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TESLA MOTORS INC. (TSLA)**BUY - \$24.63**

APPLIED TECHNOLOGIES

PLEASE 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	Price	\$24.63
Mar		-0.35A	-0.39	-0.40	12-Month Target	\$30.00
Jun		-0.28A	-0.44	-0.38	52-Week Range	\$14.98-\$30.41
Sep		-0.38A	-0.46	-0.53	Diluted Shares ('000)	97,800
Dec		<u>-0.42</u>	<u>-0.39</u>	<u>-0.48</u>	Market Cap ('000)	\$2,408,814
FY		-1.61	-1.53	-1.79	Avg. Daily Vol	741,838
EBITDA	(\$44,957)	(\$112,600)	(\$116,199)	(\$112,480)	3-5 Yr. Revenue Growth	20%+
					3-5 Yr. EPS Growth	20%+
					Book Value	\$1.89
Revs (\$'000)					Net Cash/Share*	\$2.55
Mar	\$20,886	\$20,812A	\$31,338	\$27,778	LT Debt / Total Capital	23%
Jun	\$26,945	\$28,405A	\$35,190	\$26,238	Insider Ownership	57%
Sep	\$45,527	\$31,241A	\$37,479	\$25,743	Est. Q4 Reporting Date	Feb '11
Dec	<u>\$18,585</u>	<u>\$32,678</u>	<u>\$30,908</u>	<u>\$22,863</u>		
FY	\$111,943	\$113,136	\$134,915	\$102,622		
Mkt Cap/Rev	22x	21x	18x	23x		

*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.

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:

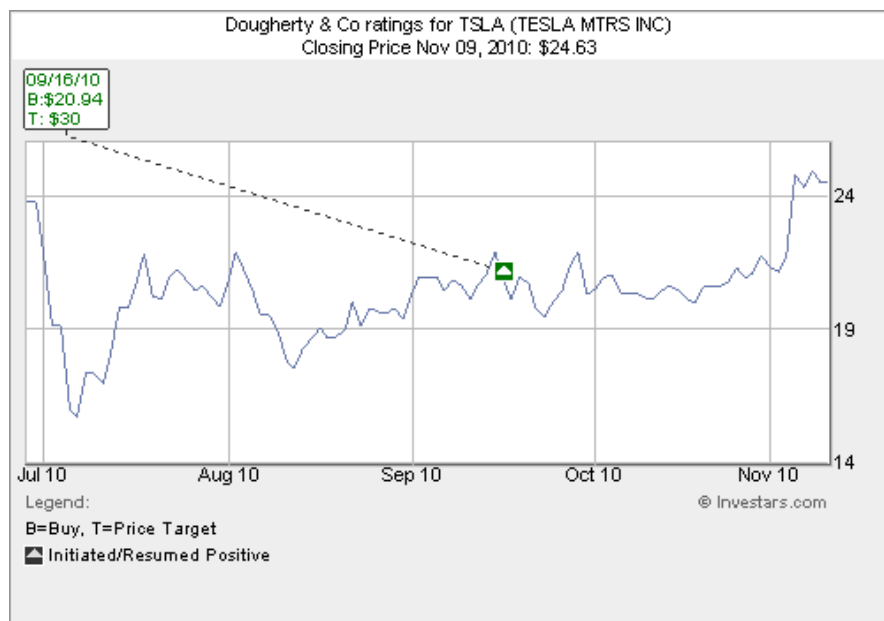
Risks that could prevent Tesla (TSLA) shares from achieving our price target include:

- 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%		29.0%	69.0%	-59.2%	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								12.0%	36.5%	10.0%	4.6%			12.3%	6.5%	-17.5%		-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 svcs	-	-	-	-	-	-	-	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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