price	$21.98
12-Month Target	$30.00
52-Week Range	$14.98-$30.41
Diluted Shares ('000)	101,000
Market Cap ('000)	$2,219,980
Avg. Daily Vol	741,838
3-5 Yr. Revenue Growth	20%+
3-5 Yr. EPS Growth	20%+
Book Value	$1.82
Net Cash/Share*	$1.87
LT Debt / Total Capital	20%
Insider Ownership	57%
Est. Q3 Reporting Date	Nov'10

*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.

Investment Thesis:

We are initiating coverage on Tesla Motors Inc. with a Buy rating and a $30 price target. Simply put, we believe that Tesla can deliver eco-friendly driving with very few compromises. In fact, we believe that the Model S can be so good that buyer attitudes begin to shift from "Why would I want an electric car" to "Why would I want a gas-powered car?" At inception, we too were skeptics. Our thinking has changed.

While Tesla is a car company, we really see this as an applied technologies stock. As such, the investment decision requires an evaluation of Tesla's competitive technological positioning, its ability to mold that technology into compelling products at a value proposition the market will adopt, and an assessment of whether the company can generate a reasonable return in the process.

Tesla's success in its powertrain business convinces us that the company has some of the world's best electric vehicle (EV) powertrain technology. In this business line, Tesla has competitively won and delivered on battery and drive train opportunities with some of the most successful car companies in the world, Toyota and Daimler.

Our visit to Tesla shortly after the completion of the Model S body design showed us that the car can be good enough to meet and even exceed 2013 volume expectations. In fact, the car could be so good that it completely changes mass-market thinking about EVs.

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The reason is that EVs have many advantages that have never been fully explored until the Model S. In a car designed from the ground-up as an EV, the advantages that can be teased out include better acceleration and handling, improved reliability, increased internal capacity and greater safety. Lower fuel costs and zero tailpipe emissions are included. We believe that Tesla is well down a path of developing that car in the Model S.

Well-publicized EV short-comings are range and battery life. But with a 200+ mile range, the Model S will be able to handle all but the rare long road-trip, and for many buyers, the Model S will not be their only car. Tesla's battery replacement program on the Roadster has been well received and extends the value of the car's life for another seven years at a price of $0.15 cents per mile. We expect this very economical option to be available on the Model S.

At this point, Tesla's path to success rides almost entirely on moving the Model S into production at an acceptable cost. We arrive at our $30 price target assuming the Model S will be six months late. In fact, the alpha build of the Model S is on track to achieve management's guidance for first deliveries in mid 2012. Thus, the company is on a path to exceed our expectations.

The bulk of our report focuses on assessing whether Tesla can achieve a reasonable return on Model S, and this is a hard question to answer. However, street expectations are already 10% below management's guidance, and the company has a reasonable roadmap to success. Thus, we believe that this is a balanced risk for investors to assume at these price levels. Simply put, we are very impressed with the work that Tesla has done and continues to do to mitigate and retire that risk.

For Tesla to succeed in a competitive landscape dominated by well-established incumbents, the company must ride the disruptive forces of a transitional technology. Electric powertrain systems can be that transitional technology. EVs are different enough from ICEs that they can alter traditional buying patterns. Having embraced this transitional technology, we believe Tesla is well-positioned to win.

Tesla's unique strengths are its proprietary power storage and management technology, its highly skilled, motivated and well-managed engineering team, and its first-mover advantage. Tesla Roadsters have traveled far more electrically powered miles than any EV sold. This experience, combined with Tesla's technology, engineering and manufacturing expertise, comprise a powerful feedback loop that should lead to break-through products such as the Model S.

One often-cited concern on Tesla is that the EV industry is subsidized by tax dollars. In our investment experience, subsidized industries rarely succeed. But having said that, we believe that the Model S can be so good that buyer tax credits simply won't matter materially. Thus, we believe that Tesla has moved beyond needing any further subsidies.

Until the Model S is being delivered, financial results won't really matter. However, as Model S moves toward final design and into production, there will be many very important data-points that yield insight into the timing and cost of the Model S. We also believe that the stock will benefit from catalysts such as additional announcements of OEM powertrain partnerships.

To organize our report, we've broken the Tesla story into the following categories:

1. Model S Progress, Profitability & Adoption
2. Power Storage & Management
3. OEM Partnerships & Powertrain Development
4. Governmental Support & Subsidies

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5. Current Results / Roadster Sales
6. Valuation
7. Risks

1. Model S Progress, Profitability & Adoption

- *Estimates and guidance anticipate mid-2012 deliveries, but we (and, we think some investors) expect a six-month delay*
- *Meeting 23% consensus GM expectations (versus 25% guidance) looks achievable and would be a positive catalyst*
- *Go-to-market strategy depends on small dealership footprint, low repair levels and modest advertisement spending*
- *At 20,000 units in 2013, Tesla would only need to take 2% of the premium auto industry market share*

On-time Availability:

Currently, Tesla is on track to achieve its planned start of deliveries of the Model S in mid-2012. However, our model assumes that initial deliveries slip to January 2013.

Development milestones of the Model S will be key drivers of the stock. Tesla is targeting 7,000 units sold in 2012 and 20,000 units once the second shift comes online in 2013.

Virtually all of the critical path components have been sourced with minimal sourcing remaining, which gives greater resolution on the cost of the car. We expect an update on this progress on the Q310 call.

The greatest impending challenge will be the "alpha build" phase, which is slated to begin in Q410. We believe that this phase is on schedule based on our channel checks.

Gross Margins:

One of the biggest factors affecting a DCF-derived the valuation of Tesla shares are the profit margins for the company as driven by margins on the Model S.[1]

Tesla is targeting 25% gross margins for both the company and for the Model S at a volume of 20,000 units per year. We believe that demand for units will be there, and that Tesla's target margins are achievable and appear generally consistent with other auto OEMs. We believe that BMW typically achieves low 20's% vehicle GMs, Jaguar/LandRover achieves upper 20's to low 30's and Porsche achieves 40% to 45% GMs. These GMs would be 800bp+ higher without dealer discounts. Put another way, Tesla sells at full retail; competitors sell at diminished wholesale prices.

As best as we can tell, published consensus gross margin expectations are 23% for the Model S in 2013, with a range of 19.5% to 26%. This is based on unit volume expectations of 15,000 to 20,000 units in 2013.[2]

[1] Rather than DCF, some investors are evaluating Tesla based on perceptions about product adoption. See our Valuation section for a price target discussion.

[2] Our margin discussion excludes ZEV credits and we have adjusted the numbers in this paragraph for an apples-to-apples comparison. Some analysts include ZEV credits as part of vehicle selling price, and estimates are as high as $5,000 per car in North America, which is a debatable assumption, in our opinion.

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Whisper expectations for Model S margins may vary dramatically among some investors and short-sellers who expect that GMs of even 23% will not be achieved. We believe that achieving 23% GMs on the Model S in 2013 would be a positive catalyst for Tesla shares.

Unfortunately, the visibility on achieving the Model S margin targets is poor for external investors -- it is difficult to gain insight into these margins. That said, Tesla has discussed a 43% cost reduction roadmap from the Roadster to the Model S, detailed as follows:

Model S Cost Reduction Roadmap

	% of Roadster Cost	Comments
Roadster Cost	100%	
More powerful battery	7%	Moving from 53kWh to 73kWh battery (22% price decline / kWh)
Design optimization	-15%	Simpler battery, cheaper drivetrain & body panels
In-house manufacturing	-14%	Eliminate Lotus margin on glider, more in-sourcing
Economies of scale	-21%	25x increase in units/yr. cuts component costs & OH allocation
Model S Cost (base version)	-43%	

- More powerful battery: The battery pack needs to be larger because the car has greater mass. We expect that to be offset by a decrease in cost per kWh at the cell level.

- Design optimization: Building the Roadster was a process of shoe-horning an electric drive train into a chassis built for a gas-powered car. That's a fast approach, but also expensive and requires a number of compromises. Instead, the Model S is a purpose-built electric vehicle that takes full advantage of all the benefits of an electric drive train (see the EV Advantages section). Three simple examples of cost savings related to design optimization include:

    1. The Roadster battery has a complicated shape, specially designed to fit into the space behind the Roadster's seats. This results in a form factor that is complicated and expensive to manufacture. The Model S battery is a simple, flat sandwich situated in the floor of the car. It is more modular and less expensive to manufacture.

    2. In addition to the battery, the Roadster drive train has three additional components, a gear box (a single-speed transmission), motor and power module. In the Model S, the drive train is one integrated unit that connects directly to the rear axle and nests neatly between the rear suspension – simple, easy and less expensive to manufacture and assemble than the Roadster's three separate components.

    3. Moving from carbon fiber body panels (made in France by a third-party supplier) to aluminum body panels stamped at the new Fremont facility.

- In-house manufacturing:

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1. Tesla must balance capital outlays versus component costs. Investing more in capital equipment can lower component costs.

2. Tesla should achieve cost elimination by moving from a Lotus glider to an in-house chassis. By producing in-house components, Tesla will save margin that would go to a supplier.

3. Given excess auto industry manufacturing capacity, Tesla has been able to purchase manufacturing equipment and the NUMMI plant in Fremont, Calif. at favorable cost.

- Economies of scale: At 20,000 units per year, Tesla would be selling about 30x more Model S vehicles than the Roadster at its current run rate. The higher volume should benefit purchasing.

Go-To Market Strategy & Related Operating Expenses:

Traditional auto-OEM's "spend" about 1,300bp on their go-to-market strategy. This includes about 1,000bp on dealer support, primarily through auto discounts, about 50bp in elevated warranty costs and another 200bp to 300bp on advertising expense.[3]

We believe that the traditional dealership model wastes about 500bp on large dealership lots and inventory carrying costs. Tesla needs to do almost no advertising and it may get some savings on service work. Thus, Tesla's go-to-market strategy will likely cost about 500bp, or roughly $2MM per store per year. This seems reasonable.

Given that Tesla targets 25% GMs and 12% to 16% OMs, operating expenses would be about 9% to 13%, of which 400bp will be for R&D, 400bp to support the go-to-market strategy, leaving 100bp to 400bp for general and administrative expenses.

As we see it, Tesla must be successful with its unique, direct go-to-market strategy to achieve its profit margins. If Tesla someday decides that the direct model is not working, profitability could be substantially reduced.

Adoption:

Tesla has guided to 20,000 Model S deliveries in 2013, the first full year of production. This level of production is expected to require two shifts at the new Fremont manufacturing facility. By going to three shifts, we believe initial capacity for this plant is 30,000 units. NUMMI at its height was producing 400,000 units, so the potential for the plant is greater than just producing the Model S line.

The target sales volume of 20,000 units means 6,600 units in Europe, North America and Asia, each. We see demand meeting these targets. We believe that initial consumers will adopt electric vehicles to use as a second car, given the range and infrastructure limitations of an electric vehicle compared with an internal combustion engine. The extended range of the Model S gives it an advantage over other electric vehicles. The Model S range of 160 miles to 300 miles per charge, depending on the version, is at least 60% farther than the stated range of the Nissan Leaf, which is 100 miles per charge. We believe that the cache of Tesla as a high-end premium brand, combined with the added range, will justify Tesla's price premium to mid-market electric vehicles.

[3] In this analysis, we assume that traditional auto dealership profits are low and derived primarily from used car sales and excess service work.

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While we have set our 2013 assumptions at 20,000 units as well, we believe that demand can easily exceed this level. Simply put, we believe an electric vehicle drive train leads to a better car.

Consumers may wonder what compromises must be accepted to purchase an electric vehicle. We think that they will soon learn that the answer is only one or two.

EV Negatives: The EV range is the biggest disadvantage. However the range gap, or difference between an ICE and an EV is beginning to close with improving battery technology. Also, for many buyers the Model S can be a second car, such as a commuter car, that blends into a home fleet of two or more cars that include longer range ICEs. The average daily commute in the U.S. is 40 miles round trip. Finally, this issue should begin to mitigate as charging station infrastructure begins to build out.

And yet that said, we believe the range gap will never close completely. Sure, one can always build in a bigger battery, but eventually the limits of cost, weight and size all conspire to limit range. We believe this is simply because gasoline is such a compelling method of power storage.

Internal Combustion Engine	Tank Capacity (gallons)	MPG (combined)	Range (miles)	MSRP
2011 Make / Model				
BMW 5-Series 550I Sedan	18.4	17	313	$ 59,700
BMW 750 LI xDrive	21.7	16	347	$ 88,900
Mercedes SL550 Roadster	21.1	17	359	$ 102,600
Porsche Boxster Spyder	22	14.3	315	$ 61,200
Jaguar XF R	18.4	17	313	$ 79,150
Electric Vehicles / Hybrids	Type	Advertised Range*	Expected Range**	MSRP***
Tesla Model S (low)	EV	160	112	$ 49,900
Tesla Model S (mid)	EV	230	161	$ 60,500
Tesla Model S (high)	EV	300	210	$ 70,500
Chevy Volt Hatchback	EV/Gas Hybrid	300	300	$ 32,780
Toyota Prius 5	Hybrid	595	595	$ 20,570
Nissan Leaf	EV	100	70	$ 25,280

*- Based on EPA test and / or company expectations
**- Often 65%-75% of EPA; varies on driver usage and conditions
***- Includes $7,500 federal tax credit; Tesla MSRPs are D&Co estimates

The other issue is battery life. Roadster batteries lose about 40% of the charge they can hold after seven years and 100,000 miles. Thus, the value of the car after seven years, which is crucial for residual values, is negatively affected by battery deterioration. For the Roadster, Tesla currently offers a $12,000 battery replacement program and we expect Tesla to offer something similar for the Model S.

EV Advantages: After those two issues, pretty much everything else is upside. In fact, there are so many advantages to an EV, and thus the Model S, that we believe even non-eco-conscious buyers will strongly consider purchasing them. These advantages are not given, but instead need to be teased-out through the design and development processes. This is what the Tesla team has been able to uniquely achieve.

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Acceleration – An EV drive train has essentially full torque over the motor's RPM range. An ICE builds torque as the engine RPM increases. Full torque can translate into much faster acceleration. Faster acceleration is safer for passing and crash avoidance … it is also more fun!

Reliability – Tesla's drive train will be the simplest on the road. An ICE is loaded with wear-parts, while an EV has only a few. Maintenance, downtime and warranty costs should all be lower because of fewer failure points and faster repairs due to more modular design.

Safety – The Model S is expected to have a five-star crash safety rating under the tougher standards to be implemented in 2010. Given the structure of the battery pack and its location spanning the floor of the vehicle, the battery pack will add structural rigidity to the Model S. The result is a car that is much safer in a side-impact crash. Passengers get hurt in side-impact crashes when the side of the car folds in upon the occupants. The structural rigidity will dramatically reduce the level of cabin intrusion in these types of crashes. Finally, while a battery pack can (in theory) catch fire, it is *much* less flammable than gasoline.

Handling – Steering responsiveness is what makes a car fun to drive. It also makes a car safer as it improves crash avoidance and reduces driver distraction. Based on our understanding of vehicle design and handling dynamics, we believe that the Model S can meet or beat the leading competitors, such as the BMW 5-series, with its higher torsional rigidity and lower center-of-gravity. By using the battery pack as the base of the car, Tesla engineers have created the most rigid body structure likely to be on the road in 2013. The car also looks like it may have the lowest un-sprung weight in its class, given a simpler and more elegant suspension, especially in the rear.

Interior Space – Any EV can have a much larger interior for a given exterior because the volume and configuration of an ICE is larger and more complicated than an EV. We estimate that the Model S will have a net gain of about 12 to 14 cubic feet relative to a comparable car. Thus, the Model S looks slightly smaller than a BMW 5-series, but will seat five adults with equal comfort, plus seat two 10-year-olds in the back, or have much larger cargo space. Examples of space savings include (our estimates):

- Engine & driveshaft – An ICE's gas-powered engine and driveshaft are large and the driveshaft tunnel running the length of the car represents a significant design constraint. An ICE and related controls runs about 8-10 cubic feet versus the Tesla at about 0.4 cubic feet. The driveshaft tunnel in an ICE requires another very cumbersome 3 cubic feet.
- Exhaust/emissions systems – ICEs require about 2 to 3 very cumbersome cubic feet. The EV requires none.
- The transmission of an ICE requires about 1 to 2 cubic feet, while the Model S's transmission and power module consume about 0.3 cubic feet.
- Fuel storage – This is the only place the EV loses, disadvantaged by 1 to 2 cubic feet. An ICE requires a fuel tank, piping and electronics that consume 3.5 to 4.5 cubic feet in a typical car. We estimate the volume of the Model S battery and related controls at about 5 to 6 cubic feet.

Quieter – At low speed, electric vehicles are essentially silent. But at highway speed, wind and tire noise largely offset drive train noise. However, the positioning of the battery pack essentially in the floor of the car should dampen a material portion of tire, road and under-car wind noise. Also, the Model S should be one of the most aerodynamic cars in its class, meaning it should generate less wind noise.

Other Advantages:

- Imagine never having to go to a gas station again. Nice.

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- Better for the environment? Maybe, maybe not. That debate is not over, but in the minds of many, EVs have much less impact on the environment than ICEs.
- The Model S is beautiful and unique.
- The Model S has a 17-inch, color haptic touch in-dash screen that is dangerously close to being too large to be attractive, but it is very high tech.
- Smell/Cleanliness – Personal preferences aside, EVs generally smell cleaner than ICEs. They also have less risk of leaking fluids onto the garage floor.

2. Power Storage & Management

In totality, Tesla has a sustainable collection of intellectual property in automotive electronics, design and manufacturing

Battery – Contrary to general perception, the batteries for the Model S are not laptop batteries. Instead, they have differentiated chemistry and proprietary cathode geometry. However, the batteries still conform to the ubiquitous 18650 form-factor. The Tesla batteries will be produced primarily by Panasonic on the same manufacturing equipment that is used for ultra-high volume production. Thus, Telsa will benefit from lower production costs relative to large format batteries (see last point).

Thermal and charge management – Tesla has developed proprietary heat and charge management technologies for its battery packs. This extends the life of the battery pack of the Roadster, so that even after seven years and 100,000 miles, the battery will still retain about 60% to 65% of its initial charge. We expect the battery life to be even longer on the Model S, up to about 10 years.

Electric power train integration – This provides superior feel and handling, integration of the motor and power electronics module and the appropriate level of charge and discharge into the system. Each design element in the power train is designed to maximize range.

Safety – The design, configuration and cooling system in the Tesla battery pack significantly mitigates the risk of thermal propagation. Of the thousand Tesla Roadsters on today's streets, there have been no reports of battery fires despite two significant accidents.

Manufacturing knowledge-base – Tesla has been building battery packs for several years. During this time the company has developed a collection of purpose-built manufacturing equipment and techniques for building battery packs. All this has been done with an eye toward benefiting from more rapid, cost effective manufacturing in the future.

Competing battery technologies – Battery manufacturers, such as A123 Systems, LG Chem and Ener1 Inc., generally focus on large format prismatic batteries. Tesla currently does not. Large format prismatic batteries may have greater power density (think acceleration) but Tesla's batteries tend to have better energy density (think range). Prismatic batteries may also be able to be configured to fit more compactly into a vehicle. Conversely fitting batteries closely together allows little to no room for cooling fluid and thus the risk of thermal runaway may be increased. Also, the manufacturing of these larger batteries may suffer diminished yield, and, thus, higher cost, as the large material surface can lead to elevated defect incidence, similar to the challenge of producing large semiconductors. Finally, because fewer large format batteries fit within a car, failure of one cell dramatically reduces the power.

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3. OEM Partnerships & Powertrain Development

Expanding and new OEM partnerships should be positive catalysts, as current expectations are modest

Tesla's core company focus is making cars, but the powertrain business is an important validation of Tesla's technology. The company is continuing to pursue wins. It has thus far sold engineering services, batteries and chargers, and may have recently won development work on the full powertrain for Toyota's Rav4.

The Department of Energy has provided $100MM in loan commitments for Tesla to expand its powertrain business.

With at least $10,000 in revenue per battery pack unit, we believe that new OEM development contracts or commercial production contracts can be a significant catalyst for the stock.

Tesla currently has several R&D and development relationships with original equipment manufacturers and others. To the extent that Tesla announces other relationships, it could be a catalyst to the stock.

Currently, Daimler is Tesla's biggest partner. Tesla has three programs with the German automaker, which comprise developing battery packs and chargers for the Smart Fortwo electric vehicle, developing batteries and chargers for the Mercedes A-Class pilot fleet of 500 electric vehicles and developing modular battery packs for the Freightliner electric delivery van.

Our channel checks indicate that Daimler intends to continue its partnership with Tesla and Daimler executives have been impressed by Tesla's fast turnaround on battery packs for the Smart Fortwo and the A-Class. We note that Tesla's Q210 revenue of $28MM included $9MM from Daimler contracts.

Daimler was the first auto maker to invest in Tesla, and did so because it was impressed with the technology and because the company can nimbly turn around a product. However, Daimler is one of the companies that have assumed that the large prismatic batteries may represent the future of electric vehicles and it has partnered with Evonik to develop them. However, this sentiment may be changing and our checks have found that Daimler may turn its attention away from Evonik and strengthen its relationship with Tesla.

Tesla's other major OEM relationship is with Toyota, in which it is developing prototype batteries for the Rav4 EV. We believe Tesla's partnership with Toyota may expand. Finally, Tesla holds a research and development contract with Southern California Edison to adapt a battery pack for grid applications.

We believe that expansion of current contracts, or the conversion of development contracts into contracts to deliver powertrain components for commercial production, would be a positive catalyst for Tesla's shares. We've modeled this business between now and 2013 based upon projections and ramp of currently known contracts, which allows room for upside. We also believe that some street expectations for OEM revenue growth are modest.

4. Governmental support and subsidies

Government subsidies, while nice, are not necessary for Model S adoption

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Governments at all levels are throwing their weight behind supporting electric vehicle adoption. Most prominent in the U.S. is a direct subsidy of the vehicles themselves – a federal tax credit of up to $7,500 for the purchase of alternative fuel vehicles that expires in 2012.

Beyond that, there are 21 other separate federal tax, loan and grant incentives for electric vehicles. The government is investing in charging infrastructure, manufacturing plant development and providing loans and grants for various electric vehicle company research and initiatives. The federal incentives are in addition to another 274 incentives among the states.

This support has mixed consequences for the emerging electric vehicle industry. While government support is likely to lead to faster adoption and infrastructure investments, it also deprives investors of the ability to see if business models involving electric vehicle can stand on their own.

While we understand investor concern over betting on an industry that is propped up by government subsidies, we have identified three key considerations that should mitigate that concern.

1. We do not think a collapse in government support would affect Tesla adoption. We believe that Tesla's Model S pricing can be adjusted to reflect consumer demand, with or without a buyer tax credit. Also, weaning consumers off of tax refunds should be offset by gasoline cost savings.

2. We also believe that *quality vehicles* can withstand fluctuations in government support. For example, when the second generation Toyota Prius was first introduced in the U.S. in 2004, it benefitted from a $2,000 federal tax credit. That credit has fluctuated downward and back up again in the past six years and Prius sales have remained strong. (See table, next page.)

3. We think that a dramatic withdrawal of government support is unlikely (in fact, it is likely to increase in Europe). Alternative fuel development faces political support in the U.S. from various groups, including those who support eco-friendly legislation and those who make the case for energy independence. Also, local city governments tend to support clean air investments. Finally, it is worth noting that the sheer volume of legislation precludes an immediate withdrawal of support. Repeal would be a slow process. Any continuation of current tax credits could be a catalyst for Tesla's stock.

For its part, Tesla benefits directly from a Department of Energy loan commitment, from the federal buyer tax subsidy and from California's tax-exempt manufacturing equipment procurement incentives. The most important of these subsidies for Tesla, in our view, is the buyer tax subsidy.

Tesla also benefits indirectly from myriad other incentives, including those that encourage charging infrastructure and state-mandated fuel efficiency programs.

California has the most electric vehicle incentives, with 29 laws, grants and tax incentives. California is followed by Washington state, which has 18 laws and programs. Laws and programs range from mandating that states purchase electric vehicles for their own use as soon as they are commercial available, to providing tax incentives for charging infrastructure, to free home charging grants. In many cases, individual cities also have adopted incentives, or are considering adoption. City and township-level incentives are in addition to federal and state incentives.

Other state subsidies include regulations in 13 states that mandate that large auto manufacturers sell a certain number of "zero emission vehicles" each year, depending upon the number of cars sold. The 13 states that have such legislation, including California and New York, represent 32% of the U.S. population.

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Outside of the U.S., government subsidies and tax breaks for electric vehicles abound, including France's "super environment incentive," of 5,000 Euros for every low-emissions vehicle, a 5,000 pounds sterling bonus for electric cars bought in the U.K., and exemption from a burdensome registration tax in Denmark. European governments also provide disincentives for internal combustion engine vehicles, such as heavily taxing gasoline, which amounts to an indirect subsidy of electric vehicles.

China and Japan also offer subsidies of 6,500 Euros and 11,000 Euros respectively.

We also believe that it is possible that major cities, including Beijing and London, will adopt "zero-emissions zones" for regular commuters and taxis. Such proposals are already being considered and other major automakers have been investing in electric vehicle development in anticipation of such laws, according to our market research.

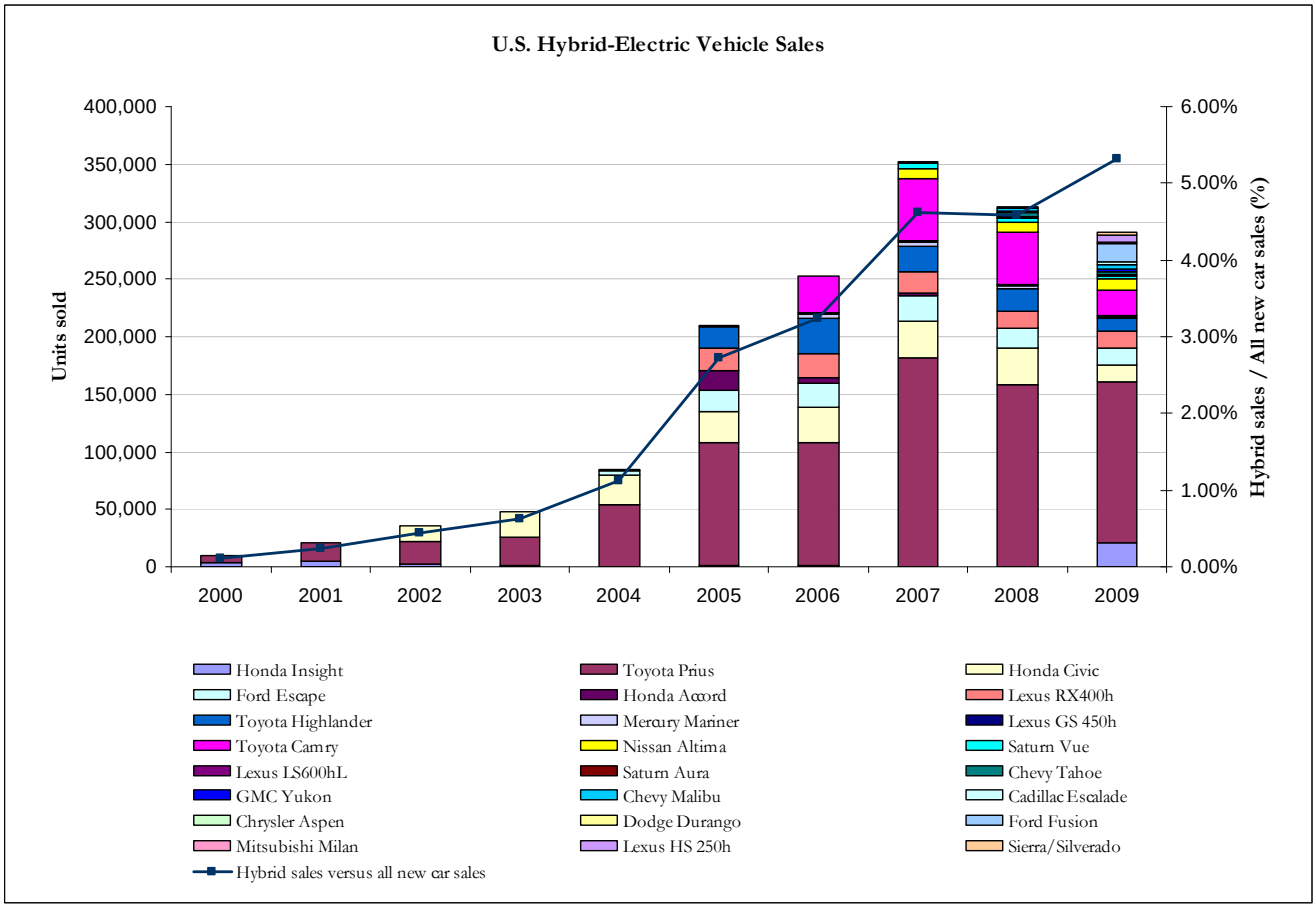

Table sources: Department of Energy, Bureau of Transportation Statistics, Wards Auto

5. Current Results / Roadster Sales

Roadster sales and current powertrain expectations

The Tesla Roadster, which goes 245 miles on a charge, accelerates to 60 mph faster than most vehicles, including Ferraris and Lamborghinis. We expect Roadster sales to taper from their peak in 2009. However, we also believe that expectation is priced into the stock.

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The ASP on the Roadster has gone from $105,000 in FY08, to $110,000 and $140,000 in FY09 and FY10. ASP increases have come from sales into greater geographies and up sales on options and accessories.

Tesla's gross margin climbed from 9% in FY09 to 22% in Q210. GM increases can be attributed to growth in the powertrain business and expanded GMs on the Roadster.

The Roadster is the result of $125MM investment. We note that the Chevy Volt and the Toyota Prius ranged from $750MM to $1B in development costs.

6. Valuation:

Our $30 Price Target anticipates 40% appreciation

Our price target of $30 is based on a five-year DCF analysis on the business. Current operations, while important, are not going to motivate investors. Thus, we are valuing TSLA shares based on a DCF-analysis that assumes a 12.5% discount rate and an operating income CAGR of 1.1%. (This CAGR assumes 20% growth until 2020, and zero growth beyond that.)

5 Yr DCF	$	(338)
Terminal Value:		3,383
Enterprise Value		3,045
Debt on 6/30/10		(45)
Cash on 6/30/10		53
Equity Value	$	3,052
Share Price	$	30.22

The most important factors that affect the share price are Model S deliveries and Model S margins. We expect that Tesla can achieve a 24.4% GM on the Model S business, assuming 20,000 units sold in 2013.

Discounted Cash Flow	Year 2008	2009	2010E	2011E	2012E	2013E	2014E
Total Units Sold (Roadster, Model S)		830	557	600	322	20,380	25,180
Company Operating Income	(78,504)	(51,897)	(122,279)	(160,119)	(169,794)	157,216	280,337
Depreciation & Amortization	4,157	6,940	20,434	38,644	48,037	56,723	64,359
CapEx							
Property purchases	(10,630)	(11,884)	(57,672)	(60,000)	(48,000)	(44,000)	(40,000)
Additional CapEx	-	-	(54,000)	(60,000)	(48,000)	(44,000)	(24,000)
Operating Income +D&A, -CapEx	(84,977)	(56,841)	(213,516)	(241,475)	(217,757)	125,939	280,696
ETR	-0.12%	-0.05%	-0.12%	-0.12%	-0.12%	-0.24%	-0.24%
Tax effect on Operating Income	100	27	252	285	257	302	674
Operating Income (after tax)	(85,077)	(56,868)	(213,768)	(241,759)	(218,014)	125,636	280,022
DCF Value			(337,868)	(214,897)	(172,258)	88,238	174,817

It is possible to look at TSLA shares based on a 2013 EV/EBITDA multiple, however, any discussion here should bear in mind that we expect debt levels to jump from their current $45MM, as TSLA draws upon its DOE loan, and consequently, restricted cash draws down proportionately.

Keeping that in mind, at its current $20 level, TSLA shares are trading at about 9x our 2013 EV/EBITDA estimates. We believe that shares can rise from here, provided that indications of Model S demand stay level and the company achieves development milestone targets, including alpha and beta build completion.

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A $30 price target represents 13.8x our 2013 EV/EBITDA estimate. TSLA has few easy-for-comparison peers. We've looked at multiples for auto makers (including Ford and Toyota), electric vehicle battery makers A123 (AONE) and Ener1 (HEV), and other applied technology / ecological companies. That amalgamated universe trades at an average multiple of 15x next year's estimates.

Auto / Emerging Technology			Price / Sales		PE Ratio		EV/EBITDA	
			FY1	FY2	FY1	FY2	FY1	FY2
Overlap w/ Tsla	TSLA	Tesla	17.3x	12.9x	-9.1x	-9.9x	-.9x	-.7x
Auto maker	F	Ford	.3x	.3x	6.5x	6.4x	13.5x	11.8x
Auto maker	TM	Toyota	.8x	.5x	37.7x	16.x	13.3x	9.4x
Auto maker	HMC	Honda	.6x	.5x	15.3x	11.1x	9.3x	7.2x
Auto maker	DAI	Daimler	.5x	.5x	12.x	9.8x	4.2x	3.7x
Innovative tech	AAPL	Apple	3.8x	3.x	18.2x	15.x	10.x	8.x
Innovative tech	GOOG	Google	7.2x	6.2x	17.5x	15.2x	11.8x	10.3x
Applied tech	TRMB	Trimble	2.8x	2.5x	20.9x	17.5x	13.8x	12.1x
Applied tech	GRMN	Garmin	1.9x	2.x	9.4x	10.2x	8.5x	9.1x
Applied tech / EV	AVAV	AeroVironment	1.7x	1.6x	23.8x	18.8x	8.5x	6.9x
Applied tech	PANL	Universal Display	32.4x	20.9x	-51.9x	-455.x	-44.8x	66.4x
Applied tech / Eco	ERII	Energy Recovery	3.4x	2.8x	-183.8x	44.8x	40.1x	14.1x
Applied tech / Eco	MBLX	Metabolix	119.3x	21.9x	-7.7x	-13.5x	-4.8x	-6.7x
Applied tech / EV	UQM	UQM Technologies	4.3x	1.5x	-3333.3x	26.7x	-73.4x	37.1x
Applied tech / EV	AONE	A123 Systems	6.4x	2.9x	-6.1x	-7.5x	-5.x	-8.4x
Applied tech / EV	HEV	Ener1	5.2x	2.x	-7.5x	-13.9x	-11.1x	-23.5x
Applied tech / Eco	CREE	CREE	4.3x	3.4x	20.2x	16.9x	13.5x	10.8x
Applied tech / Eco	ENOC	EnerNOC	2.9x	2.4x	82.2x	39.3x	23.6x	15.1x
Applied tech / EV / Auto	JCI	Johnson Controls	.6x	.5x	14.5x	11.9x	8.8x	7.2x
		Mean*	11.4x	4.6x	23.2x	18.5x	4.x	15.3x
		Median*	3.4x	2.4x	17.9x	15.6x	10.x	10.3x

*Excludes negatives

7. 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.

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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.)

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	Actual									Estimated												Model S Begins	
TESLA	FY 2007	FY 2008	Q1 2009 MAR	Q2 2009 JUN	Q3 2009 SEP	Q4 2009 DEC	FY 2009	Q1 2010 MAR	Q2 2010 JUN	Q3 2010E SEP	Q4 2010E DEC	FY 2010E	Q1 2011E 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
Income Statement																							
YOY		20095%					659%	-0.4%	5.4%	-38.7%	70.4%	-15%	45.7%	20.3%	30.6%	-5.7%	18%	-11.9%	-26.3%	-32.3%	-27.1%	-30%
QOQ				29.0%	69.0%	-59.2%		12.0%	36.5%	-1.8%	13.5%			12.7%	6.7%	-18.1%			-5.8%	-2.0%	-11.7%	
Auto Sales	73	14,742	20,886	26,945	45,527	18,585	111,943	20,585	23,971	23,426	27,154	95,136	25,759	29,555	31,788	25,160	112,262	21,973	20,374	19,821	16,882	79,050
Development services sales	-	-	-				-	227	4,434	4,478	4,523	13,662	4,568	4,614	4,660	4,707	18,549	4,754	4,801	4,849	4,898	19,303
Total Revenue	73	14,742	20,886	26,945	45,527	18,585	111,943	20,812	28,405	27,904	31,677	108,799	30,327	34,169	36,449	29,867	130,812	26,727	25,176	24,670	21,780	98,352
Cost of Auto sales	9	15,883	22,932	24,844	37,828	16,804	102,408	16,858	20,266	19,912	23,081	80,117	23,183	26,599	27,020	22,644	99,447	17,578	16,299	30,859	28,508	93,245
Cost of development svs	-	-	-	-	-	-	-	102	1,878	2,015	2,035	6,031	2,056	2,076	2,097	2,118	8,347	2,139	2,161	2,182	2,204	8,686
Total COGS	9	15,883	22,932	24,844	37,828	16,804	102,408	16,960	22,144	21,927	25,116	86,148	25,239	28,676	29,117	24,762	107,794	19,717	18,460	33,041	30,712	101,931
Gross profit (loss)	64	(1,141)	(2,046)	2,101	7,699	1,781	9,535	3,852	6,261	5,977	6,561	22,651	5,088	5,493	7,331	5,105	23,018	7,009	6,716	(8,371)	(8,932)	(3,579)
GM	88%	-8%	-10%	8%	17%	10%	9%	19%	22%	21%	21%	21%	17%	16%	20%	17%	18%	26%	27%	-34%	-41%	-4%
R&D	62,753	53,714	7,941	1,941	1,257	8,143	19,282	13,265	15,416	16,743	19,006	64,430	18,196	20,501	21,869	17,920	78,487	19,243	18,126	17,763	15,681	70,814
SG&A	17,244	23,649	6,607	8,247	10,733	16,563	42,150	16,585	22,207	19,533	22,174	80,499	24,262	27,335	29,159	23,894	104,649	25,925	24,420	23,930	21,126	95,402
Total OpEx	79,997	77,363	14,548	10,188	11,990	24,706	61,432	29,850	37,623	36,276	41,181	144,929	42,458	47,837	51,028	41,814	183,137	45,168	42,547	41,693	36,808	166,215
Op profit (loss)	(79,933)	(78,504)	(16,594)	(8,087)	(4,291)	(22,925)	(51,897)	(25,998)	(31,362)	(30,299)	(34,620)	(122,279)	(37,370)	(42,343)	(43,697)	(36,709)	(160,119)	(38,159)	(35,831)	(50,064)	(45,740)	(169,794)
OM	-109497%	-533%	-79%	-30%	-9%	-123%	-46%	-125%	-110%	-109%	-109%	-112%	-123%	-124%	-120%	-123%	-122%	-143%	-142%	-203%	-210%	-173%
Interest income	1,749	529	16	29	52	62	159	48	47	47	146	288	84	51	0	0	135	0	0	0	0	-
Interest expense	-	(3,747)	(1,402)	(1,086)	(18)	(25)	(2,531)	(230)	(464)	(464)	(464)	(1,622)	(665)	(665)	(665)	(665)	(2,662)	(665)	(665)	(665)	(665)	(2,662)
Other income (expense)	137	(963)	1,972	(1,715)	(577)	(1,125)	(1,445)	(3,221)	(6,729)	-	-	(9,950)	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax	(78,047)	(82,685)	(16,008)	(10,859)	(4,834)	(24,013)	(55,714)	(29,401)	(38,508)	(30,716)	(34,938)	(133,562)	(37,951)	(42,958)	(44,362)	(37,375)	(162,646)	(38,824)	(36,497)	(50,729)	(46,405)	(172,456)
Tax	110	97	8	8	(219)	229	26	118	9	7	8	142	45	51	52	44	192	46	43	60	55	203
Net Income (Loss)	(78,157)	(82,782)	(16,016)	(10,867)	(4,615)	(24,242)	(55,740)	(29,519)	(38,517)	(30,723)	(34,946)	(133,705)	(37,996)	(43,009)	(44,414)	(37,419)	(162,838)	(38,870)	(36,540)	(50,789)	(46,460)	(172,659)
Diluted shares	3,444	6,646	6,924	6,966	7,014	7,066	7,022	7,302	7,643	7,643	7,643											
QoQ Growth			4.2%	0.6%	0.7%	0.7%		3.3%	8.8%	0.5%	0.5%											
GAAP EPS	(22.69)	(12.46)	(2.31)	(1.56)	(0.66)	(3.43)	(7.94)	(4.04)	(5.04)													
Diluted (pro-forma)				71,828			77,694	77,974	91,208	101,000	101,505	92,922	101,607	101,708	101,810	101,912	101,759	102,014	102,116	102,218	102,320	102,167
QoQ Growth									0.5%	0.5%	0.5%		0.10%	0.10%	0.1%	0.1%		0.1%	0.10%	0.1%	0.1%	
EPS (calculated)				**(0.15)**			**(0.72)**	**(0.38)**	**(0.42)**	**(0.30)**	**(0.34)**	**(1.44)**	**(0.37)**	**(0.42)**	**(0.44)**	**(0.37)**	**(1.60)**	**(0.38)**	**(0.36)**	**(0.50)**	**(0.45)**	**(1.69)**
EPS (given pro-forma)							(0.70)	(0.35)	(0.28)													

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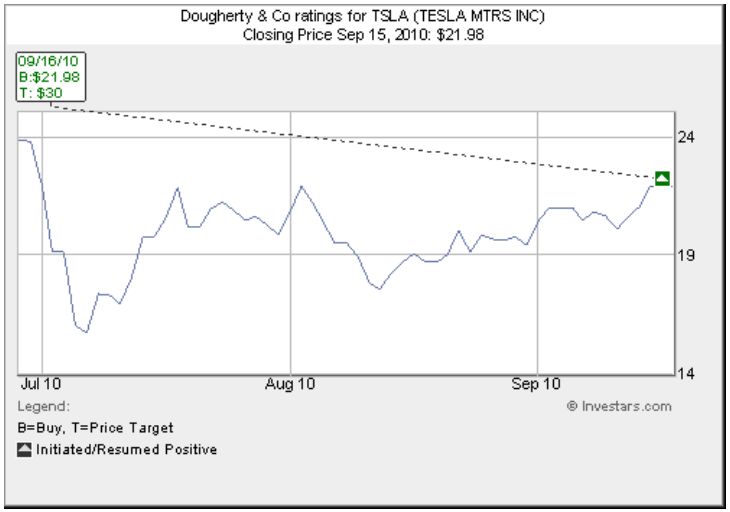

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Initiation
Overweight

TSLA, TSLA US
Price: $20.45

Price Target: $25.00

Tesla Motors

Electrifying Luxury; Initiate with Overweight

We initiate coverage on Tesla Motors with an Overweight, $25 price target. 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 environment regulations and an increasingly green global consumer. We believe Daimler's and Toyota's supply contracts with Tesla provide reassuring technology validation.

- **A central competitive advantage is the low cost of Tesla's battery pack,** which should allow it to sell the Model S (2012 launch) at a reasonable price but with a near-normal (up to) 300 mile range, a combination other EVs have yet to deliver. We think Tesla Model S battery pack costs will be at/below ~$300/kWh, well below what we hear from other OEMs/battery makers ($500-600/kWh for 2011-2012 timeframe, and $375-500/kWh mid-decade target). A key source of Tesla's cost advantage is its ability to apply commoditized small cylindrical lithium cells (used in consumer electronics) to a car via proprietary thermal/power management.
- **Model S is key.** Launching in mid-2012, we expect the mid-size luxury segment Model S to raise TSLA's revenue from $0.1B (2010) to $1.8B by 2013. It will be sold in three battery pack variants ranging from 160 miles to 300 miles (post tax credit, $50-70k base MSRP est.). TSLA aims to sell 20k units in 2013, not an aggressive assumption, in our view, as it represents a 2% share of the BMW 5-series sedan segment. 2.8k refundable reservations exist now for the Model S. But competition should eventually arrive, a key reason we assume long-term EBIT margins of 8-12% vs guidance of 14-16%.
- **Small but different.** (1) *Efficiency*: Tesla spent $100MM on Roadster development and plans to spend $0.4B on Model S, probably half of what other OEMs are spending on new PHEVs/EVs. (2) *Distribution*: Tesla will own, not franchise, its dealers, which should result in tighter brand equity/customer experience control. (3) *EV Pure Focus*: Tesla does not invest in anything but EV powertrains. This, coupled with an ability to attract top-notch vehicle engineering talent, should allow Tesla to address technical challenges better, cheaper, and faster than large global OEMs.
- **Set Dec-2011 price target of $25**. Our 2013 EPS ($1.51; $1.15 taxed) assumes 18.5k Model S units and 8.3% EBIT margin (in line with luxury OEMs; guidance is ~15%). We get to $25 with DCF and p/sales (avg. of BYD, A123 and HEV), though we do not see positive EPS until 2013 and, as such, TSLA may tread water until Model S launch becomes more visible (1H.11) and/or reservations increase further.

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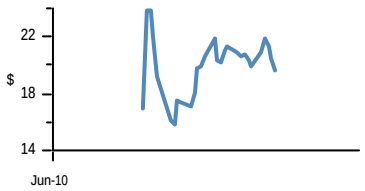
Price Performance



	YTD	1m	3m	12m
Abs	15.2%	21.6%	15.2%	15.2%

Tesla Motors, Inc. (TSLA;TSLA US)

	2010A	2011E	2012E	2013E	2014E	2015E
EPS Reported ($)						
Q1 (Mar)						
Q2 (Jun)						
Q3 (Sep)						
Q4 (Dec)						
FY	(1.38)	(1.88)	(1.46)	1.51	1.07	3.12

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

Company Data	
Price ($)	20.45
Date Of Price	05 Aug 10
52-week Range ($)	30.42 - 14.98
Mkt Cap ($ mn)	1,944.88
Fiscal Year End	Dec
Shares O/S (mn)	95
Price Target ($)	25.00
Price Target End Date	31 Dec 11

See page 35 for analyst certification and important disclosures.

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Tesla Motor Company (TSLA)

Overweight

Tesla uses small cylindrical lithium cells, a low-cost commoditized battery cell already produced in high volume in Asia for consumer electronics.

Battery pack costs are quoted in $/kWh, where kWh is the unit for nominal energy stored in a battery-pack.

Class leading battery storage capacity

	kWh	Pure EV range
Tesla Model S-300	90	300
Tesla Model S-230*	66	230
Tesla Model S-160	42	160
Nissan Leaf**	24	100
Chevy Volt**	16	40

Source: ** Company Websites; * J.P. Morgan Estimates; Rest others are taken from company reports and presentations.

A key enabler for rising EV/PHEV penetration is rapidly falling lithium battery costs and step change improvements in recent years in lithium battery abuse tolerance (safety).

A Model S launch delay could dilute, not just delay expected EPS.

Key Investment Points

Lowest battery pack cost = impressive range

We estimate that the Model S' battery pack will cost ~$300/kWh, well below the cost of the current Tesla Roadster's pack (~$550/kWh), and substantially below large format prismatic lithium battery costs ($750-1000 kWh now, expected to be $375-500 kWh by mid-decade). Key reasons for the pack cost saves from Roadster to Model S are ~44% better cell packing density, economies of scale (Model S volumes expected to be over 30x Roadsters'), 15% improved energy density at cell level, and 2/3 lower cobalt usage. But more fundamental than these factors, Tesla, unlike its competitors, uses "18650" form-factor small lithium cylindrical cells (the Roadster combines 6,831 of these individual cells together), a commoditized battery cell type long produced in high volume in Asia for consumer electronics. The large prismatic cells many other carmakers use do have some advantages (reduced packaging complexity) but they are fairly costly, at least today. Roughly speaking, lower per kWh battery cost allows Tesla to create a pack with more batteries, hence greater range. We believe the 300 mile range Model S has a ~90 kWh battery pack (most other carmakers are working with significantly smaller packs; the pure-EV Nissan Leaf, for example, has only a 100 mile range due to its 24 kWh pack). Carmakers and lithium automotive prismatic battery makers suggest most in the industry (with the exception of Daimler and recently Toyota) have simply not done a teardown of Tesla's pack (the Model S pack will be derived from the Roadster pack). This suggests Tesla likely does have a genuine competitive technology/cost advantage today, but the risk is that if the Model S is highly successful (the Roadster was high priced and low volume and therefore arguably easy for other OEMs to ignore), others will try to replicate Tesla's technology.

EV market potential

Many third party consultancies have estimated that PHEVs (plug-in hybrid vehicles) and EVs combined could account for 5-10% of global auto production by 2020 (translating into a 5-10MM unit segment at that time, and we would suspect that the EV/PHEV split between this would be 30/70). We believe key long-term drivers are obvious: global regulations that are increasingly stricter on greenhouse gas emissions, and a consumer who is increasingly eco conscience. And a key enabler is rapidly falling lithium battery costs and step change improvements in recent years in lithium battery abuse tolerance (safety). Key hurdles we see are *range anxiety* (concerns regarding number of miles vehicle would drive on one charge) and more broadly, *infrastructure anxiety* (availability of charging points). Tesla's 300-mile capable Model-S starts to address range anxiety (average gas engine cars have 300-400 mile ranges), but we believe infrastructure anxiety remains a major hurdle for the foreseeable future, suggesting pure EVs will likely be a consumers' second car, not the sole/primary mode of transport. PHEVs, which run pure electric for a limited range (e.g., 40 miles) after which a gas-powered generator recharges the battery, likely would find wider acceptance amongst single car owning consumers.

Manufacturing ramp risks high, while technology risks seem lower

Tesla currently sells the Roadster, but the Model S will be the first model it fully assembles in house (the Roadster's final assembly is done by Lotus), suggesting sizable manufacturing ramp risks (although we believe the recent purchase of

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Model-S will be employing a refined version of the Roadster battery, reducing technological risk.

Toyota's NUMMI plant does de-risk the ramp). We calculate that a one-year delay in volume ramp vs. our projected timeframe would hit free cash flow by $350MM (a delay could trigger additional dilution). On the technology front, we are less concerned about the Model S. The Model S, while novel on many fronts, is not all that risky in terms of its technology, in our view, as it will essentially be employing a refinement (read: more powerful, lower cost) version of Roadster's (Gen II) battery pack (since 2008, Tesla has sold 1,063 Roadsters and there are no reports of widespread battery pack failures or safety issues).

Daimler/Toyota's involvement validates technology

Daimler plans to use Tesla's pack in the *smart* and *A-Class* vehicles, and owns ~8% of TSLA. While we suspect that Daimler's Tesla stake (like its ~$65MM investment in Chinese electric carmaker BYD, and 49.9% stake in battery manufacturer Evonik) is a part of a portfolio approach, it is encouraging to note that Daimler plans to use Tesla's battery pack in its *smart* and *A-Class*. Further, Toyota has recently made an equity investment of $50MM in Tesla (~3%), and has agreed to use Tesla packs for all-electric versions of the RAV4 (unconfirmed press reports state Tesla is also involved in EV versions of the Lexus RX and a Toyota high-end sports car). We think Daimler's and Toyota's involvement provides technology validation.

Tesla seems to so far be spending a fraction of global OEM peers on product development.

Owning, not franchising, the dealer network could constrain growth pace but this could have many long-term benefits.

Small and so different

Tesla's small size and roots in Silicon Valley, far from the core of the global auto industry, have many advantages, in our view. **(1)** *Product development: fast and low cost* – Tesla spends a fraction of what global auto peers spend to develop a new vehicle, and does it relatively fast, aided by physical co-location of design and engineering staffs. Development costs for the Roadster were $100MM and expected to be $400MM for the Model S versus ~$1B reported for most global OEMs for their PHEVs/Evs. Partly because of this, Tesla claims its break-even point on Model S is only 10k units. **(2)** *Distribution* – Tesla plans to 100% own (not franchise) its dealer network. While this can potentially slow the pace of distribution point expansion, this approach should benefit TSLA long term, both in terms of profitability and being able to tightly control brand equity and customer experience. **(3)** *EV Pure Play* -- Tesla claims it has never entertained developing anything but an EV. Most other carmakers are focused on a portfolio approach covering all future powertrain options (refining gas/diesel engines, HEVs, PHEVs, EVs, and fuel cells). While Tesla is clearly effectively putting all its eggs in one basket, its sole focus on pure EVs should help it better conquer technical challenges and also keep costs low.

Investment Risks

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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Company Description

Tesla, an electric carmaker, is based in Palo Alto, California, and is currently the only company to manufacture federally compliant pure electric vehicles (EVs) commercially with its Tesla Roadster vehicle, an EV that was launched in early 2008. Tesla had sold 1,063 Roadster vehicles through March 31, 2010, and is now planning to launch a mid-size luxury sedan called "Model-S" (~$50K base price) in late 2012. Apart from manufacturing electric vehicles, Tesla also sells battery packs to Daimler's *smart* and *A-Class* electric vehicles. Very recently, Toyota made an equity investment in Tesla and also agreed to develop an EV version of the RAV4 compact SUV for Toyota that may go on sale in 2012.

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Outlook for Electrified Vehicles

While Tesla's medium-term volume projections do not seem aggressive (2.0% projected market share in 2013 of the global mid-size luxury sedan segment, e.g. BMW 5-series segment), we believe the longer-term success of the company (and our long-dated projections) will ultimately hinge on the magnitude of consumer adaptation of electrified vehicles (PHEVs or EVs).

There are many "2020 EV/PHEV market penetration rate" forecasts but these are essentially guesstimates at this stage as OEMs do not typically release product plans (let alone a product's volume targets) more than 2-3 years in advance of a vehicle launch. As such, while these estimates can provide a useful flag post, it is perhaps more useful at this juncture to debate the underlying factors that will influence the curve shape of electrified vehicles' penetration rates.

Over the next 10-20 years, widely accessible on-road charging stations may become a reality, but for the next 5 years, we presume the primary means for recharging an EV/PHEV will be the *home* and, in some cases, *work*.

- **Infrastructure –** Electric recharging infrastructure on the road, by and large, seems a very long way from being a reality. Better Place and a few others private enterprises do have efforts under way in this area, but the scale of these projects is still modest, in our view. Over the next 10-20 years, widely accessible on-road charging stations may become a reality, but for the next 5 years, we presume the primary means for recharging an EV/PHEV will be the *home* and in some cases *work*. So long as this is the case, we believe consumer "range anxiety" will likely remain a, if not *the*, primary constraining force on adaptation rates of EVs (but PHEVs can overcome this issue by having a range-extending gasoline/diesel generator onboard).

OEMs are highly unlikely to pigeon hole themselves into any single battery chemistry or form factor long term but in reality, switching battery chemistries probably entails less engineering/R&D investment than switching battery form factors.

- **Battery Technologies**– Battery technology should broadly be viewed in two dimensions: *cell chemistry* (there are many flavors of lithium chemistries and, eventually, there is likely to be non-lithium based chemistries as well) and *cell form factor* (large flat/prismatic or small cylindrical). We believe OEMs are highly unlikely to pigeon hole themselves into any single battery chemistry or form factor long term, but in reality, switching battery chemistries probably entails less engineering/R&D investment than switching battery form factors. Tesla is one of the only EV/PHEV carmakers to use small lithium cylindrical cells. In battery parlance, Tesla uses a "18650" form factor lithium battery with the 18 and 65 digits referring to the width and height in mm of the cylindrical battery. Small cylindrical cells are generally much cheaper than (the newer) large format prismatic lithium batteries as the former is an established product already manufactured in extremely high volume by Asian electronics firms (Panasonic/Sanyo, Samsung, etc) for use in consumer electronics. On the flip side, the large and flat shape of prismatic cells lend themselves to a) greater packaging efficiency in a vehicle, b) fewer cells per pack (ie, reduced pack complexity), and (supposedly, though Tesla likely would not agree) c) more robust cell cooling; tight management of battery cell temperature is critical to maintaining a cell's longevity. We later discuss Tesla's battery form factor choice in greater detail but the most critical point to understand is that its use of small lithium cylindrical cells is a major, and perhaps the primary, contributor to what we believe is its leading battery

pack cost ($/kWh) competitiveness today. But the longer-term question is whether or not this cost advantage can be maintained as costs of large format prismatic batteries are falling rapidly.

Li-ion battery cost trajectory

	Time	Costs ($/kWh)
Tesla Roadster 2.0	Today	~550
Tesla Model-S	2012 launch	~300
Large Prismatic	Today	750-1000
Large Prismatic	2011-2012	500-600
Large Prismatic	2015	375-500

Source: J.P. Morgan Estimates

- **Battery Costs** – *Range anxiety* and *battery cost* (typically quoted in $/kWh) may initially appear like two separate obstacles in EV adaptation rates, but reducing the latter can go a long way to resolve the former. Lithium battery costs for *large format prismatic (flat)* batteries from various suppliers (A123, LG Chem, Ener 1, etc) are widely believed to be in the $750-1000/kWh range today and $500-600/kWh in 2011-2012. One of Tesla's critical but we believe often under-explained competitive advantages is that its battery costs are likely substantially lower than this level (perhaps in the $250-300 range for the Model S), partly because its battery packs rely on commoditized small format cylindrical cells (widely used in consumer electronics) instead of the newer prismatic batteries (discussed more below). We believe Tesla could do one of two things with this cost advantage: either sell its vehicle for a lower cost relative to competing vehicles with a comparable energy density (storage capacity) battery pack or simply sell the car with a much larger battery pack to achieve greater aggregate storage capacity, which in turn should translate into that much greater vehicle range. Tesla has essentially chosen the latter option.

In the US, annual fuel costs are estimated at $0.04/mile for gas engines and $0.12 for EVs; translating into $1,260/yr of annual average savings on fuel costs.

- **Consumers' ownership cost considerations** – While EV's (and PHEV's) have a notable upfront cost premium to ICE (internal combustion engine) vehicles today, the long-term economics of owning EVs look quite favorable. Several factors to consider: ***1) Upfront Vehicle Acquisition Cost*** – it is widely expected that battery costs can fall another 50% from current levels, at least for large format prismatic batteries, and sizable declines likely for small formal cylindrical cell batteries as well. Therefore, the upfront vehicle acquisition cost premium can likely eventually be eliminated/narrowed; ***2) Fuel Consumption Costs*** – We assume annual cost of fuel for EV's to be $0.04/mile versus $0.12/mile for ICE vehicles (this assumes gas prices of $3/gallon, and average US vehicle fuel efficiency of 25 mpg for gasoline powered vehicles and 3.3 miles/kWh for electric vehicles). Assuming an average of 15,000 miles per year per vehicle, annual fuel consumption costs would be an estimated $540 for EVs versus $1,800 for gasoline vehicles; ***3) Vehicle Maintenance Costs*** – we do not have any reasonable way of measuring maintenance costs for EVs, but assuming batteries perform as expected with an 8 year or so life, operating costs for EVs may prove competitive given fewer moving parts. ***4) Vehicle Residual Values*** – the performance of all batteries degrade with time in that they lose storage capacity, meaning vehicle range fades with time. Most carmakers at this stage feel comfortable guaranteeing EV battery packs for only 8-10 years at most. ICE engines do not have such an obvious degradation path. If battery replacement costs do not fall notably in the coming decade, residual values for EVs may prove uncompetitive to ICE engines.

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Table 1: Fuel Consumption Costs: Gasoline Engine vs. EV

	Gasoline		Electricity	
Energy's unit cost	$3.00	$/gal	$0.12	$/kwh*
Energy Consumed per mile	25.0	miles/gallon	3.3	miles/kwh**
Cost of Energy / mile	$0.12		$0.04	
Avg vehicle's miles driven / year	15,000		15,000	
Annual Energy Costs	$1,800		$540	

* US 50 state average. High population coastal states like CA and NY are in the $0.15-$0.18 range.
** A123 (in June 2010) states ~300 watts needed to propel a vehicle 1 mile (0.3 kwh/mile = 3.3 miles/kwh)
Source: JPMorgan estimates

Competition can initially be good for Tesla as new PHEV/EV models may broadly reduce consumer resistance to these advanced powertrains, but eventually (perhaps as early as 3-5 years from now) many of Tesla's current advantages may start to narrow or be eliminated.

- **Competition aimed at Tesla should be severe, even if not in plain sight today –** By the late-2008 Paris Auto Show, all OEMs had not convinced themselves of the commercial feasibility of PHEVs/EVs; regardless, nearly all OEMs had by then come to the realization that consumer and government interest in electrified vehicles had risen to a new level. As such, while Tesla has a clear first mover advantage, nearly every major global carmaker will likely have an advanced PHEV and/or EV model in production before the end of the current decade (see table on next page), in our view. We note announced pure EV plans of the Audi E-tron (42 kWh, 15 mile range, 0-60 in 4.8 seconds, and 2012 launch) and the Mercedes SLS AMG E-cell (48 kWh, 0-60 in 4 seconds), and press reports of Porsche management committing to an all electric Boxster (perhaps by mid-decade). Competition can initially be good for Tesla, in our view, as new PHEV/EV models may broadly reduce consumer resistance to these advanced powertrains, but eventually, perhaps as early as 3-5 years from now, many of Tesla's current advantages may start to narrow or be eliminated.

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Table 2: Competing EV/PHEV Launches

High-end vehicles

OEM	Model	Make	Battery Type	Energy Density kWh	Power Density kW	All-Electric Range (miles/charge)	Launch Date	Performance 0 -60 mph	Price
Audi	E-Tron	EV	Lithium-ion battery	42	230	154	2012	4.8 sec	NA
Fisker	Karma	PHEV	Lithium-ion battery	20	NA	50	Sep-10	6 sec	$88K
Nissan	GT-R	EV	Lithium-Ion Battery	NA	NA	NA	NA	3.5 sec	$70K
Mercedes	SLS AMG E-Cell	EV	Lithium-ion battery	48	392	NA	NA	4 sec	NA
Tesla	Roadster	EV	Lithium-Ion Battery	53	200	244	2008	3.7 sec	$109K
	Model S	EV	Lithium-Ion Battery	42	NA	160	2012	5.6 sec	$49.5K
	Model S	EV	Lithium-Ion Battery	66	NA	230	2012	NA	NA
	Model S	EV	Lithium-Ion Battery	90	NA	300	2012	NA	NA

Mainstream vehicles

OEM	Model	Make	Battery Type	Energy Density kWh	Power Density kW	All-Electric Range (miles/charge)	Launch Date	Performance 0 -60 mph	Price
BMW	Mini E	EV	Lithium-Ion Battery	35	150	104	NA	8.5 sec	NA
BYD	E6	EV	Lithium iron phosphate	60	NA	186	Late 2010	NA	$40K
	F3DM	PHEV							
Chevrolet	Volt	PHEV	Lithium-Ion Battery	16	111	40	NA	NA	$41K
Coda	Sedan	EV	Lithium iron phosphate	34	NA	95	2010	<11 sec	$45K
Ford	Escape	PHEV	Lithium-Ion Battery	10	NA	30	2012	NA	NA
	Focus	EV	Lithium-Ion Battery	23	NA	100	2011	NA	~$35K
Mercedes	Smart	EV	Lithium-Ion Battery	14	30	68	2012	NA	<$20K
	B-Class	EV	Fuel Cell Technology	NA	100	249	2010		$64K
Mitsubishi	iMiev	EV	Lithium-Ion Battery	16	47	80	Apr-10	NA	$43K
Nissan	Leaf	EV	Lithium-Ion Battery	24	90	100	2010	NA	$33K
Phoenix	SUV	EV	Lithium Titanate Battery	35	NA	100	2010	<10 sec	$45K
	SUT	EV	Lithium Titanate Battery	35	NA	100	2010	<10 sec	$40K
Peugeot	Ion	EV	Nickel Metal Hydride Battery	47	NA	81	Late 2010	NA	$44K
Th!nk	City	EV	Lithium-Ion Battery	23	30	113	2009	16 sec	$28K
	Ox	EV	Lithium-Ion Battery	NA	60	125-155	2011	<8.5 sec	NA
Toyota	Prius	PHEV	Lithium-Ion Battery	50	NA	13	Late 2011	NA	$47.5K

Source: Company reports and company websites.

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Even though Europeans pay twice as much for petroleum-based fuel as Americans do, American penetration rates for PHEV's/EVs may, at least initially, be some of the highest in the world because of high levels of suburbanized dwelling with home garages.

- **Addressable Market Nuances** -- (1) ***EVs. vs. PHEVs*** -- Until on-road vehicle charging infrastructure is widely in place, EVs are likely to be primarily attractive to consumers/households who own more than one car. PHEVs, on the other hand, are likely to have much broader consumer acceptance over the next 10 years precisely because their usage is not constrained by recharging infrastructure. (2) ***Geographical considerations*** – Outside of a few dense urban metropolises like Manhattan, a wide swath of Americans have access to home charging (suburban homes with garages). We believe home charging itself is not widely available in Europe and Asia (let alone on-road charging). Even though Europeans pay twice as much for petroleum-based fuel as Americans do, American penetration rates for PHEVs/EVs may, at least initially, be some of the highest in the world. Separately, markets like China may have particularly high EV/PHEV penetration rates because of a) government involvement in addressing infrastructure challenges, and b) rising suburbanization levels in China.

Table 3: EV / PHEV Global Market Penetration Forecasts

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EV/PHEV	1	1	4	4	30	103	223	375	438	482	518
HEV	416	793	1,133	2,309	4,891	8,785	11,867	15,127	17,440	18,835	19,944
ICE	64,549	67,825	64,328	54,706	59,433	60,334	62,233	64,472	65,482	65,859	66,609
Global LV Production	**64,966**	**68,619**	**65,464**	**57,019**	**64,355**	**69,222**	**74,322**	**79,974**	**83,360**	**85,176**	**87,071**
EV/PHEV as % of global production	***0.0%***	***0.0%***	***0.0%***	***0.0%***	***0.0%***	***0.1%***	***0.3%***	***0.5%***	***0.5%***	***0.6%***	***0.6%***
HEV as % of global production	***0.6%***	***1.2%***	***1.7%***	***4.0%***	***7.6%***	***12.7%***	***16.0%***	***18.9%***	***20.9%***	***22.1%***	***22.9%***
ICE as % of global production	***99.4%***	***98.8%***	***98.3%***	***95.9%***	***92.4%***	***87.2%***	***83.7%***	***80.6%***	***78.6%***	***77.3%***	***76.5%***

Source: CSM Auto (Global Insight).

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The Uniqueness of Tesla's Battery Pack

Key engineering differences between Tesla's power-train and that of other EVs/PHEVs is in battery *cell form factor* (shape) and the thermal management of the individual cells. Tesla uses traditional small cylindrical lithium ion battery cells, the type widely used in today's laptops, instead of the newer generation, large format prismatic (i.e., flat) lithium ion batteries. In addition, Tesla uses active liquid thermal control of the pack to individually control the temperature of each cell (the Nissan Leaf, for example, does not use liquid thermal control).

Tesla's IP seems to primarily lie in the effective management of the battery pack, and the company is agnostic to battery chemistry (Roadster uses lithium Cobalt Oxide, and Model-S will use lithium Nickel-Cobalt-Aluminum). Further, although 18650 form-factor cylindrical batteries offer significant cost advantages, Tesla could adopt, albeit with some costs, prismatic battery cells if such cells eventually prove cost competitive, although we sense the company does not see this as likely for at least five years.

The pack that will be used in the Model S is expected to have a roughly 90 kWh energy density (for the 300 mile range variant). It will likely interlink over 10,000 individual lithium NCA cells (initially manufacturing by Panasonic), and will use liquid thermal controls. The pack is expected to retain 60% of its capacity up to 10 years. The pack's capacity deterioration curve is quite flat / shallow in year 1-5, and then sees a steeper fall between years 6 and 8.

Small Cylindrical vs. Large Format Prismatic Batteries

Each Tesla (Roaster) battery pack links together 6,831 individual cylindrical cells. Daimler, via its usage of Tesla-sourced *smart* EV battery packs, Toyota with its agreement to develop an electric RAV4 with Tesla, BMW, via its Mini E model, which will have 5,088 individual cylindrical cells, are the only other carmakers we know of that appear to have seen the virtues of small cylindrical cell based battery packs. Electric power-trains being developed by most other carmakers generally plan to employ a far fewer amount of the (much larger) prismatic form factor cells.

In general, small cylindrical battery cells are considered a more established technology, but many auto industry players we have spoken to appear to be convinced that the future of electric vehicle power-trains lies with prismatic cells. Tesla seems open to battery form factor changes in the future, but simply believes that cylindrical cells offer the best value proposition for several years to come.

While prismatic cells result in better space utilization due to their flat structure, we think small cylindrical cells may have future converts. In addition to cylindrical's sizable cost advantage today (and we believe likely for at least another 3-5 years), as a pack's energy density rating rises (presumably all OEMs will seek greater range over time), cell management challenges grow in a non-linear manner – smaller cells are easier to control individually than larger cells (ie, fire propagation risk is reduced).

The major supposed disadvantage of Tesla's battery pack is that it employs many more individual parts than that which would result from the usage of large

format prismatic batteries, and therefore Tesla's pack is presumably more suspect to quality/performance issues. We do not agree with this assessment, and believe Tesla's engineering, with its non-automotive mindset, has perhaps been more open to investing in refining its more complex design, which we believe provides superior value overall.

We believe there are several advantages to Tesla's battery pack design of multiple small cylindrical cells (over prismatic cells), which we outline below.

- **Cost –** Unlike prismatic batteries, 18650 form factor (cylindrical) lithium cells are a largely commoditized product with a very large installed manufacturing base, primarily in Asia. This allows Tesla's batteries to be highly cost competitive relative to the performance they provide. Tesla has not revealed the precise cost of its battery pack. Tesla expects Model S pack cost to be about 35-40% below the pack cost for Roadster 2.0. Roadster 2.0's pack cost has not been revealed but Tesla has in the past said (prior to Roadster 2.0 being launched) that Roadster pack total costs were ~$36k, implying $679/kWh. However, we think Roadster 2.0 pack costs have been improved since that statement was made, and its cost currently is perhaps around ~$550/kWh. We think TSLA will likely achieve another 45% cost reduction (ie, to ~$300/kWh) for Model S pack (we note CEO Musk has publicly stated that Model S pack costs will be well below Nissan Leaf's supposed $350/kWh). While these anticipated cost reductions by TSLA would exceed the pace of cost reductions expected from lithium prismatic battery makers (from $750-1000/kWh today to $375-500/kWh by mid-decade), it would be reasonable to assume that the rate of cost reduction *beyond 2012* for Tesla (assuming it continues to use cylindrical packs) will probably not be as much as that of the less mature prismatic cells.

- **Energy Density / Power Density –** Cylindrical form factor batteries tend to have better gravimetric energy density or specific energy (Wh/kg), but prismatic form factors tend to have better power density (W/kg). We believe one explanation for why many other carmakers have tended to favor prismatic form factors is that they are not primarily focused on pure EVs. Energy density is directly linked to vehicle range, while power density primarily influences acceleration. As such, carmakers focused primarily on HEV/PHEV applications seem to have an understandable bias toward prismatic batteries, while the more range-sensitive pure EV manufacturers such as Tesla perhaps have found cylindrical designs more valuable.

- **Safety / Abuse Tolerance –** Tesla believes cylindrical form batteries are inherently safer than larger prismatic batteries because each failure (thermal runaway or fire) can be confined to a relatively small (cylindrical) cell. This, of course, assumes fires are prevented from propagating from one cell to adjacent cells, a technology focus area in which Tesla has apparently made substantial progress, according to battery vendors such as Sanyo. It is worth noting that of the multiple Tesla Roadster crashes that have occurred so far, none has resulted in fires (even though some of the crashes were extremely severe). A Designnews.com (July 30, 2009) article quoted CTO J.B. Straubel saying that Tesla's cooling system uses a manifold and cooling tubes to run an even mix of water and glycol through the pack, drawing heat

away from the batteries. As a result, the possibility of a cell sparking and setting fire propagation is reduced.

- **Redundancy –** Using multiple small cells allows a configuration in which many parallel cell arrays can be employed, meaning the loss of any single cell in an array minimizes the amount of total reduction in battery pack power. Tesla's battery pack is configured as 69 parallel cell arrays with each array holding a series/group of 99 individual cells (69 x 99 = 6,831 total cells). Some competitors, for example, that use large prismatic batteries configure the pack as 2 arrays with each array holding a series/group of 100 individual cells. Said differently, the loss of a single cell, which would result in the loss of that entire array given its serial, Christmas tree light-like, formation, means that Tesla loses only 1/69th (1.5%) of its battery power.

- **Manufacturing Yield –** Tesla believes the manufacturing process of cylindrical cells is inherently more efficient and less prone to errors, which in turn partly explains why cylindrical cells are lower cost. Tesla believes battery manufacturing yield is related to total surface area of the electrode – the smaller the electrode (as in cylindrical cells), the better the yields.

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Earnings Outlook

This section discusses summary financials for overall Tesla, comparative operating margin analysis, free cash flow, and capital structure. For detailed revenue expectations for the Model S, Roadster, Gen-III vehicle, and the Powertrain business, please refer to Detailed Revenue and Profit by Model section on page 22.

Summary Earnings Outlook

Table 4: Summary Earnings Outlook

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Total Revenues	**112**	**109**	**147**	**628**	**1,846**	**2,173**	**3,672**	**4,971**	**6,590**	**7,209**	**8,346**	**8,420**
Total COGS	102	84	115	520	1,397	1,654	2,828	3,919	5,308	5,879	6,834	6,927
Total Gross Profit	**10**	**25**	**32**	**108**	**449**	**519**	**844**	**1,052**	**1,282**	**1,330**	**1,511**	**1,493**
Gross Margin	8.9%	23.2%	21.8%	17.2%	24.3%	23.9%	23.0%	21.2%	19.5%	18.5%	18.1%	17.7%
Research and Development	20	80	139	150	161	267	177	172	228	303	305	305
% of sales	17.9%	73.1%	94.6%	23.9%	8.7%	12.3%	4.8%	3.5%	3.5%	4.2%	3.7%	3.6%
SG&A	41	90	91	112	135	148	240	320	419	458	507	490
% of sales	36.6%	82.2%	61.9%	17.8%	7.3%	6.8%	6.5%	6.4%	6.4%	6.3%	6.1%	5.8%
Operating Income (loss)	**(51)**	**(145)**	**(198)**	**(154)**	**153**	**104**	**427**	**560**	**636**	**569**	**699**	**698**
Operating Margin	-45.5%	-132.1%	-134.8%	-24.6%	8.3%	4.8%	11.6%	11.3%	9.6%	7.9%	8.4%	8.3%
Interest Income (expense)	(2)	(3)	(10)	(14)	(13)	(10)	(9)	(7)	(6)	0	0	0
Other (loss) gain	-1.0	-10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Income (Loss)	**(54)**	**(158)**	**(208)**	**(168)**	**140**	**93**	**418**	**553**	**630**	**569**	**699**	**698**
Taxes	0	0	0	0	0	0	100	133	151	137	168	167
Memo: Tax Rate	0%	0%	0%	0%	0%	0%	24%	24%	24%	24%	24%	24%
GAAP Net Income (Loss)	**(54)**	**(158)**	**(208)**	**(168)**	**140**	**93**	**318**	**420**	**479**	**433**	**531**	**530**
Add: change in fair value of warranty liabilities												
Add: Non-cash Stock Based compensation		17	14	16	19	20	17	18	20	21	23	23
Non-GAAP Net Income		**(141)**	**(194)**	**(152)**	**159**	**113**	**334**	**438**	**499**	**454**	**554**	**553**
Weighted average number of shares -- Diluted		102.0	103.0	104.1	105.1	106.1	107.2	108.3	109.4	110.5	111.6	112.7
Non-GAAP Diluted EPS		**$ (1.38)**	**$ (1.88)**	**$ (1.46)**	**$ 1.51**	**$ 1.07**	**$ 3.12**	**$ 4.05**	**$ 4.56**	**$ 4.11**	**$ 4.97**	**$ 4.91**

Source: Company reports and J.P. Morgan estimates.

Revenues

The first year of meaningful revenue generation would be 2013, as this would be when both Next-Generation Roadster and Model-S show for the first time on a full year basis. We estimate Tesla to generate $1.8B of revenues in 2013, which should grow to $2.2B in 2014 and $3.7B in 2015. Our revenue estimates are based on 20K unit sales (1.5K Roadster + 18.5K Model-S) in 2013, 24K (1.75K Roadster + 22.0K Model-S) in 2014 and 45K (1.95K Roadster + 37.5K Model-S + 6K Gen-III) in 2015. We expect Model-S vehicles to be the biggest revenue and volume drivers for Tesla until the launch of "Gen-III" cars in 2015.

Operating Margin

We believe that Tesla could post higher operating margins than traditional luxury carmakers at least for the next few years given lesser competition in the EV market right now and Tesla's cost advantage over its competitors; we nevertheless model conservatively and assume margins similar to the peers. We expect Tesla to record operating profits of $153MM (8.3% margin) in 2013, $104MM (4.8% margin) in 2014 and $427MM (11.6% margin) in 2015. While our margin assumptions are roughly consistent with 5-9% operating margins posted by traditional luxury OEMs like BMW, Mercedes, Audi, etc., they are notably below the long-term operating margin guidance of 14-16%. We think that margin assumptions in our model could prove to be conservative and sense that Tesla could make higher operating margins than peers at least for the next few years.

EPS

Our model assumes Tesla to post losses for the next three years before turning positive in 2013. Based on the assumptions discussed below, we project non-GAAP EPS of -$1.38 in 2010, -$1.88 in 2011 and -$1.46 in 2012. As Model-S volumes start appearing fully in 2013 after the model's potential launch in late 2012, we expect Tesla to report its first profitable year in 2013 with an EPS of $1.51 ($1.15 assuming normalized 24% tax rate), which falls to $1.07 in 2014 ($0.81 assuming normalized 24% tax rate) due to higher SG&A and R&D costs prior to launch of the "Gen-III" car in 2015. We expect EPS in 2015, however, to jump sharply to $3.12, as SG&A and R&D costs moderate and revenues from "Gen-III" vehicles kick in. We also assume 2015 to be the first year Tesla will be paying normalized taxes ─ an estimated 24% on a blended basis.

Our 2013 EPS would be $0.18 higher should the 2013 operating margin be 100 bps higher. Also, we estimate that each 5K additional model-S vehicles would provide a $1.00 uplift to our 2013 EPS estimate. Therefore, we estimate that 25K model-S vehicles (vs. 18.5K in our model) and 15% operating margin (vs. 8.3% in our model) would yield an EPS of $3.51 in 2013 (vs. $1.51 in our model).

Free Cash Flow

The estimated negative spread between D&A (depreciation and amortization) and capital expenditure, coupled with roughly neutral working capital, should result in significant free cash outflow for the next few years for the company. We expect capital expenditure to be substantially higher for the next few years as Tesla invests in development of Model-S (and derivatives) and Gen-III cars. We estimate $195MM of free cash outflow (vs. -$141 net loss) in 2010, $297MM of free cash outflow (vs. -$194 net loss) in 2011, $175MM of free cash outflow (vs. -$152MM net loss) in 2012 and $153MM of free cash flow generation (vs. $159MM net income) in 2013.

The timely launch of Model-S becomes more necessary, in our view, as the cash on the balance sheet should fall significantly to $44MM in 2012 (even after fully utilizing DOE loans and IPO proceeds) due to the above discussed free cash outflows. Our model, as such, suggests that Tesla could do a small-size capital market transaction sometime in future to fund its future investments.

Tesla's Operating Margins vs. Peers

We expect Tesla to report positive operating income for the first time in 2013 after the launch of Model-S in late 2012, and expect the company to generate $153MM of operating profit in the year. While the company guides to 14-16% operating margins long term, we model more conservatively and assume an 8.3% operating margin in 2013, which, we believe, is more analogous to the 5-10% normalized margins posted by traditional luxury automakers such as BMW, Mercedes, Audi, etc.

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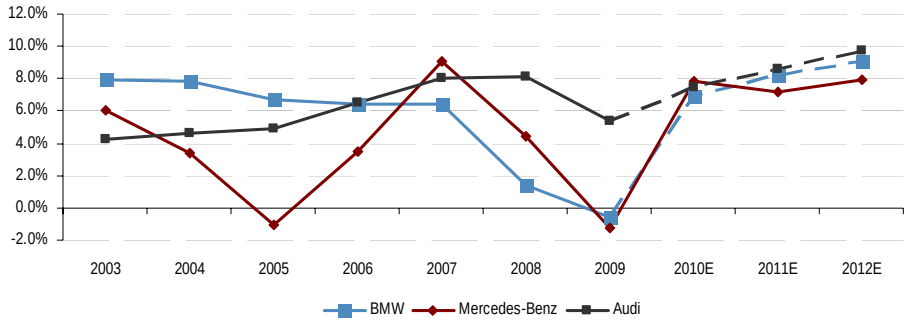
Figure 1: Operating Margins 2003-2012E for Luxury OEMs



Source: Company reports and J.P. Morgan estimates. Operating margin estimates for future years are the published estimates of J.P. Morgan's European Auto Analyst.

Tesla could make a higher operating margin than traditional luxury carmakers, at least for the initial few years. As more and more electric vehicles come to the market, and automakers start competing neck and neck in EVs (eg, Audi E-tron is expected in 2012/2013), operating margins could decline but we believe would likely remain higher than the luxury automakers, given the cost advantage and several other strategic initiatives taken by the company, as mentioned below.

- **Tesla claims to be able to develop vehicles at a significantly lower cost than the peers:** Tesla developed Roadster with just $100MM, though it does not include development of assembly lines, etc., as Tesla gets Current Generation Roadster assembled by a third party vendor in UK ─ Lotus Cars Limited. Moreover, operating income from Roadster vehicles turned positive in 1Q:10, even at today's lower volumes, which we believe likely denotes a significant cost advantage that Tesla has over its peers. Tesla expects Model-S development costs, including development of assembly lines, to equate to ~$400MM ─ substantially lower than what other automakers usually need to develop a new model like this. This makes us believe that the company would likely be able to develop and build future vehicles (Model-S and its derivatives, Gen-III cars etc.) at a lower overall costs than other automakers.

- **Tesla owns its dealerships:** Tesla, unlike other automakers, would run the dealerships on its own, which should help the company to manage its inventories in a better fashion. We believe this would likely help Tesla to post higher operating margins than would the traditional automakers as Tesla would likely capture the operating margins dealers usually make from selling new vehicles (publicly listed dealers typically make 3-4% operating margin, on a normalized basis).

- **Powertrain development is singularly focused:** Tesla invests only in electric vehicles. Most other global carmakers are simultaneously investing in gas, diesel, HEVs, PHEVs, and EVs (some are also investing in fuel cells and CNG). The narrower focus of Tesla's powertrain plans by itself could suggest lower research and development costs.

…Though R&D costs and SG&A expenses are expected to be abnormally higher for the next few years: On Research and Development (R&D), we expect Tesla to spend of $80MM in 2010, $139MM in 2011, $150MM in 2012 and

$161MM in 2013. For the next three years, we expect Tesla to invest more in R&D to develop "Gen-III" cars, which we assume will be launched in late 2015. In subsequent years, we expect R&D costs to be in the range of 3.5% to 4.0% of revenues. We expect SG&A expenses to be $90MM in 2010, $91MM in 2011, $112MM in 2012 and $135MM in 2013. It is worth noting that non-cash stock based compensation is included in the SG&A number mentioned above. In future years, we expect SG&A costs (excluding stock-based compensation) to be ~6% of total revenues, in line with Tesla's long-term SG&A guidance.

Non-GAAP EPS

Walking from GAAP net-income to non-GAAP net-income: In its future earnings releases, Tesla will add back the following two items to its reported GAAP net-income number to calculate non-GAAP net income: **(1)** Stock-based compensation, which would be included mainly in the reported SG&A and a smaller amount in R&D; **(2)** Gains or losses associated with marking-to-market DOE warrant. We adopt the same methodology, and add back non-cash stock based compensation to our net income estimates before calculating EPS for the company. Also, for simplicity purposes, we assume no gains (losses) from marking-to-market (MTM) the DOE warrants.

Free Cash Flow Consideration

We estimate that Tesla will not generate meaningful free cash flow until 2016, as Tesla would need to have significant capital expenditures for the next several years related to various items like development and expansion of production capacity, opening new stores, etc.

Expansion of vehicle assembly capacity for Gen-III would require Tesla to make higher capital investments for the next few years: We estimate that Tesla will need to make $465MM of capital investment in the period 2013-2015 to expand the vehicle assembly capacity for the production of lower-priced (and likely higher volume) Gen-III cars. However, we believe that investment in the NUMMI plant would significantly lower the cost to expand vehicle assembly capacity given the NUMMI plant produced roughly 450K vehicles at its peak. Further, we estimate Tesla will make $50MM investment every year (beginning 2014) toward top-hat development.

We expect the company's estimated negative spread between D&A (depreciation and amortization) and capital expenditure, coupled with roughly neutral working capital, to result in significant free cash outflow for the next few years. We expect capital expenditure to be substantially higher for the next few years as Tesla invests in development of the Model-S and its derivatives and Gen-III cars.

Table 5: Summary of Free Cash Flows

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
GAAP Net Income (loss)	-158	-208	-168	140	93	318	420	479	433	531	530
Depreciation & Amortization	10	16	35	43	45	45	50	50	50	50	50
Stock-based compensation	17	14	16	19	20	22	24	26	28	30	30
Change in Working Capital	36	17	25	87	35	101	96	117	59	91	27
Cash flow from operations	**-95**	**-162**	**-93**	**289**	**193**	**486**	**590**	**672**	**570**	**702**	**638**
Capital Expenditure	-100	-136	-83	-136	-180	-360	-100	-138	-158	-195	-213
Free Cash Flow (FCF)	**-195**	**-297**	**-175**	**153**	**13**	**126**	**490**	**534**	**412**	**507**	**425**

Source: Company reports and J.P. Morgan estimates.

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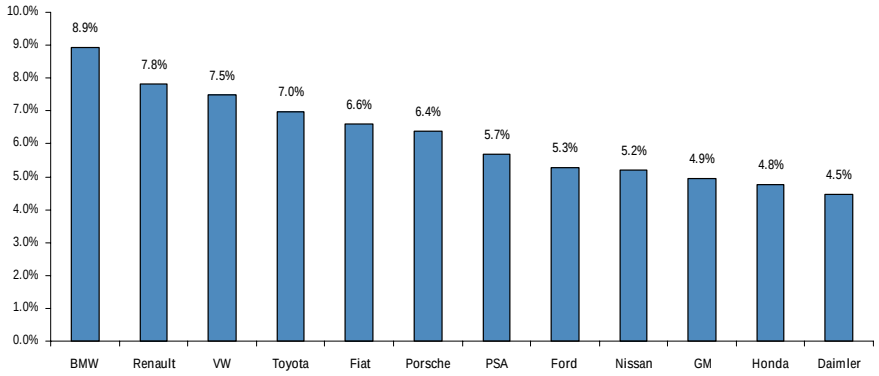
Table 6: Capital Expenditure Build

	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Store Count	18	29	44	65	75	85	105	140	175	225	250
Memo: Vehicles Sold per year per Store	30	19	133	408	317	535	710	801	770	688	640
Capital Required to Open One Store	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Incremental Capital Required to Open Stores	4.0	5.5	7.5	10.5	5.0	5.0	10.0	17.5	17.5	25.0	12.5
Total Volume (Incl. Powertrain)	1,731	4,060	11,270	32,400	33,150	56,260	87,441	126,230	150,792	172,396	179,151
Total Powertrain Capacity	30,000	30,000	30,000	30,000	30,000	60,000	60,000	90,000	120,000	180,000	180,000
Capital Required to Build 10K Additional Capacity	10	10	10	10	10	10	10	10	10	10	10
Incremental Capital Required to Increase powertrain production capacity	0	0	0	0	0	30	0	30	30	60	0
Total Vehicle Assembly Capacity	30,000	30,000	30,000	30,000	50,000	50,000	150,000	250,000	250,000	250,000	250,000
Incremental Capital Required to Expand Vehicle Assembly Capacity	0	0	0	105	105	255	0	0	0	0	0
Incremental Capital Required to Develop Top-Hat (capex only)	0	0	0	0	50	50	50	50	50	50	50
Total Incremental Capital Required	4	6	8	116	160	340	60	98	98	135	63
Maintenance Capex	96	130	75	20	20	20	40	40	60	60	150
Total Capital Expenditure	**100**	**136**	**83**	**136**	**180**	**360**	**100**	**138**	**158**	**195**	**213**
% of total revenues	*104.9%*	*99.0%*	*13.6%*	*5.8%*	*8.4%*	*9.9%*	*2.0%*	*2.1%*	*2.2%*	*2.4%*	*2.6%*

Source: Company Reports, J.P. Morgan Estimates

Figure 2: Automotive Capex (2000-2009 average) as % of Sales for Global Automakers

%



Source: Company reports.

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DOE Loan and Capital Structure Outlook

Background of DOE loans: The Department of Energy (DOE) will extend a total of $465MM loans at a 3% interest rate to Tesla to develop and build electric cars. Tesla is under contractual obligation to pay down the loans fully by Dec-2018, failing which DOE warrants (issued by the company to the DOE in exchange for the loans) would convert into equity. Tesla also needs to pay down $13MM of the DOE loans every quarter beginning 4Q:2012.

Tesla intends to fund all of its future investments to develop, build and expand vehicle production capacities through a combination of DOE loans (total amount available is $465MM) and IPO proceeds (net proceeds from the IPO were $184MM).

As our model assumes the company to start generating its first significant free cash flow in 2016, and given that Tesla needs to pay down $13MM of DOE loan every quarter beginning 4Q:2012, we see a possibility of small-size capital market transactions by the company in the medium term. However, we note that our FCF forecasts are based on conservative Model-S operating margin estimates; our 8.6% operating margin estimate in 2013 compares with the 14-16% long-term margin guidance provided by the company. We believe that if Model-S volumes ramp up at a pace faster than we forecast and margins come in better, Tesla should potentially be able to fund all of its capital requirements entirely through incremental FCF generation vs. our model. Long term, we expect Tesla to be able to fully pay down the outstanding amount of DOE loans by the required timeframe, and therefore expect DOE warrants to expire and to not convert into equity.

Table 7: Summary of Balance Sheet Data

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Free Cash Flow (FCF)	**-195**	**-297**	**-175**	**153**	**13**	**126**	**490**	**534**	**412**	**507**	**425**
Gross Debt	159	372	452	400	348	296	244	192	0	0	0
Gross Cash	223	139	44	145	106	180	619	1,101	1,321	1,828	2,253
Net Debt	-64	233	408	255	242	116	-375	-909	-1,321	-1,828	-2,253

Source: Company reports and J.P. Morgan estimates.

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Valuation

Our Dec-2011 price target is $25: We forecast revenue of $109MM in 2010, $1.8B in 2013 (assumes 18.5k Model S volumes), and ~$5B by 2016 (includes planned 3-series competitor). In 2013, we see EBIT margin of 8.3%, in line with German luxury OEM historical ranges, and EPS of $1.51 ($1.15 using normalized tax rate). We get to $25 using both a DCF (11.7% discount rate, 4% terminal growth, inclusive of 2011 burn) and price/sales (1.4x which is the 1.5x average 2012 p/sales of A123, Ener1, BYD discounted one year as we apply it to Tesla's 2013 sales). Our $25 price target implies a somewhat lofty 27x P/E on tax rate adjusted 2013 EPS, although implied P/E is 22x if 10% EBIT margin is used (our margin forecast may be conservative at least in the initial years (guidance is 14-16%).

We triangulate at this target using multiple approaches, and take the average of the DCF based and price/sales based valuations to arrive at our price target of $24.

We believe there are no great comps for Tesla, but BYD, A123 and Ener-1 are somewhat appropriate (latter two are Li-ion battery manufacturers). BYD is trading at 1.4x Bloomberg consensus 2012 sales estimate; while A123 and Ener-1 are trading at 1.7x and 1.4x, respectively, based on consensus 2012 estimates. We apply the average 2012 price/sales of these peers, discounted by one year, to Tesla's 2013 revenues (its first full year of Model S revenues).

Table 8: Valuation Summary

Equity value	$MM	Share Price
DCF (inclusive of 2011 cash burn)*	2,489	24.40
P/Sales (1.5x peer avg on 2013 sales, discounted)	2,558	25.08
Average	**2,524**	**24.74**
Implied:		
P/E (27x, on tax-effected 2013 EPS, discounted 1 yr)	2,567	25

* Excluding the 2011 cash burn, DCF would be $27

Source: Company reports, Bloomberg and J.P. Morgan estimates; Note

Table 9: Global Electric-Car/Battery Maker Valuation Comp Sheet

In MM local currency

	Ticker	Price	Market Cap	P/E				P/Sales			
In Local Currency				**2010E**	**2011E**	**2012E**	**2013E**	**2010E**	**2011E**	**2012E**	**2013E**
A123 Systems Inc	AONE US	10.7	1,114	NM	NM	NM	22.1x	8.2x	3.9x	1.7x	0.9x
Ener1 Inc	HEV US	3.3	481	NM	NM	NM	332.0x	5.3x	2.1x	1.5x	0.9x
Byd Co Ltd-H	1211 HK	52.1	118,419	22.2x	18.1x	15.5x	NA	2.2x	1.7x	1.4x	NM
Average EV names				**22.2x**	**18.1x**	**15.5x**	**177.1x**	**5.2x**	**2.6x**	**1.5x**	**0.9x**

Source: Company reports, Bloomberg and J.P. Morgan estimates. Priced as of August 6, 2010.

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Table 10: DCF Based Valuation

	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	112	109	147	628	1,846	2,173	3,672	4,971	6,590	7,209	8,346	8,420
EBITDA	-46	-135	-182	-119	196	149	472	610	686	619	749	748
Less: D&A	-5	-10	-16	-35	-43	-45	-45	-50	-50	-50	-50	-50
EBIT	-51	-145	-198	-154	153	104	427	560	636	569	699	698
Interest Expense	-2	-3	-10	-14	-13	-10	-9	-7	-6	0	0	0
Taxes	0	0	0	0	0	0	-100	-133	-151	-137	-168	-167
Net Income	**-54**	**-148**	**-208**	**-168**	**140**	**93**	**318**	**420**	**479**	**433**	**531**	**530**
Add: D&A	+5	+10	+16	+35	+43	+45	+45	+50	+50	+50	+50	+50
Add: Stock based compensation		+17	+14	+16	+19	+20	+22	+24	+26	+28	+30	+30
Change in Working Capital	0	18	2	9	68	15	85	78	97	37	68	4
Capital Expenditure	-68	-100	-136	-83	-136	-180	-360	-100	-138	-158	-195	-213
Free Cash Flow to Equity	**-117**	**-202**	**-311**	**-191**	**134**	**-7**	**109**	**472**	**515**	**390**	**485**	**402**
PV of FCF to Equity		-202	-279	-153	96	-5	63	243	238	161	180	133
Terminal Value												5,458
Implied Terminal Growth rate												14x
PV of Terminal Value												1,811

DCF Assumptions		**Comments**
(1) Risk-free rate*	2.854%	
(2) Beta	1.0	
(3) Risk Premium**	8.5%	
(1)+ (2)*(3) = Cost of Equity	11.7%	
LT Growth Rate	4.0%	

* US 10-yr Treasury yield

** Source: Bloomberg's US Country Risk Premium

Equity Value Calculation	
PV of FCFs	679
PV of Terminal Value	1,811
Equity Value (fully distributed)	**2,489**
Implied Stock Price	**24**

Source: Company reports, Bloomberg, and J.P. Morgan estimates

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Detailed Revenue & Profit by Model

For summary financials for overall Tesla, please refer to Earnings Outlook.

Model-S Revenue and Gross Profit Outlook

Model-S vehicles would be the biggest volume driver for the company beginning 2012: Tesla intends to start manufacturing Model-S vehicles (sedans in the price range of the likes of BMW 5-Series, Audi A6 and Mercedes E-Class; and with a seating space for 5 adults and 2 children) from 2H:2012 and the company anticipates to build 7K vehicles in 2012 and 20K vehicles in 2013. Though Tesla states that investment in the NUMMI facility has significantly de-risked the launch of Model-S and expresses its confidence in being able to launch Model-S by the aforementioned timeline, we nonetheless model somewhat more conservatively to account for a potential delay in vehicle launch timing and assume 5.5K unit sales in 2012 and 18.5K unit sales in 2013. We anticipate Model-S (and top-hat derivatives) shipments to increase from 18.5K in 2013 to 22.0K in 2014, 37.5K in 2015, 42.5K in 2016 and 47.5K in 2017 before a potential overhaul of the model in 2018. Significant volume ramp-up from 2014 to 2015 is driven by our assumption (supported by company guidance) that Tesla would launch variants of Model-S (CUV, MPV etc.) in mid-2014.

Model-S volume forecasts in the context of global luxury production volumes: We note that our 2013 Model-S shipment forecast (18.5K units) is *just* 0.3% of luxury badge production globally, 1.3% of luxury vehicles (sedans + SUVs) within the price bracket of $50-70K and ~2% of competing luxury sedans (BMW 5-series, Audi A-6 etc.).

Table 11: Production Volumes of Vehicles in the Price-Band of $50-70K vs. Model-S Sales Forecasts

Production Volume of Vehicles in the Price-Band: $50-70K	Price	CY2009	CY2010E	CY2011E	CY2012E	CY2013E	CY2014E	CY2015E	CY2016E
Acura RL	$ 48,640	2,117	3,016	5,338	8,486	7,399	8,677	9,437	9,889
Acura MDX	$ 47,993	32,784	58,712	61,843	67,515	71,018	71,331	70,059	67,088
BMW 5-Series	$ 54,925	158,080	241,320	271,563	266,428	252,166	245,753	238,304	261,885
BMW X6	$ 72,750	44,445	37,393	27,120	25,792	27,277	26,466	39,191	43,170
BMW Z4	$ 53,525	28,902	28,692	25,846	22,230	21,071	19,990	31,336	32,260
BMW X5	$ 66,450	80,500	91,382	106,092	107,096	113,476	115,466	114,349	111,891
Audi Q7	$ 53,950	27,929	29,773	28,393	27,339	27,451	42,121	48,311	47,676
Audi A6	$ 53,075	178,951	173,054	218,511	270,974	266,554	252,531	241,230	244,541
Cadillac CTS	$ 45,175	36,606	52,499	63,240	71,974	67,125	61,481	58,838	58,458
Infiniti M-Series	$ 57,550	11,333	15,715	19,656	22,236	21,836	25,256	28,416	29,144
Jaguar XF	$ 65,150	27,236	41,894	41,069	35,154	20,040	28,561	49,040	50,318
Lexus GS460	$ 54,070	11,565	18,117	27,589	30,218	30,210	31,984	33,448	32,147
Lexus GX460	$ 51,970	8,524	17,578	21,227	22,649	24,682	26,079	25,654	24,804
Mercedes-Benz ML-Class	$ 68,375	61,028	66,899	95,242	105,404	106,264	107,812	106,923	103,514
Mercedes-Benz E-Class	$ 66,900	210,976	276,747	291,480	275,935	260,192	245,090	221,873	208,330
Mercedes-Benz R-Class	$ 50,050	10,206	10,111	13,664	12,992	10,506	0	0	0
Porsche Cayman	$ 56,450	6,242	5,926	6,040	6,329	9,987	10,057	9,615	9,557
Porsche Cayenne		29,186	35,174	40,992	38,155	37,300	38,132	38,843	38,121
Porsche Boxster	$ 52,800	7,634	5,411	8,599	10,212	10,575	10,499	10,338	10,348
Total Production		**974,244**	**1,209,413**	**1,373,504**	**1,427,118**	**1,385,129**	**1,367,286**	**1,375,205**	**1,383,141**
JPM Tesla Model-S Forecast					**5,500**	**18,500**	**22,000**	**37,500**	**42,500**
% of Competing Vehicles					***0.4%***	***1.3%***	***1.6%***	***2.7%***	***3.1%***

Source: CSM Auto and J.P. Morgan estimates.

Table 12: Production Volumes of Sedans Competing with Model-S vs. Model-S Sales Forecasts

	CY2009	CY2010E	CY2011E	CY2012E	CY2013E	CY2014E	CY2015E	CY2016E
Acura RL	2,117	3,016	5,338	8,486	7,399	8,677	9,437	9,889
BMW 5-Series	158,080	241,320	271,563	266,428	252,166	245,753	238,304	261,885
Audi A6	178,951	173,054	218,511	270,974	266,554	252,531	241,230	244,541
Cadillac CTS	36,606	52,499	63,240	71,974	67,125	61,481	58,838	58,458
Infiniti M-Series	11,333	15,715	19,656	22,236	21,836	25,256	28,416	29,144
Lexus GS460	11,565	18,117	27,589	30,218	30,210	31,984	33,448	32,147
Mercedes-Benz E-Class	210,976	276,747	291,480	275,935	260,192	245,090	221,873	208,330
Total Model-S competing Sedans	**609,628**	**780,468**	**897,377**	**946,251**	**905,482**	**870,772**	**831,546**	**844,394**
JPM Tesla Model-S Forecast				5,500	18,500	22,000	37,500	42,500
% of Competing Sedans				***0.6%***	***2.0%***	***2.5%***	***4.5%***	***5.0%***

Source: CSM Auto and J.P. Morgan estimates.

Further, Tesla has indicated that it would make Model-S available in three ranges (160 miles, 230 miles and 300 miles), but has disclosed the base price of the 160 mile version only ─ $49.5K excluding ZEV (zero emission vehicle) credits. We assume the price of the 230 mile range ($61.6K) Model-S to be ~20% higher than the 160 miles version, and assume the price of the 300 mile range ($69.5K) Model-S to be ~10% higher than the 230 miles variant. As guided by the company, we assume 20% of Model-S vehicles to be 160 miles variant, 60% to be 230 miles variant and the remaining 20% to be 300 miles variant.

Tesla, being a pure Zero Emission Vehicle (ZEV) manufacturer, sells ZEV credits to the automakers not able to fully comply with the low-emission regulation requirements in several states. These states require a portion of the vehicles sold by the automakers in the state during each model year to be ZEVs. While Tesla currently generates significant revenues (~6% of the average selling price in the US is related to ZEV credit) from selling these credits to other automakers, we expect revenues related to ZEV credits to decline sequentially as electric vehicle penetration increases and more and more electric vehicles come to the market.

Model-S Revenue Outlook: Our model assumes Tesla will generate $1.8B of revenues from Model-S vehicles in 2013, $2.2B in 2014 and, post launch of Model-S derivatives in mid-2014 a significantly higher $3.7B in 2015. We expect revenues, thereafter, to grow steadily.

Model-S Gross Profit Outlook: We assume Model-S in the US will generate ~19% (excluding ZEV credits) gross margin per vehicle sold in the US in all the years beginning 2013 ─ lower than the ~27% gross margin (excl. ZEV credits) forecast for higher ASP Roadster vehicles. For Model-S vehicles sold outside the US (Europe and Rest of the World), we expect gross margin to be 25% in all the years ─ compared to 32.5% gross margin per vehicle assumed for off-shore Roadster volumes.

Cutting Cost of Model S Battery Pack

A key enabler to maintaining healthy gross margins on the Model S despite a lower selling price and larger pack because of a 35-40% expected drop in battery pack cost per unit of energy stored ($/kWh), say from roughly $550/kWh on the current Roadster to ~$300/kWh on the Model S. Key drivers behind Roadster to Model S battery cost saves (in rough order of magnitude):

1. **Pack level improvements** – For example, we expect packaging density of the Model S battery pack cells will be ~44% improved versus the Roadster's.

2. **Economies of scale –** Tesla expects Model S to have more than 30x the annual volumes of Roadster.

3. **Cell level improvements** -- Given changes to cell chemistry, many of them specifically suited to automotive applications, the cells for the Model S should have 15% higher energy density than those currently used in the Roadster (Panasonic is the initial provider of Model S cells; Sanyo is currently the Roadster's cell provider).

4. **Cell chemistry changes** – The cell cathode in the Roadster cells employ lithium cobalt (LCO) chemistry, while Model S cell cathodes will use nickel cobalt aluminum (NCA), resulting in a 2/3 reduction in the amount of Cobalt used per cell. Cobalt is relatively more expensive than aluminum and nickel.

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Table 13: Model-S: Volume and Revenue Build-Up

	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
US									
Average Selling Price ($)									
Base Price -- 160 mile range	57,400	57,400	57,400	55,400	52,630	51,051	48,499	49,954	49,954
Base Price -- 230 mile range	69,500	69,500	69,500	67,500	64,125	62,201	59,091	60,864	60,864
Base Price -- 300 mile range	77,400	77,400	77,400	75,400	71,630	69,481	66,007	67,987	67,987
Penetration rate -- 160 mile range	20%	20%	20%	20%	20%	20%	20%	20%	20%
Penetration rate -- 230 mile range	50%	50%	60%	60%	60%	60%	60%	50%	60%
Penetration rate -- 300 mile range	30%	30%	20%	20%	20%	20%	20%	30%	20%
Base Price - Blended	69,450	69,450	68,660	66,660	63,327	61,427	58,356	60,819	60,107
D&D (Delivery & Destination)	975	975	975	975	975	975	975	975	975
Options	8,000	8,000	7,909	7,679	7,295	7,076	6,722	7,006	6,924
ZEV Credit	5,000	4,000	3,000	2,000	1,000	1,000	500	500	500
Total Average Selling Price ($)	**83,425**	**82,425**	**80,544**	**77,314**	**72,597**	**70,478**	**66,553**	**69,300**	**68,505**
Cost of Goods Sold per Unit ($)	77,500	63,403	62,733	61,038	57,993	56,277	53,503	55,728	55,084
Gross Profit per Unit ($)	5,925	19,022	17,811	16,275	14,603	14,201	13,050	13,572	13,421
Volume	3,000	11,000	12,000	20,000	22,500	25,000	20,000	27,500	25,000
Revenues ($ MM)	**250**	**907**	**967**	**1546**	**1633**	**1762**	**1331**	**1906**	**1713**
Cost of Goods Sold ($ MM)	233	697	753	1221	1305	1407	1070	1533	1377
Gross Profit ($ MM)	18	209	214	326	329	355	261	373	336
Gross Margin	7.1%	23.1%	22.1%	21.1%	20.1%	20.1%	19.6%	19.6%	19.6%
Gross Margin less ZEV Credits	1.2%	19.2%	19.1%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Europe & RoW									
USD/EUR	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Average Selling Price ($)									
Base Price -- 160 mile range	66,430	66,430	66,430	64,115	60,910	59,082	56,128	57,812	57,812
Base Price -- 230 mile range	80,434	80,434	80,434	78,119	74,213	71,987	68,387	70,439	70,439
Base Price -- 300 mile range	89,576	89,576	89,576	87,262	82,899	80,412	76,391	78,683	78,683
Penetration rate -- 160 mile range	20%	20%	20%	20%	20%	20%	20%	20%	20%
Penetration rate -- 230 mile range	50%	50%	60%	60%	60%	60%	60%	50%	60%
Penetration rate -- 300 mile range	30%	30%	20%	20%	20%	20%	20%	30%	20%
Base Price - Blended	80,376	80,376	79,461	77,147	73,289	71,091	67,536	70,387	69,562
D&D (Delivery & Destination)	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430
Options	11,700	11,700	11,567	11,230	10,668	10,348	9,831	10,246	10,126
ZEV Credit	0	0	0	0	0	0	0	0	0
Total Average Selling Price ($)	**93,506**	**93,506**	**92,458**	**89,807**	**85,388**	**82,869**	**78,797**	**82,063**	**81,118**
Cost of Goods Sold per Unit ($)	70,129	70,129	69,344	67,355	64,041	62,152	59,098	61,547	60,839
Gross Profit Per Unit ($)	23,376	23,376	23,115	22,452	21,347	20,717	19,699	20,516	20,280
Volume	2,500	7,500	10,000	17,500	20,000	22,500	25,000	25,000	25,000
Revenues ($ MM)	**234**	**701**	**925**	**1572**	**1708**	**1865**	**1970**	**2052**	**2028**
Cost of Goods Sold ($ MM)	175	526	693	1179	1281	1398	1477	1539	1521
Gross Profit ($ MM)	58	175	231	393	427	466	492	513	507
Gross Margin	**25%**	**25%**	**25%**	**25%**	**25%**	**25%**	**25%**	**25%**	**25%**
Global Model S (and CUV/MPV) Program									
Volume									
160 mile range	1,100	3,700	4,400	7,500	8,500	9,500	9,000	10,500	10,000
230 mile range	2,750	9,250	13,200	22,500	25,500	28,500	27,000	26,250	30,000
300 mile range	1,650	5,550	4,400	7,500	8,500	9,500	9,000	15,750	10,000
Volume	5,500	18,500	22,000	37,500	42,500	47,500	45,000	52,500	50,000
ASP ($)	88,007	86,917	85,960	83,144	78,616	76,348	73,355	75,377	74,812
Cost of Goods Sold per Unit ($)	74,150	66,130	65,738	63,986	60,839	59,060	56,611	58,499	57,961
Gross Profit per Unit ($)	13,857	20,787	20,221	19,158	17,777	17,288	16,744	16,878	16,850
Revenues ($ MM)	484	1608	1891	3118	3341	3627	3301	3957	3741
Cost of Goods Sold ($ MM)	408	1223	1446	2399	2586	2805	2548	3071	2898
Gross Profit ($ MM)	76	385	445	718	756	821	753	886	843
Gross Margin	**15.7%**	**23.9%**	**23.5%**	**23.0%**	**22.6%**	**22.6%**	**22.8%**	**22.4%**	**22.5%**

Source: Company reports and J.P. Morgan estimates.

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Roadster Revenue and Gross Profit Outlook

Small volume expected from "Current-Generation" Roadsters: For Current-Generation Roadster vehicles, Tesla relies on Lotus Cars Limited in Hethel, England, for the assembly of body and chassis systems (gliders) and is in contractual agreement to get the first 1,700 assembled Roadster gliders from Lotus by March 2011; our model assumes Tesla easily meets the contractual obligation.

We expect Tesla to sell roughly half of the Current-Generation Roadster sales outside the US. The base price of the (Current-Generation) Roadster is $109K (excluding ZEV credits of $8.5K and options of $26K) and is expected to remain the same until 2012.

Next-Generation Roadster to be launched in 2013 likely with a lower ASP would have larger volumes: Beginning 2013, we expect Tesla to start building and assembling the lower price Next-Generation Roadster at its facility in California. We forecast Tesla to sell 1.5K Next-Generation Roadster globally in 2013 (in line with guidance). In subsequent years, however, we expect Roadster unit sales to grow to 1.75K in 2014, 1.95K in 2015, and increase 1K units each year thereafter. While the base price of Roadster vehicles currently on road is ~$109K (excluding ZEV credits and options), we anticipate the base price of Next-Generation Roadster at ~$75K, lower than company guidance of $100K. Lower base price estimate vs. company guidance is reflective of our assumption that Current-Generation Roadster's hefty price reflects a novelty factor (of being the only high range EV) that eventually fade, particularly after the Model-S launch in 2012. Further, we expect ZEV credits to decrease in the long term, as several automakers start building electric cars, which should be more popular by then. Our model assumes ZEV credit to decline from 4.0K in 2013, to 3.0K in 2014, 2.0K in 2015, 1.0K in 2016, and stable thereafter.

Tesla Roadster Revenue Outlook: Correspondingly, our model assumes revenues from Current-Generation Roadster vehicles to be $81MM in 2010, $80MM in 2011 and $53MM in 2012. After that, Tesla would launch Next-Generation Roadster vehicles in 2013 which is expected to generate $148MM of revenues in 2013, $171MM in 2014 and $184MM in 2015.

Tesla Roadster Gross Profit Outlook: As guided by the company, we assume that each Roadster vehicle sold in the US has an average cost of goods sold (COGS) of $120K in 2010, $115K in 2011 and $112K in 2012, and arrive at 12% overall gross margin (excl. ZEV credits) per vehicle in the US from Roadster vehicles in 2010, 16% and 18% (excl. ZEV credits) in 2011 and 2012, respectively. In subsequent years, however, we apply a constant ~27% gross margin (excl. ZEV credits) per Roadster vehicle sold in the US. For Roadster vehicles sold outside the US (in Europe and Rest of the World), we assume average cost of goods sold of $118K in 2010, $113K in 2011 and $110K in 2012 and arrive at 18/20/22% gross margins in 2010/2011/2012. In future years beyond 2012, we apply a constant 32.5% gross margin per Roadster vehicle sold outside the US.

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Table 14: Roadster Volume and Revenue Build-Up

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
US												
Average Selling Price ($)												
Base Price	109,000	109,000	109,000	109,000	75,000	75,000	72,750	70,568	68,450	66,397	66,397	66,397
D&D (destination & delivery)	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950
Options	26,000	26,000	26,000	26,000	17,890	17,890	17,353	16,833	16,328	15,838	15,838	15,838
ZEV Credit	9,000	8,500	7,500	5,000	4,000	3,000	2,000	1,000	1,000	500	500	500
ASP - $	**145,950**	**145,450**	**144,450**	**141,950**	**98,840**	**97,840**	**94,053**	**90,350**	**87,728**	**84,685**	**84,685**	**84,685**
Cost of Goods Sold per Unit ($)	116,000	120,000	115,000	112,000	69,233	69,233	67,225	65,226	63,312	61,455	61,455	61,455
Gross Profit per Unit ($)	29,950	25,450	29,450	29,950	29,607	28,607	26,828	25,125	24,417	23,230	23,230	23,230
Volume	630	308	280	278	750	875	1,050	1,100	1,150	1,200	1,250	1,300
Revenues ($ MM)	**92**	**45**	**40**	**39**	**74**	**86**	**99**	**99**	**101**	**102**	**106**	**110**
Cost of Goods Sold ($ MM)	73	37	32	31	52	61	71	72	73	74	77	80
Gross Profit ($ MM)	19	8	8	8	22	25	28	28	28	28	29	30
Gross Margin on ASP	20.5%	17.5%	20.4%	21.1%	30.0%	29.2%	28.5%	27.8%	27.8%	27.4%	27.4%	27.4%
Gross Margin on ASP less ZEV Credits revenue		**12.4%**	**16.0%**	**18.2%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**
Europe & RoW												
Average Selling Price												
Base Price - Euros	89,000	89,000	89,000	89,000	61,239	61,239	59,401	57,619	55,891	54,214	54,214	54,214
D&D (Delivery & Destination)- Euros	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Options - Euros	19,000	19,000	19,000	19,000	13,073	13,073	12,681	12,301	11,932	11,574	11,574	11,574
ASP - Euros	109,100	109,100	109,100	109,100	75,412	75,412	73,183	71,020	68,922	66,888	66,888	66,888
Memo: USD/EUR	1.39	1.32	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
ASP - $	**151,769**	**144,012**	**141,830**	**141,830**	**98,036**	**98,036**	**95,137**	**92,326**	**89,599**	**86,954**	**86,954**	**86,954**
Cost of Goods Sold per Unit ($)	106,000	118,000	113,083	110,133	66,174	66,174	64,218	62,320	60,479	58,694	58,694	58,694
Gross Profit per Unit ($)	45,769	26,012	28,747	31,697	31,862	31,862	30,920	30,006	29,120	28,260	28,260	28,260
Volume	200	252	280	93	750	875	900	950	1000	1050	1100	1150
Revenues ($ MM)	**30**	**36**	**40**	**13**	**74**	**86**	**86**	**88**	**90**	**91**	**96**	**100**
Cost of Goods Sold ($ MM)	21	30	32	10	50	58	58	59	60	62	65	67
Gross Profit ($ MM)	9	7	8	3	24	28	28	29	29	30	31	32
Gross Margin	**30.2%**	**18.1%**	**20.3%**	**22.3%**	**32.5%**	**32.5%**	**32.5%**	**32.5%**	**32.5%**	**32.5%**	**32.5%**	**32.5%**
Global Roadster Program												
ASP ($)	147,352	144,803	143,140	141,920	98,438	97,938	94,554	91,266	88,598	85,744	85,747	85,750
Cost of Goods Sold per Unit ($)	113,590	119,100	114,042	111,533	67,704	67,704	65,837	63,879	61,994	60,166	60,163	60,159
Gross Profit Per Unit ($)	33,762	25,703	29,098	30,387	30,734	30,234	28,716	27,387	26,604	25,577	25,584	25,591
Volume	830	560	560	370	1,500	1,750	1,950	2,050	2,150	2,250	2,350	2,450
% growth	*493%*	*-33%*	*0%*	*-34%*	*305%*	*17%*	*11%*	*5%*	*5%*	*5%*	*4%*	*4%*
Revenues ($ MM)	**122**	**81**	**80**	**53**	**148**	**171**	**184**	**187**	**190**	**193**	**202**	**210**
Cost of Goods Sold ($ MM)	94	67	64	41	102	118	128	131	133	135	141	147
Gross Profit ($ MM)	28	14	16	11	46	53	56	56	57	58	60	63
Gross Margin	**22.9%**	**17.8%**	**20.3%**	**21.4%**	**31.2%**	**30.9%**	**30.4%**	**30.0%**	**30.0%**	**29.8%**	**29.8%**	**29.8%**

Source: Company reports and J.P. Morgan estimates.

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"Gen-III" Car Revenue and Gross Profit Outlook

The "Gen-III" Car is expected to be launched in 2015 and would likely compete with "mass-market" luxury vehicles such as the BMW 3-series: We expect Tesla to launch "Gen-III" cars in late-2015 with a base price in the vicinity of $35K, designed to compete with the likes of the BMW 3-Series. We project the volumes of mass-market cars to grow from 6K units in 2016 to 30K units in 2017, 63K in 2017, 88K in 2018, 100K units in 2019 and 108K units in 2020.

"Gen-III" Cars would likely yield nearly half of revenues eventually: We estimate revenues from "Gen-III" cars will be $1.3B in 2016, $2.6B in 2017, $3.5B in 2018, $4.0B in 2019 and $4.2B in 2020. We would expect the "Gen-III" cars to eventually be the biggest driver of volumes and revenues for the company. By our estimates, "Gen-III" cars would generate 50% of total revenues for Tesla in 2020.

"Gen-III" Car Gross-Profit Outlook: For "Gen-III" cars sold in the US, we assume 20% gross margin in 2015. In future years, we expect the margins to decline from this level to 13% in 2020 due to smaller ZEV credits, a lower base price partially offset by lower COGS (driven by lower battery costs). For the vehicles sold outside the US, we assume 15.0% gross margin in 2015, declining to 13.5% in 2020 due to similar reasons discussed above.

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Table 15: Generation III Car: Volumes and Revenue Build-Up

	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
US						
Average Selling Price ($)						
Base Price	32,500	32,500	32,500	31,525	31,210	30,898
D&D	975	975	975	975	975	975
Options	4,000	4,000	4,000	4,000	4,000	4,000
ZEV Credit	4,000	3,000	2,000	2,000	2,000	2,000
Total Average Selling Price ($)	**41,475**	**40,475**	**39,475**	**38,500**	**38,185**	**37,873**
Cost of Goods Sold per Unit ($)	33,180	33,380	33,753	33,112	33,031	32,951
Gross Profit per Unit ($)	8,295	7,095	5,722	5,388	5,153	4,922
Volume	5,000	20,000	45,000	65,000	75,000	80,000
Revenues ($ MM)	**207**	**810**	**1776**	**2503**	**2864**	**3030**
Cost of Goods Sold ($ MM)	166	668	1519	2152	2477	2636
Gross Profit ($ MM)	41	142	258	350	387	394
Gross Margin	20.0%	17.5%	14.5%	14.0%	13.5%	13.0%
Gross Margin excl. ZEV credits	**11.5%**	**10.9%**	**9.9%**	**9.3%**	**8.7%**	**8.1%**
Europe & RoW						
Average Selling Price ($)						
Base Price	42,250	42,250	42,250	40,983	40,573	40,167
D&D	1,463	1,463	1,463	1,463	1,463	1,463
Options	5,200	5,200	5,200	5,200	5,200	5,200
ZEV Credit	0	0	0	0	0	0
Total Average Selling Price ($)	**48,913**	**48,913**	**48,913**	**47,645**	**47,235**	**46,829**
Memo: USD/EUR	1.30	1.30	1.30	1.30	1.30	1.30
Cost of Goods Sold per Unit ($)	41,576	41,576	41,820	40,975	40,858	40,507
Gross Profit per Unit ($)	7,337	7,337	7,092	6,670	6,377	6,322
Volume	1,000	10,000	17,500	22,500	25,000	27,500
Revenues ($ MM)	**49**	**489**	**856**	**1072**	**1181**	**1288**
Cost of Goods Sold ($ MM)	42	416	732	922	1021	1114
Gross Profit ($ MM)	7	73	124	150	159	174
Gross Margin	**15.0%**	**15.0%**	**14.5%**	**14.0%**	**13.5%**	**13.5%**
Global Gen III Car Program						
Global ASP ($)	42,715	43,288	42,118	40,852	40,447	40,164
Cost of Goods Sold per Unit ($)	34,579	36,112	36,012	35,133	34,988	34,884
Gross Profit per Unit ($)	8,135	7,176	6,106	5,718	5,459	5,280
Volume	6,000	30,000	62,500	87,500	100,000	107,500
Revenues ($ MM)	256	1299	2632	3575	4045	4318
Cost of Goods Sold ($ MM)	207	1083	2251	3074	3499	3750
Gross Profit ($ MM)	49	215	382	500	546	568
Gross Margin	**19.0%**	**16.6%**	**14.5%**	**14.0%**	**13.5%**	**13.1%**

Source: Company reports and J.P. Morgan estimates.

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Power-train Revenue and Gross Profit Outlook

Tesla supplies battery pack to Daimler for the smart and Class-A vehicles: In addition to manufacturing Roadster and Model-S vehicles, Tesla also supplies battery packs to Daimler. Daimler also made ~10% equity investment in Tesla. In addition, Toyota has recently announced $50MM of equity investment in Tesla.

We believe that intent of Toyota's investment is to facilitate a supplier-vendor relationship with Tesla, and we estimate that Toyota would potentially source power-trains from Tesla. Also, Toyota and Tesla recently agreed to develop an EV version of the RAV4 compact SUV that may go on sale in 2012. Toyota aims to test an electric variant of the Corolla sedan (and likely Lexus RX luxury SUV) as well.

"Consumer Vehicle" power-train volume assumptions in our model account for only the power trains supplied to Daimler and Toyota.

We expect Tesla to supply power-train modules to commercial vehicles beginning 2016. While the size of the addressable market of the commercial trucks is said to be $25B annually, we estimate Tesla to generate just $32MM of revenues every year beginning 2016 from this business.

We expect 25% gross margin from the power-train business in the next few years, and expect the gross margin to decline thereafter as battery prices decline and automakers likely start building power trains in-house, which may be dependent on the outlook of penetration of EVs. We believe higher penetration of EVs would make a stronger case for automakers to think about building power-trains by themselves. We model 25% gross margins in each of the years 2010-2011, and then expect margins to decline to 23% in 2012, 20% in 2013, 19% in 2014 and 17% in 2015.

Table 16: Power-train Business: Revenue and Volume Outlook

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Consumer Vehicles												
Consumer Volume	30	855	2,750	4,700	5,300	8,900	10,065	11,072	12,179	14,005	15,406	16,947
ASP	20,000	18,000	17,000	15,000	13,000	10,000	9,000	8,000	7,000	6,000	5,500	5,500
Revenues	0.6	15.4	46.8	70.5	68.9	89.0	90.6	88.6	85.3	84.0	84.7	93.2
Commercial Vehicles												
Volume								1,000	1,000	1,000	1,000	1,000
ASP				40,000	38,000	36,000	34,000	32,000	32,000	32,000	32,000	32,000
Revenues								32	32	32	32	32
Total Power-Train Business												
Revenues	0.6	15.4	46.8	70.5	68.9	89.0	90.6	120.6	117.3	116.0	116.7	125.2
COGS	0.5	11.5	35.1	54.3	55.1	72.1	74.3	100.1	99.7	102.1	102.7	110.2
Gross Profit	0.2	3.8	11.7	16.2	13.8	16.9	16.3	20.5	17.6	13.9	14.0	15.0
Gross Margin	25.0%	25.0%	25.0%	23.0%	20.0%	19.0%	18.0%	17.0%	15.0%	12.0%	12.0%	12.0%

Source: Company reports and J.P. Morgan estimates.

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Management

Tesla's management is led by Elon Musk (39). Today, Mr. Musk is chairman, product architect, and CEO (CEO responsibilities came in 2008) of Tesla, and he also serves as CEO and CTO of SpaceX. He is also chairman of Solar City.

Mr. Musk holds a physics degree from the University of Pennsylvania and a business degree from Wharton. Mr. Musk seems to be a serial entrepreneur, having been or still is involved in a total of five major enterprises. He sold his first company Zip2, an internet software firm, to Compaq in the late-90s for $307MM. He then co-founded PayPal, which he later sold in October 2002 for $1.5B to eBay. His PayPal proceeds were used to fund SpaceX, which launched in 2002. He co-founded Tesla in 2003. He is also involved in Solar City, started in 2006.

One concern for investors over time may be that Elon Musk may eventually become stretched too thin.

Elon Musk seems passionate about electrified vehicles (or, more broadly, about the clean energy space) in general, an engineer at heart, and he is deeply involved in Tesla today. As many successful visionaries do, he has had some setbacks, but generally these are more around timeframe, not technological feasibility. One concern we see for investors over time may be that Mr. Musk may eventually become stretched too thin -- he seems to be handling his dual CEO responsibilities (for Tesla and SpaceX) relatively well so far, but as each organization grows, this may become more challenging.

In addition to Mr. Musk, we think JB Straubel, Tesla's CTO, plays a critical role in the company's success. Mr. Straubel has a masters degree in energy engineering from Stanford. Mr. Straubel is also a Tesla co-founder, and he currently oversees the technical and engineering design of the vehicles, focusing primarily on the battery, motor, power electronics, and software sub-systems. Prior to Tesla, he was co-founder and CTO of Volacom, an aerospace firm.

The manufacturing head is ex-Toyota, the retail distribution head is ex-Apple/Gap, and the HR head is ex-Google.

While Tesla's culture is centered around hard engineering, the company has realized the need to bring in strong non-engineering skills in select verticals. Most executives who come to Tesla seem to have been high achievers in prior roles in often eclectic industries. For example, the manufacturing head is ex-Toyota, the retail distribution head is ex-Apple/Gap, and the HR head is ex-Google. We believe this wide net of industry expertise is likely to form a strong management team that takes the best disciplines from multiple industries.

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Appendix: Summary Financial Statements

Table 17: Summary Income Statement

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Revenues	**112**	**109**	**147**	**628**	**1,846**	**2,173**	**3,672**
Total COGS	102	84	115	520	1,397	1,654	2,828
Total Gross Profit	**10**	**25**	**32**	**108**	**449**	**519**	**844**
Gross Margin	8.9%	23.2%	21.8%	17.2%	24.3%	23.9%	23.0%
Research and Development	20	80	139	150	161	267	177
% of sales	17.9%	73.1%	94.6%	23.9%	8.7%	12.3%	4.8%
SG&A	41	90	91	112	135	148	240
% of sales	36.6%	82.2%	61.9%	17.8%	7.3%	6.8%	6.5%
Operating Income (loss)	**(51)**	**(145)**	**(198)**	**(154)**	**153**	**104**	**427**
Operating Margin	-45.5%	-132.1%	-134.8%	-24.6%	8.3%	4.8%	11.6%
Interest Income (expense)	(2)	(3)	(10)	(14)	(13)	(10)	(9)
Other (loss) gain	-1.0	-10.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Income (Loss)	**(54)**	**(158)**	**(208)**	**(168)**	**140**	**93**	**418**
Taxes	0	0	0	0	0	0	100
Memo: Tax Rate	0%	0%	0%	0%	0%	0%	24%
GAAP Net Income (Loss)	**(54)**	**(158)**	**(208)**	**(168)**	**140**	**93**	**318**
Add: change in fair value of warranty liabilities							
Add: Non-cash Stock Based compensation		17	14	16	19	20	17
Non-GAAP Net Income		**(141)**	**(194)**	**(152)**	**159**	**113**	**334**
Weighted average number of shares -- Diluted		102.0	103.0	104.1	105.1	106.1	107.2
Non-GAAP Diluted EPS		**$ (1.38)**	**$ (1.88)**	**$ (1.46)**	**$ 1.51**	**$ 1.07**	**$ 3.12**

Source: Company reports and J.P. Morgan estimates

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Summary Balance Sheet

	2010E	2011E	2012E	2013E	2014E	2015E
Assets						
Cash and cash equivalents	223	139	44	145	106	180
Account Receivable, net	5	7	31	92	109	184
Inventory, net	15	21	88	258	304	514
Prepaid expenses and other current assets	7	9	38	111	130	220
Total Current Assets	251	176	201	607	650	1,098
Property and equipement, net	114	233	281	373	508	823
Restricted cash	4	4	4	4	4	4
Other Assets	3	4	19	55	65	110
Total Assets	**371**	**417**	**504**	**1,039**	**1,226**	**2,035**
Liabilities & Equity						
Accounts Payable	19	25	107	314	369	624
Accrued Liabilities	19	25	107	314	369	624
Deferred development compensation	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0
Capital lease obligations, current portion	0	0	0	0	0	0
Refundable reservation payments	35	35	15	10	5	0
Total Current Liabilities	73	85	229	638	744	1,249
Convertible preferred stock warrant liability	2	2	2	2	2	2
Common stock warrant liability	6	6	6	6	6	6
Capital lease obligations, less current portion	1	1	1	1	1	1
Convertible notes payable	0	0	0	0	0	0
Deferred revenue, less current portion	1	1	1	1	1	1
Long-Term debt (DOE loans)	159	372	452	400	348	296
Other long-term liabilities	3	3	3	3	3	3
Total Liabilities	**245**	**471**	**694**	**1,051**	**1,106**	**1,558**
Preferred Stock	319	319	319	319	319	319
Common Stock	201	215	231	250	270	292
Additional paid-in capital	7	7	7	7	7	7
Retained earnings (deficit)	-401	-595	-747	-589	-476	-141
Total Equity	**126**	**-54**	**-190**	**-12**	**121**	**477**
Total Liabilities & Equity	**371**	**417**	**504**	**1,039**	**1,226**	**2,035**

Source: Company reports and J.P. Morgan estimates.

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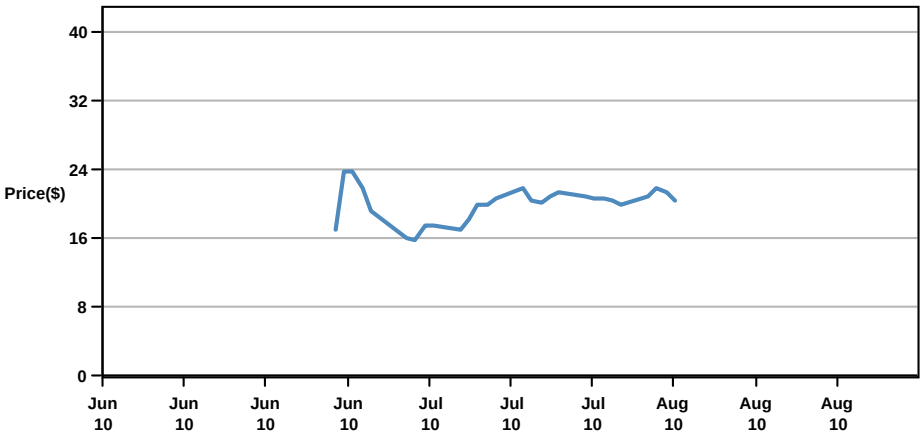
Tesla Motors (TSLA) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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North America United States
Consumer Autos & Auto Parts

Deutsche Bank

9 August 2010

Tesla Motors

Reuters: **TSLA.OQ** Bloomberg: **TSLA UN** Exchange: **NMS** Ticker: **TSLA**

Initiating coverage with a Hold recommendation

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We believe that Tesla can compete successfully over the long-term
We believe that Tesla's deep technical talent, head-start in EV technology, low development costs, unique product offering, low cost financing, and already-ubiquitous brand name position the co. to succeed in bringing competitive veh's to market. We expect strong demand / profitability in the med-term (20k Model S sales would enable $250MM-$300MM of EBITDA in 2013). And we expect a promising future beyond this, based on product expansion. The shares appear fully valued at this point, however, and we initiate coverage with a Hold rating.

Innovative battery approach leads to key cost / driving range advantages
Tesla's success in using groundbreaking packaging and electronics technology to enhance the durability and safety of low-cost, high-energy consumer electronics-style lithium-ion cells has resulted in a current battery pack cost that we estimate at ~$470 / kWh, compared to ~$650 / kWh for the rest of the industry (assuming similarly low volumes). And we believe that future packs (expected in 2012) could approach $300 / kWh, which would be dramatically lower than mainstream automakers. Lower cost and higher energy should enable Tesla to produce vehicles with unparalleled performance (range of 160-300 miles compared to 100 for most other planned EV's). Tesla's approach has been validated by Daimler and Toyota, each of which are current shareholders and are using Tesla packs in prototype EV's.

Low-cost business model / strong execution to-date give us confidence
Earnings appear quite strong on only 20k Model S units, which appears to be very achievable in the context of the premium midsize segment, and we believe that the company can break-even at roughly 50% of that volume. Capital needs have been mitigated by a low-cost DOE loan, and an ability to purchase PP&E at distressed prices. Access to the Toyota parts bin (and Toyota's material cost) is particularly advantageous with respect to material cost. Current management initiated a cost-reduction program that took the company from -10% gross margin in 1Q09 to +21% in 1H10, despite lower YOY unit volumes, which gives us confidence in our 22% gross margin projection for the Model S.

We have arrived at a $17 price target for the company's shares…
…based on a DCF analysis (see page 32 for detail). Key risks include execution on the scale up from niche to volume manufacturing, risks associated with demand and avg transaction price assumptions, risks associated with costs projections, and unknowns associated with the future competitive landscape (we believe that Tesla's competitors are now aggressively pursuing electric vehicles). In addition, we anticipate limited near term revenue/earnings to support the stock (i.e. until launch of the Model S in 2012). Consequently, we anticipate that Tesla's shares can exhibit high levels of near term volatility.

Forecasts and ratios

Year End Dec 31	2009A	**2010E**	2011E
FY EPS (USD)	-	**-3.08**	-2.15
Revenue (USDm)	111.9	**110.5**	146.9

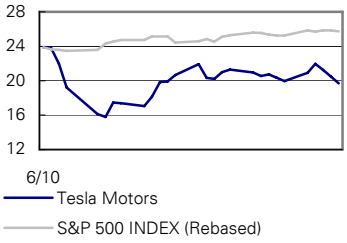
Source: Deutsche Bank estimates, company data

Coverage Change

Hold

Price at 6 Aug 2010 (USD)	**19.67**
Price target	**17.00**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*22.1*	–	–
S&P 500 INDEX	*9.1*	*-0.6*	*12.5*

Deutsche Bank Securities Inc.

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MICA(P) 007/05/2010

Model updated:06 August 2010

Running the numbers

North America

United States

Autos & Auto Parts

Tesla Motors

Reuters: TSLA.OQ Bloomberg: TSLA UN

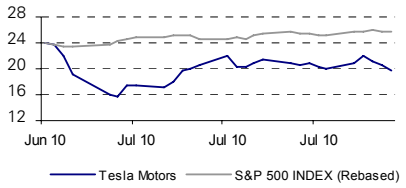
Hold

Price (6 Aug 10)	USD 19.67
Target price	USD 17.00
52-week Range	USD 15.80 - 23.89
Market Cap (m)	USDm 990 EURm 745

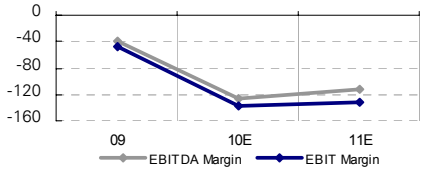
Company Profile

Tesla Motors designs, manufactures, and sells electric vehicles and EV powertrain components. Founded in 2003, the company introduced the first widely available highway-capable electrick vehicle in 2008. They plan to produce a higher-volume product (Model S) in 2012.

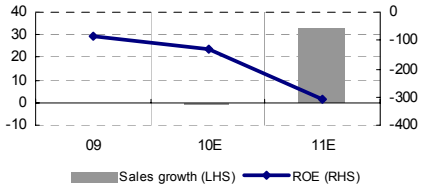
Price Performance



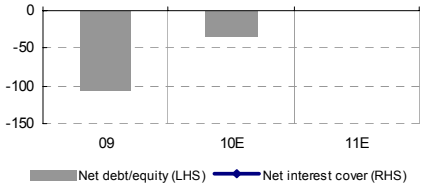
Margin Trends



Growth & Profitability



Solvency



Dan Galves
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Fiscal year end 31-Dec	2009	2010E	2011E
Financial Summary			
DB EPS (USD)	na	-3.08	-2.15
Reported EPS (USD)	-1.03	-2.87	-1.99
DPS (USD)	0.00	0.00	0.00
BVPS (USD)	1.30	3.31	-0.37
Valuation Metrics			
Price/Sales (x)	nm	9.0	12.6
P/E (DB) (x)	na	nm	nm
P/E (Reported) (x)	nm	nm	nm
P/BV (x)	0.0	5.9	nm
FCF yield (%)	na	nm	nm
Dividend yield (%)	na	0.0	0.0
EV/Sales	nm	8.4	14.3
EV/EBITDA	nm	nm	nm
EV/EBIT	nm	nm	nm
Income Statement (USDm)			
Sales	112	111	147
EBITDA	-45	-140	-165
EBIT	-52	-151	-192
Pre-tax profit	-56	-155	-202
Net income	**-56**	**-155**	**-202**
Cash Flow (USDm)			
Cash flow from operations	**-81**	**-119**	**-182**
Net Capex	-12	-129	-129
Free cash flow	**-93**	**-248**	**-311**
Equity raised/(bought back)	158	246	0
Dividends paid	0	0	0
Net inc/(dec) in borrowings	0	0	0
Other investing/financing cash flows	-5	149	188
Net cash flow	**60**	**147**	**-123**
Change in working capital	*-38*	*28*	*-8*
Balance Sheet (USDm)			
Cash and cash equivalents	70	217	93
Property, plant & equipment	24	147	252
Goodwill	0	0	0
Other assets	37	61	64
Total assets	**130**	**424**	**409**
Debt	0	159	351
Other liabilities	65	99	94
Total liabilities	**65**	**258**	**445**
Total shareholders' equity	**66**	**167**	**-35**
Net debt	*-70*	*-58*	*258*
Key Company Metrics			
Sales growth (%)	nm	-1.2	32.9
DB EPS growth (%)	na	na	30.2
Payout ratio (%)	nm	nm	nm
EBITDA Margin (%)	-40.2	-126.4	-112.2
EBIT Margin (%)	-46.4	-136.3	-131.0
ROE (%)	-84.8	-133.3	-306.7
Net debt/equity (%)	-106.0	-34.5	nm
Net interest cover (x)	nm	nm	nm
DuPont Analysis			
EBIT margin (%)	-46.4	-136.3	-131.0
x Asset turnover (x)	0.9	0.4	0.4
x Financial cost ratio (x)	1.0	1.0	1.0
x Tax and other effects (x)	1.0	1.0	1.0
= ROA (post tax) (%)	**-42.7**	**-55.8**	**-48.4**
x Financial leverage (x)	2.0	2.4	6.3
= ROE (%)	**-84.8**	**-133.3**	**-306.7**
annual growth (%)	*na*	*-57.1*	*-130.1*
x NTA/share (avg) (x)	1.2	2.2	0.7
= Reported EPS	**-1.03**	**-2.87**	**-1.99**
annual growth (%)	*na*	*-177.8*	*30.5*

Source: Company data, Deutsche Bank estimates

Investment Thesis

Outlook

We believe that Tesla's deep technical talent, its head-start in EV technology, its low product development costs, unique product offering, low cost DOE financing, and an already-ubiquitous brand name, position the company to succeed in bringing competitive vehicles to market. We expect strong demand and profitability in the intermediate term (20k Model S sales would enable Tesla to generate $250MM-$300MM of EBITDA in 2013). And the company has a promising future beyond this starting point, based on a growing product portfolio. Tesla's success in using groundbreaking packaging and electronics technology to enhance the durability and safety of low-cost, high-energy consumer electronics-style lithium-ion cells has resulted in cost and driving range advantages versus the EV offerings of Tesla's competitors. And the company's technological approach has been validated by Daimler and Toyota, each of which are current shareholders. The shares appear fully valued at this point, however, and thus our Hold recommendation.

Valuation

Our price target of $17 is based on a DCF analysis. Valuing Tesla presents a unique set of challenges, given the fact that company revenue won't accelerate until 2012 and beyond. We believe that DCF is the most appropriate valuation method in this case. We assume 7% terminal growth beginning in 2020 (given our projection that Tesla will still be building out its vehicle portfolio and that only 9.5% of global sales will be vehicles able to be fueled from the grid in 2020, we believe that an 7% growth rate is reasonable). We assume a terminal EBIT margin of 11.7% and a weighted average cost of capital of 13.5% (we calculate WACC by using 15% cost of equity and 3.3% cost of DOE debt and weight this over the expected capital structure from 2010 – 2014).

Risks

Key downside risks include execution on the scale up from niche to volume manufacturing, risks associated with demand and average transaction price assumptions, risks associated with costs projections (note that manufacturing is largely U.S. based, and in formerly unionized facilities), and unknowns associated with the future competitive landscape (we believe that Tesla's competitors are now aggressively pursuing electric vehicles). In addition, we anticipate limited near term revenue/earnings to support the stock (i.e. until launch of the Model S in 2012, or further ramping of Tesla's powertrain business). Consequently, we anticipate that Tesla's shares may exhibit high levels of near term volatility.

Upside could be derived from higher-than-expected Model S volumes or Powertrain sales contract wins. Given volumes of competitor vehicles in the 50k - 200k range, there is the potential for Tesla Model S volume to be significantly higher-than-expected. Additional customers / contracts for Powertrain sales could add significantly to our revenue / profitability targets (i.e. if current Toyota / Daimler development contracts turn into commercial production contracts).

Key points:

- Innovative battery approach gives Tesla driving range and cost advantage, and puts them years ahead of competitors. The Tesla Roadster achieves 4.6 miles of range per kWh of battery storage (244 miles of range / 53kWh battery), compared to 4.2 for the Nissan Leaf (100 miles / 24kWh), 3.4 for the Mini E (120 miles / 35kWh), and 2.5 for the Chevy Volt (40 miles of electric driving range / 16kWh).
- One platform, one powertrain strategy could facilitate unparalleled flexibility and operational/financial efficiency within the Auto Industry (it typically costs automakers $500 MM - $1 bn to develop a vehicle. Tesla is at $100-$400 MM). We'd note that development costs (R&D and Capex) for Tesla's current vehicle, the Roadster, were $125MM.
- Execution risk has been mitigated by ability to poach world-class automotive / engineering talent (Head of manufacturing is from Toyota. Head of Engineering is from Lotus. Head designer is from VW and Mazda. Head Aerodynamicist is from Ferrari. Head of purchasing is from SAP. CFO is from Ford. Head of HR / Recruiting is from Google).
- Purchase of NUMMI, a high volume auto manufacturing plant formerly owned by Toyota and General Motors, further mitigates execution risk.
- Company has shown an ability to execute – As evidenced by the gross margin increase for the Roadster, rapid launch of the Roadster Sport/right hand drive models, and rapid prototyping of Toyota and Daimler powertrains/vehicles.
- Price point / segment positioning / performance of Model S avoids most EV competition, enables the high-cost of the powertrain to fit within a high price point vehicle, and positions the company for maximum total cost of ownership benefit. Our Gross Margin expectations in the low 20% range appears realistic compared to other luxury automakers; particularly as Tesla owns its own distribution.
- Low cost business model - Earnings appear quite strong on only 20k units, which appears to be very achievable in the context of the premium midsize segment.
- If volume doesn't hit the target, the company can break-even at roughly 50% of our projected volume.
- Tesla's technology has been validated through partnerships with Daimler / Toyota. Access to the Toyota parts bin (and Toyota's material cost) is particularly advantageous re: cost and engineering / design resources.
- Tesla has access to low cost capital / facilities / equipment. Capital needs have been mitigated by a low cost DOE loan, and the ability to purchase PP&E at distressed prices.
- The powertrain business has the potential to surprise to the upside and provide a revenue bridge to 2012.
- Key risks include execution on the scale up from niche to volume manufacturing, risks associated with demand and average transaction price assumptions, risks associated with cost projections (note that manufacturing is largely U.S. based, and in formerly unionized facilities), and unknowns associated with the future competitive landscape (we believe that Tesla's competitors are now aggressively pursuing electric vehicles). In addition, we anticipate limited near term revenue/earnings to support the stock (i.e. until the launch of the Model S in 2012, or further ramping of Tesla's powertrain business). Consequently, we anticipate that Tesla's shares may exhibit high levels of near term volatility.
- We have arrived at a $17 target for Tesla's shares. We have used a DCF methodology to value Tesla's shares. The DCF incorporates 7% terminal revenue growth beginning in

2020 (given our projection that Tesla will still be building out its vehicle portfolio and that only 9.5% of global sales will be vehicles able to be fueled from the grid in 2020, we believe that a 7% growth rate is reasonable). We assume a terminal EBIT margin of 11.7% and a weighted average cost of capital of 13.5% (15% cost of equity and 3.3% cost of U.S. Department of Energy-funded debt).

Company Overview

Tesla was founded in 2003 to develop an electric sports car, the Tesla Roadster, which was launched in 2008, and is still the only highway capable electric vehicle on the market in the U.S. But since Tesla's formation, vehicle electrification has gained much greater significance. We believe that a number of factors, including concerns about dependence on oil, increased societal concern about climate change, regulatory change (driving improved fuel economy/CO2 regulations), and significant advancements in battery technology/cost have the potential to drive profound changes for the global auto industry over the next five to ten years, including a significant rise in penetration rates for Electric Vehicles. At the same time, Tesla has gained worldwide recognition for its electric drivetrain engineering and innovation. Based on products on the market, and those (that we know of) under development, we believe that Tesla is currently at the leading edge of performance and cost for EV technology, while achieving impressive benchmarks for battery pack safety and life expectancy. Tesla has 72 patents issued and applied for - 30 for the battery pack. Innovations in digital motor controllers, charge controller, traction control, pack controls, vehicle management, battery management, power electronics design are significant differentiating advantages.

Tesla's first vehicle, the Tesla Roadster, demonstrated the company's electric powertrain capabilities. And they are currently in production of their second generation of powertrain technology, having reduced the cost of their powertrain by 31% from Gen 1.0 to Gen 2.0 (October '08 – October '09). Version 3.0 will coincide with the launch of the next model in 2012, and is expected to achieve an additional 36% reduction in cost, while achieving further improvement in performance.

Tesla's competitors have taken notice, and have taken steps which validate the company's leadership position …

Daimler recognized the company's advanced development, and the company took a 10% equity stake in Tesla in May 2009 for $50MM (Aabar took 40% of this stake in July 2009). Daimler and Tesla have since begun collaboration on several projects, with Daimler increasingly relying on Tesla for the supply of battery packs and chargers, accelerating Daimler's initiatives in this market.

Toyota and Tesla announced in July 2010 that they would collaborate on production of a fleet of prototype Toyota RAV4 EV's with Tesla powertrains, and Toyota also took an equity stake ($50 MM) in the company. Toyota has also announced a goal to bring a production version of the vehicle to market in the U.S. in 2012.

Several other automakers have also initiated discussions with Tesla for the use of Tesla's powertrain technology, reinforcing our view that Tesla remains at the forefront of EV Powertrain technology.

And we believe that Tesla is positioned well for its next phase of growth…

Tesla is now transitioning from being a niche manufacturer of high priced ($100K+) sports cars, to becoming a full fledged manufacturer and marketer of luxury automobiles with a long term objective of competing against product offerings from BMW, Mercedes, Audi, Infiniti, and Lexus.

We have confidence that Tesla has the potential to meet its operational objectives, including the launch of its first high volume vehicle, the Model S, on time and on budget. Our confidence is in part derived from the depth of experience of individuals that the company has brought on board from the world's leading automakers and suppliers. Over the past 15 months, Tesla has engaged in an aggressive effort to target and recruit some of the best talent in the world in key automotive functional areas such as automotive design, engineering, and manufacturing. We have been very impressed with the level of engineering talent brought on board in areas such as electric powertrain technology, stamping, casting, vehicle assembly, safety, aerodynamics, steering and suspension, paint, manufacturing, purchasing, and other key areas. Tesla has been able to attract world renowned talent from companies including Toyota, Honda, Mercedes, Audi, Ford, Ferrari Racing, Williams Racing, Laepple, and others. Consequently, we believe that Tesla's internal design, engineering, and manufacturing capabilities rival those of the world's leading global automakers.

Led by a very demanding CEO, the company's culture is based on vision and speed, and it prides itself in being able to apply a Silicon Valley Operating System in order to accelerate the pace of innovation in the Auto Industry.

One of the best examples of the company's adherence to its vision is the decision to move ahead with the development of a battery pack consisting of laptop-size batteries, despite near-unanimous skepticism from the battery industry and traditional automakers. The decision and ultimate success of using low cost, energetic laptop cells has paid off so far, as the cost of the current Roadster pack is well below the most competitively priced "advanced automotive" packs available in the world (we estimate ~$470 per kWh at ~1,000 units per year ($25k cost of the 53kWh pack), compared to our estimate of the industry average of ~$650 per kWh at 10k-20k units per year). In terms of performance, we estimate that Tesla's packs can facilitate a driving range of 4.6 miles per kWh compared to 3.5-4.2 miles for most other batteries (based on EPA 2-cycle test).

We also believe that Tesla has the capacity to move faster than its automotive peers. In part due to its organizational structure, and in part because of the caliber of talent brought in from the auto and other industries. The company's focus on one vehicle platform and one powertrain (EV powertrains are uniquely capabable of this level of flexibility) is also key in this regard. The company employs an interactive approach, with designers, engineers, and manufacturing personnel working adjacent to one another, able to collaborate on an ad hoc basis and solve problems quickly. This is in stark contrast to the silo'd/functional organizational structure of traditional automakers, where the slowest member of the team drives the pace of progress, and where problems need to be elevated to higher management who have to allocate their time between several platforms / powertrains.

One of the best examples of the company's speed is their approach to pitching their powertrain business to prospective automaker customers. Instead of preparing a Powerpoint presentation or displaying off-the-shelf examples of their work, Tesla has purchased one of the automaker's vehicles (from a dealer), and actually converted it to an EV. This has been accomplished in the past in as little as two weeks. We have no doubt that, for a traditional supplier / automaker, it would take at least a month just to receive approvals to purchase the vehicle and likely 6 months to complete a conversion.

We consider TSLA's management team to be very strong and well-equipped to compete long-term with traditional OEM's

Elon Musk
Chairman, Product Architect and CEO
Musk is known as a hard-driving CEO that inspires innovative, tireless work out of his employees. He has also shown a strong ability to secure investment / partnership deals (evidenced by the partnerships with Daimler and Toyota) and generate value for those investors (Daimler's $50MM investment is now worth $145MM). We'd also note that Musk took over the CEO role in October 2008, and spearheaded a successful cost-down program that enabled Tesla's margin to improve to +8% in 2Q09 from -10% in 1Q09. The company has been gross margin-positive ever since, despite low volumes.

Musk previously started Internet companies Zip2 and PayPal. In addition to his Tesla duties, he serves as CEO and CTO of SpaceX, and he's Chairman of SolarCity.

JB Straubel
Chief Technical Officer
As a co-founder of Tesla, Straubel has overseen the technical and engineering design of the vehicles, and is considered the product architect of Tesla's powertrain, work that is considered groundbreaking by industry insiders. Prior to Tesla, JB was the CTO and co-founder of the aerospace firm, Volacom, which designed a specialized high-altitude electric aircraft platform using a novel power plant. At Volacom, JB invented and patented a new long-endurance hybrid electric propulsion concept that was later licensed to Boeing. Before Volacom, JB worked at Rosen Motors as a propulsion engineer developing a new hybrid electric vehicle drivetrain based on a micro turbine and a high-speed flywheel. JB was also part of the early team at Pentadyne, where he designed and built a first-generation 150kW power inverter, motor-generator controls, and magnetic bearing systems.

Deepak Ahuja
Chief Financial Officer
Deepak Ahuja brings a wealth of finance experience within the automotive industry to his role at Tesla, including a long career at Ford. We believe that certain of his roles at Ford are particularly well-suited to his role at Tesla, particularly CFO for Ford of Southern Africa ($3 bn subsidiary) and CFO for Auto Alliance International (Ford / Mazda JV with over $4 billion in revenue), both essentially enterprise management positions. His career at Ford included assignments in all aspects of the business, including Manufacturing, Marketing and Sales, Treasury, Acquisition and Divestitures. Ahuja also has a technical background, having worked as an engineer for Kennametal, Inc. for almost 6 years.

Franz von Holzhausen
Chief Designer
Prior to joining Tesla, Franz was Director of Design at the Mazda North American Design Center. While at Mazda, Franz pioneered the Nagare surface language design philosophy, led design of the Mazda RX-8, Tribute, and Mazda5 production vehicle facelifts, and was instrumental in the design development of the 2009 Mazda6 and Mazda3. He previously designed the Pontiac Solstice at GM (a highly respected vehicle in terms of design), and held design positions at Volkswagen prior to that.

Gilbert Passin
Vice President, Manufacturing
Given Passin's prior experience in spearheading the launch of 200k unit vehicle platforms, we have confidence in his ability to guide the launch of the 20k unit Model S. Passin has had a 23 year international automotive career, including leading high-profile divisions at Toyota, Volvo, Mack and Renault across North America and Europe. Most recently, Passin served as

general manager of production engineering for Toyota in North America, and was previously vice president of manufacturing at Toyota's plant in Cambridge, Ontario. Passin was instrumental in the manufacturing planning and launch of the best-selling Lexus RX luxury SUV at the award-winning plant which produces over 200,000 automobiles per year and is the only Toyota site to produce a Lexus vehicle outside of Japan. He also launched manufacturing of the award-winning tenth generation Corolla.

Peter Rawlinson
Vice President & Chief Engineer
Prior to Tesla, Peter led vehicle engineering at Corus Automotive, an engineering consultancy specializing in advanced engineering solutions for the global motor industry, where he worked on many product development programs for Ford / Jaguar / LandRover, the BMW 5-Series, and others.

Peter is an expert in crash safety and aluminum stamping engineering, two areas that will be critical to an on-time launch of the Model S. He led development of the Think electric vehicle platform, which was done with only 5 engineers in 6 months. That vehicle was recognized as having the best crash safety performance in the subcompact vehicle class globally. Before Corus, Peter served as Chief Engineer of Advanced Engineering at Lotus, where he pioneered the use of advanced aluminum body structures, bonding cast elements with stampings and extrusions, an approach subsequently widely adopted within the industry. Vehicles using this approach include Aston Martins, the new Jaguar XJ, the current Audi A8 and the Audi TT.

Diarmuid O'Connell
Vice President of Business Development
Diarmuid joined Tesla in 2006, and currently serves as the Vice President of Business Development, in which capacity he manages commercial relationships and all aspects of government affairs. Before joining Tesla, Diarmuid served as Chief of Staff for Political Military Affairs at the US State Department, where he was involved in policy and operational support to the U.S military in various theaters of operation. Before his tenure in Washington, Diarmuid worked in corporate strategy as a management consultant for Accenture, as a founder of educational software developer, Real Time Learning, and as a senior executive with both McCann Erickson Worldwide and Young and Rubicam.

John Walker
Vice President Sales North America
John was appointed Vice President Sales for North America in August 2009 and is responsible for all sales in the United States and Canada, including the coast-to-coast retail expansion and opening of new stores in the world's largest car market. He was most recently general manager sales operations for Audi of America and previously director of sales for Audi Canada and general Manager of sales for Audi Australia.

Cristiano Carlutti
Vice President of European Sales and Operations
Before joining Tesla in January 2010 Cristiano Carlutti led critical divisions at Fiat, most recently overseeing the strategy and operations of the rent-a-car and used car department for European markets. Carlutti was also in charge of the Flagship development project, a €150 million program which established a network of company-owned dealerships throughout Europe. Before that he was CEO of Autocontact Italia, where he was in charge of reselling and servicing more than 90,000 vehicles per year.

Arnnon Geshuri
Vice President, Human Resources
Arnnon Geshuri joined Tesla in November 2009 as the vice president of human resources and is responsible for HR operations and the global recruitment efforts. Previously, Arnnon was director of staffing operations for Google, where he designed the company's recruitment organization and talent acquisition strategy, and oversaw the growth in Google's global employement to 20,000 employees, from 2,500 in 2004. Before Google, Arnnon was director of global staffing and VP – HR for E*TRADE Financial.

Evelyn Chiang
Vice President of Supply Chain and IT
Evelyn, who joined Tesla in August 2007, oversees Supply Chain and Information Technology. Previously, she served as Senior Vice President of Operations of the Product and Technology Group of SAP AG, where she managed global operations, including strategic business planning, portfolio management and post-merger integration. She also managed new product introductions and served as Director of Professional Services at SAP.

George Blankenship
Vice President, Design and Store Development
George Blankenship recently joined Tesla and will be the architect of Tesla's retail strategy and dealer network. Blankenship was most recently at Microsoft but is best known as the creator of Apple's retail growth strategy (Apple has repeatedly been recognized by Fortune Magazine as America's Best Retailer). In a previous role as VP for Real Estate Strategy for Gap Inc., Blankenship managed growth of over 250 stores per year globally.

Competitive Advantage – Battery Pack / Management Technology

Lithium-ion cells used for consumer electronics applications are cheaper and store more energy than "advanced automotive" lithium-ion – Only Tesla is taking advantage of this

The primary constraint on electrifying vehicles has always been electricity storage. Lead acid, nickel cadmium, and nickel metal hydride batteries have achieved progressively higher energy density (the amount of energy that can be stored per unit of weight / volume), but are never expected to achieve the levels necessary to enable a reasonable amount of driving range (given the constraints on size / mass inherent in automobiles) for a plug-in hybrid or pure electric automobile. Lithium-ion battery technology has long held promise to alleviate this energy storage problem. And the desirable properties of this technology, relative to other battery types, can be seen in the near-exclusive use of rechargeable lithium-ion batteries in the consumer electronics industry.

Consumer electronics-type lithium-ion batteries have improved significantly over the last 15 years, based on economies of scale and technology refinements, with cost declining to ~$250 / kWh from ~$2,000 / kWh in 1995 and energy density improving to ~230 wh/kg from 90 wh/kg over the same time-frame. But the consensus view of the battery and automotive engineering community had been that consumer electronics type lithium-ion batteries (i.e. cobalt oxide cells) were not viable for automotive applications, due to life expectancy and safety (chemical stability) issues. The industry opted instead to develop "Advanced Automotive" Lithium-ion batteries, which, in relation to consumer electronics batteries, use different chemical compositions and larger form-factors to achieve longer life and improved safety. Although these advanced batteries now appear ready for commercial-scale automotive applications, they will require significant scale and technological improvement to match the cost and energy density of consumer-electronic type batteries. We believe that, at the cell level (costs do not compare to "pack" level costs we discuss elsewhere in the report), advanced automotive batteries achieve energy density of 150-160 wh/kg compared to 220-230 for consumer-electronic batteries. And automotive type cells cost $350-$400 per kWh, compared to $250 / kWh for consumer-electronics type cells. The combination of lower energy storage properties and higher cost between these battery types is not expected to be fully closed for 5-10 years.

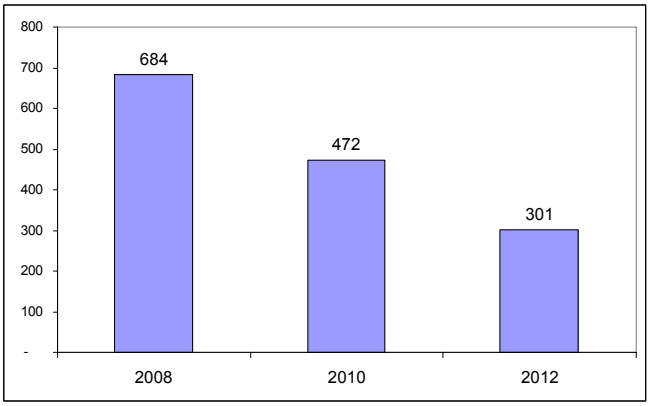
Desire for range and first-mover status led Tesla to use consumer electronics batteries

In the interest of getting a car on the road as soon as possible, and utilizing the cost and energy storage advantages of consumer-electronic cells, Tesla is using innovative battery pack technology and electronics to extend the life and enhance the safety of mass-produced "consumer electronics type" cells (which have been tweaked somewhat to optimize them for automotive). This has resulted in significant advantages in cost and driving range (detailed below). It has also enabled Tesla to produce and sell a highway-ready EV several years ahead of its competition. Given the company's "start-up" status, the lessons learned from actually functioning as an automaker since 2008 (i.e. optimizing the EV powertrain, manufacturing thousands of battery packs, and developing all the processes that go along with marketing / selling / servicing vehicles) represent valuable experience and, in our opinion, vastly reduces the risk of significant issues when the company's higher-volume Model S is introduced.

- 1) We estimate that the cost of the 53kWh Roadster pack is $25k (~1,000 units per year). This is ~$470 / kWh (Pack level cost), which compares to current cost of advanced automotive batteries (assuming approximately 10k-20k batteries per year) of at least $650 / kWh. Based on technological improvements and higher scale, Tesla believes that the Model S battery pack will be 64% of the cost of the Roadster pack (on a per kWh basis), which implies ~$300 / kWh cost. Advanced automotive battery packs are not expected to reach that cost level until the end of the decade.

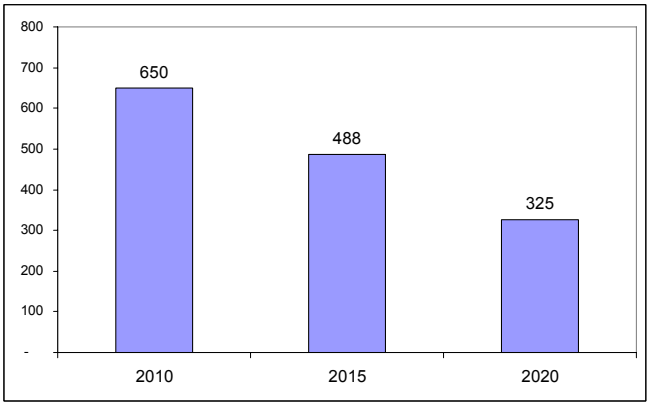
We'd also note that Tesla owns the intellectual property on the automotive-optimized battery cells that they are purchasing from a high-volume Japanese supplier. And the company has purchasing leverage, given the meaningful volume of cells that are necessary to support the Model S. Assuming 20k units, the Model S program will use 8MM-10MM cells per month, which is 4.5% of the current Consumer Electronics lithium-ion market (estimated to be 200MM cells per month in 2010).

Figure 1: Tesla Battery Costs (2008-2012). Based on our est that current Roadster battery pack cost is $25k (53 kWh), and Tesla assertion that current Roadster pack / Model S pack are 69% / 44% of 2008 pack cost.



Source: Deutsche Bank, Tesla

Figure 2: DB estimates of cost progression from 2010 – 2020 of advanced automotive battery packs.



Source: Deutsche Bank

- 2) Use of the more energy storage-efficient cells enables Tesla to put more kWh's into the car, per unit of mass, which leads to higher driving range. The Tesla Roadster achieves 244 miles of range (4.6 miles per kWh), compared to 100 miles for the Nissan Leaf (4.2 miles per kWh given the Leaf's 24kWh battery), compared to 40 miles for the Chevy Volt (2.5 miles per kWh given the Volt's 16kWh battery), and compared to 120 miles for the Mini E, the only other current vehicle to use consumer electronics batteries (3.4 miles per kWh given the Mini E's 35kWh battery).

Figure 3: Comparison of driving range (miles) per kWh. **Comparison to Volt is somewhat apples vs oranges, given that Volt is a plug-in hybrid (battery charge range has to be limited in order to enhance number of charge cycles over its life)

Vehicle	kWh Battery	Miles per kWh	Range (miles)
Tesla Roadster	53	4.6	244
Nissan Leaf	24	4.2	100
Mini E	35	3.4	120
Chevy Volt**	16	2.5	40

Source: Deutsche Bank

Tesla's strategy has been validated by the Roadster, as well as Daimler and Toyota investments

With 1,000+ Roadsters on the road to-date, test vehicles that have performed well over 80k+ miles to-date, and 2 major crashes which resulted in no structural / thermal issues with the battery, many of the concerns of the battery community over Tesla's strategy have been allayed. And in many circles, Tesla's engineering work is considered groundbreaking, which is validated by the investments in Tesla by Daimler and Toyota, each of which are planning to use Tesla powertrains in at least early versions of the company's EV's (Daimler's Smart ForTwo EV already uses Tesla powertrains).

However, there remains some disadvantage in life expectancy. Compared to advanced automotive batteries, which are expected to sustain 80% of original performance (driving range) after 10 years / 150k miles, Tesla states that the Roadster battery will sustain 65% of its original performance after 7-10 years / 100k-150k miles and that the Model S will sustain 65% after 10+ years and 150k miles. This "disadvantage" becomes less stark when considering that 65% of the 160 – 300 miles of Model S range (depending on battery size chosen by the customer) is still significantly higher than 80% of the ~100 mile range of most other EV's.

Automakers appear to favor purchasing cells, and manufacturing packs and motors in-house; this is exactly the strategy Tesla has pursued for years

We also find it interesting (and very advantageous) that Tesla has chosen the exact same make vs. buy strategy that many automakers now appear to be pursuing – to purchase battery cells from outside suppliers and to engineer / produce everything else in-house (battery pack, battery management electronics / software, electric motors). We believe that traditional automakers will ultimately be successful, but Tesla clearly has a head-start of several years.

Tesla is battery cell-agnostic and we expect will eventually use advanced automotive cells, once the hard work of the world's battery-makers results in enough improvement in cost and energy density to justify a change. We expect that the pack / battery management expertise Tesla has developed and used in enhancing consumer cells will continue to yield an advantage in optimizing advanced cells.

The Roadster has been a success

The Tesla Roadster, in production since 2008, is essentially a validation platform for the company's powertrain, as well as a dry-run for many of the sales / servicing / logistical processes that the company will employ in the future. The body / chassis is produced by Lotus off of the Lotus Elise platform (although a significant portion of the Roadster body components were designed and sourced by Tesla). 1,204 Roadsters have been sold to-date, and the company has a contract to purchase 1,196 more gliders from Lotus, prior to Lotus changing platforms. At the current run rate, this vehicle should continue to generate ~$18MM-$22MM of quarterly revenue, through to the Model S launch in mid-2012, based on 125 – 155 unit sales per quarter.

Considering the many compromises that fitting Tesla's powertrain into another company's existing platform entailed (issues with driver ingress / egress, relatively spartan interior, et al), we consider the vehicle a significant success. It proved-out the powertrain technology, drove significant brand awareness, and gave us a favorable indication of the company's ability to execute.

Execution ability: We believe that the Roadster experience is a significant positive indicator of Tesla's viability and ability to successfully launch the Model S. The most impressive example of the company's "blocking and tackling" ability is its ability to plan and implement cost-saving and revenue-enhancement initiatives that led to a ~18% gross margin on the Roadster in 1H10, a significant turnaround from –10% gross margin in 1Q09.

We'd also note that the non-powertrain portion of the Roadster is far from an off-the-shelf Lotus Elise. Although Lotus did produce the vehicle body / chassis (referred to as a glider), many of the components were specifically designed and sourced by Tesla (of the 50% of the vehicle content that was non-powertrain, 33% was designed and sourced by Tesla), which gave the company significant design / engineering / purchasing experience.

Technology validation: As stated above, the powertrain has performed well. Driving range (which fluctuates according to driving style) has been as advertised. There have been no safety issues, despite two major crashes. And the company's long-distance test vehicles continue to perform well at 80k+ miles.

Brand awareness: Although it's difficult to measure, it is clear that Tesla is the most well-known of the several start-up electric vehicle makers that plan vehicles. The company was named one of "America's Hottest Brands" by Advertising Age in November 2009, despite no traditional advertising to-date and no advertising agency of record.

Model S – From a vehicle with many compromises to an uncompromising vehicle

Tesla intends to compete with Audi, BMW, and Daimler in the luxury performance sedan segment… initially against conventional vehicles, and eventually against EV entries. The company's deep technical talent (validated by strong Roadster execution to-date), already-ubiquitous brand name, unique product offering (likely no EV's in the Model S price / vehicle-type segment through 2014) and low cost DOE financing, leads us to believe that they will succeed in bringing a competitive vehicle to market and encounter sufficient demand to sell 20k vehicles per year (and likely generate $250MM-$300MM of EBITDA). Tesla's strong head-start in EV technology and low product development costs leads us to believe that the company can grow off the Model S base and compete successfully in the long-term, even against EV entries of the traditional OEM's.

Volume (20k units), revenue per unit ($86,400), and gross margin (21.8%) for the Model S are the key drivers underpinning our expectation of $278MM of EBITDA in 2013. Based on the analysis below, we believe that each of these projections is achievable.

20k units is very achievable in the context of competitor volumes

The Tesla Model S is a 4-door, 5-passenger (excluding a 3rd row of seats that can accommodate 2 children) performance sedan that is intended to benchmark (and exceed, according to Tesla) the BMW 5-Series in every way. The base Model S is priced in the U.S. at $49,900 (after the $7,500 federal EV credit), which is directly on top of the BMW 535i (base price of $49,600). We would note, though, that the expected average price of the Model S to a customer in the U.S. (after rebates and carbon credits) is $74k. On a pricing basis, this puts the Model S at the midpoint of the midsize luxury sedan segment (BMW 5-Series, Mercedes E-Class) average transaction price of ~$60k and the large luxury sedan segment (BMW 7-Series, Mercedes S-Class) average transaction price of ~$90k.

We believe that entering the luxury sedan segment has significant advantages, including: 1) the Model S is likely to be the only luxury PHEV / EV available at least through 2013; 2) consumers in this segment are less price-sensitive (although the base Model S is equivalent to the 535i, the average transaction price is projected to be significantly higher); and 3) the fuel savings are significantly more compelling when competing against a 20mpg BMW, rather than the 30+ MPG vehicles to which the more mainstream segment EV's will be competing.

The performance sedan segment is approximately 800k units per year globally, so Tesla is looking to be 2.5% of that market (we'd note that, in the US, the Toyota Prius, at 140k units in 2009, was 8.1% of the 1.7MM unit lower midsize market). Given the price point of the Model S, however, it may be more appropriate to consider the large premium sedan segment plus the high-end models of the midsize premium sedan segment (assume ~15% of total midsize premium segment). Under this scenario, Model S would need to achieve 6% of a 325k unit global market. Overall, we believe that Tesla's volume expectations are achievable, particularly as:

- This will be a unique offering in that we don't expect any EV's in the luxury segment until at least 2014. We're confident that a unique, outwardly notable product like the Model S will garner significant consideration from the affluent consumers in this market, given the scarcity of choices. The only vehicle on the radar screen at this point is the BMW Megacity EV, but, based on limited information from BMW, this looks to be a much smaller vehicle, with significantly less driving range. We don't consider the Fisker Karma to be a competitor due to its $80k+ starting price.

- The Model S's driving range of 160-300 miles (depending on consumer choice of battery size) greatly reduces the range anxiety issue, which we believe significantly increases the vehicle's addressable consumer base. We continue to highlight that we know of no other electric vehicle planned with a driving range of more than ~100 miles.
- The Model S's competitive set is significantly less fuel efficient than the mainstream compact / midsize cars that most prospective EV's will be competing with. As illustrated in Figure 4 below, the annual fuel savings versus a BMW 740i (17mpg) / BMW 535i (21mpg) is ~$1,500 / ~$1,100, while versus a Honda Civic (30mpg), the annual fuel savings is only $660.

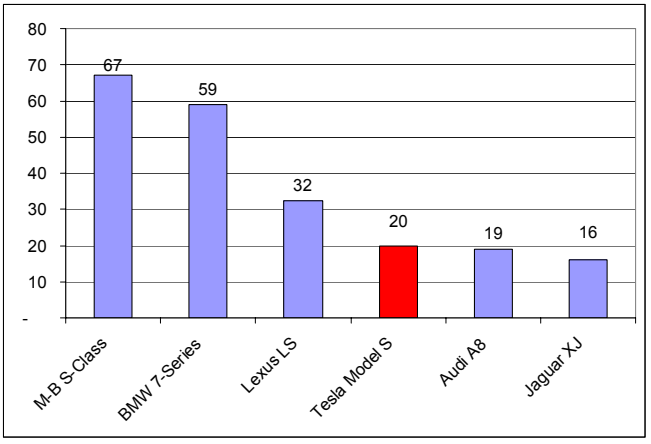
Figure 4: Comparison of Model S fueling cost to competitor vehicles

U.S.	Model S	740i	535i	Civic
Annual Mileage	12,000	12,000	12,000	12,000
Price ($) per gallon / kWh	0.11	2.73	2.73	2.73
Miles per gallon / kWh	3.03	20.0	22.0	30.0
Annual Fueling Cost	436	1,638	1,489	1,094
Model S Fuel Savings ($)		1,202	1,053	658

Europe	Model S	740i	535i	Civic
Annual Mileage	12,000	12,000	12,000	12,000
Price ($) per gallon / kWh	0.18	7.00	7.00	7.00
Miles per gallon / kWh	3.03	20.00	22.0	30.0
Annual Fueling Cost	713	4,200	3,818	2,805
Model S Fuel Savings ($)		3,487	3,105	2,092

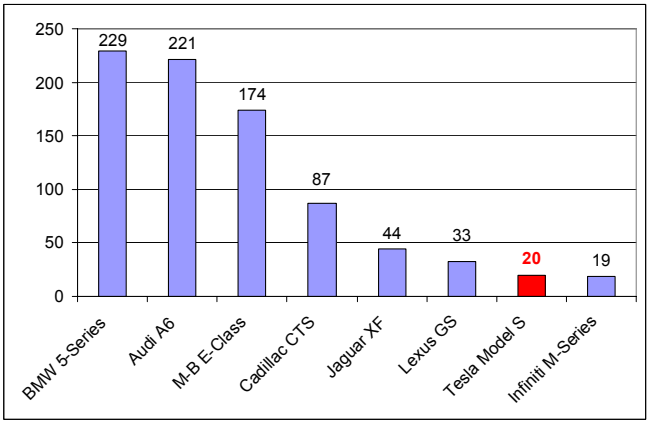
Source: Deutsche Bank, fueleconomy.gov

Figure 5: Competitor Product Volumes – Large Premium Sedan segment (2010E Global Volumes)



Source: JD Power

Figure 6: Competitor Product Volumes – Midsize Premium Sedan segment (2010E Global Volumes)



Source: JD Power

Average transaction price is likely the biggest swing factor

As stated above, the average price to the customer that we project for the Model S is $74k in the U.S. ($76.5k globally), which compares to ~$60k for its midsize luxury sedan competition and ~$90k for its large luxury sedan competition. The revenue to Tesla, however, will be substantially higher when you consider the $5,000 - $9,000 of government subsidies available in many high-volume markets (countries representing at least 58% of the 2009 global industry have subsidies in this range), not to mention many local areas with incremental benefits. And carbon reduction credits, which we expect to be $2,500 per unit globally. Given those factors, as well as somewhat higher pricing in Europe and ROW than the U.S., we arrive at an average revenue per unit of $86,400 for the Model S globally.

We'd note that our estimate of $86,400 includes the following assumptions:

- The Model S will offer 3 battery options, with respective ranges of 160 / 230 / 300 miles. The base model will come with the 160 mile battery, with each additional 70 mile increment being priced at ~$9k. We assume 20% / 60% / 20% split of volume.
- We are projecting that non-battery option content will add $13k. This represents a 20.5% uplift on the global average base price, based on the Roadster, which is currently achieving that same uplift.
- Regarding carbon reduction credits, Tesla currently receives ZEV (zero-emission vehicle) credits for any Roadster sold in California or the 13 states that match California's emission laws. It is currently selling those credits to OEM's that are not in compliance with California's ZEV requirements. The company generated $8.15MM of ZEV Credit revenue in 2009 on total Roadster volume of 830 units ($9,800 per vehicle). It's clear that in 2012 there will be a higher volume of ZEV's being sold and the price paid for the credits may go down based on a higher supply. However, we'd note that the U.S. federal fuel economy program (CAFÉ) will include a credit trading mechanism whereby those OEM's that are below the standard can sell credits to those OEM's that are in non-compliance. And Europe is also expected to have some form of trading system (the penalties for non-compliance with the European emissions program increase substantially beginning in 2012). Given these factors, we believe that just over $3k per U.S. and European vehicle is achievable for the Model S.

Figure 7: Model S Revenue – Breakdown by Component

	Revenue					
	U.S.	Europe	ROW	Global Avg	COGS	% Margin
Base Price - 160 mile range	57	64	66	61.1	54.9	10.2%
Destination & Delivery Charge	1	1	1	1.1	0.5	50.0%
Add'l Range (~$10k per 70 miles)	9	9	9	9.1	5.3	42.2%
Options	13	13	13	12.6	6.8	46.0%
Carbon reduction credits	3	3	-	2.5	-	100.0%
Total Revenue to Tesla	**85**	**90**	**89**	**86.4**	**67.5**	**21.8%**
Less:						
EV Credit Subsidies	(7.5)	(6.5)	(8.0)	(7.4)		
Carbon reduction credits	(3)	(3)	-	(2.5)		
Total Price to Customer	**74**	**80**	**81**	**76.5**		

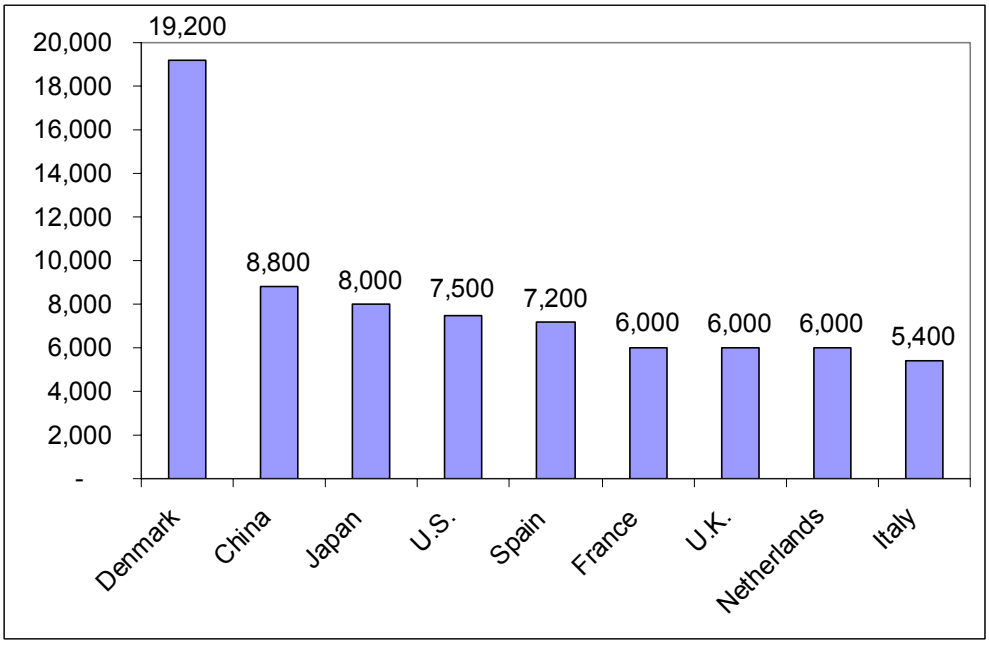
Source: Deutsche Bank

Figure 8: U.S. pricing of competitive vehicles ($000's)

		Base Price	Max Options	Price to Customer
Midsize Premium				
BMW	5-Series	45 - 60	33	45 - 90
Mercedes	E-Class	49 - 57	22	49 - 78
Audi	A6	45 - 59	6	45 - 63
Tesla	Model S - 160 mile range	50	20	50 - 70
Tesla	Model S - 230 mile range	60	20	60 - 80
Tesla	Model S - 300 mile range	70	20	70 - 90
Large Premium				
BMW	7-Series	70 - 83	30	70 - 115
Mercedes	S-Class	88 - 92	30	88 - 122
Audi	A8	75	18	75 - 93
Lexus	LS	65	13	65 - 78

Source: Edmonds

Figure 9: Significant EV purchase subsidies by country



Source: ACEA, US DOE, hybridcars.com

Figure 10: Total industry sales volumes for countries with significant incentives

Country	2009 Unit Sales (000's)
Denmark	128
China	12,960
Japan	4,551
U.S.	10,410
Spain	1,060
France	2,643
U.K.	2,192
Netherlands	441
Italy	2,339
Total	36,724
Total Industry	63,871
% of Total Industry	57.5%

Source: JD Power

Additional local-level incentives are available in many areas, including:

- London: EV's exempt from congestion charge (up to £ 2,000 per year savings)
- Quebec, Canada: C$8,000 (Ontario has signaled a C$10k incentive to be offered post-July '10)
- California: $5,000 per unit purchase rebate
- Colorado: personal tax credit up to 40% of vehicle purchase price (most veh's capped at $6k)
- NJ / CT / WA: EV's exempt from sales tax ($3,600 - $4,200 on $60k purchase)
- SC / MD / LA / IL / GA : $1,500 / $2,000 / $3,000 / $4,000 / $5,000 per unit tax credit
- HOV lane access / reduced or free parking available in many areas

Model S Gross margins look to be in the low 20% range

Tesla is projecting long-term gross margins of 25% for the company. Our model incorporates 22% margins in the first full year of Model S production (assuming 20k units). Given the expectations for a relatively rich mix of option and battery-size content, driving an average revenue per unit in the mid-$80k range, we believe these margins are reasonable.

In evaluation of the margins, we benchmark Tesla against other luxury manufacturers, as illustrated below:

Figure 11: Comparison of luxury automakers (note that

	Volume (000's)	Average Transaction Price ($000's)	Gross Margin
BMW	1,130	50	21%-24%
Jaguar / LandRover	230	57	29%-32%
Porsche	87	82	45%-55%
Tesla	20	86	21%-25%

Source: Company filings, JD Power, Deutsche Bank Estimates (ATP)

In the context of these comparisons, it appears that Tesla's margin projections are in-line with other OEM's. Clearly, the lower volume of Tesla is a negative in terms of scale; however, considering that manufacturing fixed costs are only a small part of the overall cost of the vehicle (even at 20k units), we believe the scale negatives can be offset by the following positives:

- In owning its own distribution, Tesla will capture the ~10% discount versus MSRP that traditional OEM's cede to their independent dealer-body. We expect that the cost of the dealerships, contained in SG&A, will represent approximately 4% of Model S revenue (based on 60 dealerships by the end of 2013, with $1.2MM op ex per dealer, over $1,725MM of Model S revenue in 2013). So we expect a 6% benefit vs. other OEM's.
- Despite low volume, Tesla's ability to use off-the-shelf Toyota / Lexus parts enables some of the vehicle's components to be purchased at a cost based on very high-scale.
- A significant portion of Tesla's COGS will be components produced in-house. Given the company's lean structure and the savings from not paying margin to a supplier, we believe there could be cost savings from these activities.
- Labor cost advantage – Tesla expects labor costs to be approximately $35 per hour, including benefits. We believe that this assumes a non-unionized workforce. We'd note that, even if the company's workforce did organize, the latest UAW agreement with GM, Ford, and Chrysler, set per-hour costs for new hires at ~$42 per hour for "production line" workers and ~$25 per hour for non-production line workers, so we believe that Tesla's projections would still be approximately the same.
- Tesla is building a plant and a production line at a time of capacity reductions in the auto industry, which means there is a significant amount of manufacturing equipment available at distressed prices (e.g. NUMMI plant itself, stamping presses, paint equipment, robotics, etc). This will aid in overhead absorption and mitigate the scale disadvantage versus some of the example OEM's above. Tesla is buying the NUMMI plant for $42MM, compared to the $200MM-$250MM that a typical production plant would cost to build from scratch (ex land cost). Another example is the nearly brand-new stamping press that Tesla purchased from a bankrupt supplier for $4MM (compared to $40MM-$50MM new).

Our estimates for the breakdown of Model S COGS are below. The key points we'd highlight are as follows:

- As with most vehicles, the gross margin on the base vehicle is relatively low while the incremental margin on optional content is quite high. This reinforces the importance of average transaction price.
- Fixed Cost – Direct Labor: We consider labor to be fixed, although it likely can flex somewhat. There is a clear break-point around 10k units, as the plan for the Model S is to produce 20k units on two shifts. Below, we estimate $2,000 per vehicle, which implies $40MM over 20k units (600 workers @ ~$33 per hour @ 2,000 hours per year). It is likely that the company could produce roughly 10%-20% additional vehicles without adding a shift. Conversely, if volume was below ~12k units, Tesla likely could reduce to 1 shift and $20MM of fixed cost.
- Fixed Cost – Overhead: We estimate that manufacturing overhead will be $80MM in the 2013/2014 time-frame, which is $4k per vehicle (assuming 20k units). The majority of the cost is D&A of ~$50MM with the remainder made up of indirect labor, energy costs, etc.

Figure 12: Breakdown of Model Cost of Goods Sold

	Total Cost	Variable	Fixed	% of Rev
Material Cost				
Non-Powertrain (incl $4k freight)	27	27	-	31.4%
Powertrain (incl $2k freight)	19	19	-	21.7%
Total Material cost	46	46	-	53.0%
Other Cost				
Labor	2.0	-	2	2.3%
D&A / Overhead	4.0	-	4	4.6%
Warranty	3.6	3.6	-	4.2%
Other	0.1	0.1	-	0.1%
Total - Base Model	**55.5**	**49.5**	**6**	**64.2%**
Cost of Sales - Add'l Range	5.3	5.3	-	6.1%
Cost of Sales - Options	6.8	6.8	-	7.8%
Total Cost of Sales - Avg Unit	**67.5**	**61.5**	**6**	**78.2%**
Revenue per Unit - Avg Model S	**86.4**			
Gross Margin - Total Model S	**21.8%**			

Source: Deutsche Bank

Higher level of vertical integration of Model S (relative to Roadster) is a cost opportunity, but introduces additional risk

On the vertical integration scale, Tesla is pursuing the traditional OEM model, intending to produce as high a level of content in-house as possible (i.e. powertrain, stamped body parts, and potentially plastic interior panels, will be internally produced), while the other electric vehicle OEM start-ups, such as Fisker and Coda, are on the other end of the spectrum, intending to utilize suppliers for nearly all of the vehicle content and then just assembling the parts. Although the vertical integration strategy adds risk, in terms of increasing the engineering / design load on Tesla's organization, it also enables the company to take advantage of its lean structure, enables them to take advantage of low cost production equipment being sold at distressed prices, and helps them avoid passing along margin to suppliers.

We'd also note that higher levels of vertical integration (and the resulting capture of component profits) is one of the factors that drives our belief that Tesla has a legitimate chance to compete with established OEM's over the long-term. Traditional automotive suppliers are not set-up for niche-level volumes, which leads to premium pricing for low volume programs. Tesla's organization / cost structure, on the other hand, is completely built around profitability at low volumes.

Below are the areas of differentiation, with respect to vertical integration, between the Model S and the Roadster:

Powertrain: Essentially no change in integration. Battery pack and motor will continue to be internally produced, although production of each will be moved to a new Palo Alto facility (battery pack until recently was produced at Tesla's facility in San Carlos, CA and motor produced at a Taiwan subsidiary). The Power Electronics Module (the unit that converts energy in the battery to current that powers the motor) will continue to be produced by a 3rd party in Taiwan.

Body: The Roadster's "Glider" (essentially everything but the powertrain) is currently 30% Lotus Elise-shared parts, 35% supplied components sourced by Lotus (designed by Tesla), and 35% supplied components sourced by Tesla (designed by Tesla). Therefore, Tesla's design responsibility will go from 70% to 100%, as the company transitions to the Model S. In-house production of stamped body parts will be new, as well as Body Shop and Paint Shop aspects of assembly (this is done by Lotus for the Roadster). All-in-all, we believe that up to 60% of material cost may be produced in-house.

With very little incremental investment, Tesla can produce differentiated vehicle models. Expecting 4 vehicles in the portfolio by 2016 (plus Model S Cabriolet)

Once the Model S is launched in 2012, Tesla expects to introduce a new model (off the same platform) every 1.5 years (these additional variants off the Model S platform are referred to as "Top Hats"). The next-generation Roadster is expected in 2013, followed by a crossover / SUV in 2015 (DB estimate), a light-commercial van in 2016 (DB estimate), and a Model S Cabriolet (within the 2014-2016 time-frame).

Ultimately, the company has plans for an additional platform, intended to support a family of smaller, less-expensive vehicles, similar to a BMW 3-Series.

Tesla believes that total investment for these new "top hats" is $100MM each (50% R&D Expense / 50% Capex). This compares to ~$250MM for a traditional OEM. The savings is due to the fact that essentially no work needs to be done to any of the parts below the "belt-line" (of the passengers), as well as the lean, fast structure of Tesla engineering described above.

In addition, we would highlight the fact that EV powertrains are considerably more flexible than traditional powertrains, which require a significant amount of engineering (or completely different designs) for different applications (i.e. small cars, large cars, crossovers, pickups, vans, SUV's). In contrast, a single EV powertrain has the flexibility to be deployed in nearly all light vehicle applications (in part due to the EV Powertrain's flat torque curve). The company's ability to build an entire portfolio of products around a single powertrain represents a significant competitive advantage, in our opinion.

We believe that with 4 different vehicles in the portfolio, Tesla can conservatively approach 35k units by 2017 (15% CAGR from 2013), $3.3bn in revenue (14% CAGR from 2013), and $529MM in EBITDA (17% CAGR from 2013).

The Powertrain business could provide upside surprises, and is essentially a free option as our DCF places very little value on the segment

Tesla intends to sell low-cost, low-risk EV powertrain assemblies / battery pack assemblies to other OEM's. We are projecting 2010 / 2011 / 2012 / 2013 revenue of $19MM / $53MM / $75MM / $109MM for this activity. Overall, we don't expect this to be a large business for Tesla in the long-run, as we believe that traditional OEM's intend to develop their own expertise in this area. However, in the near-term, Tesla's elegant powertrain solution could be a valuable way for an OEM to quickly get an EV to market. At a relatively high-volume price of ~$10k per unit (assuming $400 per kWh for a 25kWh pack), it would only take 15k units per year to more-than-double our 2013 powertrain sales forecast. We believe that this business is underappreciated, could provide upside surprises during the period preceding the Model S launch (as illustrated by the recent Toyota announcement), and is essentially a free option, as our DCF places essentially no value on the powertrain segment.

Tesla currently has 3 disclosed powertrain programs with Daimler:

- Contract to supply 1,000 battery packs and chargers for Daimler's Smart Fortwo electric vehicle (this will likely be increased to 1,500. Tesla began shipping packs / chargers in late 2009. We estimate $20k per unit, and for the total 1,500 units to be delivered by mid-2011. Although $20k seems high, we believe that, based on Tesla's Roadster powertrain costs, it is likely that the price could come down to the $7k-$8k range given higher volume (10k-15k units).
- Contract to assist with development and production of battery packs and chargers for a pilot fleet of Mercedes A-Class electric vehicles. Tesla has begun to recognize Development Services revenue and will likely begin shipping packs / chargers in 2011.
- Contract to develop modular battery packs for a Freightliner electric delivery van. Initial prototype batteries were shipped in 1Q10.

In July, Tesla and Toyota announced that Tesla would develop and sell prototype batteries for a Toyota RAV4 EV. The development will start immediately, with prototype packs likely being delivered in the near-term. Toyota has announced that they intend to market the vehicle commercially beginning in 2012. If Tesla were to get the supply contract for the commercial production, we estimate a conservative revenue opportunity of $150MM per year (15k units at $10k per battery (25kWh battery at $400 per kWh)).

Finally, the company is also looking into electrical grid energy storage opportunities. Tesla has an R&D agreement with Southern California Edison to adapt their battery pack for grid applications.

We'd note that Daimler has a limited exclusivity agreement with Tesla. Tesla can sell powertrain components to anyone (i.e. battery packs, chargers, motors, etc.), but Daimler has right of first refusal on Tesla selling an "integrated powertrain" to another OEM in a non-Tesla branded vehicle. The agreement lasts until July 2013, but does not appear to be a significant issue, as evidenced by the Toyota agreement.

FINANCIAL ANALYSIS SECTION

We expect Tesla's EBITDA and net income expected to turn positive once Model S production reaches 4,000+ per quarter (late 2012 / early 2013)

Based on our assumptions, detailed below, we see Tesla's earnings and cash flow turning significantly positive once Model S production ramps to a 20k unit per year run-rate in early 2013. And we'd note that our model includes significant spending on future vehicles during this time-frame. As we'll detail below, the company can break even (on a net income and cash flow basis) above 10k units per year, if spending on future vehicles is delayed.

Figure 13: Key earnings metrics ($MM, except EPS)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Unit Volume - Total	536	560	6,867	20,750	22,250	26,200	32,000
Auto Revenue	73	74	618	1,842	1,990	2,332	2,838
Powertrain Revenue	19	53	75	109	180	203	237
Development Services	19	20	15	15	15	15	15
Total Revenue	111	147	708	1,966	2,185	2,550	3,090
Gross Profit	23	33	113	437	514	607	758
Gross Margin	*20.8%*	*22.8%*	*15.9%*	*22.2%*	*23.5%*	*23.8%*	*24.5%*
EBITDA	(140)	(165)	(51)	278	326	378	515
EBITDA Margin	*-126.4%*	*-112.2%*	*-7.3%*	*14.2%*	*14.9%*	*14.8%*	*16.7%*
EBIT	(151)	(192)	(94)	229	276	323	448
EBIT Margin	*-136.3%*	*-131.0%*	*-13.4%*	*11.6%*	*12.6%*	*12.7%*	*14.5%*
Pre-Tax Income	(155)	(202)	(109)	214	262	313	443
Net Income	(155)	(202)	(109)	214	258	224	337
EPS		(2.15)	(1.14)	2.04	2.44	2.10	3.13
Operating Cash Flow	(119)	(182)	(82)	261	387	269	386
Capex	(129)	(129)	(106)	(59)	(77)	(131)	(137)
Free Cash Flow	(248)	(311)	(188)	202	309	138	249
Cash Balance at YE	210	87	37	190	402	391	478
Net Debt	(50)	265	429	223	(88)	(228)	(477)
Net Debt / 1 Yr Fwd EBITDA			1.5	0.7	(0.2)	(0.4)	(0.9)

Source: Deutsche Bank

Our estimates are based on conservative margins relative to company projections

Tesla believes that it can achieve operating margin targets of 14%-16% (excluding 1% of revenue for stock-based comp) based on unit volumes in the 20k range. Our model assumes EBIT margins of 2-3 points below the midpoint, with the opportunity to raise those margins given operating leverage to additional volume once the vehicle portfolio expands around mid-decade.

Figure 14: Company long-term margin targets and DB estimates (note: excludes stock-based comp, which is expected to be 1% of revenue. We incorporate this into our model by increasing share count approximately 1% per year, based on company projections.)

	Tesla Long-term (~2013-2014) Operating Model Targets	DB Est - 2012	DB Est - 2013	DB Est - 2014	DB Est - 2015	DB Est - 2016
Gross Margin	25%	15.9%	22.2%	23.5%	23.8%	24.5%
R&D as % of Revenue	3%-5%	14.1%	4.0%	4.0%	4.7%	4.3%
SG&A as % of Revenue	5%-7%	15.1%	6.6%	6.9%	6.4%	5.7%
EBIT Margin	14%-16%	-13.4%	11.6%	12.6%	12.7%	14.5%

Source: Deutsche Bank, Tesla

In terms of sensitivities, we consider the key swing factors to be volume, overall pricing level, and average level of option content / battery range. The table below illustrates sensitivities. We estimate that Tesla's decremental margin on overall volume is ~29% (projected revenue per unit of $86.4k less variable costs of $61.5k). We estimate that the decremental margin on option / battery range content is ~44% (this content carries a higher margin per incremental dollar than the base vehicle). And of course, the decremental margin on pricing is 100% (could be driven by discounting to drive volume, or lower-than-expected carbon reduction credit revenue, which also carries a 100% margin).

Figure 15: Sensitivity to Volume, Option Content, Pricing assumptions

	Volume chges (units)	Options / Battery range ($ per unit)	Pricing ($ per unit)
Potential change to estimates	1,000	$ 1,000	$ 1,000
Change in revenue ($MM)	86.4	20.8	20.8
Incremental margin	28.8%	44.4%	100%
EBIT Impact	25	9	21
Base case EBIT margin (2014)	12.6%	12.6%	12.6%
Sensitivity-Adjusted EBIT margin	10.8%	11.8%	11.2%
Impact in Basis Points	(178)	(82)	(142)

Source: Deutsche Bank

Our long-term valuation is based on volume projections that would give Tesla similar global market share to Jaguar in the 2020 time-frame (and well-below Porsche)

We use Tesla's Roadster volume projections through 2012. We model that Model S production begins on time in 3Q12 (Tesla has a stretch target for early 2012), and ramps to a 20k unit run-rate by 1Q13. We then model the next-gen Roadster to begin production in mid-2013, the Model X (crossover vehicle) in early 2015, the Van (light-commercial vehicle) in 2H16 and the Gen3 Platform (3-Series size vehicle) in 2018.

Figure 16: Long-term volume projections

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Roadster	536	560	367	-	-	-	-	-	-	-	-
Roadster Next Gen	-	-	-	750	1,250	1,200	1,100	1,000	1,000	800	800
Model S	-	-	6,500	20,000	21,000	20,000	19,400	19,400	18,050	16,700	15,800
Model X	-	-	-	-	-	5,000	8,000	8,000	7,250	6,500	6,000
Van	-	-	-	-	-	-	3,500	6,500	6,500	6,500	6,500
Gen3 Vehicle	-	-	-	-	-	-	-	-	15,000	30,000	40,000
Tesla Total Volume	**536**	**560**	**6,867**	**20,750**	**22,250**	**26,200**	**32,000**	**34,900**	**47,800**	**60,500**	**69,100**
Global Share	0.00%	0.00%	0.01%	0.02%	0.03%	0.03%	0.03%	0.04%	0.05%	0.06%	0.07%

Source: Deutsche Bank

We'd note that our projected global share for Tesla of 0.07% in 2020 compares to the following luxury automakers:

Figure 17: 2009 global shares for selected automakers, compared to implied 2020 global share for Tesla

BMW	1.84%
Lexus	0.50%
Porsche	0.11%
Jaguar	0.08%
Tesla (2020 est)	0.07%
Ferrari	0.006%

Source: Deutsche Bank

Our volume projections incorporate a belief that, in certain cases, new Tesla vehicles will cannibalize existing vehicles. We assume that 20% of Model X sales are cannibalized from Model S and that 10% of Generation 3 vehicle sales are cannibalized from Model S and Model X. We assume that the Light Commercial Vehicle product is incremental volume, given the incremental commercial customer base.

Operating expenses to consist primarily of R&D to support Model S and future vehicles and the costs to operate Tesla dealerships

In this section, we will focus on operating expenses. For a detailed discussion of revenue and gross margins, see section above (pages 19-21).

Research & Development / Engineering

Tesla projects that R&D expenses will total 3%-5% of revenue in the 2013 / 2014 time-frame; however, it is unclear how much spending this includes on future models which, if Tesla is on the path to be a full-line luxury automaker, will clearly be meaningful.

We are projecting R&D expenses by vehicle program, essentially based on rough projections that Tesla has provided, with a bit of conservatism added (we project nearly $300MM for R&D on a new platform (compared to Tesla projections of $200MM) and $60MM on a Top Hat, compared to Tesla's projection of $50MM)):

Figure 18: Total investment for vehicle programs ($MM)

	Tesla Projections			DB Est		
	R&D	Capex	Total	R&D	Capex	Total
New Platform	200	200	400	290	250	540
New Top Hat	50	50	100	60	50	110
Powertrain project			10-50			10-50

Source: Deutsche Bank, Tesla

The two figures below illustrate the cadence of R&D spend that we project (broad guidelines; will not necessarily match exactly with our forecasts), as well as the overall forecasted spending through 2016 (note that R&D spending is likely to hit a near-term peak in 2011, as spending on prototype builds of the Model S reach a peak, taper down through 2013, the year after the Model S is launched and then increase based on future model spending):

Figure 19: Cadence of R&D spend (T-0 is the year of production launch, T-1 is year prior, etc.) ($MM)

CADENCE - R&D	T-4	T-3	T-2	T-1	T-0	T+1	Maint per year
New Platform	10	40	75	80	65	20	10
Top Hat			10	20	25	5	2
Major Refresh	4	16	30	32	26	8	

Source: Deutsche Bank

Figure 20: Forecasted R&D spending ($MM)

R&D ($MM)	Expected Start of Prod	2010	2011	2012	2013	2014	2015	2016	Based on Total expected spend (ex maintenance)
Roadster	In prod	15	-	-	-	-	-	-	-
Model S	2H12	79	95	55	13	10	10	10	290
Roadster - NG	2H13	-	10	20	25	5	2	2	60
Model X	1H15	-	-	5	15	23	15	4	61
Van	2H16	-	-	-	-	10	20	25	60
Gen 3 Vehicle	1H18				5	25	58	78	295
Powertrain		12	34	20	20	15	15	15	N/A
Total		106	139	100	78	88	120	133	
% of Revenue		96%	95%	14.1%	4.0%	4.0%	4.7%	4.3%	
Memo: Total (Excl New Model R&D)		106	139	95	58	30	27	27	

Source: Deutsche Bank

We model Capex in a similar fashion, although the cadence is different (capex spending is more focused near start of production). We'd also note an assumption that new dealerships require ~$600k of capital expenditure.

Figure 21: Breakdown of Capital Expenditures ($MM)

Capex	Expected Start of Prod	2010	2011	2012	2013	2014	2015	2016
Roadster	In prod	4	-	-	-	-	-	-
Model S	2H12	95	85	50	8	8	8	8
Roadster - NG	2H13	-		10	20	20	3	3
Model X	1H15				5	20	20	7
Van	2H16					10	30	10
Gen 3 Vehicle	1H18				-	10	48	88
Powertrain		26	26	25	15	15	15	15
Dealerships		4	8	11	11	11	7	7
Total		129	119	96	59	94	131	137
% of Sales		116%	81%	13.5%	3.0%	4.3%	5.1%	4.4%

Source: Deutsche Bank

Significant portion of SG&A expense will be dealership-related

We expect that Tesla will maintain a lean central SG&A structure, but will experience significant growth due to the expected ramp-up of dealerships. The company's long-term target is 5%-7% of sales (excluding stock-based comp). We project the high-6% range through 2014, but see potential to reduce this below 6% later in the decade, depending on prospective volumes.

Another unique aspect of Tesla's business model is to sell vehicles through company-owned stores, rather than through independently-owned dealerships, the traditional OEM distribution model. Tesla believes this will lead to the following advantages:

- Typical luxury OEM's sell vehicles to their dealers for a 10%-12% discount compared to MSRP. Tesla intends to capture this discount by selling its own vehicles. Compared to the 3.5%-4.0% of sales that we expect dealership operations to cost (plus a bit of depreciation, maybe $5MM-$10MM per year, well less than 0.5% of revenue), the 10% revenue increase appears to be compelling.
- Tesla can retain the profit on warranty repairs that OEM's typically pay to the dealership. Additionally, company-owned dealerships eliminate the temptation of dealers to "over-service" when a vehicle is under warranty.
- Direct feedback, direct contact with customers, compared to a typical OEM, which often will get customer feedback filtered through a dealer.

Given the uniqueness and initial scarcity value of Tesla's product and the company's belief that many vehicles will be ordered on-line (or through a central sales system), we believe that company-owned dealership model is likely an advantage to the company financially.

Figure 22: SG&A spending breakdown ($MM)

SG&A ($MM)	F2010	F2011	F2012	F2013	F2014	F2015	F2016
Stores	15	25	39	54	70	80	90
Operating Exp per store	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Total Dealership SG&A	18.0	30.3	46.5	64.8	84.0	96.0	108.0
Other SG&A	49.7	56.6	60.6	65.2	67.1	67.7	68.3
Total SG&A	67.7	86.9	107.1	130.0	151.1	163.7	176.3
Dealership SG&A (% of Sales)	16.3%	20.6%	6.6%	3.3%	3.8%	3.8%	3.5%
Other SG&A (% of Sales)	45.0%	38.5%	8.6%	3.3%	3.1%	2.7%	2.2%
Total SG&A (% of Sales)	61.2%	59.2%	15.1%	6.6%	6.9%	6.4%	5.7%
Volume per Store (units)	36	22	177	384	318	328	356

Source: Deutsche Bank

Interest and taxes not particularly meaningful through the forecast period

Tesla's only debt will be its DOE loan, which carries interest essentially at the same rate at which the Department of Energy borrows from the US Treasury. We are modeling 3.3%. At the point when the company's $465MM loan is fully drawn (in 2012), we expect interest to be $15MM per year (annualized run rate).

The company currently carries approximately $290MM of Net Operating Losses (as of 3/31/10) and has recorded a full valuation allowance against U.S. taxable earnings. We don't expect the company to record tax expense or pay cash taxes until these NOL's (and additional that will be accumulated through 2012) are exhausted. We expected this situation to last through 2014 and for the company's prospective tax rate to be in the mid-20% range, based on company comments.

Pretax Income breakeven point looks to be in the 10k unit range

Based on the analysis below, we believe that Tesla can break-even at much lower unit sales than the 20k per year of Model S that we project. The analysis assumes $80MM of fixed cost plus $20MM of direct labor (assuming only 1 shift with 300 workers, compared to 2 shifts to produce 20k units). It also assumes that if early indications for Model S sales were lower-than-expected that the company would not begin R&D spending on future models, would slow store growth, and would save on other variable SG&A, leading to Operating Expenses ~$45MM lower than the $208MM in our base model for 2013.

Figure 23: Tesla Breakeven Analysis (vehicle volumes in units, all else in $MM)

	Excl PWT	Incl PWT
DB-estimated Model S Volume	20,000	20,000
Model S Breakeven Volume	11,125	9,610
Cont Margin per unit	24.9	24.9
Aggr CM ($MM)	276.6	238.9
Fixed Cost	100.0	100.0
Gross Margin	176.6	138.9
SG&A / R&D	208.0	208.0
Less: R&D on new products	(20.0)	(20.0)
Less: 15 fewer dealerships	(18.0)	(18.0)
Less: 10% lower non-store SG&A	(6.5)	(6.5)
Interest Expense	13.0	13.0
Pretax - Vehicle sales only	0.1	(37.6)
PWT Revenue		125
Gross Margin		0.3
PWT Gross Profit		37.5
Pretax - Incl Powertrain		(0.1)

Source: Deutsche Bank

Cash usage through 2012 likely to be very close to current sources of cash

We expect that Tesla can generate free cash flow of approximately $200MM per year, once a 20k unit run rate is reached on the Model S in early 2013. Until then, however, the cash burn will be relatively intense. Key drivers of cash burn, as well as current sources of cash are summarized below. As illustrated, sources and uses over the next 3 years are nearly identical. We'd note that we are modeling this assuming there is no cash shortage. If Tesla were to foresee a cash shortage, we believe they could delay certain spending (dealership openings, R&D on new vehicles, etc.) in order to conserve cash. However, given margin for error in our modeling, we could certainly foresee scenarios in which Tesla would require additional equity funding (likely to be relatively minor) in the 2012 time-frame. In fact, we model a $25MM equity raise in mid-2012, due to forecasted low cash levels at mid-year, just prior to Model S launch.

Figure 24: Cash sources / uses ($MM)

Total Cash Needs (2010 - 2012)	
Operating Cash Burn	(384)
Capex	(363)
Total Cash Needs	(746)
Sources of Cash	
Cash as of 2009YE	70
DOE Loan	465
IPO Proceeds	189
Toyota Investment	50
Total Sources of Cash	773
Sources - Uses	27

Source: Deutsche Bank

Figure 25: Detailed Cash Flow projections

	2010	2011	2012	2013	2014
Beginning Cash	69.6	209.9	86.6	37.2	190.4
EBITDA	(139.8)	(164.7)	(51.4)	278.4	326.3
Interest Expense	(2.7)	(9.3)	(14.1)	(14.3)	(13.7)
Taxes	(0.1)	(0.0)	(0.8)	(0.8)	(4.0)
Working Capital	27.8	(8.3)	(15.8)	(1.8)	78.0
Other Operating	(4.3)	-	-	-	-
Total Operating Cash Flow	**(119.1)**	**(182.4)**	**(82.1)**	**261.5**	**386.6**
Capex	(128.6)	(128.7)	(105.5)	(59.2)	(77.2)
DOE Loan Draw	159.0	192.0	114.0	(52.8)	(100.0)
Free Cash Flow	**(88.7)**	**(119.1)**	**(73.6)**	**149.5**	**209.4**
Equity Raise	239.2	-	25.0	-	-
Other	(10.2)	(4.2)	(0.8)	3.8	1.7
Total Cash Flow	140.3	(123.3)	(49.4)	153.3	211.2
Ending Cash	209.9	86.6	37.2	190.4	401.6

Source: Deutsche Bank

Balance Sheet – DOE loan is a big advantage and we expect leverage to remain low (peak at 1.5x net debt / EBITDA in 2012)

Tesla closed on its $465MM DOE loan January 2010. This is the only debt we expect the company to carry for the foreseeable future. This loan is part of the $25 bn Advanced Technology Vehicle Manufacturing (ATVM) program, part of the 2007 Energy Independence and Security bill. To date, 5 companies have received loans under this program.

Figure 26: ATVM loans allocated to date

Company	Loan Amt ($MM)	Disclosed purpose
Ford	5,900	Funds to upgrade facilities to produce 13 fuel-efficient vehicles
Nissan	1,600	Retool Smyrna, TN plant to build adv tech veh's and build a battery mfg facility
Tesla	465	Manufacturing of electric vehicles and powertrains
Fisker	529	Complete development of Karma and fund R&D for new line of lower-cost PHEV's
Tenneco	24	Engrg / mfg of emission control products (aftertreatment and exhaust components)
Total	8,518	

Source: Department of Energy

The loan is specifically broken down as follows: 1) $364MM for Model S development and manufacturing facility; 2) $101MM for powertrain development and facility. Qualifying expenses are: engineering expense, tooling investment, and manufacturing equipment investment. Roadster production costs do not qualify, nor does corporate overhead.

This is a reimbursement program. Tesla will submit qualifying expenses for reimbursement and the DOE will disburse 80% of the funds for those costs (the loans require 20% equity). Given that Tesla had significant qualifying expenses prior to closing the loan, the prospective split of costs will be approximately 92% DOE / 8% Tesla.

Through 2Q10, Tesla has drawn $45.4MM of the loan proceeds. We expect that the loan will be fully-drawn by mid-to-late 2012, basically concurrent with launch of the Model S. Once the loan is fully-drawn, we expect Tesla to begin paying it down at a pace of at least $50MM per year, and we expect cash flow to be sufficient to fully pay-off the loan prior to the DOE warrants vesting in 2018 (the DOE will receive warrants to purchase 9.2MM shares of Tesla common (vesting beginning in 2018), if the agreed payment schedule is followed exactly. If Tesla can prepay the loan fully prior to 2018, no warrants will vest).

The other significant piece of government assistance that Tesla has received is approval for a California sales tax credit (9% savings) on "up to $320MM" of qualifying equipment, as long as it's purchased and used in California (CAETFA Sales Tax Exemption).

Valuation

Our price target of $17 is based on a DCF analysis. Valuing Tesla presents a unique set of challenges, given the fact that company revenue won't accelerate until 2012 and beyond. We believe that DCF is the most appropriate valuation method in this case. We assume 7% terminal growth beginning in 2020 (given our projection that Tesla will still be building out its vehicle portfolio and that only 9.5% of global sales will be vehicles able to be fueled from the grid in 2020, we believe that an 7% growth rate is reasonable). We assume a terminal EBIT margin of 11.7% and a weighted average cost of capital of 13.5% (we calculate WACC by using 15% cost of equity and 3.3% cost of DOE debt and weight this over the expected capital structure from 2010 – 2014).

In terms of a multiple, current EV (based on our DCF valuation and current debt level) implies a 5.4x multiple on 2013 EBITDA. However, this is not particularly meaningful as 2013 is 2.5 years away, and the company's net debt levels will increase prior to that time. We think the most reasonable way to look at the valuation is by projecting the multiple in mid-2012 (on 2013 results) on which the stock would need to trade to justify purchasing the stock now, assuming a reasonable amount of share growth between now and then. For example, the current equity value of Tesla is $1.98 bn ($19.59 on approximately 101MM shares). We estimate that an investor would require 15% equity growth per year to hold TSLA shares. Assuming 2 years of 15% growth, equity value in mid-2012 would be $2.6 bn. At that time, we expect net debt to be approximately $430MM, resulting in an EV of $3.05 bn, which is 11.0x our 2013 EBITDA estimate of $278MM (see figure below).

In the table below, we look at comparative multiples for the two U.S. lithium-ion battery-makers (A123 and Ener1), as well as BYD (a Chinese lithium-ion battery maker, conventional automaker, and prospective EV-maker) and GS Yuasa (a Japanese lead-acid battery-maker with a lithium-ion business expected to grow rapidly). On an EV / EBITDA basis, all these companies trade at a discount to BYD, but the relative valuations of AONE, HEV, and GS Yuasa appear more compelling than TSLA. Given the high current valuation, and significant amount of share supply that will come out of lock-up in early January (only about 13% of TSLA's current shares outstanding can currently be traded), we would recommend for prospective investors to wait for a better entry-point.

We'd also note that we estimate current valuations for Porsche and Ferrari of approximately 7x EV / EBITDA.

Figure 27: Comparative Valuations of other EV-exposed growth companies. (Notes: HEV current equity value includes expectation of future dilution in the share count. BYD consensus estimates are only available through 2012)

	TSLA - DCF Valuation	TSLA - Current Shares Val	AONE	HEV	BYD	GS Yuasa
Current equity value	1,744	1,982	1,106	539	15,280	2,674
2 years of growth at 15% (1 yr for BYD)	562	639	357	174	2,292	862
Prospective equity value at mid-2012	2,306	2,622	1,463	713	17,572	3,537
Net Debt (2012YE for TSLA / AONE / HEV)	428	428	(100)	72	575	543
Prospective EV	2,734	3,049	1,362	785	18,147	4,080
2013E EBITDA (2012E for BYD)	278	278	148	106	1,459	487
EV / EBITDA Multiple	9.8	11.0	9.2	7.4	12.4	8.4
2013E Revenue (2012E for BYD)	1,951	1,951	1,224	750	9,562	4,063
Required EV / Sales Multiple	1.4	1.6	1.1	1.0	1.9	1.0
2013E OCF	261	261	132	52	N/A	N/A
FCF Yield	11.3%	10.0%	9.0%	7.2%		

Source:Capital IQ, Deutsche Bank

Figure 28: Tesla Discounted Cash Flow Model ($MM)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	110.5	146.9	707.7	1,966.3	2,184.6	2,550.1	3,090.2	3,339.9	3,797.5	4,230.6	4,541.1
Revenue Growth		32.9%	381.9%	177.9%	11.1%	16.7%	21.2%	8.1%	13.7%	11.4%	7.3%
Operating Expenses	261.3	339.3	802.2	1,737.6	1,909.0	2,226.7	2,641.7	2,863.0	3,428.8	3,765.1	4,010.3
Operating Income	($151)	($192)	($94)	$229	$276	$323	$448	$477	$369	$465	$531
Operating Margin	-136.3%	-131.0%	-13.4%	11.6%	12.6%	12.7%	14.5%	14.3%	9.7%	11.0%	11.7%
Depreciation and Amortizati	$11	$28	$43	$50	$51	$55	$67	$72	$82	$92	$98
EBITDA	($140)	($165)	($51)	$278	$326	$378	$515	$549	$451	$557	$629
EBITDA Margin	-126.4%	-112.2%	-7.3%	14.2%	14.9%	14.8%	16.7%	16.4%	11.9%	13.2%	13.9%
Taxes	$0	$0	$1	$1	$4	$89	$106	($114)	($88)	($112)	($127)
Change \Working Capital		($8)	($16)	($2)	$78	($10)	($18)	($10)	($105)	($25)	($27)
Capex to Sales %	116.3%	87.6%	14.9%	3.0%	3.5%	5.1%	4.4%	4.0%	4.0%	3.9%	3.8%
CAPEX	($129)	($129)	($106)	($59)	($77)	($131)	($137)	($134)	($152)	($165)	($173)
Incremental Investment	($129)	($137)	($121)	($61)	$1	($141)	($155)	($144)	($257)	($190)	($200)
Free Cash Flow	($268)	($302)	($172)	$218	$331	$327	$467	$291	$106	$255	$302
Terminal Value											$4,645
Present Value	($236)	($234)	($118)	$131	$176	$153	$192	$106	$34	$72	$1,228
Sum of PVs	**$1,504**										

Enterprise value	**$1,504**
Cash (post-offering)	($286)
Total Debt	$46
Shareholder Value	$1,744
Shares Outstanding	101.2
Per Share Value	$17

Normalized Assumptions			
Sales Growth	7.0%	Terminal Value	
Operating Margin	11.7%	WACC - g	6.5%
Tax Rate	24.0%	WACC	13.5%
W/C % Revenue	2.0%		
CAPEX % Rev.	3.8%		

Source: Deutsche Bank

Risks

Key downside risks include execution on the scale up from niche to volume manufacturing, risks associated with demand and average transaction price assumptions, risks associated with costs projections (note that manufacturing is largely U.S. based, and in formerly unionized facilities), and unknowns associated with the future competitive landscape (we believe that Tesla's competitors are now aggressively pursuing electric vehicles). In addition, we anticipate limited near term revenue/earnings to support the stock (i.e. until launch of the Model S in 2012, or further ramping of Tesla's powertrain business). Consequently, we anticipate that Tesla's shares can exhibit high levels of near term volatility.

Additional Downside Risks

Currency Risk – Value of Euro is substantial risk factor, given 25%-35% of Model S volume expected to be in Europe. Current model based on 1.20 USD / Euro. We estimate that every 10 cent move in the Euro is an approximate $200MM impact to valuation (~$2.00 per share).

Warranty Cost Risk - Tesla is estimating that it will accrue $3,600 per Model S to cover warranty costs. Warranty costs significantly above this estimate (or a high-cost recall) could impact profitability and/or the company's balance sheet position.

The Model S pricing estimates assume governmental tax credits / rebates in certain countries which, although in existence today, are not guaranteed to be in existence in 2012. Reductions in support could impact the value proposition for Tesla's vehicles and consumer demand levels.

The segment in which the Model S competes generally includes significant leasing penetration. Inability to find a lease financing partner could impact demand levels.

Upside Risks

Key upside would center around potential volume upside. Given volumes of competitor vehicles in the 50k – 200k range, there is the potential for Tesla Model S volume to be significantly higher-than-expected.

Additional customers / contracts for Powertrain sales could add significantly to our revenue / profitability targets. For example, if Tesla were to receive a contract to produce battery packs for a future Toyota or Daimler EV (both of which are currently purchasing prototype batteries from Tesla), this could lead to substantially higher revenues than we've projected.

Figure 29: Tesla Earnings Model ($MM)

Income Statement	1Q10	2Q10	3Q10E	4Q10E	F2008	F2009	F2010E	F2011E	F2012E	F2013E
Auto & PWT Revenue	20.6	24.0	24.1	23.3	14.7	94.8	91.9	126.9	692.7	1,951.3
Development Services	0.2	4.4	5.0	9.0	-	17.2	18.7	20.0	15.0	15.0
Total Revenue	**20.8**	**28.4**	**29.1**	**32.3**	**14.7**	**111.9**	**110.5**	**146.9**	**707.7**	**1,966.3**
Auto COGS	16.8	20.2								
Development Service COGS	0.1	1.9								
COGS	16.9	22.1	23.1	25.4	15.9	102.4	87.6	113.4	595.1	1,529.6
Gross Profit	3.9	6.3	6.0	6.8	(1.1)	9.5	23.0	33.4	112.6	436.7
Gross Margin	*18.7%*	*22.2%*	*20.5%*	*21.2%*			*20.8%*	*22.8%*	*15.9%*	*22.2%*
R&D	13.0	14.9	34.0	44.2	53.7	19.3	106.0	139.0	100.0	78.0
SG&A	13.5	16.7	18.5	19.0	23.6	42.2	67.7	86.9	107.1	130.0
Operating Profit	**(22.6)**	**(25.2)**	**(46.5)**	**(56.3)**	**(78.5)**	**(51.9)**	**(150.7)**	**(192.4)**	**(94.5)**	**228.7**
Operating Margin	*-108.6%*	*-88.9%*	*-160.1%*	*-174.5%*			*-136.3%*	*-131.0%*	*-13.4%*	*11.6%*
									17.5%	*25.7%*
		20.7%								
Interest Inc / (Exp)	(0.2)	(0.4)	(0.8)	(1.3)	(3.2)	(2.4)	(2.7)	(9.3)	(14.1)	(14.3)
Other gain / (loss)	(0.9)	(0.4)			(1.0)	(1.4)	(1.3)	-	-	-
Pretax Income	**(23.7)**	**(26.0)**	**(47.3)**	**(57.6)**	**(82.7)**	**(55.7)**	**(154.7)**	**(201.7)**	**(108.6)**	**214.4**
Taxes	(0.1)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)	(0.0)	(0.8)	(0.8)
Tax Rate					0%	0%	0%	0%	0%	0%
Net Income	**(23.8)**	**(26.1)**	**(47.4)**	**(57.7)**	**(82.8)**	**(55.7)**	**(154.9)**	**(201.8)**	**(109.4)**	**213.6**
EPS	**(3.26)**	**(3.41)**	**(0.51)**	**(0.62)**			**(3.08)**	**(2.15)**	**(1.14)**	**2.04**
Basic Shares	7.3	7.6	93.1	93.4	50.4	50.4	50.4	94.0	95.6	97.3
Diluted Shares	7.3	7.6	100.3	100.6	54.0	54.0	54.0	101.2	102.8	104.5
EBITDA	**(20.5)**	**(22.8)**	**(43.5)**	**(53.0)**	**(74.3)**	**(45.0)**	**(139.8)**	**(164.7)**	**(51.4)**	**278.4**
EBITDA Margin								*-112%*	*-7%*	*14%*
R&D as % of Revenue	62.4%	52.3%	117.0%	136.8%	364%	17%	96%	95%	14.1%	4.0%
SG&A as % of Revenue	65.0%	58.7%	63.7%	58.9%	160%	38%	61%	59%	15.1%	6.6%
Net Operating Losses	290.0	316.0	363.4	421.0			421.0	622.8	731.3	516.9

Source: Deutsche Bank

Figure 30: Tesla Cash Flow Model ($MM)

Cash Flow Statement	1Q10	2Q10	3Q10	4Q10	F2008	F2009	F2010	F2011	F2012	F2013
Reported net income	(23.8)	(26.1)	(47.4)	(57.7)	(82.8)	(55.7)	(154.9)	(201.8)	(109.4)	213.6
Depreciation and amortization	2.1	2.5	3.0	3.3	4.2	6.9	10.9	27.7	43.0	49.7
Other operating	0.1	(3.2)			45.5	5.5	(3.0)			
Change in working capital	(5.8)	8.9	(5.5)	30.3	(19.3)	(37.5)	27.8	(8.3)	(15.8)	(1.8)
Operating cash flow	**(27.3)**	**(17.9)**	**(49.9)**	**(24.0)**	**(52.4)**	**(80.8)**	**(119.1)**	**(182.4)**	**(82.1)**	**261.5**
Capital expenditures	(5.5)	(9.2)	(42.4)	(71.6)	(9.6)	(11.9)	(128.6)	(128.7)	(105.5)	(59.2)
Free cash flow	**(32.8)**	**(27.1)**	**(92.3)**	**(95.6)**	**(62.0)**	**(92.7)**	**(247.7)**	**(311.1)**	**(187.6)**	**202.3**
Cash used in acquisitions							-	-	-	-
Other investing	(3.9)	(0.9)			(1.0)	(2.4)	(4.8)	-	-	-
Dividends							-	-	-	-
Discretionary cash flow	**(36.7)**	**(27.9)**	**(92.3)**	**(95.6)**	**(63.0)**	**(95.1)**	**(252.5)**	**(311.1)**	**(187.6)**	**202.3**
Increase (decrease) in borrowings							-	-	-	-
Increase (decrease) in cap leases	(0.1)					(0.3)	(0.1)	-	-	-
Increase (decrease) in gov't borrc	29.9	15.5	50.3	63.3			159.0	192.0	114.0	(52.8)
Change in vehicle lease investmei	-	(0.9)	(0.9)	(1.1)			(2.9)	(4.2)	(0.8)	3.8
Governmental Grants							-	-	-	-
Equity Issuances	0.4	-	238.8		55.1	157.8	239.2	-	25.0	-
Other	(1.6)	(0.9)				(2.0)	(2.5)			
Net Financing flow	**28.6**	**13.7**	**288.3**	**62.1**	**55.1**	**155.4**	**392.8**	**187.8**	**138.1**	**(49.0)**
Effect of foreign currency										
Net change in cash position	**(8.1)**	**(14.2)**	**196.1**	**(33.5)**	**(7.9)**	**60.4**	**140.3**	**(123.3)**	**(49.4)**	**153.3**

Source: Deutsche Bank

Figure 31: Tesla Balance Sheet ($MM)

Assets	1Q10	2Q10	3Q10	4Q10	F2008	F2009	F2010	F2011	F2012	F2013
Cash and cash equivalents	61.5	47.3	243.4	209.9	9.3	69.6	209.9	86.6	37.2	190.4
Restricted Cash		5.4					-	-	-	-
Receivables, net	5.9	6.5	8.3	9.2	3.3	3.5	9.2	14.6	40.0	55.4
Inventory	28.6	29.5	35.4	41.8	16.7	23.2	41.8	39.8	219.1	261.0
Lease Receivable		0.9	1.8	2.9			2.9	7.2	8.0	4.2
Prepaid Expenses and Other	4.5	5.8	6	5	2.2	4.2	5.0	5.0	5.0	5.0
Current assets	**100.6**	**95.4**	**294.9**	**268.8**	**31.4**	**100.6**	**268.8**	**153.1**	**309.2**	**516.0**
PP&E	26.9	33.2	88.4	143.6	18.8	23.5	143.6	244.6	307.0	316.5
Other Assets	10.4	19.4	5.1	5.1	0.3	2.8	5.1	5.1	5.1	5.1
Restricted Cash	7.5				1.2	3.6	-	-	-	-
Total assets	**145.3**	**148.0**	**388.3**	**417.5**	**51.7**	**130.4**	**417.5**	**402.8**	**621.4**	**837.6**
Liabilities										
Revolving credit lines	-	-	-	-			-	-	-	-
Curr portion of LT debt	-	-	-	-			-	-	-	-
Curr portion of Cap Leases	0.3	-	-	-	0.3	0.3	-	-	-	-
Accounts payable	18.2	16.5	17.7	53.0	14.2	15.1	53.0	39.8	205.4	233.4
Accrued liabilities (prim warranty	7.9	17.5	16.9	16.2	11.1	14.5	16.2	14.4	37.0	99.5
Deferred Income Taxes							-	-	-	-
Refundable Membership Fees	26.0	26.2	28.0	30.0	48.0	26.0	30.0	40.0	50.0	15.0
Deferred Revenue	6.7	10.2	10.2	10.2	14.2	1.4	10.2	10.2	1.0	1.0
Other Curr Liabilities (incl Def Rer	-	5.0	(1)	(14)	-	0.2	(13.8)	(13.8)	(13.8)	(13.8)
Total current liabilities	**59.1**	**75.5**	**72.0**	**95.6**	**87.9**	**57.5**	**95.6**	**90.6**	**279.5**	**335.0**
Long-term Debt - Other	-	-	-	-	54.5	-	-	-	-	-
Long-term Debt - Gov't	29.9	45.4	95.8	159.0	-	-	159.0	351.0	465.0	412.2
Capital Leases	0.7	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9
Deferred revenue	1.4	-			-	1.2	-	-	-	-
Other LT Liabilties	3.9	-	2	2	4.8	3.5	2.0	2.0	2.0	2.0
Preferred Stock Warrants	10.4	16.7			2.1	1.7	-	-	-	-
Total liabilities	**105.4**	**138.5**	**170.7**	**257.5**	**150.2**	**64.7**	**257.5**	**444.5**	**747.5**	**750.2**
Redeemable Preferred	319.2	319.2			101.2	319.2	-	-	-	-
Redeemable Common		-	575	575			574.8	574.8	599.8	599.8
Accum Deficit, Minority Interest,	(279.3)	(309.8)	(357)	(415)	(199.7)	(253.5)	(414.8)	(616.5)	(725.9)	(512.3)
Total liabilities and S.E.	**145.3**	**148.0**	**388.3**	**417.5**	**51.7**	**130.4**	**417.5**	**402.8**	**621.4**	**837.6**

Source: Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Tesla Motors	TSLA.OQ	19.67 (USD) 6 Aug 10	1,2,6,7,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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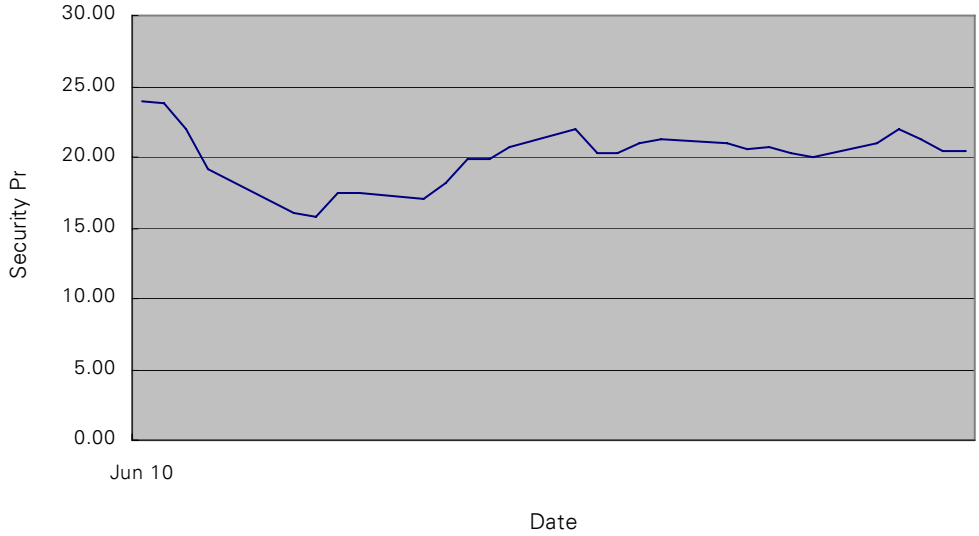
The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Dan Galves

Historical recommendations and target price: Tesla Motors (TSLA.OQ)

(as of 8/6/2010)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

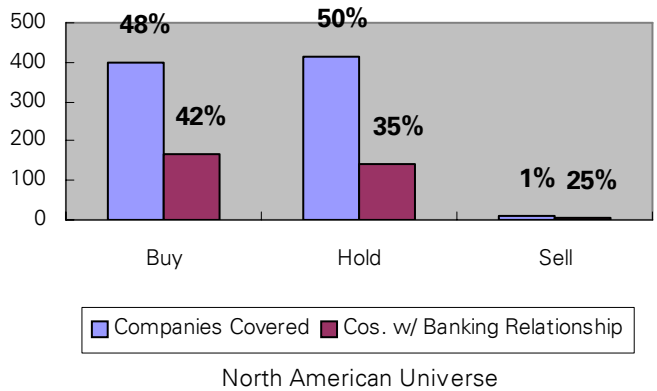
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

Equity rating key

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
   Buy: Expected total return (including dividends) of 10% or more over a 12-month period
   Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Regulatory Disclosures

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Stock Rating
Equal-weight

Industry View
In-Line

Initiation

Tesla Motors Inc.

Plugged In, but Still Charging

Initiating coverage of Tesla Motors at Equal-weight. It's too early to tell how much of the electric vehicle opportunity Tesla will capture, nearly two years before the first scheduled Model S deliveries. Tesla could transform the auto industry, but at $20, we think the stock is fairly valued. If many things go right, we can see a path to $100 per share. Near term, however, catalysts are few and uncertain, and we think there will be better opportunities to get involved at cheaper valuations.

We focus on three key debates:

1. **Margins:** Tesla targets a long-term 13–15% EBIT margin. We are much more conservative at 5–8%, in line with auto industry averages. Sales of zero-emission vehicle credits, government incentives, and low advertising spend could drive margins higher, but we think the market may have overestimated the potential cost savings of owning distribution and minimized the potential difficulty of establishing a new auto brand.

2. **Volumes for the Model S (new sedan launch):** We think 20,000 units are achievable in 2014. This would represent one-tenth the volume of best-in-class luxury sedan nameplates, or 1% of the luxury sedan market.

3. **OEM partnerships:** Tesla has partnerships with Daimler and Toyota, but volumes are small. New or expanded partnerships would be a catalyst for the stock.

Tesla could be the future of the auto industry; we see 7 factors that, together, could drive TSLA over $100: (1) OEM contracts, (2) subsidies for electric vehicles and EV infrastructure, (3) fleet sales, (4) leasing, (5) faster model extensions, (6) battery technology breakthroughs, and (7) much higher oil prices.

However, catalysts are few and uncertain. Additional or expanded OEM partnerships are most likely to drive the stock higher, but we have no expectations on timing. Model S launch is still two years away. We think investors will have better opportunities to buy the stock at cheaper valuations or with more certainty on execution (there are still many significant hurdles to overcome) and demand.

Key Ratios and Statistics

Reuters: TSLA.O Bloomberg: TSLA US
Clean Tech / United States of America

Shr price, close (Aug 6, 2010)	$19.59
Mkt cap, curr (mm)	$1,824
52-Week Range	$30.42-14.98
Rev 3-yr CAGR (12/09) (%)	77.0

Fiscal Year ending	12/09	12/10e	12/11e	12/12e
ModelWare EPS ($)	**(0.60)**	**(1.75)**	**(2.27)**	**(1.43)**
EPS ($)**	(0.60)	(1.61)	(2.14)	(1.32)
Consensus EPS ($)§	**-**	**-**	**-**	**-**
P/E	NM	NM	NM	NM
EV/EBITDA	NM	NM	NM	NM
EV/rev	22.1	18.2	15.9	4.2
Revenue, net ($mm)	112	108	146	621
Gross margin (%)	8.5	18.7	21.6	11.8
EBITDA margin (%)	(40.2)	(131.7)	(134.3)	(14.4)
Rev hist grth, y/y (%)	-	(3.2)	34.9	324.6
Rev grth, 5-year CAGR (%)	75.8e	82.0	75.6	43.4

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates

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Tesla Motors is an integrated auto company with its own distribution network. It designs, engineers, manufactures, and sells high-performance electric vehicles (EVs) under its own brand.

- High margins would drive stock upside. Tesla targets a long-term 13–15% EBIT margin, an aggressive goal. We assume industry-average EBIT margins of 5–8%, but see significant potential upside, even exceeding management's targets.
- High volumes could also drive upside. Even relatively expensive cars sell well above Tesla's volume forecast.
- OEM partnerships could drive volumes and value.
- Competitive dynamics heighten uncertainty. Tesla sells the only highway-capable EV, but that is about to change.
- Balance sheet is strong enough to absorb modest delays to management's plan. Tesla raised $235 million in the IPO and still has over $400 million available to draw on its loan from the Department of Energy.
- The stock looks fairly valued today.

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The market expects Tesla to hit its long-term 13–15% EBIT margin target due to proprietary technology, efficient manufacturing, and ownership of distribution. Our conservative margin forecast of 5–8% is in line with large automakers and reflects limited visibility. However, we see several factors that could give Tesla an advantage over competitors such as zero-emission vehicle credit sales, low advertising spend, and low capex. If Tesla hits its target margins, our valuation based on DCF would increase by 150%, to $28, in line with our EV/sales value of $27.

- What to look for to see how margins will evolve: indications of volumes, especially Model S pre-orders; manufacturing delays or cost overruns; faster reductions in battery prices.

Debate 2: Volumes: Is 20,000 Model S Units Per Year Doable? 11

The market credits 20,000 Model S units per year. We think the potential volume range is wide, but that 20,000 units by 2014 is a reasonable estimate: 20,000 units = 0.70% of 2014e global luxury sedan sales; best-in-class luxury models all sell more than 200,000 units/year; Tesla has over 2,800 Model S reservations; and the Model S prototype and specs are impressive.

- Competition in alternative fuel vehicles is increasing.
- What influences adoption of electric vehicles, and how will the Model S compete?

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Large partnerships are not priced into the stock. We think new OEM partnerships are likely, and that larger volumes would drive value. Tesla has partnerships with Daimler and with Toyota to supply battery packs. Volumes are small (less than 7% of revenues by 2013), but the opportunity could be large.

- We think Tesla offers 3 things that others don't.
- What are Daimler and Toyota getting?
- How much is it worth to Tesla's valuation?

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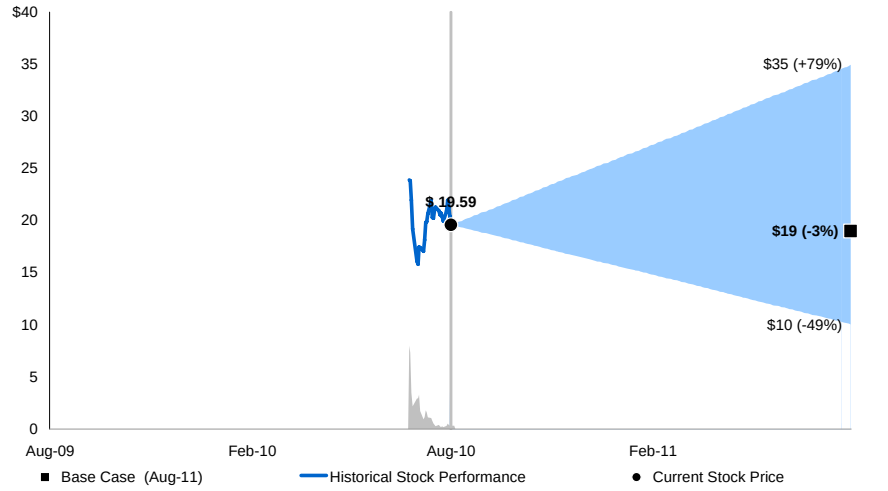
Risk-Reward Snapshot: Tesla Motors (TSLA, $19.59, Equal-weight)

Risk-Reward View: Continued Volatility Is Likely



Source: FactSet, Morgan Stanley Research

Valuation Methodology: We apply multiples of 12x EV/EBITDA and 2.1x EV/sales to our 2014 bull, bear, and base case forecasts, and discount the equity value at 15%. Our comp group is 80% clean tech and EV value chain and 20% traditional auto companies.
We also use a DCF analysis with an 11.3% WACC, 15% cost of equity, and 4% terminal growth.

Bull Case $35	2014e sales = $2.5 billion 2014e EBITDA = $475 million	**The future of the auto industry.** Tesla delivers the Model S on time (2Q12) and on budget with performance that rivals gasoline-powered luxury sedans. EV adoption takes off. EBITDA margins are 15-18%. OEM partnerships add powertrain volumes.
Base Case $19	2014e sales = $1.9 billion 2014e EBITDA = $172 million	**Solid execution and EV demand.** Model S deliveries start in 3Q12 and reach 20K per year in 2014. Slower ramp and modest cost overruns result in negative EPS until 2014. EBITDA margins are 7-9%. Power train sales a minor contributor.
Bear Case $10	2014e sales = $464 million 2014e EBITDA = $(19 million)	**Delays, cost overruns, lower demand.** A lot can go wrong in a product launch, especially with new manufacturing. We model a slight delay and lower Model S demand of 5,000 units per year. The company would likely need to raise additional capital to scale production.

Key Assumptions for Bull, Bear, and Base Cases

		Bear	Base	Bull
Gross Margin	**2012**	9.6%	11.8%	13.7%
	2013	9.2%	14.9%	23.4%
	2014	17.1%	20.9%	24.6%
EBIT Margin	**2012**	(63.6%)	(20.2%)	(12.5%)
	2013	(36.1%)	(0.6%)	13.5%
	2014	(19.6%)	4.8%	15.4%
Model S Volumes	**2012**	2,000	5,500	7,000
	2013	5,000	15,000	20,000
	2014	5,000	20,000	26,000

Source: Morgan Stanley Research

Why Equal-weight?

- The opportunity in electric vehicles is enormous, but so is the challenge of getting the Model S on the road on time and on budget. At $20, we think the stock fairly reflects the upside and downside potential. Our $19 base case is based on discounted equity-based multiples of EV/sales and EV/EBITDA and a DCF and reflects uncertain demand for electric vehicles (EVs), increasing competition from OEMs, and execution risk.

Key Value Drivers

- **Model S pre-orders** — the best indicator of demand.
- **Additional or larger OEM partnerships** would add scale, top line growth, and offer further proof of Tesla's technology leadership.
- **EV adoption and subsidies.** Competitors' EVs will launch before the Model S. Strong sales and/or higher government support are positive.

Potential Catalysts

- Expansion of Daimler or Toyota plans or new OEM partnerships.
- Model S — final prototype on factory tools.
- Accelerating Model S reservations.

What Could Make Us Overweight

- Higher Model S pre-orders.
- Increased government subsidies.
- Lower risk of Model S delays.
- Additional and/or larger OEM partnerships.
- More attractive valuation.

…or Underweight

- Significant Model S delays.
- Management turnover in manufacturing, engineering, technology, or design.

Summary and Overview

Tesla Motors is an integrated auto company, from design to manufacturing, with its own distribution network. Based in California, Tesla designs, engineers, manufactures, and sells high-performance electric vehicles under its own brand, Tesla Motors. Tesla has a $465 million low-interest loan from the Department of Energy and completed its IPO in June 2010.

Current products. Tesla currently sells the Roadster, a high-priced, low-volume sports car manufactured with a Lotus body. It also sells a small number of battery packs to Daimler for use in the Smart and A-class. Tesla has sold ~1,200 Roadsters in total at a retail price above $100K each.

Upcoming model launch. Tesla plans to launch a lower-priced, higher-volume sedan, the Model S, in 2012 and has agreed to purchase a large manufacturing plant (NUMMI, formerly owned by Toyota and GM) with a capacity over 200,000 cars per year.

For additional company background, please see the Appendix to this report.

High Margins Would Drive Stock Upside

Tesla targets a long-term 13–15% EBIT margin, an aggressive goal compared with global auto manufacturing companies (OEMs). From 2003 to 2009, the global auto industry has had average EBIT margins of 5%. In that time, the best annual EBIT margin posted by any automaker was 11%, below Tesla's target.

We assume Tesla posts industry-average EBIT margins of 5–8%; we see several factors likely to limit margins:

- *New manufacturing and possible delays are likely to be the biggest risk to margins.* To date, Tesla has done only small-scale manufacturing, and only for parts of the vehicle. For the Model S, it will do everything — and it plans monthly production exceeding all of the Roadsters it has produced to date.

- *Uncertain union agreements.* Tesla has not committed to or against union labor; it could be at a disadvantage relative to Japanese and European automakers who have set up non-union manufacturing in lower-cost regions of the US. The NUMMI factory employed union labor when it was run by Toyota and GM.

However, we also see significant potential upside to Tesla's margins, even exceeding management's targets. Six factors, taken together, could drive Tesla's EBIT margins as high as 21%, well above its auto industry competitors, assuming no major hiccups in manufacturing or distribution.

Exhibit 1

Tesla Could Have a 6–17% EBIT Margin Advantage

Potential percentage above auto industry average

	EBIT Margin Advantage		
	Lo	Mid	Hi
ZEV credits	1.5%	**2.3%**	3.0%
Other EV Incentives	3.1%	**4.4%**	5.8%
Lower advertising	0.5%	**1.0%**	1.5%
Smaller, leaner team	0.5%	**1.8%**	3.0%
Low cost manufacturing equipment	1.0%	**1.5%**	2.0%
Dealer ownership	-1.0%	**0.5%**	2.0%
Total	**5.6%**	**11.4%**	**17.3%**

Source: Company data, Morgan Stanley Research

Dealer ownership, which many expect to lead to higher margins, could well have a negative margin impact. Most auto dealers earn all of their profits from parts and service revenues, and earn higher margins on used car sales than on new cars. Tesla's stores will have low parts and service revenues as electric vehicles require less scheduled maintenance than internal combustion engines, and most cars will be under warranty at least through 2016. Further, Tesla dealers also are not designed for used car sales, as they do not have large lots to carry inventory.

Margins above our forecast could drive the shares toward our bull case. If Tesla earns 14% EBIT margins starting in 2015, our DCF valuation would increase by 150%, to $28 (EV/sales-based value would be unchanged at $26).

What to look for to see how margins will evolve: indications of demand such as Model S pre-orders; faster reductions in battery costs; manufacturing delays or cost overruns.

High Volumes Could Also Drive Upside

Price is the largest factor in determining volumes, but even relatively expensive cars sell well above Tesla's forecast. Although they are just 2% of the market, cars over $50,000 still sell more than 250,000 units per year in the US. IHS Global Insight forecasts that luxury sedans in the "E1" and "E2" segments will sell nearly 3 million units globally in 2014.

Reaching our base case of 20,000 Model S units in 2014 is achievable. Tesla would need to capture less than 1% of

the luxury sedan market to sell 20,000 units. If Tesla delivers performance that beats cars such as the Audi A6, BMW 5-series, and Mercedes-Benz E-class (which sell an average of 200,000+ units per year), we believe 20,000 units is achievable.

The principal wild card is customer acceptance of EVs… Potential buyers of electric vehicles may have "range anxiety" (concerns about the limited range of the vehicles). However, we believe most buyers will already have at least one internal combustion car in the garage, and will plan to use the Model S for shorter trips; this should mitigate range anxiety.

…and the best indicator of demand will be pre-orders ahead of production. To get on the waiting list, customers need to put down $5,000; so far, 2,800 have done so. If Tesla has <4,000 pre-orders by January 1, 2012, we would be concerned that demand will be too low to hit its target of 20,000 cars in 2013. Pre-orders of 10,000+ by the launch would suggest that the first six months of sales are in the bag.

Partnerships Could Drive Volumes and Value

We think Tesla offers OEMs three things of value:

- *Cheaper battery systems by using generic cells and form factors.* Tesla uses thousands of standard-size Lithium-ion batteries (the same size used in laptop computers). Other electric vehicles use far fewer, custom-size cells, typically tens or hundreds of cells per vehicle. According to engineers we spoke with, it is extremely difficult to manage state of charge and discharge across thousands of battery cells. Tesla's advantage is a battery control system that monitors thousands of cells to ensure they do not overheat or underperform. The company has proven this system out in the Roadster. We estimate that using generic batteries gives Tesla up to a ~50% cost advantage compared to using custom-designed, large-format cells, enabling the company to produce cars with longer range while keeping costs under control. The battery pack for an electric vehicle with over 100 miles of range can cost over $20,000, more than one-third the cost of the vehicle.

- *Efficient and powerful electric powertrain.* Tesla has spent over $200 million cumulatively on R&D, largely on the battery system and powertrain. Tesla designed the powertrain for high performance, and worked out the performance issues in the Roadster, which has 0–60 mph acceleration in 3.7 seconds and offers efficiency as high as 94.7% on the highway. In comparison, internal combustion engines have efficiencies below 20%, as most energy is converted to heat, rather than to mechanical power.

- *Focus on EV excellence.* As a leader in electric vehicles, Tesla recruits the best engineers in all aspects of electric vehicle design, from the aerodynamics critical to increasing range to the use of lightweight materials. OEMs could invest in EV design, but it will likely be faster and cheaper for them to partner with Tesla than to build from scratch.

We expect new partnerships, but it is likely to take larger volumes than current contracts to drive value. Tesla has partnerships with Daimler and with Toyota to supply battery packs. Volumes are small (a few thousand units) but the opportunity could be large.

Competitive Dynamics Heighten Uncertainty

Tesla currently sells the only highway capable electric vehicle, but that is about to change. Nissan expects to sell the Leaf in 2010. Nearly every major automaker has plans to introduce a pure electric vehicle, a plug-in hybrid with electric range of 5–40 miles (plus a standard gas tank), or new hybrids. Tesla will likely face much greater competition by the time the Model S launches.

Balance Sheet is Strong Enough to Absorb Modest Delays to Management's Plan

Tesla raised $235 million in the IPO (including $50 million from Toyota) and still has over $400 million available to draw on its loan from the Department of Energy. Assuming no major delays or cost overruns, this should be sufficient to get Tesla through the Model S launch. We expect the company to fully draw down the $465 million DOE loan by 3Q12, but note that repayments start in 4Q12.

Stock Looks Fairly Valued Today

We expect better opportunities to buy the stock closer to first delivery of the Model S, expected in 2012. For now, we think the $20 share price balances upside and downside risks. Our $19 base case value is based on 2.1x EV/sales and 12x EV/EBITDA on our 2014 forecast (discounted back at 15%), with a comp group of 80% clean tech and EV value chain and 20% traditional auto companies. We also use a DCF analysis that assumes an 11.3% WACC, 15% cost of equity, and 4% terminal growth rate.

Investment Debates Summary

DEBATE	MARKET VIEW	OUR VIEW
Debate 1: **What will Tesla's margins be?**	**Tesla will hit its long-term 13–15% EBIT margin target** due to proprietary technology, efficient manufacturing, and ownership of distribution.	**Our base case EBIT margin forecast is 5–8%, though significant upside is possible.** Our conservative margin forecast is in line with large automakers and reflects limited visibility. The Model S launch is nearly two years away, and it will take another year to achieve scale. We think the market overestimates the cost savings of owning a dealer network and underestimates the difficulty of ramping up manufacturing and selling consumers on a new auto brand. However, we see several factors that could give Tesla an advantage over competitors such as zero-emission vehicle (ZEV) credit sales, low advertising spend, and low capex. If Tesla hits its target margins, our valuation based on DCF would increase by 150%, to $28, in line with our EV/sales value of $26.
Debate 2: **Volumes: Is 20,000 per year doable?**	**Demand is not an issue.** 20,000 Model S units per year is in the bag.	**We think 20,000 units by 2014 is a reasonable estimate, but the potential range is wide.** Customer demand for EVs is untested. It's too early to have confidence, but several factors suggest that our 20,000 base case is doable: • 20K units = 0.70% of 2014e global luxury sedan sales, based on IHS Global Insight's forecast. • Best-in-class models such as the BMW 5-series, Audi A6, and Mercedes E-Class all sell more than 200,000 units/year. • Tesla already has 2,800 Model S reservations. • The Model S prototype and specs are impressive.
Debate 3: **Will other OEMs partner with Tesla?**	**Uncertain.** Large partnerships are not priced into the stock.	**They probably will, and larger volumes would drive value.** Tesla has partnerships with Daimler and with Toyota to supply battery packs. Volumes are small (less than 7% of revenues by 2013), but the opportunity could be large. Additional announcements of small-scale trials would likely boost the stock price. Major value creation depends on increasing volumes. We think this is possible, and provides upside to our base case.
Debate 4: **What takes the stock to $100?**	**We're not there… yet.**	**Right place, right time, right team.** The prototype is beautiful, the performance is amazing, the team is executing, and the brand is strong. Here's what we think could drive the stock above $100: 1) Additional OEM contracts 2) Government subsidies for EVs and EV infrastructure 3) Fleet sales 4) Leasing 5) Faster model extensions 6) Advanced batteries extend range and lowers costs 7) Higher oil prices

Debate 1: What Will Tesla's Margins Be?

Management's long-term EBIT margin target is 13–15%; our base case is 5–8%, similar to the margins of competitors in the auto industry.

We see advantages that could enable Tesla to earn outsized margins, such as ZEV credit sales, low advertising spend, and low capex; however, we also have concerns that hiccups in manufacturing could lead to much lower margins.

If margins are higher than we expect, value increases 150%. Our steady-state EBIT margin forecast is 8%. At 14% EBIT margins, our DCF-based valuation would increase by 150%, to $28 per share, in line with our base case EV/sales value of $26.

Margins and volumes are the keys to success. We focus on margins first because it is the area where we think our forecasts differ most from what the market is expecting.

Tesla targets 13–15% EBIT margins long-term, well above industry averages. From 2003 to 2009, leading automakers earned average EBIT margins of 5%. Best-in-class Japanese makers Nissan, Toyota, and Honda led the pack at 6–7%. Over those seven years, margins were highest from 2003 to 2005, averaging over 7% each year, and lowest in 2009, at 1.3%. In that context, using an 8% EBIT margin for the terminal year of our DCF appears aggressive, despite management's target of 13–15%.

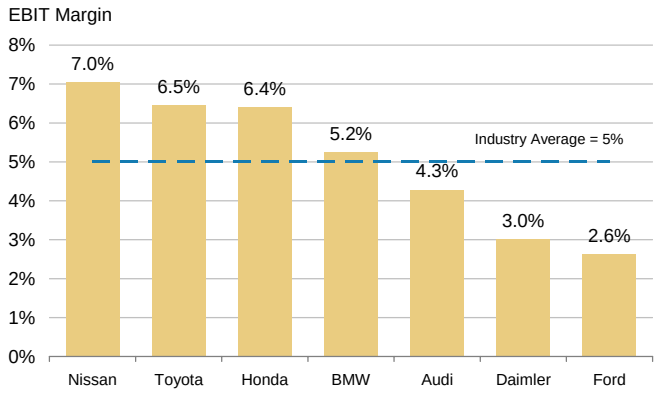
Margins above our forecast drive the shares toward our bull case. If Tesla earns 14% EBIT margins starting in 2015, our DCF valuation would increase by 150%, to $28 per share. Tesla is not set up like a traditional auto company — they will own their distribution, they have no pension obligations, and can pay employees partly with stock options — and we see six factors that could drive margins higher, even above management's target.

What to Look for to See How Margins Will Evolve

- Indications of volumes, especially Model S pre-orders
- Manufacturing delays or cost overruns
- Faster reductions in battery prices

Exhibit 2

Global Auto Average EBIT Margins Are 5%...



Source: FactSet, Company data, Morgan Stanley Research

Exhibit 3

…and the Best Annual EBIT Margin Posted by an Automaker Was 11%, by Nissan in 2003

		2003	2004	2005	2006	2007	2008	2009
Audi		2.3%	2.4%	3.3%	6.8%	7.6%	5.3%	2.3%
BMW		6.5%	7.3%	7.3%	7.5%	6.9%	1.0%	0.1%
Daimler		2.4%	2.8%	2.7%	2.4%	6.2%	5.9%	(1.1%)
Ford		4.9%	6.2%	4.0%	(5.1%)	4.7%	2.4%	1.4%
Honda		7.7%	7.3%	7.4%	7.6%	7.9%	3.4%	3.7%
Nissan		11.0%	10.3%	9.4%	7.9%	7.3%	0.6%	2.7%
Toyota		8.9%	8.8%	8.9%	9.2%	8.8%	0.5%	0.0%
Average	**4.7%**	**6.3%**	**6.4%**	**6.1%**	**5.2%**	**7.1%**	**2.7%**	**1.3%**
Max	**11.0%**	**11.0%**	**10.3%**	**9.4%**	**9.2%**	**8.8%**	**5.9%**	**3.7%**
Min	**(5.1%)**	**2.3%**	**2.4%**	**2.7%**	**(5.1%)**	**4.7%**	**0.5%**	**(1.1%)**

Source: FactSet, Company data, Morgan Stanley Research

Exhibit 4

Tesla's Long-Term Operating Margin Target of 13–15% Is Aggressive Compared to Global Peers

	Target
Revenue	100%
Gross Margin	25%
Engineering and R&D	3-5%
SG&A Margin	6-8%
Operating Expenses	10-12%
Operating Margin	**13-15%**

Source: Tesla Motors Corp.

Six Factors That Could Give Tesla an EBIT Margin Advantage Over Competitors

Taken together, the factors below could drive Tesla's EBIT margins to 6–17% above its auto industry competitors, assuming no major hiccups in manufacturing or distribution.

Exhibit 5

Tesla Could Have a 6–17% EBIT Margin Advantage Compared to Auto Industry Average

	EBIT Margin Advantage		
	Lo	Mid	Hi
ZEV credits	1.5%	**2.3%**	3.0%
Other EV Incentives	3.1%	**4.4%**	5.8%
Lower advertising	0.5%	**1.0%**	1.5%
Smaller, leaner team	0.5%	**1.8%**	3.0%
Low cost manufacturing equipment	1.0%	**1.5%**	2.0%
Dealer ownership	-1.0%	**0.5%**	2.0%
Total	**5.6%**	**11.4%**	**17.3%**

Source: Company data, Morgan Stanley Research

1. ZEV credits: 1.5–3.0% EBIT margin advantage
For automakers who sell more than 60,000 cars per year in California, the California Air Resources Board (CARB) requires that approximately 0.20% be zero emission (battery or fuel cell). Automakers who do not comply can purchase ZEV credits from companies who have an excess, such as Tesla, who has no traditional vehicle sales to offset.

We estimate that Tesla currently receives ~$18,000 (per vehicle) in ZEV credit revenues for Roadsters sold in California and the nine other states that have adopted the California regulations[1], or an average of $9,375 per Roadster sold in the US. In 2009, ZEV credits sales totaled $8.2 million (7.3% of total sales and 86% of gross profit). For 2010, we forecast ZEV credit revenues of only $2.5 million as more sales are outside the US.

For the Model S, we forecast ZEV credit revenues of $5,000 per vehicle but recognize that there is uncertainty as Tesla has not finalized contracts to sell ZEV credits for the Model S. In our 2014 base case, ZEV credits account for 2.8% of revenue, 13.2% of gross profit, and 57% of operating profit. Because ZEV credit sales are nearly 100% margin, Tesla could have an EBIT margin advantage of 1.5–3.0% compared to traditional automakers.

[1] Connecticut, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island, and Vermont..

Why Tesla Might Not Earn the Extra Margin

Only six automakers are subject to ZEV regulations: GM, Toyota, Ford, Honda, Chrysler, and Nissan, and the total requirements for pure zero-emission vehicles are low at ~6,000 ZEVs per year across all six companies from 2012 to 2014, increasing several-fold in 2015. ZEV credits can also be used to comply with the higher volumes necessary for intermediate technologies such as partial zero emission vehicles.

Forecasting the value of ZEV credits is complicated. Credits can be carried forward and backward, and we don't know whether traditional automakers who roll out their own electric vehicles will have an excess of ZEV credits that they are willing to sell. Our forecast of $5,000 per Model S sold in the US is based on management's guidance. If Tesla cannot sell ZEV credits, our EBIT margin forecast would fall an average of 2.4% per year.

In addition to ZEV credits, other incentives could give Tesla a margin advantage relative to other automakers.

2. Electric vehicle incentives: 3.1–5.8% advantage
In the US, customers receive a $7,500 tax rebate on purchases of electric vehicles. We assume this rebate will effectively be split between Tesla and its customers, enabling Tesla to charge higher up-front prices than it could without the rebate. For example, Tesla markets the Model S as having a base price under $50,000, but the actual price at delivery is $57,400 before the tax credit. In other countries, taxes on internal combustion engines or high taxes on gasoline have similar effects. These credits could raise EBIT margins 3–6% depending on realized ASPs, the portion Tesla is able to capture, and regional sales distribution.

Why Tesla Might Not Earn the Extra Margin

Price-conscious customers can purchase less expensive electric vehicles such as the Nissan Leaf, which has a base MSRP of $32,780, and still receive the $7,500 rebate. In addition, customers receive the rebate on their taxes, not at the time of purchase, which might make the rebate less effective in stimulating sales.

3. Lower advertising and incentives: 0.5–1.5% advantage
Automakers offer average incentives of $2,800 per vehicle on luxury models, and advertising typically accounts for a 1.5–3.0% of revenues. Tesla does not plan to carry inventory at dealers, thus reducing the need for rebates and incentives, and so far has created high brand awareness while selling only

1,200 vehicles and doing minimal advertising. EBIT margins could be 0.5–1.5% above competitors, even assuming Tesla does some advertising and offers incentives on some vehicles.

Why Tesla Might Not Earn the Extra Margin

Nearly all companies that sell directly to consumers advertise heavily — even those with strong and established brands. Apple Computer, for example, spent $500 million on advertising in 2009, or 1.4% of revenue, even though its products are well known and frequently have waiting lists.

The Model S waiting list is already up to 2,800, and we think demand could outstrip supply for at least 12–18 months after launch. Long term, however, we expect supply will catch up, and we doubt Tesla will be able to sell all of its production without any rebates or incentives.

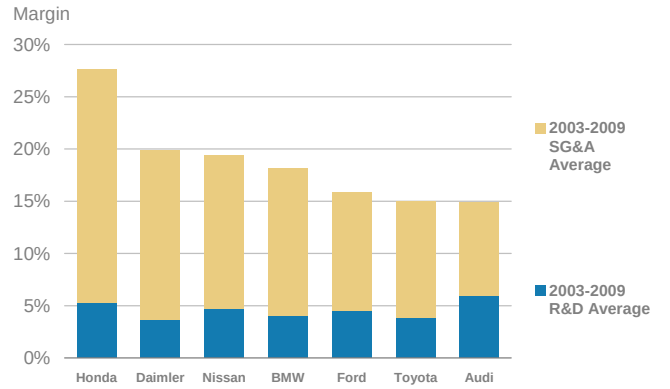
4. Smaller team: 0.5–3.0% advantage

Tesla's engineering team for the Model S is approximately 75% smaller than at a typical OEM. The design and engineering teams sit in the same location, which Tesla claims enables much faster progress and a better final product compared to typical auto teams who sit in different locations around the globe. If Tesla can execute on the Model S development and manufacturing with a smaller team, R&D and SG&A margins would be lower, raising EBIT margins an estimated 0.5–3.0%. At the typical OEM, SG&A and R&D account for 15–28% of sales, and typical OEMs do not own their own dealer networks. Ownership of the dealer network could provide some cost synergies, but could lead to lower EBIT margins (see below).

Exhibit 6

SG&A + R&D Combined Are 15–28% for Automakers

If Tesla can execute with a smaller team, R&D and SG&A margins would be lower



Source: FactSet, Company data, Morgan Stanley Research

5. Low-cost manufacturing equipment: 1–2% advantage

Benefitting from excess manufacturing capacity in the US auto industry, Tesla has been able to acquire manufacturing equipment and facilities at low prices. It acquired the NUMMI facility, previously used by a Toyota-GM joint venture, for $42 million, well below what it would cost to build a new facility. Tesla also claims it has been able to acquire expensive equipment such as a stamping press for $0.04 on the dollar. Finally, Tesla is benefiting from low-cost financing, such as the $465 million DOE loan, on which Tesla pays Treasury rates (which have ranged from 2.5% to 3.4%) and $31 million in exemptions from California sales tax on purchases of manufacturing equipment under CAEATFA (California Alternative Energy and Advanced Transportation Financing Authority). We estimate these lower costs could create a 1–2% EBIT margin advantage compared to other automakers.

Why Tesla Might Not Earn the Extra Margin

Manufacturing costs offer the most opportunity for upside and downside surprises, and the least visibility from outside the company. Model S manufacturing pushes the envelope on the state of the art. The car has an all-aluminum body and frame; today, only Ferraris, the Audi A8 and R8, and the Jaguar XJ are all aluminum

6. Dealer ownership: A possible negative

One might expect ownership of a dealer network to lead to higher margins — and it should lead to higher gross margins — but most auto dealers earn all of their profits from parts and service revenues, and earn higher margins on used car sales than on new cars. Tesla's stores are likely to have low parts and service revenues as electric vehicles require less regular maintenance than internal combustion engines, and most cars will be under warranty at least through 2016. Tesla dealers also are not designed for used car sales as they do not have large lots to carry inventory.

To illustrate the point, we show representative economics for a typical auto dealer and auto manufacturer, and adjust the dealer for differences in the Tesla model (see the following page). We recognize that averages among dealers vary widely, but think the example is helpful to highlight why Tesla's ownership of its distribution may not lead to higher margins.

The actual impact for Tesla could be less than our hypothetical example implies. Tesla can afford to be very selective about store locations, and stores will be smaller than average car dealerships, so costs may be lower. Nevertheless, we believe that owning its distribution will not necessarily provide a margin advantage for Tesla.

Exhibit 7

Typical Auto Dealers Have 1% EBIT Margins…

New Car Sales	$100.00
Cost of Sales	$93.00
Gross Margin on New Car Sales	*7.0%*
Used Car Sales	$50.00
Cost of Used Car Sales	$45.50
Gross Margin on Used Car Sales	*9.0%*
Total Car Sales	**$150.00**
SG&A (Including Advertising)	$19.95
SG&A %	*13.3%*
Parts and Service Revenues	$25.50
Parts and Service COGS	$15.56
Parts & Service Margin	*39%*
Total Dealer Revenues	**$175.50**
Total Dealer EBIT	**$1.50**
Total EBIT Margin	*1%*

Source: NADA, Morgan Stanley Research

Exhibit 8

…and Negative Margins If Parts & Service and Used Car Sales Are Excluded

New Car Sales	$100.00
Cost of Sales	$93.00
Gross Margin on New Car Sales	*7.0%*
Adjusted SG&A (40% lower)	$13.97
EBIT for New Car Sales	($6.97)
EBIT Margin	– 7.0%

Source: Company data, Morgan Stanley Research

Other Potential Margin Negatives

New manufacturing, possible delays likely the biggest risk to Tesla's margins. Tesla has done only small-scale manufacturing (fewer than 1500 Roadsters, and they body is made by Lotus). Tesla will manufacture the Model S at monthly volumes greater than all Roadster produced to date.

The manufacturing team has experience in the auto industry, and Tesla has close partnerships with suppliers and with Toyota. Yet manufacturing projects tend to suffer delays: Tesla's Roadster had an initial delivery date of June 2007, but customers first received them in 4Q08. We will monitor the timeline for delays, but management's schedule (Exhibit 11) may be insufficiently detailed to provide early warnings.

Uncertain labor agreements. The NUMMI factory that Tesla acquired to produce the Model S has been inactive but has always run as a union shop. Tesla has not committed to or against union labor, and the uncertainty could disadvantage Tesla relative to Japanese and European automakers with non-union manufacturing in lower-cost regions.

Exhibit 9

Best-In-Class Stand-Alone Auto Manufacturers with Dealer Networks Average 7% EBIT Margins…

Sales	$93.00
Cost of Sales	$78.12
Gross Margin	*16%*
SG&A	$4.65
SG&A %	*5%*
R&D	$3.72
R&D %	*4%*
EBIT	**$6.30**
EBIT Margin	*7%*

Source: Company data, Morgan Stanley Research

Exhibit 10

…but Combining the OEM with a Tesla-Type Dealer Network Could Result in Lower Margins

	Automaker	Adjusted Dealer	Combination
Sales	$93.00	$100.00	**$100.00**
COGS	$78.12	$93.00	**$78.12**
Gross Margin	*16%*	*7%*	***22%***
SG&A	$4.65	$13.97	**$18.62**
SG&A %	*5%*	*14%*	***19%***
R&D	$3.72	$0.00	**$3.72**
R&D %	*4%*	*0%*	***4%***
EBIT	**$6.51**	**($6.97)**	**($0.45)**
EBIT %	7%	-7%	0%

Source: Company data, Morgan Stanley Research

Exhibit 11

Management Has Not Provided Precise Deadlines to Help the Market Track Model S Progress

2010

- Alpha build
- External body design & engineering
- Safety and structural design
- Supplier sourcing
- Mfg site preparation

2011

- Beta build
- Crash test program begins
- Stamping facility online
- Paint shop operational
- Installation of tooling equipment

2012

- Production validation
- Release candidate build
- Deliveries begin

Source: Company data, Morgan Stanley Research

Debate 2: Volumes: Is 20,000 Model S Units Per Year Doable?

We think 20,000 is a reasonable expectation, but the range of possible volume sales is wide. Customer demand for electric vehicles is untested. It's too early to have confidence, but here's what we know:

- 20,000 units would be equivalent to 0.70% of 2014e global luxury sedan sales, based forecasts from IHS Global Insight
- Best-in-class models such as the BMW 5-series, Audi A6, and Mercedes E-Class all sell more than 200,000 units/year.
- Tesla has 2,800 reservations for the Model S already.
- The Model S prototype and specs are impressive, in our view.

The key factors that determine whether Tesla beats or misses our forecast of 20,000 units in 2014 will be the driving experience, the price for a range of extension options, and overall customer acceptance of EVs.

We expect most major auto companies to introduce alternative fuel vehicles in the next few years, which should support the expansion EV charging infrastructure, but is also likely to increase competition.

New manufacturing operations are subject to delays. The goal for the Model S is to beat the performance of the BMW 5-series. We've test driven the Roadster and seen the prototype of the Model S. The Roadster performed very well, and we're far from alone in thinking the Model S is a beautiful car. Our assumption is that the cars that roll off the assembly line will live up to the promised specifications. However, much can go wrong between now and then, and we'll get more comfortable as we watch progress toward production.

Price is the largest factor in determining volumes… Even for established brands such as BMW, the lower-priced 3-series sells more than 12 times the volume of the 7-series. The global auto market is expected to be nearly 90 million units in 2014. Over 95% of those cars will sell below the price range of the Model S. In the US, cars over $50,000 account for less than 2% of the market; cars over $70,000, less than 1%. After the rebate, the Model S will have a base price in the US of $50,000.

Valuation Sensitivity to Volumes

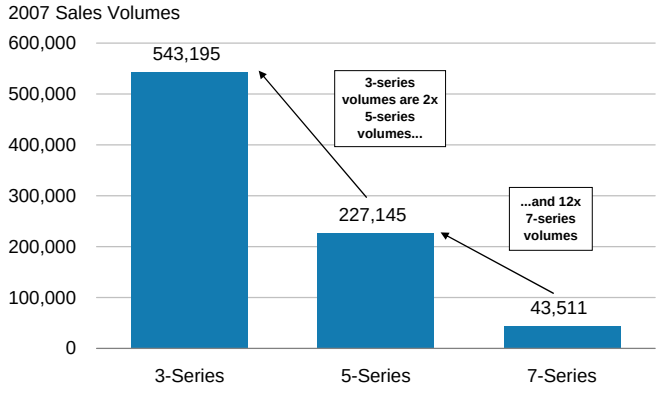
Quantifying the impact of volumes on value is difficult, because higher volumes will also likely lead to higher margins. Our bull case value is nearly double our base case, driven by higher volumes and higher margins.

	Bear	Base	Bull
2012	2,000	5,500	7,000
2013	5,000	15,000	20,000
2014	5,000	20,000	26,000
Value	**$10**	**$19**	**$35**

Exhibit 12

Price Is the Major Determinant of Volume, Even in the Luxury Market…

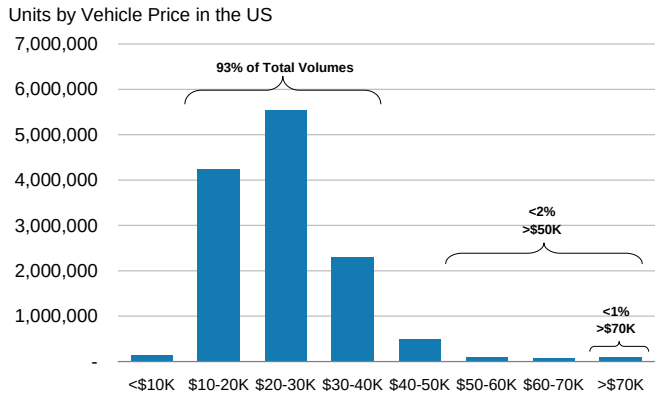
Volumes for BMW 3-, 5-, and 7-series



Source: IHS Global Insight

Exhibit 13

…and Cars Over $50K Are Only 2% of US Sales



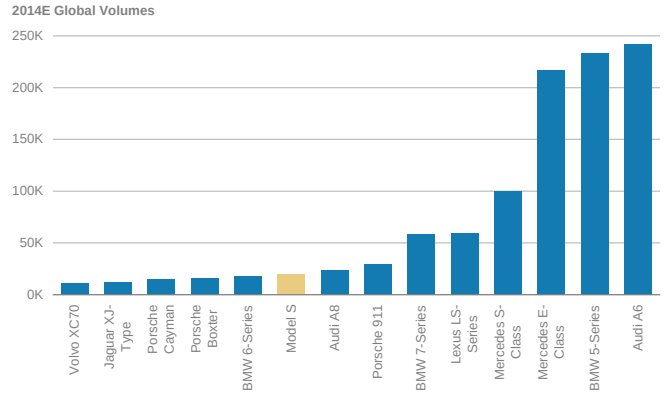
Source: Global Insight, Morgan Stanley Research

…but even relatively expensive cars sell well. Although they are a small percentage of the market, cars over $50,000 still sell over 250,000 units per year in the US. IHS Global Insight forecasts that luxury sedans in the "E1" and "E2" segments will sell nearly 3 million units in 2014, which means Tesla would need to capture less than 1% of the addressable market to sell 20,000 units.

Top-selling models such as the Audi A6, BMW 5-series, and Mercedes-Benz E-class each sell an average of over 200,000 units per year. If Tesla delivers performance that beats those cars, we believe 20,000 units is achievable.

Exhibit 14

Three Luxury Sedan Nameplates Sell Over 200,000 Units per Year, or 10x Our Model S Forecast



Source: Company data, Morgan Stanley Research

Exhibit 15

Tesla Would Need to Capture Less Than 1% of the Luxury Sedan Market to Sell 20,000 Units

2014E Total Vehicle Sales		**89,900,000**
E1 - Mid Range Luxury Sedans	2.8%	2,489,562
E2 - Top Luxury Sedans	0.5%	424,906
Luxury Sedans	**3.2%**	**2,914,468**
Tesla Model S (% of luxury sedans)	**0.69%**	**20,000**

Source: IHS Global Insight, Company data, Morgan Stanley Research

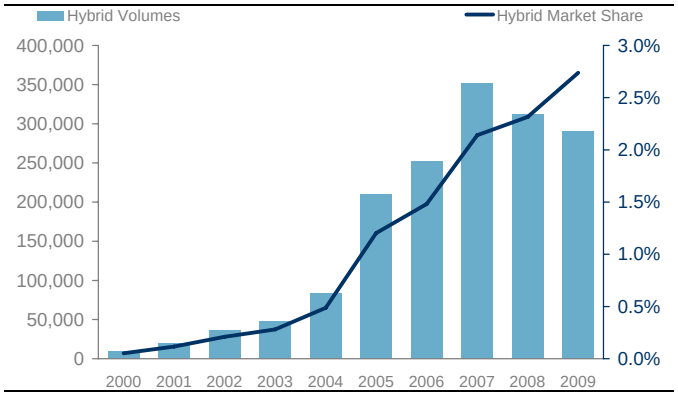
Customers may be reluctant to try a new brand or a new technology… Hybrid sales now account for 3% of the US market, but it took several years to exceed 20,000 units. Tesla is asking customers to take two risks: one on the technology, and a second on the brand, which has a short operating history. When the Toyota Prius was launched, the technology was new, but Toyota already had a reputation for quality and reliability.

…particularly as range ratings for electric vehicles remain a wild card. Potential buyers of electric vehicles may have "range anxiety" (concerns about the limited range of the vehicles). As with mileage, range for an EV is a function of driving conditions. Stomping on the accelerator will decrease range, just as it decreases mileage in an internal combustion engine. The EPA is re-evaluating the EV criteria and Tesla expects the new standards could reduce advertised range up to 30%. With current standards, the planned range options are 160 miles, 230 miles, and 300 miles, with an estimated $10,000 higher cost for each extension of range, making the base cost for the 300-mile range model $70,000 after rebates.

In our view, most buyers will already have at least one internal combustion car in the garage that they can use for longer trips, thus mitigating range anxiety.

Exhibit 16

Hybrid Sales Are 3% of US Market, but Grew Slowly



Source: Company data, Morgan Stanley Research

Prospective customers could also catch 'DeLorean fever' — the fear that a new car company will fizzle out, leaving no one to honor the warranty or service the vehicle. This could pose an even greater risk with a Tesla than with a conventional automaker, as local mechanics are not trained to service electric vehicles. There have been no major global auto launches in decades, so it is difficult to determine how buyers will respond. Existing automakers have been successful in launching sub-brands (Toyota's Lexus and Scion, BMW's relaunched Mini, and Daimler's Smart) and Tesla has partnerships with Toyota and Daimler, but customers may be reluctant to risk a new brand and a new technology at the same time.

Distribution is also a concern. Established automakers such as BMW have thousands of dealerships across the world, increasing the size of the addressable market and helping ensure that customers who relocate will be able to get the vehicle serviced near home. Tesla plans only 50 store locations globally for Model S sales to hit 20,000 units per year.

We believe pre-orders will be the best lead indicator of demand. As we show above, It takes only 1 customer in 100 to hit the 20,000 vehicles sold — just 1% of those buying a traditional luxury sedan deciding instead to try the Tesla. So far, demand appears strong: 2,800 customers have already put down deposits of at least $5,000 to reserve their Model S.

In our view, if Tesla has 10,000+ pre-orders by the launch, the first six months will be in the bag. Deposits are refundable, so we expect some cancellations.

Exhibit 17

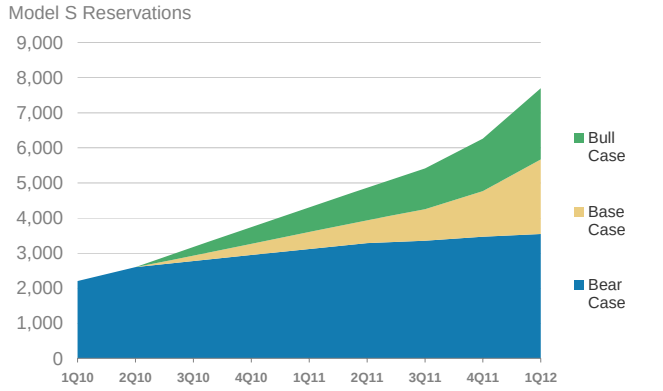
Implications of Model S Pre-Order Ranges

Reservations by Jan 1, 2012	Our Take
<4,000	**We're concerned.** Tesla would have added only 1,200 net reservations over two years (2010–11)
7,500 (Our bull case in 1Q12)	**Provides strong support for launch.** Gets the product into the market and results in ~35,000 test drives (assuming every new owner takes five friends on test drives).
>15,000	**Entire first year is pre-sold.** Tesla could accelerate production to drive costs down faster. Guarantees low marketing spend. A major positive.

Source: Company data, Morgan Stanley Research estimates

Exhibit 18

Reservations and Consequent Volumes Are the Biggest Difference Between Our Bull and Bear Cases



Source: Company data, Morgan Stanley Research estimates

Competition in Alternative Fuel Vehicles Is Increasing

Nearly every major automaker has plans to launch advanced hybrids, plug in hybrids (that offer 5–40 miles of range on an electric battery, and a gas tank to match the range of existing internal combustion engine vehicles), or electric vehicles. In addition, many new entrants such as Fisker and Coda have products in development. We highlight a few selected products below.

Nissan Leaf will be the first high-volume all electric vehicle sold in the US. Nissan plans to launch the Leaf in 2010 with a base price of $32,780 before the $7,500 tax rebate. The Leaf has a 100 mile range with its 24kWh Lithium-ion battery. Nissan received a $1.6 billion loan from the Department of Energy Advanced Technology Vehicles Manufacturing (ATVM) program.

GM Chevy Volt is a plug-in hybrid that can travel 40 miles on batteries before switching to the gasoline engine, which acts as a generator to charge the battery. The Volt will be available in November 2010. GM plans to manufacture 10,000 in model year 2011, growing to 45,000 in 2012. The Volt has a $41,000 MSRP before rebates, or $33,500 after Federal rebates. The Volt will also be available for lease at $350 per month.

Fisker Karma. Fisker received a $528.7 million loan from the Department of Energy and plans to launch plug-in hybrid electric vehicles that would have a total range of 300 miles, the first 40–50 of which would be exclusively on batteries. The Karma is a four-door luxury sports sedan with an expected price of $85,000 and a planned launch in 2011.

Ford Focus EV Ford plans an electric version of the Focus in 2011 with a driving range of 100 miles. Ford plans to bring five electric vehicle models to market over the next two years. Ford developed the Focus EV with partner Magna.

CODA plans to offer an all electric vehicle with 90-100 miles of range with a 33.8 kWh battery. We expect the CODA to be available in California in late 2010 or early 2011 with pricing around $45,000 before rebates.

This represents a small selection of the many planned vehicles. For a more comprehensive list, we suggest the Plug-in Vehicle Tracker at http://www.pluginamerica.org/vehicles/

What Influences Adoption of Electric Vehicles, and How Will the Model S Compete?

We expect customers will purchase alternative fuel vehicles including pure electric vehicles (EVs) and plug-in hybrids (PHEVs) for multiple reasons: environmental concerns, government incentives, and performance.

Plug-in hybrids have advantages… PHEVs have the same range constraints as gasoline powered cars — the gas tank. In fact, GM states that "the Volt will run just fine if you never charge the battery, you just won't get the benefits of the electric drive system." Customers will likely be more comfortable with PHEVs than with EVs, especially until there is more charging infrastructure for EVs.

…but EVs have advantages as well. PHEVs require a gasoline and an electric system, increasing the cost and complexity. By focusing on a pure EV, Tesla hopes to have excellent performance at a price that is competitive with traditional autos. Excluding an internal combustion engine and all of the related emissions control systems increases cargo capacity (the Model S offers front and rear storage) and lowers cost.

Why the Model S over other EVs? Tesla's strategy is to make "no-compromise" high performance electric vehicles — they have the longest range and the fastest acceleration (0–60 in 5.6 seconds for the Model S, range up to 300 miles) — and sell at a mid-luxury price point. Other electric vehicles are shorter range (the Nissan Leaf is 100 miles). The Model S is designed to appeal to customers who would otherwise purchase a performance luxury car such as the BMW 5-series.

EV infrastructure is relatively easy to build. Compared to using natural gas as a vehicle fuel, the infrastructure for electric vehicles is simple. Electricity is available nearly everywhere there are roads in the developed world, while many areas of the US and the world do not have natural gas pipelines. Although infrastructure to charge EVs is not in place today, it could be installed relatively quickly, especially with robust government incentives.

Government incentives in the US are attractive. In addition to the $7,500 federal tax credit in the US, there are some state-level incentives. Washington State, for example, provides a sales tax exemption for alternative fuel vehicles. New York State offers a tax credit for 50% of the cost of installing vehicle fueling infrastructure for alternative fuel vehicles, although the credit is set to expire at the end of 2010. California offers state credits up to $5,000 for light-duty vehicles.

Exhibit 19

Tesla Plans 50 Stores in the US, Europe, and Asia

Tesla-owned distribution network

Source: Company data, Morgan Stanley Research

European countries have incentives as well. Belgium, for example, allows EV buyers to deduct 30% of the purchase price of the car from income taxes, up to 9,000 €. In the UK, the government has set aside £250 million for EV incentives, and the mayor of London, Boris Johnson, specifically pledged £20 million to put 100,000 EVs and 25,000 charge points on London streets. London also waives road taxes and congestion charges for electric vehicles.

Gas taxes in Europe are significantly higher than in the US, increasing the economic advantage of owning an electric vehicle. At $8 per gallon, fuel savings can total several thousand dollars per year, even at moderate driving levels of 12,000 miles per year. Tesla expects to sell at least half of its vehicles outside the US.

Debate 3: Will Other OEMs Partner with Tesla?

We think they probably will, but it will take larger volumes than the current contracts to drive value. Tesla has partnerships with Daimler and with Toyota to supply battery packs. The volumes are small, less than a few thousand units, but the opportunity could be huge.

Additional announcements of small-scale trials would likely boost the stock price. Major value creation depends on increasing volumes. We think this is possible, and provides upside to our base case.

It may be stating the obvious, but large OEMs will partner with Tesla for electric vehicle development if Tesla is:

- *Willing.* Tesla needs to have capacity and not be encumbered by non-competes from Daimler, Toyota, or other partners.
- *Better/faster/cheaper.* Tesla's EV offering needs to provide some combination of a better final product, faster time to market, and/or a cheaper solution.

Tesla is willing, at least in part. It already has an agreement with Daimler for an electric version of the Smart car and for the A-class. And it recently announced an agreement to collaborate with Toyota on an electric RAV4, Toyota's small SUV. However, Tesla is providing the battery pack, not the entire powertrain for the Daimler vehicles and the RAV4 details and not finalized.

The main question is, what does Tesla offer that others don't?

We Think Tesla Offers 3 Things That Others Don't

1. Cheaper battery systems by using generic cells and form factors. The battery pack is the clearest difference between Tesla's EV architecture and other electric vehicles and plug-in hybrids. Tesla uses thousands of standard-size small format "18650" Lithium-ion batteries, the same size used in laptop computers. The Tesla Roadster battery pack contains 6,831 batteries; each cylindrical cell has a diameter of 18mm and a height of 65mm, hence the name 18650. The 18650 is a generic size that is manufactured by most major battery companies, including Panasonic, Sanyo (now part of Panasonic), LG, and Sony.

Using a generic battery size has two major advantages:

- Scale has taken significant cost out of the manufacturing process (over 1 billion 18650 cells are produced each year).
- Tesla can get competitive bids from suppliers and can switch suppliers to get better pricing or performance.

Other EVs each use far fewer, custom-size cells, typically hundreds of cells per vehicle. According to engineers we spoke with, it is extremely difficult to manage state of charge and discharge across thousands of battery cells. Tesla's advantage is a battery control system that monitors thousands of cells to ensure they do not overheat or underperform. The company has proven this system out in the Roadster — although the Model S battery pack will have a higher energy density, increasing the challenge of managing thermal conditions.

We estimate that using generic 18650 batteries may give Tesla a ~50% cost advantage compared to using custom-designed, large-format cells, enabling them to produce cars with longer range while keeping costs under control, but we have very limited visibility into actual battery costs or the details of Tesla's supply contracts. The battery pack for an electric vehicle with over 100 miles of range can cost over $20,000, more than 30% of the cost of the vehicle.

Notably, so far both Daimler and Toyota are buying only the battery packs and chargers, not the entire powertrain and electric motor.

Tesla's advantage in battery costs may decrease over time. If EV or PHEV demand takes off, battery producers will gain scale in other form factors, and costs would likely fall more quickly than for the 18650, reducing Tesla's advantage.

2. Efficient and powerful electric powertrain. Tesla has spent over $200 million on R&D, largely on the battery system and on the electric motor and powertrain.

Tesla's powertrain includes four components:

- power electronic module (PEM)
- control software
- AC motor
- battery pack

Tesla designed the powertrain for high performance, and worked out the performance issues in the Roadster, which has 0–60 mph acceleration in 3.7 seconds and offers efficiency as high as 94.7% on the highway. In comparison, internal

combustion engines have efficiencies below 20%, as most energy is converted to heat, rather than to mechanical power.

3. Focus on EV excellence. As a leader in electric vehicles, Tesla tries to recruit the best engineers in all aspects of electric vehicle design, from the aerodynamics critical to increasing range to the use of lightweight materials. OEMs could invest in EV design, but it will likely be faster and cheaper for them to partner with Tesla than to build from scratch.

What Are Daimler and Toyota Getting?

Daimler owned 9.5% of Tesla before the IPO and has contracted with Tesla to provide 1,500 battery packs and chargers for electric versions of the Smart ForTwo and for the A-class, Mercedes's smallest car.

Daimler sells roughly 100,000 Smart ForTwo vehicles each year, and IHS Global Insight forecasts that A-class volumes will climb from 100,000 to nearly 200,000 by 2013. Daimler's current plans for 1500 battery packs represent miniscule portions of the Smart and A-class demand. The upside for Tesla, however, could be huge if Daimler were to expand the program. So far, this does not seem highly likely as Daimler has partnered with BYD for future EV development, but has also expanded the A-class program with Tesla.

Toyota invested $50 million in Tesla at the time of the IPO and intends to collaborate on EV development. On July 16, 2010, Tesla announced plans to collaborate on a small electric SUV (the RAV4) and delivered prototypes to Toyota at the end of July, only two weeks after the agreement was announced. We estimate that Tesla plans to deliver 30–40 vehicles to Toyota by the end of 2010. Toyota plans to start marketing the electric RAV4 in 2012. The fast turnaround shows Tesla's ability to prototype rapidly.

Larger agreements with Toyota, such as an electric Camry, offer potential upside.

We would like to see sales beyond battery packs. Tesla is providing only battery packs and chargers for the Smart and A-Class trials, not the full electric powertrain and EV excellence that we believe constitutes Tesla's "secret sauce." We are unsure whether Tesla was unwilling to provide a larger offering, or whether Daimler was uninterested. Either way, we believe that larger agreements that leverage more of Tesla's secret sauce, and more importantly, offer larger volumes, will be necessary for value creation in the powertrain business.

How Much Is It Worth to Tesla's Valuation?

The partnerships with Daimler and Toyota are worth a lot of intangible "credibility and validation points," but the directly attributable revenues so far are less than 5% of Tesla's top line after the Model S launch. To be significant, the volumes in these programs have to increase.

Tesla offers OEMs a quick way to get EVs on the road faster and cheaper. In our opinion, this provides potential upside to the Tesla story, but it is leveraged to EV adoption.

If customers adopt EVs, Tesla benefits in two ways — by gaining market share for its own brand, and by selling powertrains to other OEMs.

Seven Factors, In Combination, Could Drive the Stock to $100

Investing in TSLA is all about upside potential. Although we think there are likely to be better entry points, Tesla has continually surprised us with positive announcements such as the Toyota investment concurrent with the IPO and the NUMMI acquisition for $42 million. Tesla may have the right team, in the right place, at the right time. We see a lot that could go right, and propel the stock above $100 per share, up five-fold from today's price.

Exhibit 20

7 Factors Could Drive TSLA over $100

Each factor is additive to the current share price

	Lo	Hi
Additional OEM Contracts	$5	$10
Govt Subsidies for EVs and Infrastructure	$5	$10
Fleet Sales	$2	$4
Leasing	$2	$6
Model Extensions	$5	$15
Advanced Battery Technologies	$10	$20
Oil Price Spike	$3	$15
Total Upside from Current Price	**$32**	**$80**
Current Share Price	$20	$20
Potential Share Price	**$52**	**$100**

Source: Morgan Stanley Research

1. Additional OEM contracts — the biggest controllable factor near term. Regardless of the economic impact down the line, OEM partnership announcements are the factor we think would most drive the stock near term. Such partnerships provide further evidence that Tesla is a leader in the space.

Potential valuation impact	**$5–10**

2 . Government subsidies for EVs and infrastructure. In the US, customers receive a $7,500 rebate for purchasing electric vehicles. Some US states and European countries offer incentives on vehicles and charging infrastructure as well, as discussed above.

Transportation accounted for 29% of US greenhouse gas emissions in 2006 and was the fastest-growing source of greenhouse gases in the US, accounting for 47% of the net increase since 1990. Shifting to electric vehicles is widely viewed as one of the most effective ways to reduce the risk of climate change. Even though coal accounts for ~50% of electricity generation in the US and ~40% globally, it is simpler to reduce pollutants at concentrated single sources than across millions of tailpipes, making electric vehicles a cleaner mode of transportation than internal combustion engines.

Tesla already benefits from a low-interest $465 million loan through the Department of Energy's Advanced Technology Vehicle Manufacturing Program. Such loan programs are one of the most budget-efficient ways for Washington to support new technologies as the Congressional Budget Office has counted only 30% of the loan as an expense for budget scoring. Thus, the government can fund $1 billion of low-interest loans with a budget score of only $300 million.

New announcements of subsidies and/or regulations would lower the effective cost of owning an EV, and would likely increase sales, driving up revenues and improving margins.

Potential valuation impact	**$5–10**

3. Fleet sales. Rental car companies, taxis, and limousines account for ~5% of vehicle sales in the US and Europe, and 30% of some luxury models such as the Mercedes-Benz S-Class. We assume no major fleet penetration to achieve Tesla's sales targets, so fleet sales could offer upside to volumes. Enterprise car rental, for example, announced plans to buy 500 Nissan Leaf electric cars. Fleet sales increase total volumes sold and expose more customers to the cars.

Potential valuation impact	**$2–4**

4. Leasing. With no history of resale value for EVs, financial entities may be unwilling to take residual value risk, making it difficult for Tesla to offer attractive lease packages.

Leasing accounts for ~25% of luxury car sales and offers buyers a low-risk way to try an EV while eliminating the concerns about long-term battery life and resale value. Tesla has an on-balance-sheet leasing program for the Roadster, but the balance sheet could not accommodate leasing for the planned Model S volumes.

Leasing in the US is also complicated by the $7,500 tax credit, which customers receive only if they purchase the vehicle; although the tax credit could be used by the leasing entity.

We think Tesla can sell 20,000 cars per year without leasing, but attractive lease offers could provide upside to volumes.

Potential valuation impact	**$2–6**

5. Model extensions. In the Model S, the battery pack is flat along the floor and spans the space between all four wheels. The motor is mounted between the rear wheels, allowing front and rear storage capacity. The car is rear-wheel drive only, eliminating the central "tunnel" that runs down the middle of most cars.

Electric vehicles are mechanically simpler than internal combustion engines: There is no exhaust system or emissions control, no drivetrain linking a front-mounted motor to the rear wheels, and the transmission is single speed. Tesla believes it will be much easier to put new "top hats" on the Model S platform and has plans for a Cabriolet, Van, and Crossover/SUV. Each of these vehicles could broaden brand appeal and would have low development costs than entirely new vehicles as Tesla would leverage its investment in the Model S platform.

We do not have these new body types in our base case model, but we assume that Tesla launches a third, lower-priced model in 2017, with an ASP of $40,000 and volumes growing to nearly 50,000 units per year in 2020. Earlier model extensions would likely increase demand and volumes.

Potential valuation impact	**$5–15**

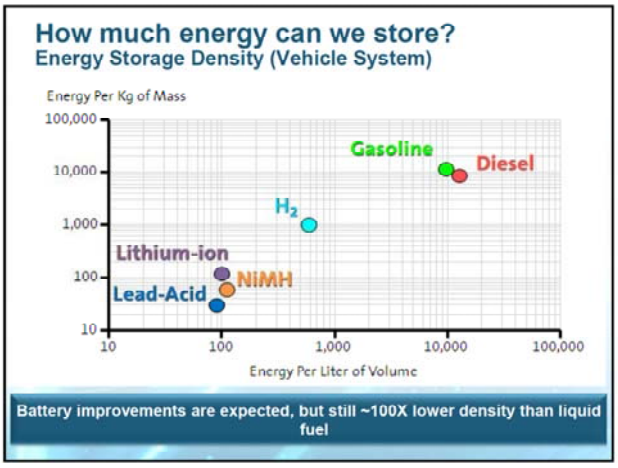
6. Advanced battery technologies. According to DOE estimates, batteries for electric vehicles cost $500–1,000/kWh, down from $1,300–2,000 in 2007. The Roadster has a 53kWh battery, implying a $26,000–53,000 cost, although Tesla's use of generic form factors lowers the actual cost. The larger Model S is expected to have a battery pack about twice as large, or 100kWh. Even with Tesla's aggressive cost plans and volume discounts, at $300/kWh, a 100kWh battery pack would cost $30,000 (although we have little clarity here, and Tesla's costs could be higher or lower).

High battery costs preclude low-cost long-range EVs. Major breakthroughs in battery technology that increase range or lower cost would be a major positive. The DOE's long-term cost target of $100/kWh assumes technology breakthroughs, which could lower the cost of the Model S by $20,000.

The Clean Energy Jobs and Oil Company Accountability Act (now before the Senate) would direct the Secretary of Energy to establish a competition for the development of a 500-mile vehicle battery. And the DOE has already increased funding for advanced battery research as part of other programs. A breakthrough technology that reduced costs and increased energy density could enable low-cost EVs with a 500-mile range. Long-range batteries would alleviate much of consumers' "range anxiety" that could limit EV adoption; it would be a major positive for sales, in our view.

Exhibit 21

Batteries 100x Less Energy Dense Than Liquid Fuels But Electric Vehicles are Five Times As Efficient



Source: General Motors Advanced Technology Vehicle Strategies, Presentation by Keith Cole

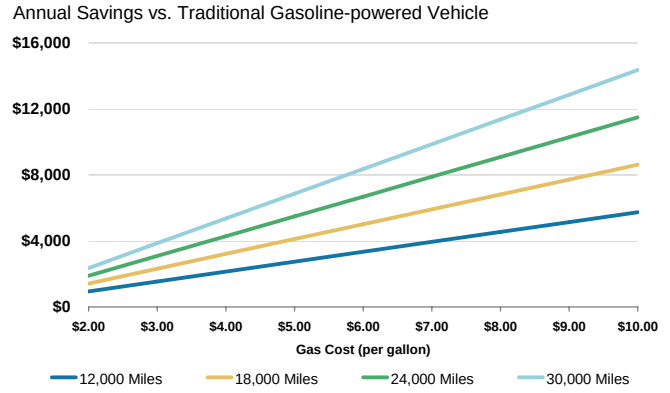
Potential valuation impact	**$10–20**

7. Higher oil prices. Higher oil prices increase the attractiveness of EVs. The cost to charge the Roadster is ~$0.03 per mile assuming electricity costs of $0.11/kWh. With gasoline at $3.00 per gallon, it costs $0.15 per mile to drive a 20mpg car. If oil prices spike, the cost advantage of driving an EV increases, and we believe sentiment on EV stocks would rise as well.

We calculate that for the average driver at 12,000 miles per year and 20 miles per gallon, every $1 increase in the price of gasoline adds $600 per year to the annual cost savings of driving an EV.

Exhibit 22

Annual Savings Increase Substantially with Higher Gas Prices and Miles Driven



Source: Company data, Morgan Stanley Research

Potential valuation impact	$3–15

Our Outlook in Unlikely Event All Seven Factors Play Out

The probability of all seven outcomes happening is extremely low, but this example highlights how many different opportunities Tesla has to benefit from factors the company can influence, such as OEM partnerships, fleet sales, leasing, and model extensions and factors beyond the company's control such as oil prices, government incentives, and breakthroughs in battery technology.

To provide further specificity on what the financials could look like if all seven of these scenarios worked out, we include a summary income statement and balance sheet below.

Exhibit 23

Summary Income Statement Reflecting the Combination of Positives in Our $100 Scenario

	2012e	2013e	2014e	2015e
Revenues	1,055.8	2,423.2	4,799.4	5,596.5
Gross Profit	288.4	742.3	1,576.3	1,856.0
Gross Profit Margin	*27.3%*	*30.6%*	*32.8%*	*33.2%*
Operating Expenses	198.9	222.7	637.4	714.3
Operating Income	**89.5**	**519.6**	**939.0**	**1,141.7**
EBITDA	139.7	586.2	1,050.7	1,269.6
Recurring Net Income	75.8	514.0	719.1	869.8
Adjusted EPS	**$0.85**	**$4.82**	**$6.73**	**$7.92**
EPS Growth		*469.3%*	*39.6%*	*17.6%*

Source: Company data, Morgan Stanley Research estimates

Exhibit 24

Summary Balance Sheet Reflecting the Combination of Positives in Our $100 Scenario

	2012e	2013e	2014e	2015e
Cash & Equivalents	100.0	352.2	1,040.0	1,944.4
Accounts Receivable	21.1	22.0	33.2	41.0
Inventories	498.6	487.6	971.3	1,127.3
Total Current Assets	**624.6**	**866.8**	**2,049.5**	**3,117.7**
PP&E	283.2	335.4	429.1	540.1
Total Assets	**932.6**	**1,226.9**	**2,503.4**	**3,682.6**
Current Liabilities	435.4	445.9	889.7	1,073.3
DOE Loan	306.0	-	-	-
Total Liabilities	**762.2**	**466.7**	**910.5**	**1,094.1**
Total Equity	**170.4**	**760.2**	**1,592.9**	**2,588.5**
Total Liabilities & Equity	**932.6**	**1,226.9**	**2,503.4**	**3,682.6**

Source: Company data, Morgan Stanley Research estimates

What Can De-Risk the Story? Time, Progress, Sales, and Safety

As we wait for these positives to play out, what can de-risk the Tesla story and reduce our uncertainty? Staying on track for Model S launch will help, as will reservations that ensure demand for the first 6–12 months of production. Seeing a gorgeous Model S prototype produced on final tools will be very encouraging. There are many positives. Unfortunately, downside risks could increase after the Model S launch if there are safety or performance issues. We don't see any silver bullet that will take risk out of the story, although we do see many positives that increase the likelihood of success and increase the upside.

Valuation

Our Equal-weight rating is largely driven by valuation — at $20, we see balanced upside and downside risk.

We use three valuation methodologies — EV/sales, EV/EBITDA, and DCF — and apply each to our bull, bear, and base cases.

Exhibit 25
Valuation Summary

Valuation Summary (12-18 Month View)					
$MM				*per Share*	
Weighting	Method	Multiple	Bear	Base	Bull
40.0%	EV/Sales	2.1x	$3.95	$25.86	$38.08
40.0%	DCF	n/a	—	$10.87	$39.16
20.0%	EV/EBITDA	12.0x	—	$12.02	$39.82
Weighted Average			$1.58	$17.09	$38.86

Source: Company data, Morgan Stanley Research estimates The weights shown are only illustrative. They do not forecast a precise series of events and do not account for all possible outcomes but instead illustrate our sense of the relative plausibility of selected scenarios.

Discounted Cash Flow Valuation

DCF anchors our valuation at $11. With significant investment outfitting the factory and preparing for production and limited near-term revenues, free cash flow is negative through 2013. Over 100% of the DCF value is in the terminal year.

- Our base case DCF value of $11 per share is held down by our conservative margin forecast, as described in Debate #1 above.

- Our bull case DCF value is $39 per share as volumes and margins are better. We keep a normalized 8% EBIT margin in our terminal year; a 14% margin in the terminal year would increase the bull case DCF value to $57.

- Our bear case DCF value is zero.

Multiples Valuation

We use two multiples-based approaches: EV/sales and EV/EBITDA, which give very different valuations because of our conservative margin forecast.

Our base case EV/sales value is $26, while our base case EV/EBITDA value is $12.

Our comps universe is 80% clean tech and EV value chain and 20% autos (details in comps table below). At the end of the day, Tesla is an auto company, but we believe its growth profile will look more like the clean tech companies than the established automakers for the foreseeable future. The EV/sales multiple is 2.1x and the EV/EBITDA multiple is 12x.

We use 2014 as a valuation year. In our multiples-based discounted equity valuation, we use 2014 as the valuation year as that is the first year Tesla has positive EBITDA in our base case. We apply one year forward (2011) multiples to our 2014 EBITDA and sales forecasts, calculating an enterprise value in 2013. We subtract our estimate of net debt in 2013, and discount the 2013 equity value back to 2011 at a 15% cost of equity to calculate our one-year forward expected value.

Scenario Analysis

Three cases: bull, bear, bear, base. The wide valuation range among our three cases reflects three key uncertainties: EV demand, competition, and Tesla's ability to execute and deliver the product on time and on budget.

Bull case: The future of the auto industry. In our bull case, Tesla maintains a leadership role in electric vehicles, customer demand is strong, and the company delivers on time and on budget. We believe Tesla could be the future of the auto industry, presenting a major challenge to today's dominant players. Our bull case value is $39 per share, but if EV demand accelerates, we believe there could be significant longer-term upside.

Base case: Solid execution and EV demand. Our base case has a modest one quarter delay in the Model S launch, but higher production costs, advertising costs, and incentives push EBIT margins down 10%, leaving valuation in a wide range of $12–26 per share.

Bear case: Delays and cost overruns. It's impossible to catalogue the things that could go wrong. Tesla has never run large-scale manufacturing before, and while it has a cash cushion from the IPO and the DOE loan, in our bear case, the company would likely need additional capital in 2013, at least to fund initial Model S production. Our bear case EV/sales value is $4, and value is negative on EV/EBITDA and DCF. Note that this is a longer-term view; our 12-month bear case value is $10.

Exhibit 26

Comparables Are Based on 80% Clean Tech and EV Value Chain and 20% Autos

Tesla Comps

	Market Cap ($MM)	EV/EBITDA				EV/Sales			
		CY10e	CY11e	CY12e	CY13e	CY10e	CY11e	CY12e	CY13e
EV Value Chain & Clean Tech									
BYD Co. Ltd.	15,255	10.5x	8.6x	7.3x	NM	1.8x	1.5x	1.2x	NM
First Solar Inc.	11,066	11.9x	10.2x	8.2x	7.7x	4.0x	3.0x	2.2x	1.7x
Cree	7,591	18.4x	13.4x	10.4x	8.9x	6.3x	4.7x	3.5x	2.7x
American Superconductor Corp.	1,349	16.5x	12.7x	12.4x	NM	3.0x	2.4x	1.9x	NM
A123 Systems Inc.	1,114	NM	NM	25.8x	6.2x	5.4x	2.5x	1.1x	0.6x
EnerNOC Inc.	816	25.0x	14.8x	10.0x	7.8x	2.5x	2.1x	1.6x	1.2x
Ener1 Inc.	417	NM	NM	NM	6.4x	5.1x	2.0x	1.3x	0.7x
Median		**16.5x**	**12.7x**	**10.2x**	**7.7x**	**4.0x**	**2.4x**	**1.6x**	**1.2x**
Auto									
Toyota Motor Corp.	114,736	12.8x	10.5x	8.8x	7.2x	1.0x	0.9x	0.9x	0.8x
Honda Motor Co. Ltd.	61,944	10.1x	8.7x	7.5x	6.2x	0.9x	0.9x	0.8x	0.8x
Daimler AG	55,721	8.7x	7.9x	7.0x	7.1x	0.9x	0.9x	0.8x	0.9x
Ford Motor Co.	44,422	12.5x	10.1x	10.0x	8.5x	1.1x	1.0x	1.0x	1.0x
BMW AG	38,199	10.6x	9.4x	8.7x	8.6x	1.5x	1.4x	1.3x	1.2x
Audi AG	35,072	5.1x	4.4x	3.9x	NM	0.7x	0.6x	0.6x	NM
Nissan Motor Co. Ltd.	32,879	7.6x	6.7x	5.9x	4.3x	0.8x	0.7x	0.7x	0.7x
Porsche Automobil Holding SE	8,913	13.9x	27.7x	NM	NM	2.3x	2.1x	1.9x	1.7x
Median		**10.3x**	**9.1x**	**7.5x**	**7.1x**	**1.0x**	**0.9x**	**0.9x**	**0.9x**
Simple Average		12.6x	11.2x	9.7x	7.2x	2.5x	1.8x	1.4x	1.2x
Weighted Average [1]		**15.3x**	**12.0x**	**9.6x**	**7.6x**	**3.4x**	**2.1x**	**1.5x**	**1.1x**

Source: FactSet
Note: Assumes 80% weighting for EV Value Chain & Clean Tech; 20% weighting for Auto

Exhibit 27

Base Case DCF

Discounted Cash Flow Model

($ in millions)

Fiscal Year	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	Terminal Year
Compounding Period	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.50	10.50
Handicap Factor	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Discount Factor	0.95	0.85	0.77	0.69	0.62	0.56	0.50	0.45	0.40	0.36	0.33	0.33
Revenue	108.3	146.1	620.5	1,440.7	1,880.2	2,165.8	2,439.8	3,766.5	4,019.9	4,293.1	4,693.5	4,693.5
Revenue Growth	*(3%)*	*35%*	*325%*	*132%*	*31%*	*15%*	*13%*	*54%*	*7%*	*7%*	*9%*	
EBIT Margin	NM	NM	NM	NM	4.8%	6.4%	5.8%	5.2%	6.3%	6.3%	6.6%	**8.0%**
EBIT	(152.3)	(211.3)	(125.4)	(8.1)	91.1	139.1	142.5	195.9	253.1	269.3	312.0	375.5
EBIT Growth						*52.7%*	*2.5%*	*37.4%*	*29.2%*	*6.4%*	*15.9%*	
Tax Rate	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*23.6%*	*24.0%*	***35.0%***
Operating Tax Expense	0.1	-	-	-	-	-	-	-	-	63.7	74.9	131.4
NOPAT	(152.4)	(211.3)	(125.4)	(8.1)	91.1	139.1	142.5	195.9	253.1	205.6	237.1	244.1
Depreciation & Amortization	9.6	15.0	36.3	46.3	60.9	71.2	82.2	82.8	113.9	106.5	117.7	117.7
Stock-based Comp	17.5	15.8	13.9	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2	18.2
Change in Working Capital	(10.5)	(2.9)	(70.2)	(0.7)	3.1	7.5	8.8	(24.1)	30.1	30.9	30.7	-
CapEx	(65.4)	(155.6)	(99.9)	(67.1)	(123.4)	(138.3)	(154.8)	(175.7)	(165.7)	(175.3)	(189.3)	(117.7)
Other non-cash items	-	-	-	-	-	-	-	-	-	-	-	
Net investment in Capital	(48.9)	(127.8)	(119.9)	(4.7)	(39.8)	(40.5)	(45.5)	(95.0)	(3.4)	(21.1)	(22.6)	18.2

													Terminal Value
FCFO	**(201.2)**	**(339.0)**	**(245.3)**	**(12.8)**	**51.3**	**98.6**	**97.1**	**100.8**	**249.7**	**184.5**	**214.5**	**262.3**	**3,747.0**
FCF growth y/y		68.5%	(27.7%)	(94.8%)	(501.5%)	92.2%	(1.5%)	3.9%	147.7%	(26.1%)	16.3%		
PV of FCF	**(95.4)**	**(288.8)**	**(187.7)**	**(8.8)**	**31.7**	**54.8**	**48.5**	**45.2**	**100.7**	**66.8**			**1,219.8**

Valuation	
Sum of FCF, excl. terminal value	(233.1)
PV of terminal value	1,219.8
Enterprise Value	986.8
Debt	-
Cash	-
Equity Value (June 2010)	986.8
per share	*$9.45*
Equity Value (12-18 Months)	**1,134.8**
per share	*$10.87*

Discount Rate	
Equity % of Steady State Capital Structure	70%
Cost of Equity	**15.0%**
Net Debt % of Stead State Capital Structure	30%
Cost of Debt (pre-tax)	4.0%
Tax Rate	35%
Cost of Debt (after-tax)	**2.6%**
WACC	**11.28%**

Growth	
Terminal Growth Rate	4%

Source: Morgan Stanley Research

Exhibit 28

Bull Case DCF

Discounted Cash Flow Model
($ in millions)

Fiscal Year	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	Terminal Year
Compounding Period	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.50	10.50
Handicap Factor	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Discount Factor	0.95	0.85	0.77	0.69	0.62	0.56	0.50	0.45	0.40	0.36	0.33	0.33
Revenue	109.3	147.8	758.0	1,925.3	2,584.9	4,120.7	5,301.4	6,881.1	7,541.1	8,021.4	8,724.0	8,724.0
Revenue Growth	*(2%)*	*35%*	*413%*	*154%*	*34%*	*59%*	*29%*	*30%*	*10%*	*6%*	*9%*	
EBIT Margin	NM	NM	NM	13.5%	15.4%	15.2%	16.1%	16.7%	17.0%	16.8%	16.5%	**8.0%**
EBIT	(150.3)	(204.3)	(95.0)	260.7	399.2	625.9	853.0	1,150.8	1,278.4	1,347.9	1,440.5	697.9
EBIT Growth					*53.1%*	*56.8%*	*36.3%*	*34.9%*	*11.1%*	*5.4%*	*6.9%*	
Tax Rate	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*20.8%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	***35.0%***
Operating Tax Expense	0.1	-	-	-	-	130.1	204.7	276.2	306.8	323.5	345.7	244.3
NOPAT	(150.5)	(204.3)	(95.0)	260.7	399.2	495.8	648.3	874.6	971.6	1,024.4	1,094.8	453.6
Depreciation & Amortization	9.6	14.7	35.4	45.3	60.1	74.3	96.6	110.0	151.2	150.6	168.8	168.8
Stock-based Comp	17.5	15.8	13.9	14.3	15.4	19.0	20.2	21.1	18.8	17.1	18.6	18.6
Change in Working Capital	(8.0)	2.3	(47.6)	(44.9)	0.2	(37.7)	(5.3)	9.9	47.7	60.1	57.8	-
CapEx	(64.7)	(149.5)	(96.6)	(65.7)	(145.2)	(209.4)	(248.1)	(260.8)	(246.2)	(260.6)	(281.7)	(168.8)
Other non-cash items	-	-	-	-	-	-	-	-	-	-	-	
Net investment in Capital	(45.6)	(116.8)	(94.9)	(51.0)	(69.5)	(153.8)	(136.6)	(119.8)	(28.5)	(32.8)	(36.6)	18.6
												Terminal Value
FCFO	**(196.0)**	**(321.1)**	**(189.9)**	**209.7**	**329.7**	**342.1**	**511.6**	**754.8**	**943.1**	**991.6**	**1,058.2**	**472.2**	**6,745.7**
FCF growth y/y		63.8%	(40.9%)	(210.4%)	57.2%	3.7%	49.6%	47.5%	25.0%	5.1%	6.7%		
PV of FCF	**(92.9)**	**(273.5)**	**(145.4)**	**144.3**	**203.8**	**190.0**	**255.4**	**338.6**	**380.2**	**359.2**			**2,196.1**

Valuation	
Sum of FCF, excl. terminal value	1,359.8
PV of terminal value	2,196.1
Enterprise Value	3,555.8
Debt	-
Cash	-
Equity Value (June 2010)	3,555.8
per share	*$34.61*
Equity Value (12-18 Months)	**4,089.2**
per share	*$39.80*

Discount Rate	
Equity % of Steady State Capital Structure	70%
Cost of Equity	**15.0%**
Net Debt % of Stead State Capital Structure	30%
Cost of Debt (pre-tax)	4.0%
Tax Rate	35%
Cost of Debt (after-tax)	**2.6%**
WACC	**11.28%**

Growth	
Terminal Growth Rate	4%

Source: Morgan Stanley Research

Exhibit 29

Bear Case DCF

Discounted Cash Flow Model
($ in millions)

Fiscal Year	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	Terminal Year
Compounding Period	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.50	10.50
Handicap Factor	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Discount Factor	0.95	0.85	0.77	0.69	0.62	0.56	0.50	0.45	0.40	0.36	0.33	0.33
Revenue	104.1	139.2	271.7	491.4	464.3	537.1	527.1	1,048.1	1,175.0	1,283.1	1,283.1	1,283.1
Revenue Growth	*(7%)*	*34%*	*95%*	*81%*	*(6%)*	*16%*	*(2%)*	*99%*	*12%*	*9%*	*0%*	
EBIT Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	**8.0%**
EBIT	(153.9)	(214.2)	(172.8)	(177.5)	(90.8)	(88.4)	(101.9)	(118.2)	(112.6)	(118.4)	(119.9)	102.6
EBIT Growth												
Tax Rate	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	***35.0%***
Operating Tax Expense	0.1	-	-	-	-	-	-	-	-	-	-	35.9
NOPAT	(154.0)	(214.2)	(172.8)	(177.5)	(90.8)	(88.4)	(101.9)	(118.2)	(112.6)	(118.4)	(119.9)	66.7
Depreciation & Amortization	9.2	14.5	36.1	51.0	61.1	56.5	49.3	44.7	54.4	48.8	51.8	51.8
Stock-based Comp	17.5	15.8	13.9	16.7	11.0	10.6	9.3	11.6	10.2	9.2	9.3	9.3
Change in Working Capital	(11.6)	(7.7)	(38.2)	16.5	2.8	1.6	5.0	(15.4)	5.9	7.4	13.5	-
CapEx	(64.7)	(147.2)	(146.8)	(56.6)	(40.2)	(42.2)	(39.0)	(62.4)	(62.9)	(67.7)	(67.7)	(51.8)
Other non-cash items	-	-	-	-	-	-	-	-	-	-	-	
Net investment in Capital	(49.6)	(124.6)	(135.0)	27.6	34.7	26.5	24.6	(21.6)	7.6	(2.3)	6.8	9.3

													Terminal Value
FCFO	**(203.6)**	**(338.8)**	**(307.8)**	**(149.9)**	**(56.1)**	**(61.8)**	**(77.3)**	**(139.7)**	**(104.9)**	**(120.6)**	**(113.0)**	**76.0**	**1,085.6**
FCF growth y/y		66.4%	(9.1%)	(51.3%)	(62.6%)	10.3%	25.0%	80.8%	(24.9%)	15.0%	(6.3%)		
PV of FCF	**(96.5)**	**(288.6)**	**(235.6)**	**(103.1)**	**(34.6)**	**(34.4)**	**(38.6)**	**(62.7)**	**(42.3)**	**(43.7)**			**353.4**

Valuation	
Sum of FCF, excl. terminal value	(980.1)
PV of terminal value	353.4
Enterprise Value	(626.7)
Debt	-
Cash	-
Equity Value (June 2010)	(626.7)
per share	—
Equity Value (12-18 Months)	**(720.7)**
per share	—

Discount Rate	
Equity % of Steady State Capital Structure	70%
Cost of Equity	**15.0%**
Net Debt % of Stead State Capital Structure	30%
Cost of Debt (pre-tax)	4.0%
Tax Rate	35%
Cost of Debt (after-tax)	**2.6%**
WACC	**11.28%**

Growth	
Terminal Growth Rate	4%

Source: Morgan Stanley Research

Appendix: Company Overview

Based in California, Tesla designs, engineers, manufactures, and sells high-performance electric vehicles under its own brand, Tesla Motors. Tesla has a $465 million low-interest loan from the Department of Energy and completed its IPO in June 2010.

Current products. Tesla currently sells the Roadster, a high-priced, low-volume sports car manufactured with a Lotus body. It also sells a small number of battery packs to Daimler for use in the Smart and A-class. Tesla has sold ~1,200 Roadsters in total at a retail price above $100K each.

Upcoming model launch. Tesla plans to launch a lower-priced, higher-volume sedan, the Model S, in 2012 and has agreed to purchase a large manufacturing plant (NUMMI, formerly owned by Toyota and GM) with a capacity of 200,000 cars per year.

Exhibit 30

Tesla Is an Integrated Auto Company, from Design to Manufacturing; It owns Its Distribution Network

Design	Engineering	Manufacturing	Distribution Network
Unique design key to garnering interest among customers that buy high-end, identity-characterizing vehicles **Key player:** • Franz Von Holzhausen	New technology in a high growth market for alternative fuel vehicles. Ability to sell powertrain systems to third-party customers **Key players:** • Peter Rawlinson • JB Straubel	Recently acquired NUMMI plant from Toyota. Capacity: >200,000 vehicles/year **Key players:** • Gilbert Passin • Evelyn Chiang	Will own dealers ("stores") 11 stores open today. 50 stores by 2013 Low inventory and low overhead sales model to reduce SG&A **Key players:** • Global Head - TBD • John Walker

Co-located engineering and design teams

Source: Morgan Stanley Research, Company Data

Exhibit 31

Increasingly Affordable and Higher Volume Product Offering

2008 – 2012
"Roadster / Roadster Sport"

- High performance all electric sports car
- Lotus body, Tesla powertrain
- $109k base price, $140k realized
- 0-60mph in 3.7 seconds
- 245 mile range
- 1,063 units sold since 2008

2012
"Model S"

- Full-size all electric sedan to compete with BMW 5-Series
- $50k base price after tax rebates
- Expected revenue per vehicle $85K including emission credits and vehicle options
- 160 mile range
  - Range extension options
- Launch mid-2012; production volume to reach 20-50K

Longer Term
Model TBD

- More affordable all electric sedan (compare to BMW 3-Series)
- Estimated price: $40k
- Estimated timing: 2015-17
- Factory can scale to >200,000 units

Mass Market Model B

Source: Morgan Stanley Research, Company Data

Exhibit 32

Brief Company History

2003	Incorporated and headquarters established in Palo Alto, CA
2007 3Q	Surpasses 500 Roadster reservations
2007 4Q	Founder and President (Martin Eberhard) forced to exit and Ze'ev Drori appointed CEO
2008 3Q	Roadster manufacturing and shipments begins
2008 4Q	CEO Ze'ev Drori forced to exit
2008 4Q	**Elon Musk appointed CEO**
2009 1Q	Begins taking Model S reservations
2009 2Q	Surpasses 1,000 Model S reservations
2009 2Q	**Daimler acquires 10% stake**
2009 2Q	**$465 MM DOE loan approved**
2010 1Q	Roadster leasing program introduced
2010 1Q	Hired highly experienced head of manufacturing (Gilbert Passin) from Toyota
2010 1Q	2,200 Model S Reservations
2010 2Q	**Plans to purchase NUMMI factory from Toyota** **Toyota to invest $50MM at IPO**

Source: Morgan Stanley Research, Company Data

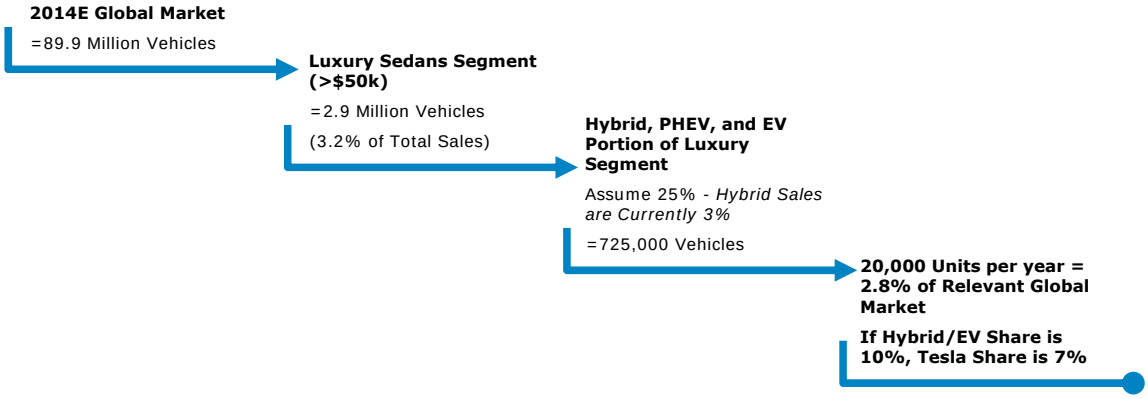
Exhibit 33

Summary of Positives and Risks

POSITIVES	RISKS
High-performance all-electric vehicle • To compete head-to-head with traditional performance sedans like BMW and Mercedes • EV provides exceptional driving performance (Roadster Sport accelerates from 0 to 60mph in 3.7 seconds)	First large-scale production for Tesla • Roadster production was in collaboration with Lotus • Significant use of CAD tools • All aluminum body, new manufacturing facility
Investments from Daimler and Toyota • Partnership gives access to supply chains and engineering teams • Validation of technology	Small engineering team • 75% smaller team than traditional OEM
Brand recognition —exceptionally high relative to unit sales • Over 2,800 reservations for a car that will not be available until 2012. Min reservation cost: $5K.	EV adoption is untested • Range anxiety may limit adoption • Uptake of range options is uncertain
$465 DOE loan for manufacturing and R&D • Low cost financing • External validation	Increasing competition • OEMs and startups introducing more hybrids and EVs
Management Team has executed on low-probability events • Toyota investment • SpaceX rocket launch (same CEO)	Ambitious schedule • Less than 24 months to Model S launch; design and spec not finalized
	Limited visibility, few near-term catalysts, FX risk • Mid-term milestones are mostly annual, not quarterly • Costs are primarily $, revenues are ~50% international

Exhibit 34

At Our 20,000 Unit Forecast, Tesla's Share Would Be <1% of 2014e Global Luxury Sedans

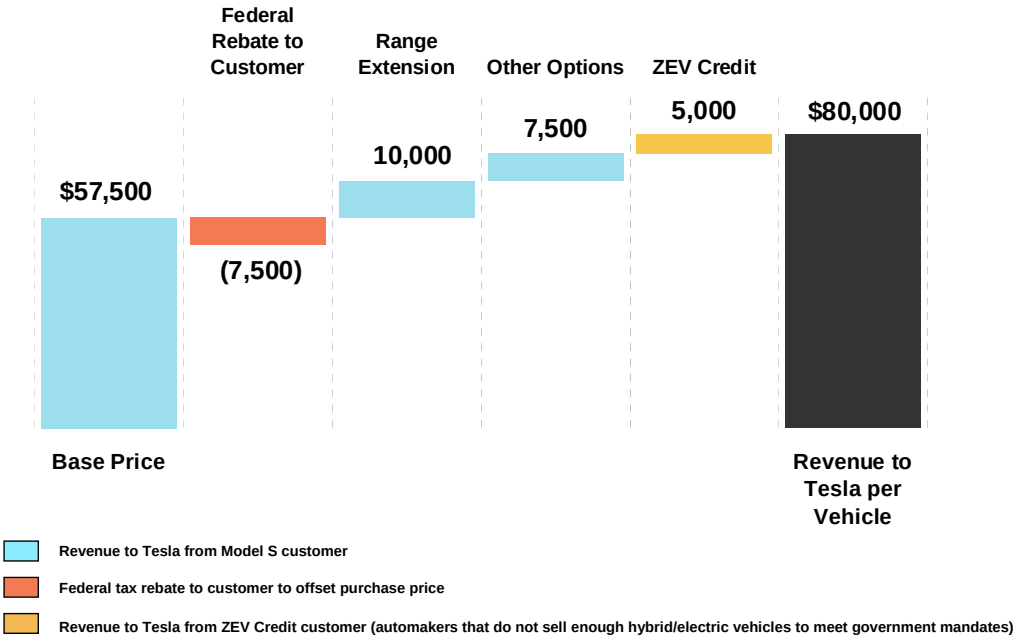


Brand and Model	Segment	2014 Forecast	Tesla as %
Tesla Model S	**E1-2**	**20,000**	
E1 = Mid-Range Luxury (e.g., BMW 5-series, Mercedes E-Class)		2,489,562	0.80%
E2 = Top Luxury (e.g., BMW 7-series, Mercedes S-Class)		424,906	4.71%
Total E1+E2 Global Sales		**2,914,468**	**0.69%**

Source: Morgan Stanley Research, Global Insight

Exhibit 35

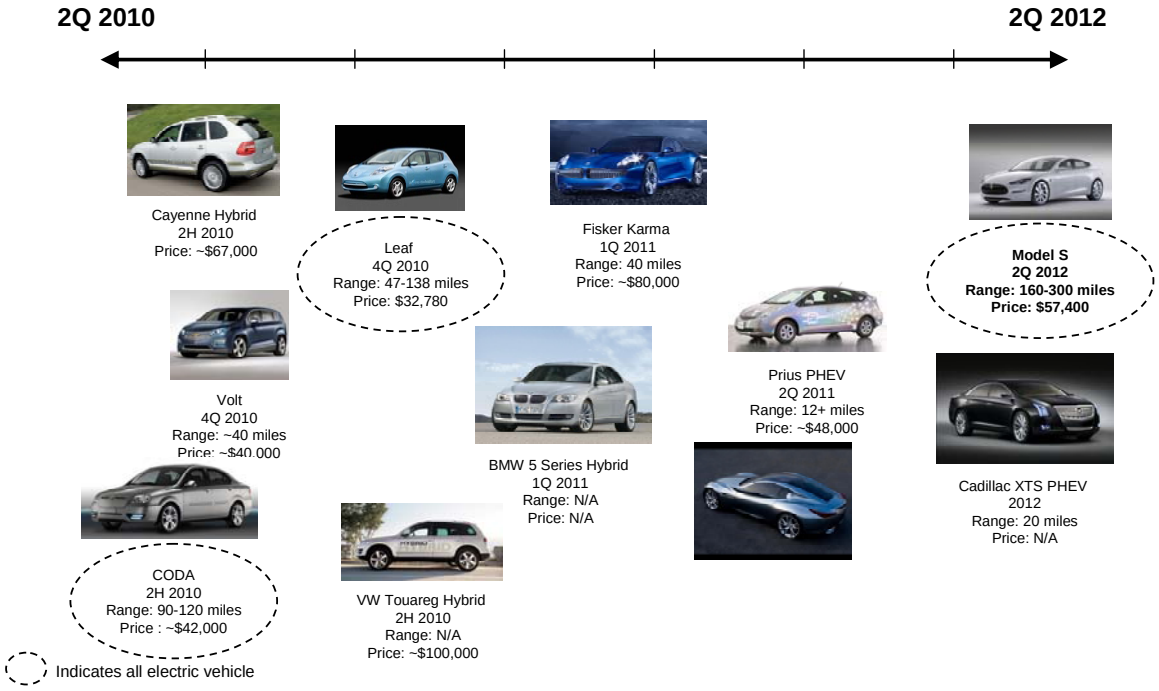
Price: Tesla Revenue Includes Sales Price Plus Zero-Emission Vehicle (ZEV) Credits



Source: Morgan Stanley Research, Global Insight

Exhibit 36

'Green Auto' Launches will Increase Competition by 2012



Source: Morgan Stanley Research, allworldcars.com, GM, The Car Connection, GreenCarSite, Auto Motor Blog, Nikkan Jidosha Shimbun, Forbes, Bloomberg

Appendix: Financial Models

Exhibit 37

Base Case Quarterly Income Statement

	2009E				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	27.7	31.4	32.8	37.1	36.9	39.3	40.5	40.8	205.9	333.4	339.3	344.2	385.9	371.2
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	23.0	26.0	26.4	29.2	28.7	30.3	31.2	31.4	183.7	300.7	307.2	299.7	318.4	300.8
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**4.7**	**5.4**	**6.5**	**7.9**	**8.2**	**9.0**	**9.3**	**9.4**	**22.2**	**32.7**	**32.2**	**44.5**	**67.5**	**70.4**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*17.0%*	*17.2%*	*19.7%*	*21.2%*	*22.1%*	*22.9%*	*22.9%*	*22.9%*	*10.8%*	*9.8%*	*9.5%*	*12.9%*	*17.5%*	*19.0%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.0	37.0	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	8.0	9.0	9.0	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	27.8	27.8	27.8	27.8
General and Administrative	6.6	8.2	10.7	16.6	7.2	8.7	9.0	8.0	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock-based Compensation	-	-	-	-	3.4	6.1	3.0	5.0	3.9	3.9	3.9	3.9	3.5	3.5	3.5	3.5	4.6	4.2	4.2	3.8
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**46.0**	**59.0**	**60.7**	**60.7**	**60.7**	**60.7**	**49.7**	**49.7**	**49.7**	**49.7**	**61.1**	**55.7**	**55.7**	**50.3**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(41.3)**	**(53.6)**	**(54.2)**	**(52.8)**	**(52.5)**	**(51.7)**	**(40.4)**	**(40.4)**	**(27.5)**	**(17.0)**	**(28.9)**	**(11.1)**	**11.8**	**20.2**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.1%*	*5.4%*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(36.0)**	**(46.0)**	**(47.9)**	**(45.4)**	**(44.6)**	**(42.6)**	**(29.5)**	**(28.0)**	**(14.3)**	**(3.4)**	**(14.0)**	**4.8**	**27.5**	**36.7**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*1.4%*	*7.1%*	*9.9%*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.4)	(0.6)	(0.9)	(0.9)	(1.3)	(2.0)	(2.7)	(3.4)	(3.8)	(4.3)	(4.3)	(4.4)	(4.3)	(4.3)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**(0.4)**	**(0.6)**	**(0.9)**	**(0.9)**	**(1.3)**	**(2.0)**	**(2.7)**	**(3.4)**	**(3.8)**	**(4.3)**	**(4.3)**	**(4.4)**	**(4.3)**	**(4.3)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(41.7)**	**(54.2)**	**(55.1)**	**(53.8)**	**(53.8)**	**(53.7)**	**(43.2)**	**(43.7)**	**(31.3)**	**(21.3)**	**(33.3)**	**(15.5)**	**7.5**	**15.8**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*1.9%*	*4.3%*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(41.7)**	**(54.2)**	**(55.1)**	**(53.8)**	**(53.8)**	**(53.7)**	**(43.2)**	**(43.7)**	**(31.3)**	**(21.3)**	**(33.3)**	**(15.5)**	**7.5**	**15.8**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*1.9%*	*4.3%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(41.7)**	**(54.2)**	**(55.1)**	**(53.8)**	**(53.8)**	**(53.7)**	**(43.2)**	**(43.7)**	**(31.3)**	**(21.3)**	**(33.3)**	**(15.5)**	**7.5**	**15.8**
GAAP EPS							**($0.45)**	**($0.58)**	**($0.58)**	**($0.57)**	**($0.56)**	**($0.56)**	**($0.45)**	**($0.45)**	**($0.32)**	**($0.22)**	**($0.34)**	**($0.16)**	**$0.07**	**$0.14**
Adjusted EPS							**($0.42)**	**($0.54)**	**($0.55)**	**($0.53)**	**($0.53)**	**($0.53)**	**($0.42)**	**($0.42)**	**($0.29)**	**($0.19)**	**($0.30)**	**($0.12)**	**$0.09**	**$0.17**

Source: Company data, Morgan Stanley Research estimates

Exhibit 38

Base Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	108.3	146.1	620.5	1,440.7	1,880.2	2,165.8	2,439.8	3,766.5	4,019.9	4,293.1	4,693.5
Cost of Revenue	0.0	15.9	102.4	88.1	114.6	547.0	1,226.1	1,487.4	1,694.7	1,931.2	3,055.3	3,241.6	3,465.5	3,773.8
Gross Profit	**0.1**	**(1.1)**	**9.5**	**20.3**	**31.5**	**73.5**	**214.6**	**392.8**	**471.2**	**508.6**	**711.3**	**778.3**	**827.5**	**919.6**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*18.7%*	*21.6%*	*11.8%*	*14.9%*	*20.9%*	*21.8%*	*20.8%*	*18.9%*	*19.4%*	*19.3%*	*19.6%*
Expenses														
Research and Development	62.7	53.6	19.3	90.1	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	32.0	44.0	61.0	111.0	131.6	151.6	170.8	263.7	281.4	300.5	328.5
General and Administrative	17.1	23.4	42.2	32.9	33.0	35.0	35.0	70.5	75.8	85.4	131.8	120.6	128.8	140.8
Stock-based Compensation	0.2	0.4	-	17.5	15.8	13.9	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Total Expenses	**80.0**	**77.4**	**61.4**	**172.5**	**242.8**	**198.9**	**222.7**	**301.7**	**332.1**	**366.1**	**515.4**	**525.2**	**558.3**	**607.6**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(152.3)**	**(211.3)**	**(125.4)**	**(8.1)**	**91.1**	**139.1**	**142.5**	**195.9**	**253.1**	**269.3**	**312.0**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*4.8%*	*6.4%*	*5.8%*	*5.2%*	*6.3%*	*6.3%*	*6.6%*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(125.2)**	**(180.5)**	**(75.2)**	**55.0**	**171.6**	**229.4**	**243.0**	**300.6**	**385.4**	**392.5**	**447.9**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.8%*	*9.1%*	*10.6%*	*10.0%*	*8.0%*	*9.6%*	*9.1%*	*9.5%*
Interest Expense, net	1.7	(3.2)	(2.4)	(1.6)	(5.1)	(14.2)	(17.4)	(17.2)	(12.5)	(5.1)	0.5	1.2	2.3	3.3
Other Income (Expense), net	0.1	(1.0)	(1.4)	(10.0)	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(11.5)**	**(5.1)**	**(14.2)**	**(17.4)**	**(17.2)**	**(12.5)**	**(5.1)**	**0.5**	**1.2**	**2.3**	**3.3**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(163.8)**	**(216.4)**	**(139.6)**	**(25.4)**	**73.9**	**126.5**	**137.5**	**196.4**	**254.2**	**271.6**	**315.3**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*5.8%*	*5.6%*	*5.2%*	*6.3%*	*6.3%*	*6.7%*
Taxes, GAAP	0.1	0.1	0.0	0.1	-	-	-	-	-	-	-	-	65.1	75.7
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**65.1**	**75.7**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*24.0%*	*24.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(163.9)**	**(216.4)**	**(139.6)**	**(25.4)**	**73.9**	**126.5**	**137.5**	**196.4**	**254.2**	**206.5**	**239.7**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.9%*	*5.8%*	*5.6%*	*5.2%*	*6.3%*	*4.8%*	*5.1%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(163.9)**	**(216.4)**	**(139.6)**	**(25.4)**	**73.9**	**126.5**	**137.5**	**196.4**	**254.2**	**206.5**	**239.7**
GAAP EPS				**($1.75)**	**($2.27)**	**($1.43)**	**($0.24)**	**$0.64**	**$1.08**	**$1.14**	**$1.59**	**$2.01**	**$1.60**	**$1.81**
Adjusted EPS				**($1.61)**	**($2.14)**	**($1.32)**	**($0.12)**	**$0.77**	**$1.20**	**$1.26**	**$1.73**	**$2.12**	**$1.70**	**$1.91**

Source: Company data, Morgan Stanley Research estimates

Exhibit 39

Base Case Annual Balance Sheet

	Fiscal Year													
$ millions	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	217.9	100.0	58.2	98.0	100.0	100.0	177.3	418.2	833.5	1,212.5	1,657.5
Accounts receivable, net	0.1	3.3	3.5	1.7	11.7	12.1	13.4	13.0	15.9	18.8	18.6	18.6	18.3	18.2
Inventories, net	2.1	16.7	23.2	33.9	36.2	359.5	359.7	448.3	510.7	580.4	920.8	976.9	1,044.4	1,134.2
Prepaid expenses and other current assets	2.9	2.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Current Assets	**22.3**	**31.4**	**100.6**	**258.5**	**152.9**	**434.8**	**476.1**	**566.3**	**631.6**	**781.5**	**1,362.6**	**1,834.0**	**2,280.2**	**2,815.0**
Property, Plant and Equipment, net	12.0	18.8	23.5	79.0	219.6	283.2	303.9	366.4	433.4	506.0	598.9	650.7	719.5	791.0
Restricted cash	0.3	1.2	3.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Other assets	0.3	0.3	2.8	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
Total Assets	**34.8**	**51.7**	**130.4**	**362.2**	**397.3**	**742.7**	**804.8**	**957.4**	**1,089.8**	**1,312.3**	**1,986.3**	**2,509.5**	**3,024.5**	**3,630.7**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	25.4	29.6	294.1	294.3	366.8	417.9	474.9	753.3	799.3	854.5	928.0
Accrued liabilities	8.5	11.1	14.5	8.8	10.3	16.5	30.9	49.7	71.3	95.7	133.4	173.6	216.5	263.5
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital lease obligations, current portion	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Refundable reservation payments	37.3	48.0	26.0	27.3	31.0	13.8	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**62.8**	**72.2**	**325.7**	**326.4**	**417.7**	**490.5**	**571.9**	**888.0**	**974.2**	**1,072.3**	**1,192.7**
Convertible preferred stock warrant liability	0.2	2.1	1.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Capital lease obligations, less current portion	0.0	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other long-term liabilities	-	4.8	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	102.4	279.0	437.6	437.6	320.0	133.3	-	-	-	-	-
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**123.2**	**299.8**	**458.4**	**458.4**	**340.8**	**154.1**	**20.8**	**20.8**	**20.8**	**20.8**	**20.8**
Total Liabilities	**152.7**	**251.4**	**383.9**	**186.0**	**372.0**	**784.1**	**784.8**	**758.5**	**644.5**	**592.7**	**908.8**	**995.0**	**1,093.1**	**1,213.5**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	4.3	5.2	7.1	581.9	647.4	720.3	807.0	912.1	1,031.9	1,168.7	1,330.3	1,513.1	1,723.5	1,969.7
Retained Earnings	(122.1)	(204.9)	(260.7)	(405.6)	(622.0)	(761.6)	(787.0)	(713.2)	(586.6)	(449.2)	(252.8)	1.4	207.9	447.5
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**176.2**	**25.3**	**(41.3)**	**20.0**	**198.9**	**445.3**	**719.6**	**1,077.5**	**1,514.5**	**1,931.3**	**2,417.2**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**362.2**	**397.3**	**742.7**	**804.8**	**957.4**	**1,089.8**	**1,312.3**	**1,986.3**	**2,509.5**	**3,024.5**	**3,630.7**

Source: Company data, Morgan Stanley Research estimates

Exhibit 40

Base Case Annual Cash Flow Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Activities:														
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(163.9)**	**(216.4)**	**(139.6)**	**(25.4)**	**73.9**	**126.5**	**137.5**	**196.4**	**254.2**	**206.5**	**239.7**
Depreciation and Amortization	2.9	4.2	6.9	9.6	15.0	36.3	46.3	60.9	71.2	82.2	82.8	113.9	106.5	117.7
Change in fair value of convertible preferred stock warrant liability	(0.0)	2.8	1.1	9.1	-	-	-	-	-	-	-	-	-	-
Gain on extinguishment of convertible notes and warrants	-	(1.2)	(1.5)	-	-	-	-	-	-	-	-	-	-	-
Stock compensation expense	0.2	0.4	1.4	17.5	15.8	13.9	16.7	19.6	19.1	18.3	21.9	18.4	16.7	18.2
Loss on abandonment of fixed assets	2.4	-	0.4	-	-	-	-	-	-	-	-	-	-	-
Inventory write-downs	-	-	1.4	0.1	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	-	3.7	2.7	-	-	-	-	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(0.1)	(3.3)	(0.2)	1.8	(10.0)	(0.4)	(1.2)	0.4	(2.9)	(2.9)	0.1	0.1	0.3	0.1
Inventories	(2.1)	(14.5)	(7.9)	(10.8)	(2.3)	(323.3)	(0.2)	(88.6)	(62.5)	(69.7)	(340.4)	(56.2)	(67.5)	(89.8)
Prepaid expenses and other current assets	(1.9)	0.8	(2.0)	(0.8)	-	-	-	-	-	-	-	-	-	-
Other assets	(0.1)	0.0	(0.4)	(4.7)	-	-	-	-	-	-	-	-	-	-
Accounts payable	0.5	8.8	0.9	10.4	4.2	264.5	0.1	72.5	51.1	57.0	278.5	46.0	55.2	73.5
Accrued liabilities	7.6	2.6	3.4	(5.7)	1.5	6.2	14.4	18.8	21.7	24.4	37.7	40.2	42.9	46.9
Other long-term liabilities	-	1.2	2.2	(1.5)	-	-	-	-	-	-	-	-	-	-
Deferred development compensation	-	10.2	(10.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	(1.5)	(0.2)	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	15.2	10.7	(22.0)	1.2	3.7	(17.2)	(13.8)	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	**19.2**	**20.5**	**(37.5)**	**(10.5)**	**(2.9)**	**(70.2)**	**(0.7)**	**3.1**	**7.5**	**8.8**	**(24.1)**	**30.1**	**30.9**	**30.7**
Net Cash Flow from Operating Activities	**(53.5)**	**(52.4)**	**(80.8)**	**(138.1)**	**(188.5)**	**(159.6)**	**36.9**	**157.5**	**224.3**	**246.8**	**277.0**	**416.6**	**360.6**	**406.3**
Investing activities:														
Purchases of property and equipment excluding capital leases	(9.8)	(9.6)	(11.9)	(65.4)	(155.6)	(99.9)	(67.1)	(123.4)	(138.3)	(154.8)	(175.7)	(165.7)	(175.3)	(189.3)
Decrease (increase) in restricted cash	0.0	(1.0)	(2.4)	(3.9)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(9.8)**	**(10.6)**	**(14.2)**	**(69.3)**	**(155.6)**	**(99.9)**	**(67.1)**	**(123.4)**	**(138.3)**	**(154.8)**	**(175.7)**	**(165.7)**	**(175.3)**	**(189.3)**
Financing activities:														
Proceeds from issuance of convertible preferred stock, net of issuance	44.9	-	131.8	-	-	-	-	-	-	-	-	-	-	-
Proceeds from DOE Loan	-	-	-	102.4	176.6	158.6	-	(117.6)	(186.7)	(133.3)	-	-	-	-
Principal payments on capital leases and other debt	-	(0.2)	(0.3)	(0.2)	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible notes and warrants	-	54.8	25.5	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock	-	0.0	-	254.7	49.7	59.0	70.0	85.5	100.7	118.6	139.6	164.4	193.6	228.0
Proceeds from exercise of stock options	0.1	0.5	0.5	0.4	-	-	-	-	-	-	-	-	-	-
Deferred common stock and loan facility issuance costs	-	-	(2.0)	(1.6)	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by financing activities	**45.0**	**55.1**	**155.4**	**355.7**	**226.3**	**217.6**	**70.0**	**(32.1)**	**(86.0)**	**(14.7)**	**139.6**	**164.4**	**193.6**	**228.0**
Effect of Exchange Rate Changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Cash and Cash Equivalents	**(18.2)**	**(7.9)**	**60.4**	**148.2**	**(117.9)**	**(41.8)**	**39.9**	**2.0**	**(0.0)**	**77.3**	**240.9**	**415.3**	**379.0**	**445.0**
Cash and cash equivalents at beginning of the year	35.4	17.2	9.3	69.6	217.9	100.0	58.2	98.0	100.0	100.0	177.3	418.2	833.5	1,212.5
Cash and cash equivalents at end of year	**17.2**	**9.3**	**69.6**	**217.9**	**100.0**	**58.2**	**98.0**	**100.0**	**100.0**	**177.3**	**418.2**	**833.5**	**1,212.5**	**1,657.5**

Source: Company data, Morgan Stanley Research estimates

Exhibit 41

Bull Case Quarterly Income Statement

	2009E				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	28.2	31.9	33.3	37.5	37.3	39.7	40.9	213.6	251.7	251.7	465.4	465.4	504.7	489.7
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	22.6	25.5	25.4	27.9	27.3	28.7	29.6	184.8	219.8	219.8	358.1	358.1	384.0	374.1
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**5.6**	**6.4**	**7.9**	**9.6**	**10.0**	**11.0**	**11.3**	**28.8**	**31.9**	**31.9**	**107.3**	**107.3**	**120.7**	**115.7**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*19.8%*	*20.2%*	*23.8%*	*25.7%*	*26.8%*	*27.6%*	*27.6%*	*13.5%*	*12.7%*	*12.7%*	*23.1%*	*23.1%*	*23.9%*	*23.6%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.0	37.0	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	8.0	9.0	9.0	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	20.3	20.3	20.3	20.3
General and Administrative	6.6	8.2	10.7	16.6	7.2	8.7	9.0	8.0	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock-based Compensation	-	-	-	-	3.4	6.1	3.0	5.0	3.9	3.9	3.9	3.9	3.5	3.5	3.5	3.5	4.0	3.6	3.6	3.2
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**46.0**	**59.0**	**60.7**	**60.7**	**60.7**	**60.7**	**49.7**	**49.7**	**49.7**	**49.7**	**53.0**	**47.6**	**47.6**	**42.2**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(40.4)**	**(52.6)**	**(52.8)**	**(51.1)**	**(50.7)**	**(49.7)**	**(38.4)**	**(20.9)**	**(17.8)**	**(17.8)**	**54.3**	**59.7**	**73.1**	**73.5**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*11.7%*	*12.8%*	*14.5%*	*15.0%*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(35.1)**	**(44.9)**	**(46.5)**	**(43.7)**	**(42.9)**	**(40.7)**	**(27.7)**	**(8.7)**	**(4.8)**	**(4.5)**	**68.4**	**74.8**	**87.9**	**89.2**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*14.7%*	*16.1%*	*17.4%*	*18.2%*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.4)	(0.6)	(0.9)	(0.9)	(1.1)	(1.8)	(2.5)	(3.1)	(4.2)	(4.2)	(3.9)	(3.8)	(2.9)	(2.2)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**(0.4)**	**(0.6)**	**(0.9)**	**(0.9)**	**(1.1)**	**(1.8)**	**(2.5)**	**(3.1)**	**(4.2)**	**(4.2)**	**(3.9)**	**(3.8)**	**(2.9)**	**(2.2)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(40.8)**	**(53.1)**	**(53.6)**	**(52.0)**	**(51.8)**	**(51.6)**	**(40.9)**	**(24.0)**	**(22.1)**	**(22.1)**	**50.4**	**56.0**	**70.2**	**71.3**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*10.8%*	*12.0%*	*13.9%*	*14.6%*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(40.8)**	**(53.1)**	**(53.6)**	**(52.0)**	**(51.8)**	**(51.6)**	**(40.9)**	**(24.0)**	**(22.1)**	**(22.1)**	**50.4**	**56.0**	**70.2**	**71.3**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*10.8%*	*12.0%*	*13.9%*	*14.6%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(40.8)**	**(53.1)**	**(53.6)**	**(52.0)**	**(51.8)**	**(51.6)**	**(40.9)**	**(24.0)**	**(22.1)**	**(22.1)**	**50.4**	**56.0**	**70.2**	**71.3**
GAAP EPS							**($0.44)**	**($0.57)**	**($0.57)**	**($0.55)**	**($0.54)**	**($0.54)**	**($0.42)**	**($0.25)**	**($0.23)**	**($0.22)**	**$0.45**	**$0.50**	**$0.62**	**$0.63**
Adjusted EPS							**($0.41)**	**($0.53)**	**($0.54)**	**($0.52)**	**($0.51)**	**($0.50)**	**($0.40)**	**($0.22)**	**($0.20)**	**($0.20)**	**$0.48**	**$0.52**	**$0.65**	**$0.65**

Source: Company data, Morgan Stanley Research estimates

Exhibit 42

Bull Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	109.3	147.8	758.0	1,925.3	2,584.9	4,120.7	5,301.4	6,881.1	7,541.1	8,021.4	8,724.0
Cost of Revenue	0.0	15.9	102.4	87.2	109.3	654.1	1,474.3	1,948.1	3,163.5	4,045.1	5,232.7	5,724.2	6,103.0	6,665.1
Gross Profit	**0.1**	**(1.1)**	**9.5**	**22.2**	**38.5**	**103.9**	**451.0**	**636.9**	**957.2**	**1,256.3**	**1,648.4**	**1,816.9**	**1,918.4**	**2,058.9**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*20.3%*	*26.1%*	*13.7%*	*23.4%*	*24.6%*	*23.2%*	*23.7%*	*24.0%*	*24.1%*	*23.9%*	*23.6%*
Expenses														
Research and Development	62.7	53.6	19.3	90.1	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	32.0	44.0	61.0	81.0	90.5	144.2	185.5	240.8	263.9	280.7	305.3
General and Administrative	17.1	23.4	42.2	32.9	33.0	35.0	35.0	51.7	82.4	106.0	137.6	150.8	160.4	174.5
Stock-based Compensation	0.2	0.4	-	17.5	15.8	13.9	14.3	15.4	19.0	20.2	21.1	18.8	17.1	18.6
Total Expenses	**80.0**	**77.4**	**61.4**	**172.5**	**242.8**	**198.9**	**190.3**	**237.6**	**331.3**	**403.3**	**497.6**	**538.5**	**570.5**	**618.4**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(150.3)**	**(204.3)**	**(95.0)**	**260.7**	**399.2**	**625.9**	**853.0**	**1,150.8**	**1,278.4**	**1,347.9**	**1,440.5**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*13.5%*	*15.4%*	*15.2%*	*16.1%*	*16.7%*	*17.0%*	*16.8%*	*16.5%*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(123.3)**	**(173.8)**	**(45.6)**	**320.3**	**474.8**	**719.2**	**969.7**	**1,282.0**	**1,448.5**	**1,515.6**	**1,627.8**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*16.6%*	*18.4%*	*17.5%*	*18.3%*	*18.6%*	*19.2%*	*18.9%*	*18.7%*
Interest Expense, net	1.7	(3.2)	(2.4)	(1.6)	(4.8)	(14.0)	(12.8)	(5.1)	1.0	2.3	4.0	6.5	9.5	12.8
Other Income (Expense), net	0.1	(1.0)	(1.4)	(10.0)	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(11.5)**	**(4.8)**	**(14.0)**	**(12.8)**	**(5.1)**	**1.0**	**2.3**	**4.0**	**6.5**	**9.5**	**12.8**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(161.9)**	**(209.0)**	**(109.0)**	**247.9**	**394.2**	**626.9**	**855.2**	**1,154.8**	**1,284.9**	**1,357.4**	**1,453.3**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*12.9%*	*15.2%*	*15.2%*	*16.1%*	*16.8%*	*17.0%*	*16.9%*	*16.7%*
Taxes, GAAP	0.1	0.1	0.0	0.1	-	-	-	-	130.9	205.3	277.2	308.4	325.8	348.8
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.1**	**-**	**-**	**-**	**-**	**130.9**	**205.3**	**277.2**	**308.4**	**325.8**	**348.8**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*20.9%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(162.0)**	**(209.0)**	**(109.0)**	**247.9**	**394.2**	**496.0**	**650.0**	**877.7**	**976.5**	**1,031.6**	**1,104.5**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*12.9%*	*15.2%*	*12.0%*	*12.3%*	*12.8%*	*12.9%*	*12.9%*	*12.7%*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(162.0)**	**(209.0)**	**(109.0)**	**247.9**	**394.2**	**496.0**	**650.0**	**877.7**	**976.5**	**1,031.6**	**1,104.5**
GAAP EPS				**($1.73)**	**($2.19)**	**($1.12)**	**$2.21**	**$3.43**	**$4.22**	**$5.40**	**$7.12**	**$7.73**	**$7.98**	**$8.34**
Adjusted EPS				**($1.59)**	**($2.07)**	**($1.01)**	**$2.31**	**$3.53**	**$4.34**	**$5.52**	**$7.25**	**$7.85**	**$8.08**	**$8.45**

Source: Company data, Morgan Stanley Research estimates

Exhibit 43

Bull Case Annual Balance Sheet

	Fiscal Year													
$ millions	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	223.1	100.0	100.0	100.0	376.6	819.5	1,451.5	2,348.9	3,461.4	4,653.9	5,949.8
Accounts receivable, net	0.1	3.3	3.5	1.7	11.8	9.2	17.6	17.9	30.2	40.8	34.1	34.8	34.2	33.8
Inventories, net	2.1	16.7	23.2	33.2	34.4	262.8	447.3	587.1	953.4	1,215.7	1,577.0	1,725.1	1,839.3	2,003.2
Prepaid expenses and other current assets	2.9	2.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Current Assets	**22.3**	**31.4**	**100.6**	**263.0**	**151.2**	**377.0**	**569.9**	**986.6**	**1,808.1**	**2,713.0**	**3,965.0**	**5,226.4**	**6,532.3**	**7,991.8**
Property, Plant and Equipment, net	12.0	18.8	23.5	78.2	213.1	274.3	294.7	379.8	515.0	666.5	817.3	912.3	1,022.3	1,135.3
Restricted cash	0.3	1.2	3.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Other assets	0.3	0.3	2.8	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
Total Assets	**34.8**	**51.7**	**130.4**	**366.0**	**389.0**	**676.1**	**889.4**	**1,391.2**	**2,347.8**	**3,404.2**	**4,807.0**	**6,163.4**	**7,579.4**	**9,151.8**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	24.9	28.1	215.1	365.9	480.3	780.0	994.7	1,290.2	1,411.4	1,504.8	1,638.9
Accrued liabilities	8.5	11.1	14.5	8.8	10.3	17.9	37.1	63.0	104.2	157.2	226.0	301.4	381.6	468.9
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital lease obligations, current portion	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Refundable reservation payments	37.3	48.0	26.0	29.6	38.5	22.1	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**64.7**	**78.1**	**256.4**	**404.4**	**544.6**	**885.5**	**1,153.2**	**1,517.5**	**1,714.2**	**1,887.8**	**2,109.1**
Convertible preferred stock warrant liability	0.2	2.1	1.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Capital lease obligations, less current portion	0.0	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other long-term liabilities	-	4.8	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	102.4	255.5	400.4	133.5	-	-	-	-	-	-	-
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**123.2**	**276.3**	**421.2**	**154.3**	**20.8**	**20.8**	**20.8**	**20.8**	**20.8**	**20.8**	**20.8**
Total Liabilities	**152.7**	**251.4**	**383.9**	**187.9**	**354.4**	**677.6**	**558.7**	**565.4**	**906.3**	**1,174.0**	**1,538.3**	**1,734.9**	**1,908.5**	**2,129.9**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	4.3	5.2	7.1	581.9	647.4	720.3	804.5	905.5	1,025.2	1,164.0	1,324.7	1,508.0	1,718.7	1,965.3
Retained Earnings	(122.1)	(204.9)	(260.7)	(403.7)	(612.7)	(721.8)	(473.8)	(79.7)	416.3	1,066.3	1,944.0	2,920.5	3,952.2	5,056.7
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**178.1**	**34.6**	**(1.5)**	**330.7**	**825.8**	**1,441.6**	**2,230.3**	**3,268.7**	**4,428.5**	**5,670.9**	**7,022.0**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**366.0**	**389.0**	**676.1**	**889.4**	**1,391.2**	**2,347.8**	**3,404.2**	**4,807.0**	**6,163.4**	**7,579.4**	**9,151.8**

Source: Company data, Morgan Stanley Research estimates

Exhibit 44

Bull Case Annual Cash Flow Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Activities:														
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(162.0)**	**(209.0)**	**(109.0)**	**247.9**	**394.2**	**496.0**	**650.0**	**877.7**	**976.5**	**1,031.6**	**1,104.5**
Depreciation and Amortization	2.9	4.2	6.9	9.6	14.7	35.4	45.3	60.1	74.3	96.6	110.0	151.2	150.6	168.8
Change in fair value of convertible preferred stock warrant liability	(0.0)	2.8	1.1	9.1	-	-	-	-	-	-	-	-	-	-
Gain on extinguishment of convertible notes and warrants	-	(1.2)	(1.5)	-	-	-	-	-	-	-	-	-	-	-
Stock compensation expense	0.2	0.4	1.4	17.5	15.8	13.9	14.3	15.4	19.0	20.2	21.1	18.8	17.1	18.6
Loss on abandonment of fixed assets	2.4	-	0.4	-	-	-	-	-	-	-	-	-	-	-
Inventory write-downs	-	-	1.4	0.1	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	-	3.7	2.7	-	-	-	-	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(0.1)	(3.3)	(0.2)	1.8	(10.1)	2.7	(8.5)	(0.2)	(12.3)	(10.6)	6.7	(0.8)	0.6	0.4
Inventories	(2.1)	(14.5)	(7.9)	(10.2)	(1.1)	(228.5)	(184.4)	(139.8)	(366.3)	(262.4)	(361.2)	(148.1)	(114.1)	(163.9)
Prepaid expenses and other current assets	(1.9)	0.8	(2.0)	(0.8)	-	-	-	-	-	-	-	-	-	-
Other assets	(0.1)	0.0	(0.4)	(4.7)	-	-	-	-	-	-	-	-	-	-
Accounts payable	0.5	8.8	0.9	9.8	3.2	186.9	150.9	114.4	299.7	214.7	295.5	121.2	93.4	134.1
Accrued liabilities	7.6	2.6	3.4	(5.7)	1.5	7.6	19.3	25.8	41.2	53.0	68.8	75.4	80.2	87.2
Other long-term liabilities	-	1.2	2.2	(1.5)	-	-	-	-	-	-	-	-	-	-
Deferred development compensation	-	10.2	(10.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	(1.5)	(0.2)	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	15.2	10.7	(22.0)	3.6	8.8	(16.3)	(22.1)	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	**19.2**	**20.5**	**(37.5)**	**(8.0)**	**2.3**	**(47.6)**	**(44.9)**	**0.2**	**(37.7)**	**(5.3)**	**9.9**	**47.7**	**60.1**	**57.8**
Net Cash Flow from Operating Activities	**(53.5)**	**(52.4)**	**(80.8)**	**(133.7)**	**(176.3)**	**(107.3)**	**262.6**	**469.9**	**551.6**	**761.4**	**1,018.7**	**1,194.3**	**1,259.5**	**1,349.7**
Investing activities:														
Purchases of property and equipment excluding capital leases	(9.8)	(9.6)	(11.9)	(64.7)	(149.5)	(96.6)	(65.7)	(145.2)	(209.4)	(248.1)	(260.8)	(246.2)	(260.6)	(281.7)
Decrease (increase) in restricted cash	0.0	(1.0)	(2.4)	(3.9)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(9.8)**	**(10.6)**	**(14.2)**	**(68.6)**	**(149.5)**	**(96.6)**	**(65.7)**	**(145.2)**	**(209.4)**	**(248.1)**	**(260.8)**	**(246.2)**	**(260.6)**	**(281.7)**
Financing activities:														
Proceeds from issuance of convertible preferred stock, net of issuance	44.9	-	131.8	-	-	-	-	-	-	-	-	-	-	-
Proceeds from DOE Loan	-	-	-	102.4	153.1	144.9	(266.9)	(133.5)	-	-	-	-	-	-
Principal payments on capital leases and other debt	-	(0.2)	(0.3)	(0.2)	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible notes and warrants	-	54.8	25.5	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock	-	0.0	-	254.7	49.7	59.0	70.0	85.5	100.7	118.6	139.6	164.4	193.6	228.0
Proceeds from exercise of stock options	0.1	0.5	0.5	0.4	-	-	-	-	-	-	-	-	-	-
Deferred common stock and loan facility issuance costs	-	-	(2.0)	(1.6)	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by financing activities	**45.0**	**55.1**	**155.4**	**355.7**	**202.8**	**203.9**	**(196.9)**	**(48.0)**	**100.7**	**118.6**	**139.6**	**164.4**	**193.6**	**228.0**
Effect of Exchange Rate Changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Cash and Cash Equivalents	**(18.2)**	**(7.9)**	**60.4**	**153.4**	**(123.1)**	**(0.0)**	**(0.0)**	**276.6**	**442.9**	**631.9**	**897.5**	**1,112.5**	**1,192.5**	**1,295.9**
Cash and cash equivalents at beginning of the year	35.4	17.2	9.3	69.6	223.1	100.0	100.0	100.0	376.6	819.5	1,451.5	2,348.9	3,461.4	4,653.9
Cash and cash equivalents at end of year	**17.2**	**9.3**	**69.6**	**223.1**	**100.0**	**100.0**	**100.0**	**376.6**	**819.5**	**1,451.5**	**2,348.9**	**3,461.4**	**4,653.9**	**5,949.8**

Source: Company data, Morgan Stanley Research estimates

Exhibit 45

Bear Case Quarterly Income Statement

	2009E				2010E				2011E				2012E				2013E			
$ millions	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Total Revenues	20.9	26.9	45.5	18.6	20.8	28.4	25.6	29.3	30.9	35.3	35.3	37.7	27.7	27.9	27.1	189.0	143.2	145.0	103.4	99.7
Cost of Revenue	22.9	24.8	37.8	16.8	17.0	22.1	21.7	24.7	25.2	28.2	27.8	29.4	21.6	21.8	21.1	181.1	135.6	132.7	91.1	86.9
Gross Profit	**(2.0)**	**2.1**	**7.7**	**1.8**	**3.9**	**6.3**	**3.9**	**4.6**	**5.7**	**7.1**	**7.5**	**8.3**	**6.1**	**6.1**	**6.0**	**7.9**	**7.6**	**12.4**	**12.3**	**12.8**
Gross Profit Margin	*NM*	*7.8%*	*16.9%*	*9.6%*	*18.5%*	*22.2%*	*15.3%*	*15.6%*	*18.4%*	*20.2%*	*21.2%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*4.2%*	*5.3%*	*8.5%*	*11.9%*	*12.9%*
Expenses																				
Research and Development	7.9	1.9	1.3	8.1	13.3	14.9	25.0	37.0	37.5	37.5	37.5	37.5	22.3	22.3	22.3	22.3	20.0	15.0	15.0	10.0
Sales and Marketing	-	-	-	-	6.0	8.0	9.0	9.0	11.0	11.0	11.0	11.0	15.3	15.3	15.3	15.3	27.8	27.8	27.8	27.8
General and Administrative	6.6	8.2	10.7	16.6	7.2	8.7	9.0	8.0	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock-based Compensation	-	-	-	-	3.4	6.1	3.0	5.0	3.9	3.9	3.9	3.9	3.5	3.5	3.5	3.5	4.6	4.2	4.2	3.8
Total Expenses	**14.5**	**10.2**	**12.0**	**24.7**	**29.9**	**37.7**	**46.0**	**59.0**	**60.7**	**60.7**	**60.7**	**60.7**	**49.7**	**49.7**	**49.7**	**49.7**	**61.1**	**55.7**	**55.7**	**50.3**
Operating (Loss) Income	**(16.6)**	**(8.1)**	**(4.3)**	**(22.9)**	**(26.0)**	**(31.4)**	**(42.1)**	**(54.4)**	**(55.0)**	**(53.6)**	**(53.2)**	**(52.4)**	**(43.6)**	**(43.6)**	**(43.8)**	**(41.8)**	**(53.5)**	**(43.3)**	**(43.3)**	**(37.4)**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
EBITDA (excl. SBC)	**(16.6)**	**(8.1)**	**0.7**	**(21.0)**	**(20.5)**	**(22.8)**	**(36.8)**	**(47.2)**	**(48.7)**	**(46.2)**	**(45.4)**	**(43.5)**	**(33.1)**	**(31.7)**	**(30.6)**	**(27.4)**	**(37.8)**	**(26.0)**	**(25.8)**	**(20.3)**
EBITDA Margin	*NM*	*NM*	*1.6%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Interest Expense, net	(1.4)	(1.1)	0.0	0.0	(0.2)	(0.4)	(0.4)	(0.6)	(0.9)	(0.9)	(1.3)	(2.0)	(2.7)	(3.4)	(4.0)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)
Other Income (Expense), net	2.0	(1.7)	(0.6)	(1.1)	(3.2)	(6.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**0.6**	**(2.8)**	**(0.5)**	**(1.1)**	**(3.4)**	**(7.1)**	**(0.4)**	**(0.6)**	**(0.9)**	**(0.9)**	**(1.3)**	**(2.0)**	**(2.7)**	**(3.4)**	**(4.0)**	**(4.6)**	**(4.6)**	**(4.6)**	**(4.6)**	**(4.6)**
Pre-tax Income	**(16.0)**	**(10.9)**	**(4.8)**	**(24.0)**	**(29.4)**	**(38.5)**	**(42.5)**	**(55.0)**	**(55.9)**	**(54.5)**	**(54.5)**	**(54.4)**	**(46.4)**	**(47.0)**	**(47.8)**	**(46.4)**	**(58.1)**	**(47.9)**	**(47.9)**	**(42.1)**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Taxes, GAAP	0.0	0.0	(0.2)	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.0**	**0.0**	**(0.2)**	**0.2**	**0.1**	**0.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.0%)*	*(0.1%)*	*4.5%*	*(1.0%)*	*(0.4%)*	*(0.0%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(42.5)**	**(55.0)**	**(55.9)**	**(54.5)**	**(54.5)**	**(54.4)**	**(46.4)**	**(47.0)**	**(47.8)**	**(46.4)**	**(58.1)**	**(47.9)**	**(47.9)**	**(42.1)**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(16.0)**	**(10.9)**	**(4.6)**	**(24.2)**	**(29.5)**	**(38.5)**	**(42.5)**	**(55.0)**	**(55.9)**	**(54.5)**	**(54.5)**	**(54.4)**	**(46.4)**	**(47.0)**	**(47.8)**	**(46.4)**	**(58.1)**	**(47.9)**	**(47.9)**	**(42.1)**
GAAP EPS							**($0.46)**	**($0.59)**	**($0.59)**	**($0.57)**	**($0.57)**	**($0.57)**	**($0.48)**	**($0.48)**	**($0.49)**	**($0.47)**	**($0.59)**	**($0.48)**	**($0.48)**	**($0.42)**
Adjusted EPS							**($0.43)**	**($0.55)**	**($0.56)**	**($0.54)**	**($0.54)**	**($0.53)**	**($0.45)**	**($0.46)**	**($0.46)**	**($0.44)**	**($0.55)**	**($0.45)**	**($0.45)**	**($0.39)**

Source: Company data, Morgan Stanley Research estimates

Exhibit 46

Bear Case Annual Income Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Total Revenues	0.1	14.7	111.9	104.1	139.2	271.7	491.4	464.3	537.1	527.1	1,048.1	1,175.0	1,283.1	1,283.1
Cost of Revenue	0.0	15.9	102.4	85.5	110.6	245.6	446.2	385.1	440.7	443.8	894.3	996.3	1,094.0	1,094.0
Gross Profit	**0.1**	**(1.1)**	**9.5**	**18.6**	**28.6**	**26.1**	**45.2**	**79.2**	**96.5**	**83.3**	**153.8**	**178.8**	**189.1**	**189.1**
Gross Profit Margin	*87.7%*	*NM*	*8.5%*	*17.9%*	*20.5%*	*9.6%*	*9.2%*	*17.1%*	*18.0%*	*15.8%*	*14.7%*	*15.2%*	*14.7%*	*14.7%*
Expenses														
Research and Development	62.7	53.6	19.3	90.1	150.0	89.0	60.0	80.0	85.6	91.6	98.0	104.9	112.2	120.1
Sales and Marketing	-	-	-	32.0	44.0	61.0	111.0	37.1	43.0	42.2	83.8	94.0	102.6	102.6
General and Administrative	17.1	23.4	42.2	32.9	33.0	35.0	35.0	41.8	45.7	42.2	78.6	82.3	83.4	77.0
Stock-based Compensation	0.2	0.4	-	17.5	15.8	13.9	16.7	11.0	10.6	9.3	11.6	10.2	9.2	9.3
Total Expenses	**80.0**	**77.4**	**61.4**	**172.5**	**242.8**	**198.9**	**222.7**	**170.0**	**184.9**	**185.2**	**272.0**	**291.3**	**307.5**	**309.0**
Operating (Loss) Income	**(79.9)**	**(78.5)**	**(51.9)**	**(153.9)**	**(214.2)**	**(172.8)**	**(177.5)**	**(90.8)**	**(88.4)**	**(101.9)**	**(118.2)**	**(112.6)**	**(118.4)**	**(119.9)**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
EBITDA (excl. SBC)	**(76.8)**	**(73.9)**	**(45.0)**	**(127.2)**	**(183.9)**	**(122.8)**	**(109.8)**	**(18.7)**	**(21.2)**	**(43.3)**	**(61.9)**	**(48.0)**	**(60.3)**	**(58.8)**
EBITDA Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Interest Expense, net	1.7	(3.2)	(2.4)	(1.6)	(5.1)	(14.7)	(18.5)	(18.5)	(18.5)	(18.5)	(18.4)	(18.4)	(18.3)	(16.2)
Other Income (Expense), net	0.1	(1.0)	(1.4)	(10.0)	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**1.9**	**(4.2)**	**(3.8)**	**(11.5)**	**(5.1)**	**(14.7)**	**(18.5)**	**(18.5)**	**(18.5)**	**(18.5)**	**(18.4)**	**(18.4)**	**(18.3)**	**(16.2)**
Pre-tax Income	**(78.0)**	**(82.7)**	**(55.7)**	**(165.4)**	**(219.3)**	**(187.5)**	**(196.0)**	**(109.3)**	**(106.9)**	**(120.3)**	**(136.6)**	**(131.0)**	**(136.7)**	**(136.1)**
Pre-tax margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Taxes, GAAP	0.1	0.1	0.0	0.1	-	-	-	-	-	-	-	-	-	-
Tax Impact of One-Time Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes, Recurring	**0.1**	**0.1**	**0.0**	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effective Tax Rate	*(0.1%)*	*(0.1%)*	*(0.0%)*	*(0.1%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Recurring Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(165.5)**	**(219.3)**	**(187.5)**	**(196.0)**	**(109.3)**	**(106.9)**	**(120.3)**	**(136.6)**	**(131.0)**	**(136.7)**	**(136.1)**
Recurring NI Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges/Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(165.5)**	**(219.3)**	**(187.5)**	**(196.0)**	**(109.3)**	**(106.9)**	**(120.3)**	**(136.6)**	**(131.0)**	**(136.7)**	**(136.1)**
GAAP EPS				**($1.77)**	**($2.30)**	**($1.92)**	**($1.96)**	**($1.07)**	**($1.02)**	**($1.12)**	**($1.24)**	**($1.16)**	**($1.19)**	**($1.15)**
Adjusted EPS				**($1.63)**	**($2.17)**	**($1.81)**	**($1.83)**	**($0.99)**	**($0.94)**	**($1.05)**	**($1.16)**	**($1.09)**	**($1.12)**	**($1.09)**

Source: Company data, Morgan Stanley Research estimates

Exhibit 47

Bear Case Annual Balance Sheet

	Fiscal Year													
$ millions	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Current Assets														
Cash and cash equivalents	17.2	9.3	69.6	215.5	100.0	20.3	22.0	32.9	53.2	76.1	57.5	98.6	100.0	100.0
Accounts receivable, net	0.1	3.3	3.5	1.6	11.2	6.9	3.6	3.2	3.9	4.1	5.2	5.4	5.5	5.0
Inventories, net	2.1	16.7	23.2	32.2	35.1	216.5	103.9	116.1	132.8	133.4	269.5	300.2	329.7	328.8
Prepaid expenses and other current assets	2.9	2.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Current Assets	**22.3**	**31.4**	**100.6**	**254.3**	**151.4**	**248.7**	**134.5**	**157.1**	**194.9**	**218.5**	**337.2**	**409.3**	**440.2**	**438.8**
Property, Plant and Equipment, net	12.0	18.8	23.5	78.6	211.2	321.9	327.5	306.6	292.3	282.1	299.8	308.3	327.2	343.1
Restricted cash	0.3	1.2	3.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Other assets	0.3	0.3	2.8	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
Total Assets	**34.8**	**51.7**	**130.4**	**357.7**	**387.4**	**595.5**	**486.7**	**488.5**	**512.1**	**525.3**	**661.8**	**742.3**	**792.1**	**806.6**
Current Liabilities														
Accounts payable	5.4	14.2	15.1	24.2	28.8	177.2	85.0	95.0	108.7	109.1	220.5	245.7	269.8	269.0
Accrued liabilities	8.5	11.1	14.5	8.8	10.1	12.9	17.8	22.4	27.8	33.1	43.5	55.3	68.1	81.0
Deferred development compensation	-	10.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital lease obligations, current portion	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Refundable reservation payments	37.3	48.0	26.0	25.7	24.5	12.2	-	-	-	-	-	-	-	-
Total Current Liabilities	**51.3**	**87.9**	**57.5**	**59.9**	**64.7**	**203.5**	**104.1**	**118.7**	**137.7**	**143.5**	**265.3**	**302.2**	**339.2**	**351.3**
Convertible preferred stock warrant liability	0.2	2.1	1.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Capital lease obligations, less current portion	0.0	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Convertible notes payable	-	54.5	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, less current portion	-	-	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other long-term liabilities	-	4.8	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Convertible Preferred Stock	101.2	101.2	319.2	-	-	-	-	-	-	-	-	-	-	-
DOE Loan	-	-	-	102.4	281.1	465.0	465.0	465.0	465.0	465.0	465.0	465.0	411.7	313.0
Total Long-Term Liabilities	**101.4**	**163.5**	**326.5**	**123.2**	**301.9**	**485.8**	**485.8**	**485.8**	**485.8**	**485.8**	**485.8**	**485.8**	**432.5**	**333.7**
Total Liabilities	**152.7**	**251.4**	**383.9**	**183.1**	**366.6**	**689.3**	**589.9**	**604.5**	**623.5**	**629.3**	**751.1**	**788.0**	**771.7**	**685.0**
Stockholders' Equity														
Common stock	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	4.3	5.2	7.1	581.9	647.4	720.3	907.0	1,003.5	1,114.8	1,242.7	1,393.9	1,568.5	1,771.3	2,008.6
Retained Earnings	(122.1)	(204.9)	(260.7)	(407.3)	(626.6)	(814.1)	(1,010.1)	(1,119.4)	(1,226.3)	(1,346.6)	(1,483.2)	(1,614.2)	(1,750.9)	(1,887.0)
Accumulated other comprehensive loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**(117.8)**	**(199.7)**	**(253.5)**	**174.6**	**20.8**	**(93.8)**	**(103.1)**	**(115.9)**	**(111.5)**	**(103.9)**	**(89.3)**	**(45.7)**	**20.4**	**121.6**
Total Liabilities and Stockholders' Equity	**34.8**	**51.7**	**130.4**	**357.7**	**387.4**	**595.5**	**486.7**	**488.5**	**512.1**	**525.3**	**661.8**	**742.3**	**792.1**	**806.6**

Source: Company data, Morgan Stanley Research estimates

Exhibit 48

Bear Case Annual Cash Flow Statement

	Fiscal Year													
$ millions	**2007A**	**2008A**	**2009A**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Activities:														
Net Income	**(78.2)**	**(82.8)**	**(55.7)**	**(165.5)**	**(219.3)**	**(187.5)**	**(196.0)**	**(109.3)**	**(106.9)**	**(120.3)**	**(136.6)**	**(131.0)**	**(136.7)**	**(136.1)**
Depreciation and Amortization	2.9	4.2	6.9	9.2	14.5	36.1	51.0	61.1	56.5	49.3	44.7	54.4	48.8	51.8
Change in fair value of convertible preferred stock warrant liability	(0.0)	2.8	1.1	9.1	-	-	-	-	-	-	-	-	-	-
Gain on extinguishment of convertible notes and warrants	-	(1.2)	(1.5)	-	-	-	-	-	-	-	-	-	-	-
Stock compensation expense	0.2	0.4	1.4	17.5	15.8	13.9	16.7	11.0	10.6	9.3	11.6	10.2	9.2	9.3
Loss on abandonment of fixed assets	2.4	-	0.4	-	-	-	-	-	-	-	-	-	-	-
Inventory write-downs	-	-	1.4	0.1	-	-	-	-	-	-	-	-	-	-
Interest on convertible notes	-	3.7	2.7	-	-	-	-	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(0.1)	(3.3)	(0.2)	1.9	(9.6)	4.3	3.3	0.4	(0.7)	(0.1)	(1.1)	(0.2)	(0.0)	0.5
Inventories	(2.1)	(14.5)	(7.9)	(9.2)	(2.9)	(181.4)	112.6	(12.2)	(16.7)	(0.6)	(136.1)	(30.7)	(29.5)	0.9
Prepaid expenses and other current assets	(1.9)	0.8	(2.0)	(0.8)	-	-	-	-	-	-	-	-	-	-
Other assets	(0.1)	0.0	(0.4)	(4.7)	-	-	-	-	-	-	-	-	-	-
Accounts payable	0.5	8.8	0.9	9.1	4.6	148.4	(92.1)	10.0	13.7	0.5	111.4	25.2	24.1	(0.7)
Accrued liabilities	7.6	2.6	3.4	(5.8)	1.4	2.7	4.9	4.6	5.4	5.3	10.5	11.8	12.8	12.8
Other long-term liabilities	-	1.2	2.2	(1.5)	-	-	-	-	-	-	-	-	-	-
Deferred development compensation	-	10.2	(10.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	4.1	(1.5)	(0.2)	-	-	-	-	-	-	-	-	-	-
Refundable reservation payments	15.2	10.7	(22.0)	(0.4)	(1.1)	(12.3)	(12.2)	-	-	-	-	-	-	-
Changes in Current Assets and Liabilities	**19.2**	**20.5**	**(37.5)**	**(11.6)**	**(7.7)**	**(38.2)**	**16.5**	**2.8**	**1.6**	**5.0**	**(15.4)**	**5.9**	**7.4**	**13.5**
Net Cash Flow from Operating Activities	**(53.5)**	**(52.4)**	**(80.8)**	**(141.3)**	**(196.7)**	**(175.7)**	**(111.8)**	**(34.4)**	**(38.1)**	**(56.7)**	**(95.7)**	**(60.5)**	**(71.2)**	**(61.5)**
Investing activities:														
Purchases of property and equipment excluding capital leases	(9.8)	(9.6)	(11.9)	(64.7)	(147.2)	(146.8)	(56.6)	(40.2)	(42.2)	(39.0)	(62.4)	(62.9)	(67.7)	(67.7)
Decrease (increase) in restricted cash	0.0	(1.0)	(2.4)	(3.9)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(9.8)**	**(10.6)**	**(14.2)**	**(68.6)**	**(147.2)**	**(146.8)**	**(56.6)**	**(40.2)**	**(42.2)**	**(39.0)**	**(62.4)**	**(62.9)**	**(67.7)**	**(67.7)**
Financing activities:														
Proceeds from issuance of convertible preferred stock, net of issuance	44.9	-	131.8	-	-	-	-	-	-	-	-	-	-	-
Proceeds from DOE Loan	-	-	-	102.4	178.7	183.9	-	-	-	-	-	-	(53.3)	(98.8)
Principal payments on capital leases and other debt	-	(0.2)	(0.3)	(0.2)	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible notes and warrants	-	54.8	25.5	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock	-	0.0	-	254.7	49.7	59.0	170.0	85.5	100.7	118.6	139.6	164.4	193.6	228.0
Proceeds from exercise of stock options	0.1	0.5	0.5	0.4	-	-	-	-	-	-	-	-	-	-
Deferred common stock and loan facility issuance costs	-	-	(2.0)	(1.6)	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by financing activities	**45.0**	**55.1**	**155.4**	**355.7**	**228.4**	**242.9**	**170.0**	**85.5**	**100.7**	**118.6**	**139.6**	**164.4**	**140.3**	**129.2**
Effect of Exchange Rate Changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Cash and Cash Equivalents	**(18.2)**	**(7.9)**	**60.4**	**145.9**	**(115.5)**	**(79.7)**	**1.6**	**10.9**	**20.4**	**22.8**	**(18.5)**	**41.1**	**1.4**	**0.0**
Cash and cash equivalents at beginning of the year	35.4	17.2	9.3	69.6	215.5	100.0	20.3	22.0	32.9	53.2	76.1	57.5	98.6	100.0
Cash and cash equivalents at end of year	**17.2**	**9.3**	**69.6**	**215.5**	**100.0**	**20.3**	**22.0**	**32.9**	**53.2**	**76.1**	**57.5**	**98.6**	**100.0**	**100.0**

Source: Company data, Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of July 31, 2010)

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Total	**2,594**		**865**		

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Industry Coverage:Clean Tech

Company (Ticker)	Rating (as of)	Price* (08/06/2010)
Joshua Paradise		
Tesla Motors Inc. (TSLA.O)	E (08/09/2010)	$19.59
Energy Conversion Devices, Inc (ENER.O)	U (03/24/2010)	$5.24
Smittipon Srethapramote		
Evergreen Solar Inc (ESLR.O)	E (03/24/2010)	$.7
First Solar Inc. (FSLR.O)	O (03/24/2010)	$129.34

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* Historical prices are not split adjusted.

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6-August-2010

Tesla Motors (TSLA)

Manufactures high-performance electric vehicles and powertrain components.

Investment Rating: Marketperform

Pricing Update

Stock Data *(in mil, except per share)*

Current Price (6-Aug-2010)	$19.75
Shares Outstanding	103.6
Market Capitalization	$2,047.0
Enterprise Value	$1,911.7

IPO Data

Offer Date	6/28/2010
Offer Price	$17.00
Price Range	$14.00 - $16.00
Shares Offered (% insider)	13.3 (10%)
Deal Size	$226.1
Use of Proceeds	Capex

IPO Underwriters *(*bookrunner)*

Goldman, Sachs & Co.*	Morgan Stanley*
J.P. Morgan*	Deutsche Bank Securities*

Key Financial Data *($ in mil)*

Income Model				*FY Ended Dec*
	2009A	**2010E**	**2011E**	**2012E**
Sales	$111.9	$113.2	$126.0	$610.0
EBITDA	-43.5	-90.8	-99.1	7.6
Net Income	-55.7	-133.5	-161.0	-83.5
EPS	**-0.72**	**-1.37**	**-1.55**	**-0.80**
Gross %	9%	21%	21%	23%
EBITDA %	-39%	-80%	-79%	1%

Balance Sheet	*As of 3/31/10 (adj.)*
Cash	$169.5
Total Assets	253.3
Total Debt	46.4
Shareholders' Equity	229.2

Corporate Data

Employees	680
Year Founded	2003
Headquarters	Palo Alto, CA
Phone Number	(650) 413-4000
Web Address	www.teslamotors.com

Rating Analysis — Very Weak / Neutral / Very Strong

Long-Term

- Company Fundamentals
- Corporate Governance

Short-Term

- Relative Valuation
- Technical Strength

Tesla zooms off the line in strong debut; remains on track for 2012 sedan launch. Tesla Motors raised $226 million in its upsized IPO by offering 13.3 million shares at $17, above its $14 to $16 range. The company sold 20% more shares than originally anticipated and filled the overallotment. Heavy media coverage and investor interest in this intriguing growth story drove a 41% first day return on high volume, although the stock has since settled in the $20 range. Following the IPO, the company announced a strategic agreement with Toyota in July and reiterated its mid-2012 target for the Model S launch on its 2Q earnings call.

Valuation hinges on a successful Model S debut. We focused our valuation analysis on an absolute approach given Tesla's lack of close comparables and the growth inflection point associated with the 2012 Model S launch. Looking out to 2014, our DCF analysis suggests that annual production of 20,000 Model S units supports a valuation in the $14-$16 range, without any contribution from future model rollouts. For investors that believe this sales target is conservative, an annual production assumption of roughly 30,000 units implies a fair value just above $30.

Initiate coverage at marketperform. Though the successful launch of the Roadster provides proof-of-concept and valuable brand cachet, Tesla faces substantial execution risk as it burns roughly $650 million to get its luxury sedan to production. Multiple major auto firms plan to launch competing electric vehicles by 2011 and Tesla's integrated sales model is untested at scale. Given the early stage of the business, we are disappointed by the insider selling and the fact that the CEO splits time with other companies. That said, our DCF suggests that the valuation is not unreasonable if management can reach its sales targets for the Model S, and we are encouraged to see the traction its technology has gained with strategic partners (and investors) Daimler and Toyota. At its core, however, this deal remains a bet that Tesla can evolve into a legitimate player in the global automotive marketplace.

Bull Insights

- Planned launch of mainstream models creates massive addressable market
- Roadster sales and development agreements validate powertrain technology
- $465 million in low interest DOE loans provide balance sheet flexibility
- Raised more than $300 million from investors including Daimler and VCs

Bear Insights

- Highly unprofitable and expects cash burn to accelerate into sedan launch
- Multiple major auto manufacturers plan to launch competing EVs by 2011
- CEO sold on the IPO and will split time with other companies
- Relies on government subsidies and widespread EV acceptance is uncertain

Company Fundamentals — Rating: Weak

Overview:

Backed by PayPal co-founder Elon Musk and a host of big-name investors, Tesla Motors was the first company to commercially produce a highway-capable, fully-electric vehicle (EV). With access to $465 million in low-interest loans from the US Dept. of Energy, Tesla recently acquired a production facility on the cheap and seeks to leverage its proprietary electric powertrain technology to produce a line of mainstream EVs, starting with the launch of its Model S luxury sedan in 2012. Initially targeting a 1% share of the global premium sedan market, the company plans to use a common powertrain platform to support a diversified line of vehicles.

Rating Rationale:

Tesla's successful commercialization of its high-performance Roadster provides proof-of-concept for its on-the-come mass market products and helped build the company's brand without a significant marketing investment. Though a low interest loan from the DOE will help offset cash burn, the company faces substantial execution risk in launching its luxury sedan, which will be manufactured at a much larger scale and faces uncertain demand in a nascent end market. Additionally, multiple major auto firms plan to roll out competing EVs by 2011.

Business:

Designs and manufactures high-performance fully electric vehicles (88%) and advanced EV powertrain components (12%). Its two-seat convertible Roadster, introduced in late 2008, is the first and currently only federally-compliant, highway capable EV produced at commercial scale. Has sold over 1,200 Roadsters to customers in 28 countries, primarily in the US and Europe (int'l sales are 56%). Roadster has a lithium ion battery pack with capacity of 53 kwh and a range of 236 miles on a single charge. Base price is $109,000 before $7,500 federal tax credit. Model S is a four-door, five-passenger luxury sedan with range options between 160-300 miles and a base price of $57,400 before federal tax credits; the company has already received 2,800 refundable reservations with commercial production slated for 2012. Vehicles can recharge in 7 hours on a household appliance outlet (40 amp/240 volt) or 4.5 hours on a specially-installed 70 amp/240 volt high power connection. Sells and services vehicles directly via a network of 13 major market stores (<5,000 sq. ft.); plans to increase network to 50 stores in coordination with the Model S launch. Currently, Roadster body and chassis are manufactured at a Lotus-owned facility in England. In May 2010, purchased an existing production facility in CA from a Toyota/GM joint venture for $42 million; targets initial annual production of 20,000 Model S units and capacity can be increased to 50,000 with minimal capex. Is transitioning its powertrain component manufacturing to its Palo Alto facility. Has been approved for $465 million in DOE loans, which will cover 80% of eligible costs for manufacturing build-out. Plans to roll out a suite of EVs over time, including a lower price point model (~$30k) in 2014 or later. Holds 14 patents and 97 applications.

Competition:

The launch of the Model S will put Tesla in the global premium sedan market (2 million vehicles in 2008). Existing luxury sedan competitors include Audi, BMW, Lexus and Mercedes. Nissan, BYD Auto, Ford and GM all plan to introduce competing plug-in vehicles by the end of 2011. Other well-financed emerging EV vendors include Fisker, Coda, Wrightspeed and eWolf.

Key Issues:

Is highly unprofitable and expects cash burn to accelerate as it invests in R&D, manufacturing capacity and new Tesla stores. Does not expect to reach operating breakeven until it begins significant deliveries of the Model S in 2012, at the earliest. Electric vehicle demand is subject to quality/safety concerns, grid capacity and reliability, availability of government incentives and developments in competing technologies (e.g. internal combustion, fuel cells, ethanol, CNG). Currently has a drivable early prototype of the Model S, but faces significant hurdles to commercialization including finalized design, component sourcing, safety testing and manufacturing plant build-out. Experienced an eight month delay in launching the Tesla Roadster and could experience similar delays for the Model S. Sales & service model is unproven and may result in slower expansion than a franchising strategy. Anticipates that IPO and private placement proceeds, plus cash on hand and DOE loan ($689 million) will fund operations for only 24 months.

Income Statement Data

FY Dec ($ in mil)	2007	2008	2009
Sales	$0.1	$14.7	$111.9
Gross Margin	87.7%	-7.7%	8.5%
EBITDA Margin	--	-501.4%	-38.9%
Operating Margin	--	-532.5%	-46.4%
Net Margin	--	-561.5%	-49.8%
Cash Flow Data			
CFFO	-$53.5	-$52.4	-$80.8
Less: Capex	9.8	10.6	11.9
Free Cash Flow	-63.3	-63.0	-92.7
Additional Data			
Roadsters Sold	--	107	830
ASP (in $k)	--	$105	$125
Roadster revenue	--	$11.2	$103.7

Latest Results and Outlook

Recent Financial Trends:

For the three months ended June 2010, sales grew 5% despite a 23% decline in Roadster volume, which was more than offset by a 24% improvement in Roadster ASP and the commencement of development revenues from Daimler ($4.4 million). Gross margin improved to 22%, compared with 8% in the 2Q09, as a result of Roadster component cost reductions and the timing of costs related to the Daimler development agreement. However, cash operating losses expanded sharply as a result of continued investments in R&D and SG&A headcount and cash flow from operations fell to -$18 million.

In July, the company announced an agreement with Toyota to develop an electric powertrain for the RAV4 and expects to begin recognizing development revenues in the 2H10. The company provided guidance for full year revenues in the range of $100-$115 million.

Outlook:

Tesla's fortunes are closely tied to the development and rollout of its second generation Model S sedan, and with the support of up to $465 million in low-interest loans from the government, the company plans to invest heavily in its newly acquired production facility. Leading up to the 2012 sedan launch, Tesla should continue to generate revenue from the sale of roughly 600 Roadsters per year (~$100 million) in addition to increasing component and development business from Daimler and Toyota. Nonetheless, the company will continue to incur significant operating losses due to ramping R&D and SG&A expense, and will borrow heavily under its DOE loan to fund expected capex of $100-$125 million in 2010, followed by an estimated $250 million in 2011.

Assuming Model S deliveries begin by mid 2012, we currently expect EBITDA to reach breakeven in 2012 on sales of 10,000 units at an expected ASP of roughly $60,000 (~$600 million). However, Tesla expects existing sources of funding to dry up within 24 months, and we assume it adds $200 million in debt in 2012 to offset continuing cash burn. At targeted production levels in 2013 (20,000 units), the company could generate revenue of $1.5 billion, EBITDA of $175 million and EPS of $0.63. That said, we note that a 10,000 unit swing in our volume assumption causes EPS to rise (fall) to approximately $2.00 (breakeven). Management's long-term operating model calls for gross margins of 25% and operating margins ranging from 12-16%, though our model falls at the lower end of this range (11%), owing to expected competitive forces. The company plans to launch additional models in 2014 or later (van, cabriolet, SUV), which would materially expand its addressable market and could support $4-$5 billion in annual sales or greater.

Interim Results - *3 months ended*

($ in mil)	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Sales	$26.9	$45.5	$18.6	$20.8	$28.4
Gross Profit	2.1	7.7	1.8	3.9	6.3
EBITDA	-6.2	-2.1	-20.0	-20.5	-22.8
Operating Income	-8.1	-4.3	-22.9	-26.0	-31.4
Net Income	-10.9	-4.6	-24.2	-29.5	-38.5
EPS	**-0.14**	**-0.06**	**-0.31**	**-0.38**	**-0.37**
Margins					
Gross Margin	7.8%	16.9%	9.6%	18.5%	22.0%
Operating Margin	-30.0%	-9.4%	-123.4%	-124.9%	-110.4%
Net Margin	-40.3%	-10.1%	-130.4%	-141.8%	-135.6%
Cash Flow Data					
Operating Income	-8.1	-4.3	-22.9	-26.0	-31.4
Plus: D&A/Non-Cash	1.8	2.2	2.9	5.5	8.6
EBITDA	-6.2	-2.1	-20.0	-20.5	-22.8
CFFO	-12.2	-23.5	-29.0	-27.3	-17.9
Less: Capex	2.5	2.3	6.2	5.5	9.2
Free Cash Flow	-14.7	-25.7	-35.2	-32.8	-27.1
Additional Data					
Tesla Roadsters Sold	200	324	124	126	141
ASP (in $k)	$127	$127	$143	$159	$158
Roadster revenue	$25.4	$41.0	$17.7	$20.1	$22.2

Balance Sheet Data	Actual	Actual	Post IPO
($ in mil)	3/31/10	6/30/10	6/30/10
Cash	$77.0	$47.3	$181.6
Total Assets	160.8	148.0	382.3
Total Debt	46.4	46.4	46.4
Shareholders' Equity	44.2	26.2	260.5

Corporate Governance — Rating: Weak

Tesla has raised nearly $320 million since 2003 from its CEO, key development partner Daimler and a group of reputable venture backers. Additionally, Toyota invested $50 million at the IPO price in a concurrent private placement and has announced its intention to cooperate with the company on the development of EVs. Prior to December 2009, CEO Elon Musk did not receive any compensation for his services (he currently only accepts $1 in salary) and half of his December 2009 option grant ($24 million fair value) vests based on development milestones for the Model S sedan. That said, we cannot overlook the fact that the CEO will split time as he continues to serve as CEO/Chairman of Space Exploration Technologies and Chairman of SolarCity. Several insiders sold on the offering and overallotment, including the CEO and key venture backer VantagePoint; while small on an absolute basis, we find it inappropriate given the early stage of Tesla's business. Finally, only one of eight directors is independent by our standards.

Key Executive	Age	Position	Corporate Background
Elon Musk	38	Chairman & CEO	Co-founder. Chairman since 2004 and CEO since Oct. 2008. He also serves as the CEO and Chairman of advanced rocket producer Space Exploration Technologies (since 2002) and Chairman of solar installation company SolarCity (since 2006). Co-founded PayPal, which was acquired by eBay in 2002 ($1.5 billion) and enterprise software and services firm Zip2, which was acquired by Compaq in 1999.
Deepak Ahuja	47	CFO	Since July 2008. Served in multiple roles at Ford from August 1993 to July 2008, including Vehicle Line Controller of Small Cars Product Development (2006-2008) and CFO for Ford of Southern Africa (2003-2006).
Jeffrey Straubel	34	CTO	Since May 2005. Previously served as Principal Engineer, Drive Systems from March 2004 to May 2005. Earlier, was CTO and co-founder of aerospace firm Volacom.

Key Shareholder	Holdings	Additional Details
Elon Musk	28.5%	Co-founder. Has invested $48.4 million in preferred stock and convertible notes since 2007 at an average cost basis of just over $1 per share. Includes 1.2 million options at a strike price of $6.63. Sold 5% of his holdings ($24 million) on the IPO.
Daimler	8.0%	Invested $57.5 million in 2009 at an average cost basis of roughly $7.50. Holds one board seat.
Abu Dhabi Government	7.8%	Invested $65 million in 2009 at a cost basis of $8.91. Holds one board seat.
VantagePoint Venture Partners	6.6%	San Bruno, CA-based VC firm. Invested $10.6 million since 2007 at an average cost basis of roughly $7.50. Sold 13% of its holdings ($16 million) on the IPO and overallotment.
Valor Equity Partners	5.2%	Chicago-IL based middle-market PE firm. Invested $10.8 million since 2007 at an average cost basis of $3.25 per share. Holds one board seat.
Toyota	3.2%	Invested $50 million at the IPO price in a concurrent private placement.
Draper Fisher	3.0%	Has one board seat. Invested in May 2006.

Relative Valuation

Rating: Neutral

We focused our valuation analysis on an absolute approach given Tesla's lack of close comparables and the growth inflection point associated with the 2012 Model S launch. Looking out to 2014, our DCF analysis suggests that annual production of 20,000 Model S units supports a valuation in the mid teens, without any contribution from future model rollouts. For investors that believe this sales target is conservative, an annual production assumption of roughly 30,000 units implies a fair value just above $30.

Valuation Methods

	DCF – 28,000 units	DCF – 20,000 units
Methodology	30x 2014 Net	25x 2014 Net
Implied Value	$30.58	$14.51
Upside/Downside	+56%	-26%

View DCF Model at www.ipointelligence.com/iporesearch/

Comparable Financial Analysis

IPO and Key Peers	*Sales (US$)*	*GM*	*EBITDA*	*EBIT*	*Net*	*ROE*	*ROIC*	*Debt-to-Cap*	*Sales 2010E*	*Sales 2011E*	*Sales 2012E*	*'10-'12 CAGR*
Tesla Motors	**$113**	**17.3%**	**-57.7%**	**-74.6%**	**-85.5%**	**-54.0%**	**-19.4%**	**15.1%**	**$113**	**$126**	**$610**	**132%**
A123 Systems	$96	-13.0%	-86.9%	-107.0%	-106.7%	-15.5%	-5.0%	3.8%	$135	$286	$657	119%
China Bak Battery	$217	14.6%	3.5%	-3.0%	-11.8%	2.4%	5.5%	53.6%	$236	$310	$400	30%
Advanced Battery Tech	$72	45.5%	32.2%	27.3%	40.8%	0.0%	18.9%	0.0%	$103	$150	$185	34%
Ener1	$46	10.2%	-107.2%	-125.8%	-134.0%	-18.5%	-6.4%	18.9%	$92	$231	$319	87%
Enersys	$1,579	22.9%	10.8%	7.9%	3.9%	14.6%	12.7%	30.9%	$1,789	$1,943	$2,084	8%
BYD Auto	$5,829	21.7%	16.8%	12.3%	9.6%	32.4%	26.9%	16.1%	$9,271	$11,547	$13,887	22%
Nissan	$87,594	18.2%	12.9%	4.1%	0.6%	9.0%	8.3%	55.2%	$94,579	$101,682	$108,146	7%
Ford	$129,207	12.8%	7.5%	2.6%	5.1%	-144.7%	5.5%	104.3%	$114,017	$123,041	$127,198	6%
Toyota	$220,822	12.0%	8.2%	0.8%	1.1%	6.4%	4.8%	53.4%	$224,967	$236,237	$253,211	6%
Group Average		**16.1%**	**-11.3%**	**-20.1%**	**-21.3%**	**-12.7%**	**7.9%**	**37.4%**	**$49,465**	**$52,825**	**$56,232**	**35%**

Note: All dollars are in millions. All financial metrics are based on LTM data; return metrics are based on forward estimates.

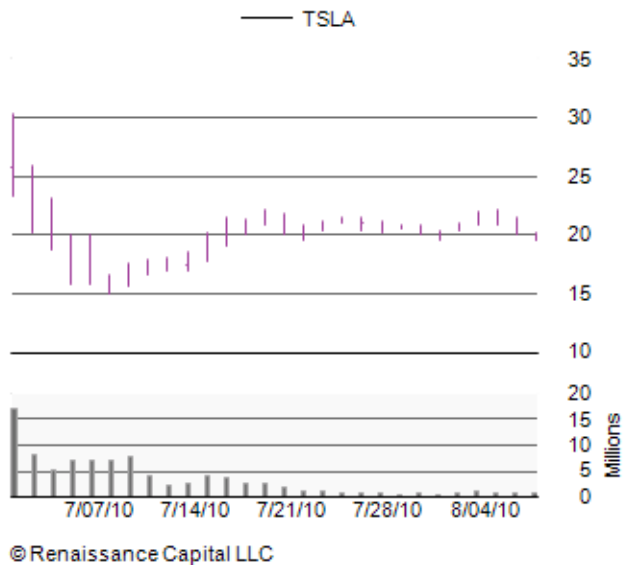
Comparable Valuation Analysis

IPO and Key Peers	*Ticker*	*Price*	*Market Value*	*Enterprise Value*	*EV/Sales* 2010	*EV/Sales* 2011	*EV/Sales* 2012	*EV-to-EBITDA* 2010	*EV-to-EBITDA* 2011	*EV-to-EBITDA* 2012	*LT Growth*	*P/B*
Tesla Motors	**TSLA**	**$19.59**	**$2,029**	**$1,894**	**16.7x**	**15.0x**	**3.1x**	**--**	**--**	**249.8x**	**50%**	**7.8x**
A123 Systems	AONE	$10.68	$1,103	$713	5.3x	2.5x	1.1x	--	--	18.7x	35%	2.2x
China Bak Battery	CBAK	$1.62	$102	$261	1.1x	0.8x	0.7x	10.1x	7.7x	6.0x	30%	0.6x
Advanced Battery Tech	ABAT	$3.52	$242	$186	1.8x	1.2x	1.0x	6.1x	4.2x	3.4x	30%	1.7x
Ener1	HEV	$3.32	$451	$478	5.2x	2.1x	1.5x	--	--	--	50%	2.9x
Enersys	ENS	$24.20	$1,165	$1,315	0.7x	0.7x	0.6x	6.4x	5.5x	4.9x	16%	1.5x
BYD Auto	1211 HK	HK$52.05	$14,374	$14,572	1.8x	1.4x	1.2x	11.9x	9.7x	8.2x	40%	5.1x
Nissan	7201 JP	¥669.00	$32,411	$67,338	0.7x	0.7x	0.6x	6.4x	6.0x	5.2x	14%	0.9x
Ford	F	$13.04	$54,038	$137,904	1.2x	1.1x	1.1x	13.4x	12.0x	10.9x	14%	-9.9x
Toyota	7203 JP	¥3,115.00	$113,827	$209,779	0.9x	0.9x	0.8x	11.6x	9.7x	8.4x	14%	0.9x
Group Average (battery OEMs)*					**2.7x**	**1.5x**	**1.0x**	**8.6x**	**6.8x**	**8.2x**	**33%**	**2.3x**
Group Average (auto OEMs)					**0.9x**	**0.8x**	**0.8x**	**8.6x**	**7.5x**	**6.6x**	**17%**	**1.2x**

*Note: All dollars are in millions except for per share amounts. * Includes AONE, CBAK, ABAT, HEV, ENS, and BYD Auto.*

Technical Strength — Rating: Strong

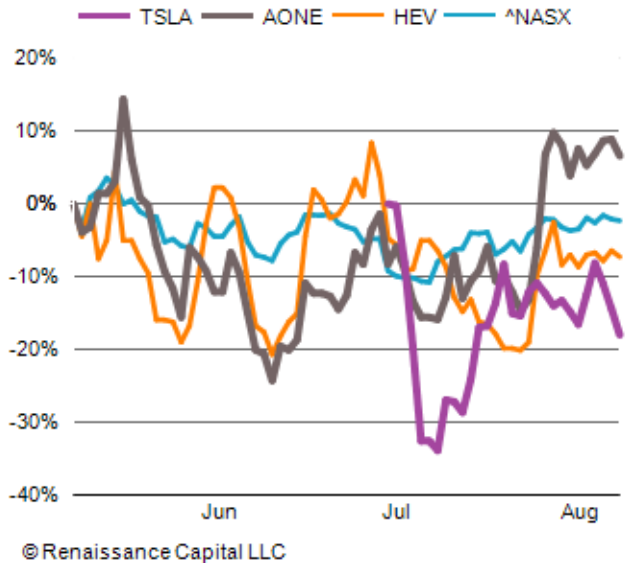
Stock Performance of IPO and its Peer Group
TSLA



IPO Performance Data

First Day	41%
Aftermarket	-18%
Total Return	15%
Quiet Period Release	8/8/2010
Lock-up Release	12/25/2010
Days to Lock-Up Release	141
Shares Available for Sale	77,814,390
Percent of Total Shares Outstanding	75%

TSLA vs Key Publicly-Traded Peers vs Index



Publicly - Traded Peer Group

Key Peers	*Ticker*	*Stock Price*	*1-Mo. Return*	*3-Mo. Return*	*YTD Return*
Tesla Motors	**TSLA**	**$19.59**	**15%**	**15%***	**15%***
A123 Systems	AONE	$10.68	26%	7%	-52%
China Bak Battery Inc	CBAK	$1.62	-3%	-13%	-42%
Advanced Battery Technologie	ABAT	$3.52	15%	14%	-12%
Ener1 Inc	HEV	$3.32	-2%	-7%	-48%
Enersys	ENS	$24.20	15%	2%	11%
Byd Co Ltd-H	1211 HK	HK$52.05	-8%	-22%	-24%
Ford Motor Co	F	$13.04	28%	11%	30%
Indexes					
Nasdaq Composite Index	CCMP	2,261.80	1%	-6%	0%
S&P 500 Index	SPX	1,095.31	1%	-6%	-2%
FTSE Renaissance IPO Index	IPOS	214.97	3%	-4%	-1%

*Stock prices as of 08/06/10. *Return from IPO.*

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Outperform	20%
Marketperform	74.9%
Underperform	5.1%

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