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TESLA MOTORS INC. (TSLA)**BUY - \$26.69**

APPLIED TECHNOLOGIES

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

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.

	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

Investment Risks:

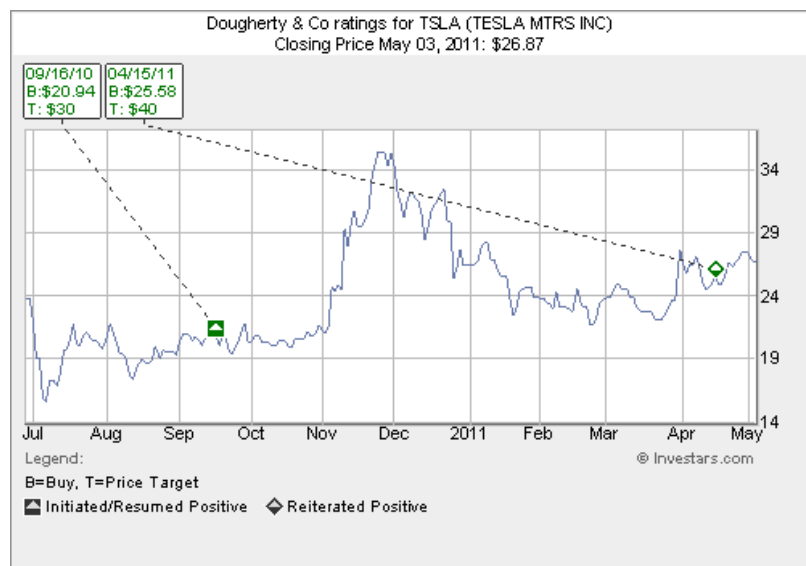
Risks that could prevent Tesla (TSLA) shares from achieving our price target include:

- **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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TESLA	Actual												Estimated												Model S Begins				
	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 QOQ		20095%		29.0%	69.0%	-59.2%	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%	694.0%	184%	753.5%	1176.0%	236.6%	26.6%	239%		
Auto Sales	73	14,742	20,886	26,945	45,527	18,585	111,943	20,585	23,971	23,360	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 svcs	-	-	-	-	-	-	-	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	13,965	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)	(577)	(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																				
GoQ 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		
GoQ 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)	(60,775)	(60,794)	(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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