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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*

<u>EPS</u>	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	Price	\$20.75
Mar		-0.35A	-0.37	-0.38	12-Month Target	\$30.00
Jun		-0.28A	-0.42	-0.36	52-Week Range	\$14.98-\$30.41
Sep		-0.30	-0.44	-0.50	Diluted Shares ('000)	101,000
Dec		-0.34	-0.37	-0.45	Market Cap ('000)	\$2,095,750
FY		-1.44	-1.36	-1.69	Avg. Daily Vol	741,838
EBITDA	(\$44,957)	(\$101,844)	(\$121,475)	(\$121,757)	3-5 Yr. Revenue Growth	20%+
					3-5 Yr. EPS Growth	20%+
Revs (\$'000)					Book Value	\$1.82
Mar	\$20,886	\$20,812A	\$30,327	\$26,727	Net Cash/Share*	\$1.87
Jun	\$26,945	\$28,405A	\$34,169	\$25,176	LT Debt / Total Capital	20%
Sep	\$45,527	\$27,904	\$36,449	\$24,670	Insider Ownership	57%
Dec	\$18,585	\$31,677	\$29,867	\$21,780	Est. Q3 Reporting Date	Nov'10
FY	\$111,943	\$108,799	\$130,812	\$98,352		
Mkt Cap/Rev	19x	19x	16x	21x		

*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.

Investment Risks:

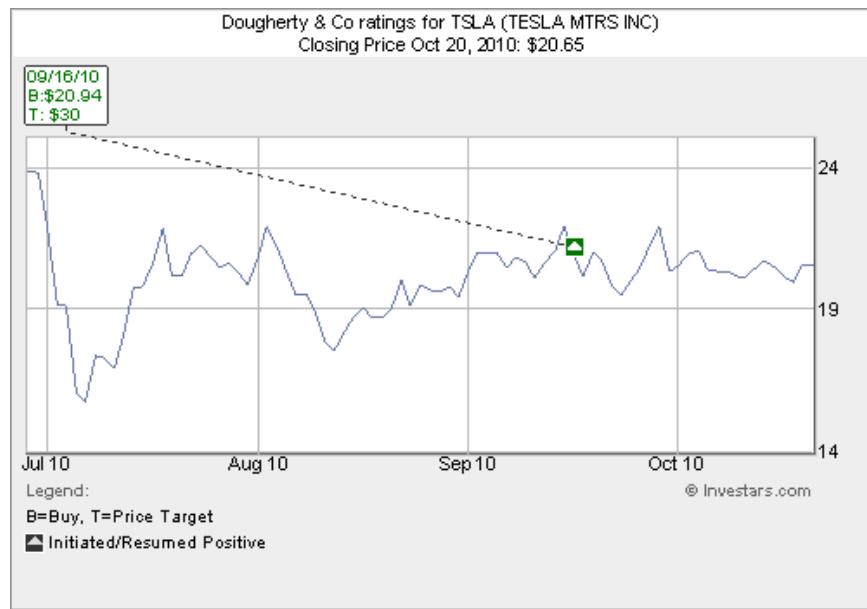
Risks that could prevent Tesla (TSLA) shares from achieving our price target include:

- **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 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 svcs	-	-	-	-	-	-	-	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	6,807	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)	(2,862)	(665)	(665)	(665)	(665)	(2,862)
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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