

10 November 2010

Tesla Motors

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

Remains On Track

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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

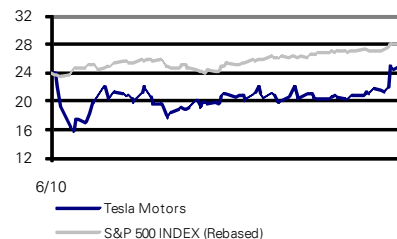
Source: Deutsche Bank estimates, company data

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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Model updated: 10 November 2010

Running the numbers**North America****United States****Autos & Auto Parts****Tesla Motors**

Reuters: TSLA.OQ

Bloomberg: TSLA UN

Hold

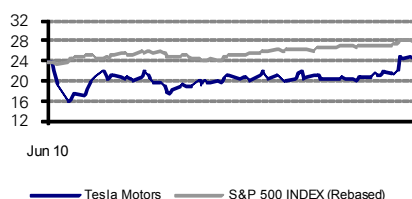
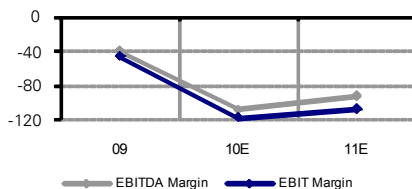
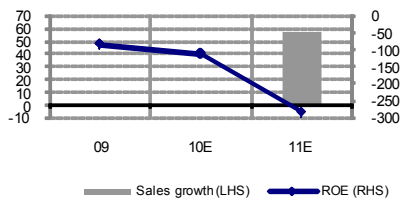
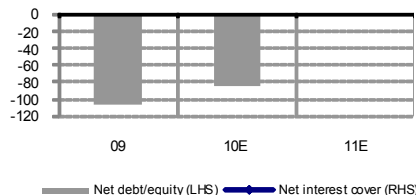
Price (9 Nov 10) USD 24.63

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 electric 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

Financial Summary

	2009	2010E	2011E
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%
Interest Inc / (Exp)	(0.2)	20.7%												
Other gain / (loss)	(0.9)	(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)
		(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 Amortizati	\$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.

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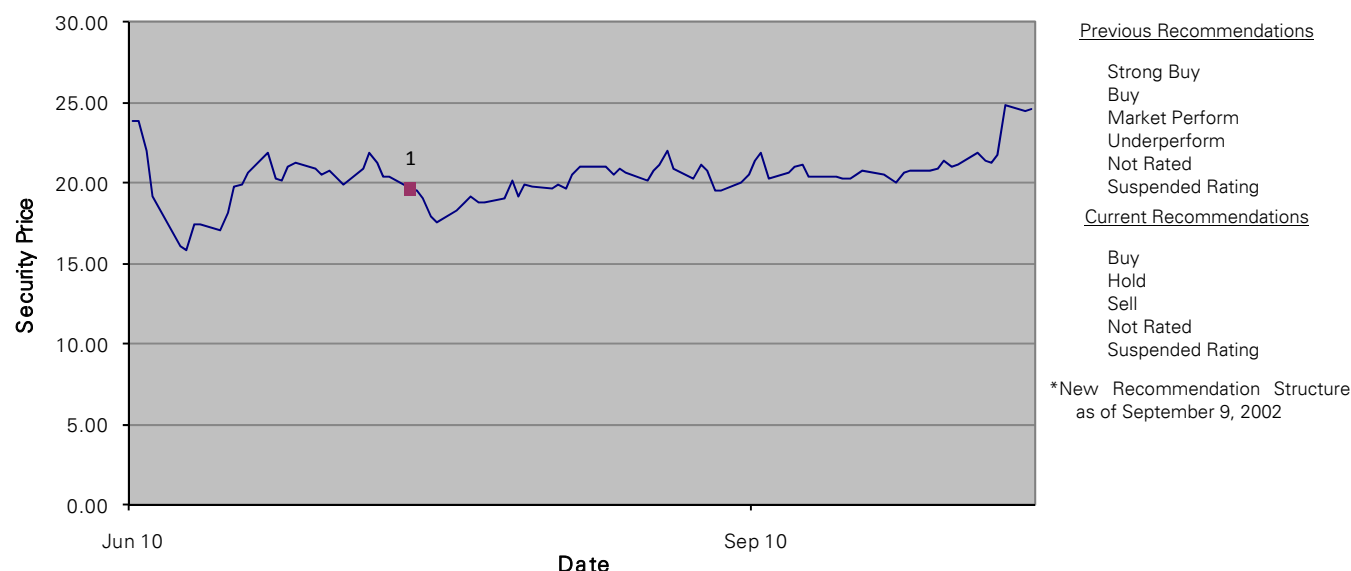
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Historical recommendations and target price: Tesla Motors (TSLA.OQ)

(as of 11/9/2010)



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

Equity rating key**Equity rating dispersion and banking relationships**

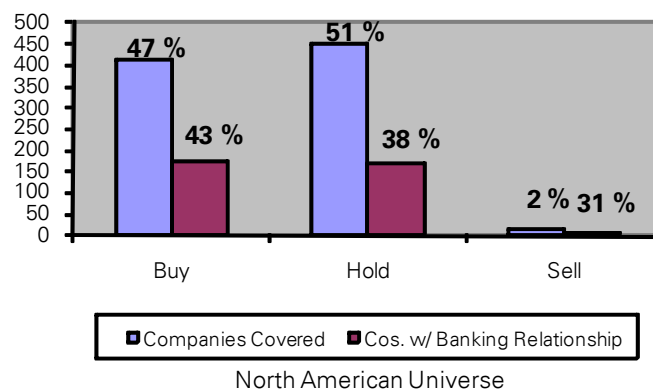
Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

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 - 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



Regulatory Disclosures

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