

Morgan Stanley & Co. Incorporated **Joshua Paradise**  
Joshua.Paradise@morganstanley.com  
+1 (1)212 761 4014

**Ravi Shanker**  
Ravi.Shanker@morganstanley.com  
+1 (1)212 761 6350

**Smittipon Srethapramote**  
**Timothy Radcliff**

August 9, 2010

Stock Rating  
**Equal-weight**

Industry View  
**In-Line**

## 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
<b>ModelWare EPS (\$)</b>	<b>(0.60)</b>	<b>(1.75)</b>	<b>(2.27)</b>	<b>(1.43)</b>
EPS (\$)**	(0.60)	(1.61)	(2.14)	(1.32)
<b>Consensus EPS (\$)\$</b>	-	-	-	-
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

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

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

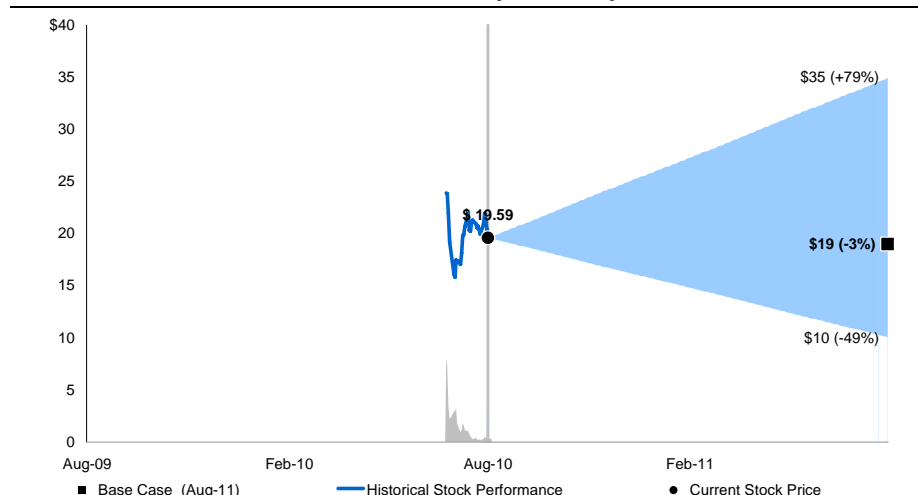
## Table of Contents

<b>Risk-Reward Snapshot: Tesla Motors (TSLA, \$19.59, Equal-weight)</b>	<b>3</b>
<b>Summary and Overview</b>	<b>4</b>
<p>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.</p> <ul style="list-style-type: none"> <li>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.</li> <li>High volumes could also drive upside. Even relatively expensive cars sell well above Tesla's volume forecast.</li> <li>OEM partnerships could drive volumes and value.</li> <li>Competitive dynamics heighten uncertainty. Tesla sells the only highway-capable EV, but that is about to change.</li> <li>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.</li> <li>The stock looks fairly valued today.</li> </ul>	
<b>Investment Debates Summary</b>	<b>6</b>
<b>Debate 1: What Will Tesla's Margins Be?</b>	<b>7</b>
<p>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.</p> <ul style="list-style-type: none"> <li>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.</li> </ul>	
<b>Debate 2: Volumes: Is 20,000 Model S Units Per Year Doable?</b>	<b>11</b>
<p>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.</p> <ul style="list-style-type: none"> <li>Competition in alternative fuel vehicles is increasing.</li> <li>What influences adoption of electric vehicles, and how will the Model S compete?</li> </ul>	
<b>Debate 3: Will Other OEMs Partner with Tesla?</b>	<b>15</b>
<p>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.</p> <ul style="list-style-type: none"> <li>We think Tesla offers 3 things that others don't.</li> <li>What are Daimler and Toyota getting?</li> <li>How much is it worth to Tesla's valuation?</li> </ul>	
<b>Seven Factors In Combination Could Drive the Stock to \$100</b>	<b>17</b>
<b>Valuation</b>	<b>20</b>
<b>Appendix: Company Overview</b>	<b>25</b>
<b>Appendix: Financial Models</b>	<b>31</b>

August 9, 2010  
Tesla Motors Inc.

## 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.

<b>Bull Case</b>	2014e sales = \$2.5 billion 2014e EBITDA = \$475 million	<b>The future of the auto industry.</b> 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.
<b>Base Case</b>	2014e sales = \$1.9 billion 2014e EBITDA = \$172 million	<b>Solid execution and EV demand.</b> 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.
<b>Bear Case</b>	2014e sales = \$464 million 2014e EBITDA = \$(19 million)	<b>Delays, cost overruns, lower demand.</b> 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
<b>Gross Margin</b>	<b>2012</b>	9.6%	11.8%	13.7%
	<b>2013</b>	9.2%	14.9%	23.4%
	<b>2014</b>	17.1%	20.9%	24.6%
<b>EBIT Margin</b>	<b>2012</b>	(63.6%)	(20.2%)	(12.5%)
	<b>2013</b>	(36.1%)	(0.6%)	13.5%
	<b>2014</b>	(19.6%)	4.8%	15.4%
<b>Model S Volumes</b>	<b>2012</b>	2,000	5,500	7,000
	<b>2013</b>	5,000	15,000	20,000
	<b>2014</b>	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.

August 9, 2010  
Tesla Motors Inc.

## 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%
<b>Total</b>	<b>5.6%</b>	<b>11.4%</b>	<b>17.3%</b>

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
<b>Debate 1:</b> <b>What will Tesla's margins be?</b>	<b>Tesla will hit its long-term 13–15% EBIT margin target</b> due to proprietary technology, efficient manufacturing, and ownership of distribution.	<p><b>Our base case EBIT margin forecast is 5–8%, though significant upside is possible.</b> 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.</p> <p>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.</p> <p>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.</p>
<b>Debate 2:</b> <b>Volumes: Is 20,000 per year doable?</b>	<b>Demand is not an issue.</b> 20,000 Model S units per year is in the bag.	<p><b>We think 20,000 units by 2014 is a reasonable estimate, but the potential range is wide.</b> 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:</p> <ul style="list-style-type: none"> <li>• 20K units = 0.70% of 2014e global luxury sedan sales, based on IHS Global Insight's forecast.</li> <li>• Best-in-class models such as the BMW 5-series, Audi A6, and Mercedes E-Class all sell more than 200,000 units/year.</li> <li>• Tesla already has 2,800 Model S reservations.</li> <li>• The Model S prototype and specs are impressive.</li> </ul>
<b>Debate 3:</b> <b>Will other OEMs partner with Tesla?</b>	<b>Uncertain.</b> Large partnerships are not priced into the stock.	<p><b>They probably will, and larger volumes would drive value.</b> 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.</p> <p>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.</p>
<b>Debate 4:</b> <b>What takes the stock to \$100?</b>	<b>We're not there... yet.</b>	<p><b>Right place, right time, right team.</b> 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:</p> <ol style="list-style-type: none"> <li>1) Additional OEM contracts</li> <li>2) Government subsidies for EVs and EV infrastructure</li> <li>3) Fleet sales</li> <li>4) Leasing</li> <li>5) Faster model extensions</li> <li>6) Advanced batteries extend range and lowers costs</li> <li>7) Higher oil prices</li> </ol>

August 9, 2010  
Tesla Motors Inc.

## 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%.

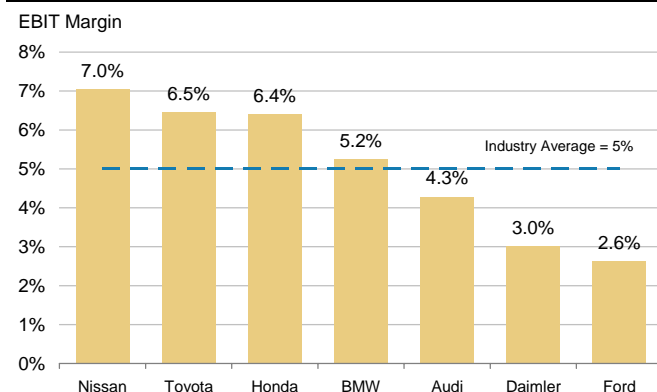
**Margins above our forecast drive the shares toward our bull case.** If Tesla earns 14% EBIT margins starting in 2015, our DCF valuation would increase by 150%, to \$28 per share. Tesla is not set up like a traditional auto company — they will own their distribution, they have no pension obligations, 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%	1.3%
Max	11.0%	11.0%	10.3%	9.4%	8.8%	5.9%	3.7%
Min	(5.1%)	2.3%	2.4%	2.7%	(5.1%)	4.7%	(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%
<b>Operating Margin</b>	<b>13-15%</b>

Source: Tesla Motors Corp.

August 9, 2010  
Tesla Motors Inc.

## 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%
<b>Total</b>	<b>5.6%</b>	<b>11.4%</b>	<b>17.3%</b>

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<sup>1</sup>, 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.

#### 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

<sup>1</sup> Connecticut, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island, and Vermont.



August 9, 2010  
Tesla Motors Inc.

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.

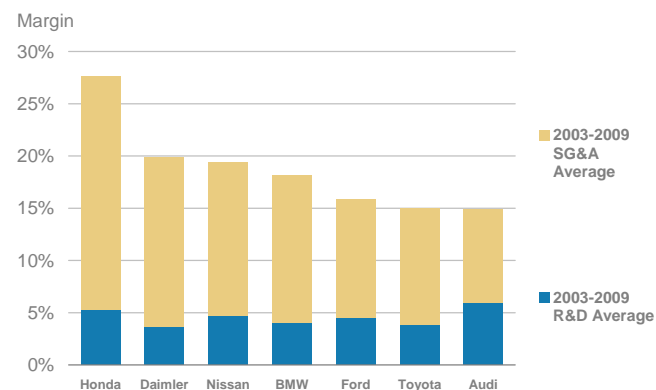
The Model S waiting list is already up to 2,800, and we think demand could outstrip supply for at least 12–18 months after launch. Long term, however, we expect supply will catch up, and we doubt Tesla will be able to sell all of its production without any rebates or incentives.

## 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.

August 9, 2010  
Tesla Motors Inc.

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%
<b>Total Car Sales</b>	<b>\$150.00</b>
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%
<b>Total Dealer Revenues</b>	<b>\$175.50</b>
<b>Total Dealer EBIT</b>	<b>\$1.50</b>
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%
<b>EBIT</b>	<b>\$6.30</b>
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%
<b>EBIT</b>	<b>\$6.51</b>	<b>(\$6.97)</b>	<b>(\$0.45)</b>
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

### Valuation Sensitivity to Volumes

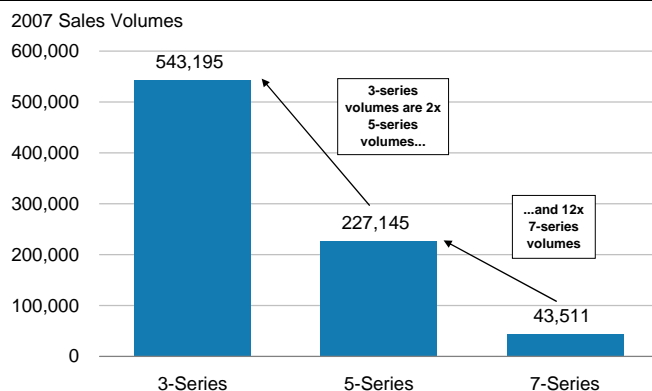
Quantifying the impact of volumes on value is difficult, because higher volumes will also likely lead to higher margins. Our bull case value is nearly double our base case, driven by higher volumes and higher margins.

	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

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.

Exhibit 12

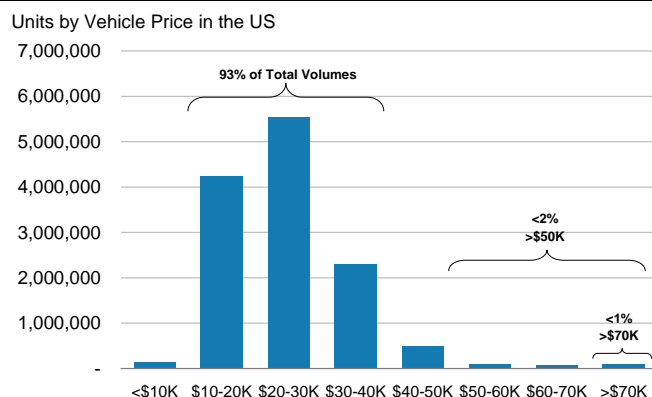
**Price Is the Major Determinant of Volume, Even in the Luxury Market...**  
Volumes for BMW 3-, 5-, and 7-series



Source: IHS Global Insight

Exhibit 13

**...and Cars Over \$50K Are Only 2% of US Sales**



Source: Global Insight, Morgan Stanley Research

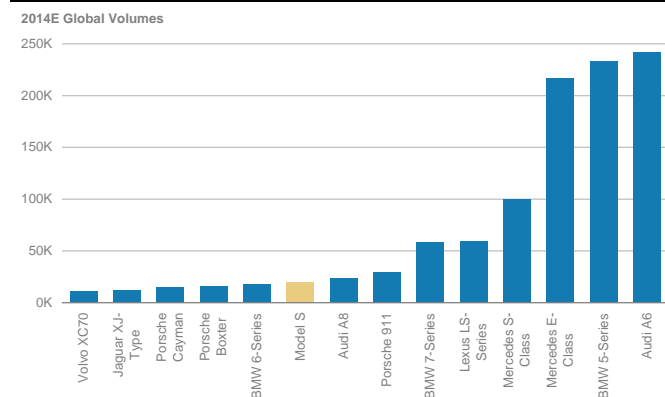
**...but even relatively expensive cars sell well.** Although they are a small percentage of the market, cars over \$50,000 still sell over 250,000 units per year in the US. IHS Global Insight forecasts that luxury sedans in the "E1" and "E2" segments will sell nearly 3 million units in 2014, which means Tesla would need to capture less than 1% of the addressable market to sell 20,000 units.

August 9, 2010  
Tesla Motors Inc.

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

<b>2014E Total Vehicle Sales</b>		<b>89,900,000</b>
E1 - Mid Range Luxury Sedans	2.8%	2,489,562
E2 - Top Luxury Sedans	0.5%	424,906
<b>Luxury Sedans</b>	<b>3.2%</b>	<b>2,914,468</b>
<b>Tesla Model S (% of luxury sedans)</b>	<b>0.69%</b>	<b>20,000</b>

Source: IHS Global Insight, Company data, Morgan Stanley Research

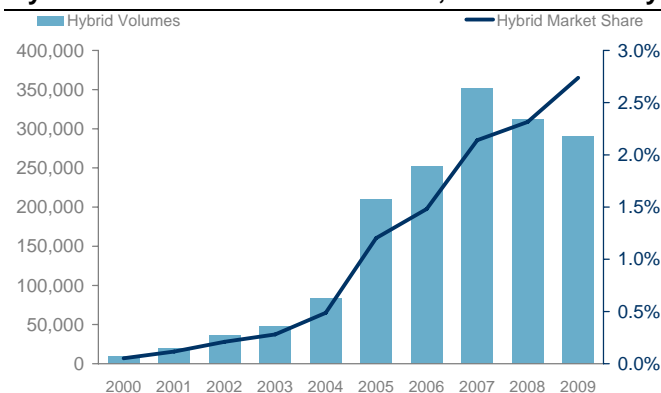
**Customers may be reluctant to try a new brand or a new technology...** Hybrid sales now account for 3% of the US market, but it took several years to exceed 20,000 units. Tesla is asking customers to take two risks: one on the technology, and a second on the brand, which has a short operating history. 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.

August 9, 2010  
Tesla Motors Inc.

Exhibit 17

## Implications of Model S Pre-Order Ranges

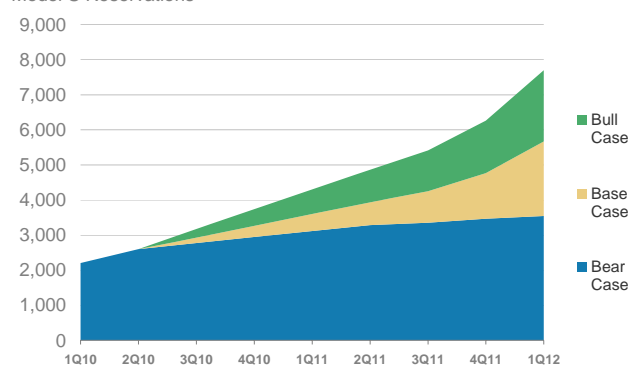
Reservations by Jan 1, 2012	Our Take
<4,000	<b>We're concerned.</b> Tesla would have added only 1,200 net reservations over two years (2010–11)
7,500 (Our bull case in 1Q12)	<b>Provides strong support for launch.</b> Gets the product into the market and results in ~35,000 test drives (assuming every new owner takes five friends on test drives).
>15,000	<b>Entire first year is pre-sold.</b> 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

Model S Reservations



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/>



August 9, 2010  
Tesla Motors Inc.

## 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

August 9, 2010  
Tesla Motors Inc.

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
<b>Total Upside from Current Price</b>	<b>\$32</b>	<b>\$80</b>
Current Share Price	\$20	\$20
<b>Potential Share Price</b>	<b>\$52</b>	<b>\$100</b>

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.

<b>Potential valuation impact</b>	<b>\$5–10</b>
-----------------------------------	---------------

**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.

<b>Potential valuation impact</b>	<b>\$5–10</b>
-----------------------------------	---------------

**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.

<b>Potential valuation impact</b>	<b>\$2–4</b>
-----------------------------------	--------------

**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.

<b>Potential valuation impact</b>	<b>\$2–6</b>
-----------------------------------	--------------

August 9, 2010  
Tesla Motors Inc.

**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**

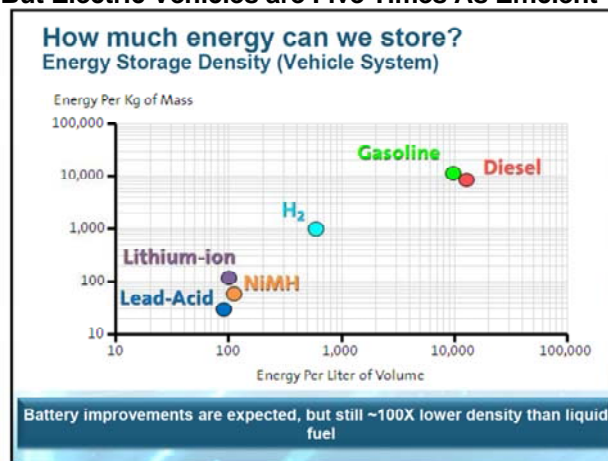
**6. Advanced battery technologies.** According to DOE estimates, batteries for electric vehicles cost \$500–1,000/kWh, down from \$1,300–2,000 in 2007. The Roadster has a 53kWh battery, implying a \$26,000–53,000 cost, although Tesla’s use of generic form factors lowers the actual cost. The larger Model 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**

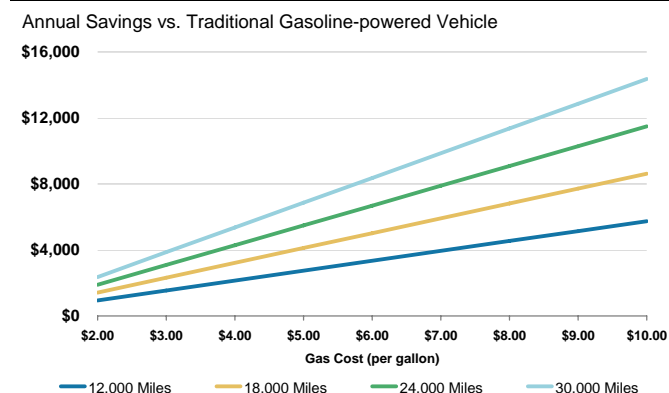
August 9, 2010  
Tesla Motors Inc.

**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
<b>Operating Income</b>	<b>89.5</b>	<b>519.6</b>	<b>939.0</b>	<b>1,141.7</b>
EBITDA	139.7	586.2	1,050.7	1,269.6
Recurring Net Income	75.8	514.0	719.1	869.8
<b>Adjusted EPS</b>	<b>\$0.85</b>	<b>\$4.82</b>	<b>\$6.73</b>	<b>\$7.92</b>
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
<b>Total Current Assets</b>	<b>624.6</b>	<b>866.8</b>	<b>2,049.5</b>	<b>3,117.7</b>
PP&E	283.2	335.4	429.1	540.1
<b>Total Assets</b>	<b>932.6</b>	<b>1,226.9</b>	<b>2,503.4</b>	<b>3,682.6</b>
Current Liabilities	435.4	445.9	889.7	1,073.3
DOE Loan	306.0	-	-	-
<b>Total Liabilities</b>	<b>762.2</b>	<b>466.7</b>	<b>910.5</b>	<b>1,094.1</b>
<b>Total Equity</b>	<b>170.4</b>	<b>760.2</b>	<b>1,592.9</b>	<b>2,588.5</b>
<b>Total Liabilities &amp; Equity</b>	<b>932.6</b>	<b>1,226.9</b>	<b>2,503.4</b>	<b>3,682.6</b>

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.

August 9, 2010  
Tesla Motors Inc.

## 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)					
SMM			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, 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.

August 9, 2010  
Tesla Motors Inc.

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 <sup>(1)</sup>		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 &amp; Clean Tech; 20% weighting for Auto

August 9, 2010  
Tesla Motors Inc.

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

August 9, 2010  
Tesla Motors Inc.

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

<b>FCFO</b>	<b>(196.0)</b>	<b>(321.1)</b>	<b>(189.9)</b>	<b>209.7</b>	<b>329.7</b>	<b>342.1</b>	<b>511.6</b>	<b>754.8</b>	<b>943.1</b>	<b>991.6</b>	<b>1,058.2</b>	<b>472.2</b>	<b>6,745.7</b>
FCF growth y/y		63.8%	(40.9%)	(210.4%)	57.2%	3.7%	49.6%	47.5%	25.0%	5.1%	6.7%		
<b>PV of FCF</b>	<b>(92.9)</b>	<b>(273.5)</b>	<b>(145.4)</b>	<b>144.3</b>	<b>203.8</b>	<b>190.0</b>	<b>255.4</b>	<b>338.6</b>	<b>380.2</b>	<b>359.2</b>			<b>2,196.1</b>

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
<b>Equity Value (12-18 Months)</b>	<b>4,089.2</b>
per share	\$39.80

Discount Rate	
Equity % of Steady State Capital Structure	70%
<b>Cost of Equity</b>	<b>15.0%</b>
Net Debt % of Stead State Capital Structure	30%
Cost of Debt (pre-tax)	4.0%
Tax Rate	35%
<b>Cost of Debt (after-tax)</b>	<b>2.6%</b>
<b>WACC</b>	<b>11.28%</b>

Growth	
<b>Terminal Growth Rate</b>	<b>4%</b>

Source: Morgan Stanley Research

August 9, 2010  
Tesla Motors Inc.

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 Steady 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



August 9, 2010  
Tesla Motors Inc.

## 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.

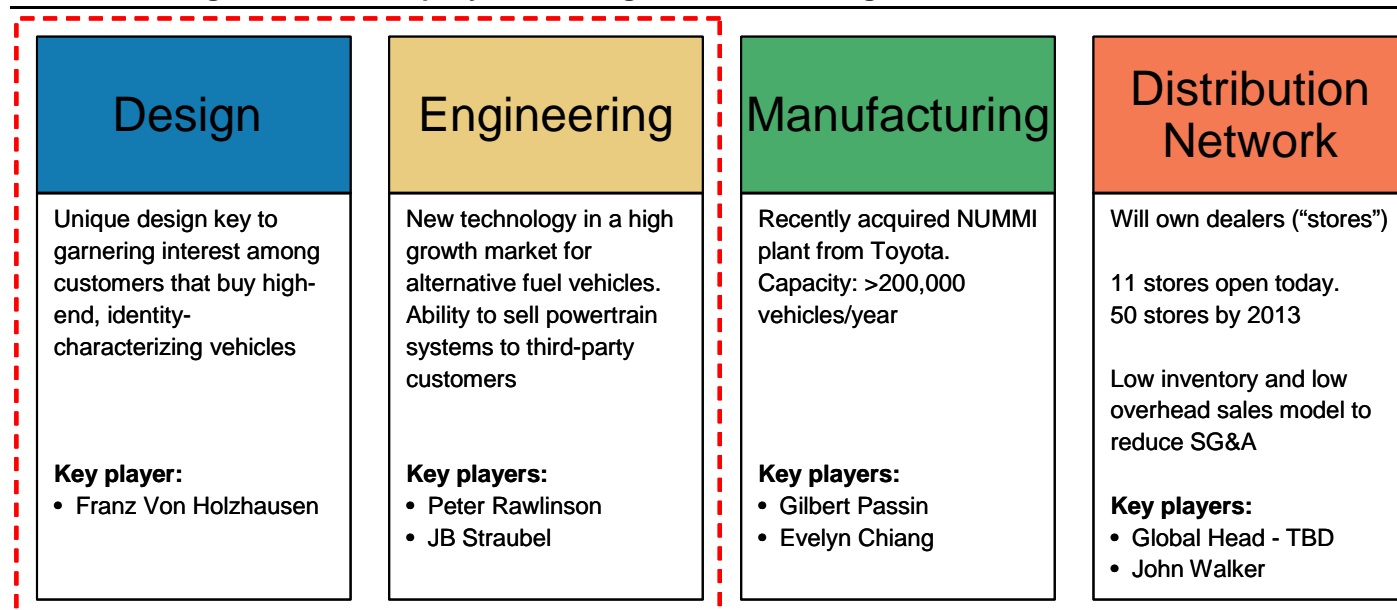
**Current products.** Tesla currently sells the Roadster, a high-priced, low-volume sports car manufactured with a Lotus body. It also sells a small number of battery packs to Daimler

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






#### *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”	2012 “Model S”	Longer Term Model TBD
<ul style="list-style-type: none"> <li>• High performance all electric sports car</li> <li>• Lotus body, Tesla powertrain</li> <li>• \$109k base price, \$140k realized</li> <li>• 0-60mph in 3.7 seconds</li> <li>• 245 mile range</li> <li>• 1,063 units sold since 2008</li> </ul>	<ul style="list-style-type: none"> <li>• Full-size all electric sedan to compete with BMW 5-Series</li> <li>• \$50k base price after tax rebates</li> <li>• Expected revenue per vehicle \$85K including emission credits and vehicle options</li> <li>• 160 mile range                             <ul style="list-style-type: none"> <li>• Range extension options</li> </ul> </li> <li>• Launch mid-2012; production volume to reach 20-50K</li> </ul>	<ul style="list-style-type: none"> <li>• More affordable all electric sedan (compare to BMW 3-Series)</li> <li>• Estimated price: \$40k</li> <li>• Estimated timing: 2015-17</li> <li>• Factory can scale to &gt;200,000 units</li> </ul>
		

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	<b>Elon Musk appointed CEO</b>
2009 1Q	Begins taking Model S reservations
2009 2Q	Surpasses 1,000 Model S reservations
2009 2Q	<b>Daimler acquires 10% stake</b>
2009 2Q	<b>\$465 MM DOE loan approved</b>
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	<b>Plans to purchase NUMMI factory from Toyota</b> <b>Toyota to invest \$50MM at IPO</b>

Source: Morgan Stanley Research, Company Data

Exhibit 33

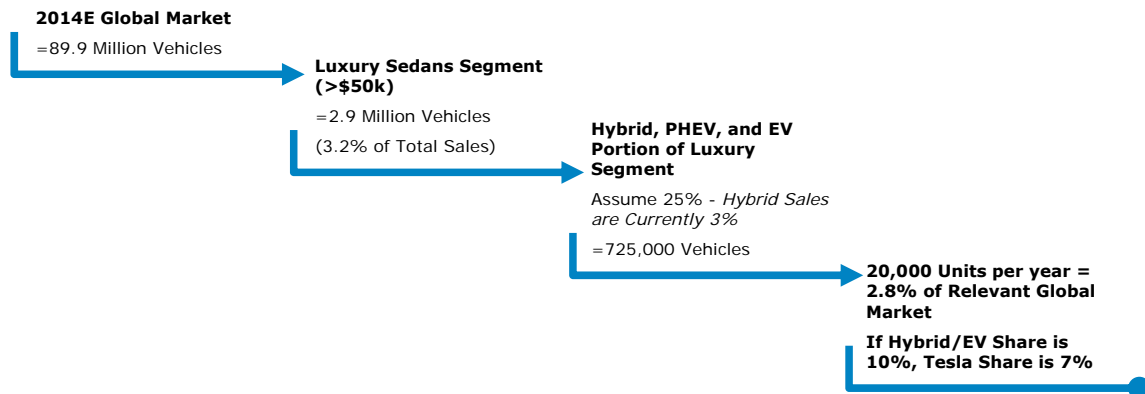
**Summary of Positives and Risks**

POSITIVES	RISKS
<p>High-performance all-electric vehicle</p> <ul style="list-style-type: none"> <li>To compete head-to-head with traditional performance sedans like BMW and Mercedes</li> <li>EV provides exceptional driving performance (Roadster Sport accelerates from 0 to 60mph in 3.7 seconds)</li> </ul>	<p>First large-scale production for Tesla</p> <ul style="list-style-type: none"> <li>Roadster production was in collaboration with Lotus</li> <li>Significant use of CAD tools</li> <li>All aluminum body, new manufacturing facility</li> </ul>
<p>Investments from Daimler and Toyota</p> <ul style="list-style-type: none"> <li>Partnership gives access to supply chains and engineering teams</li> <li>Validation of technology</li> </ul>	<p>Small engineering team</p> <ul style="list-style-type: none"> <li>75% smaller team than traditional OEM</li> </ul>
<p>Brand recognition —exceptionally high relative to unit sales</p> <ul style="list-style-type: none"> <li>Over 2,800 reservations for a car that will not be available until 2012. Min reservation cost: \$5K.</li> </ul>	<p>EV adoption is untested</p> <ul style="list-style-type: none"> <li>Range anxiety may limit adoption</li> <li>Uptake of range options is uncertain</li> </ul>
<p>\$465 DOE loan for manufacturing and R&amp;D</p> <ul style="list-style-type: none"> <li>Low cost financing</li> <li>External validation</li> </ul>	<p>Increasing competition</p> <ul style="list-style-type: none"> <li>OEMs and startups introducing more hybrids and EVs</li> </ul>
<p>Management Team has executed on low-probability events</p> <ul style="list-style-type: none"> <li>Toyota investment</li> <li>SpaceX rocket launch (same CEO)</li> </ul>	<p>Ambitious schedule</p> <ul style="list-style-type: none"> <li>Less than 24 months to Model S launch; design and spec not finalized</li> </ul>
	<p>Limited visibility, few near-term catalysts, FX risk</p> <ul style="list-style-type: none"> <li>Mid-term milestones are mostly annual, not quarterly</li> <li>Costs are primarily \$, revenues are ~50% international</li> </ul>

August 9, 2010  
Tesla Motors Inc.

Exhibit 34

## At Our 20,000 Unit Forecast, Tesla's Share Would Be <1% of 2014e Global Luxury Sedans

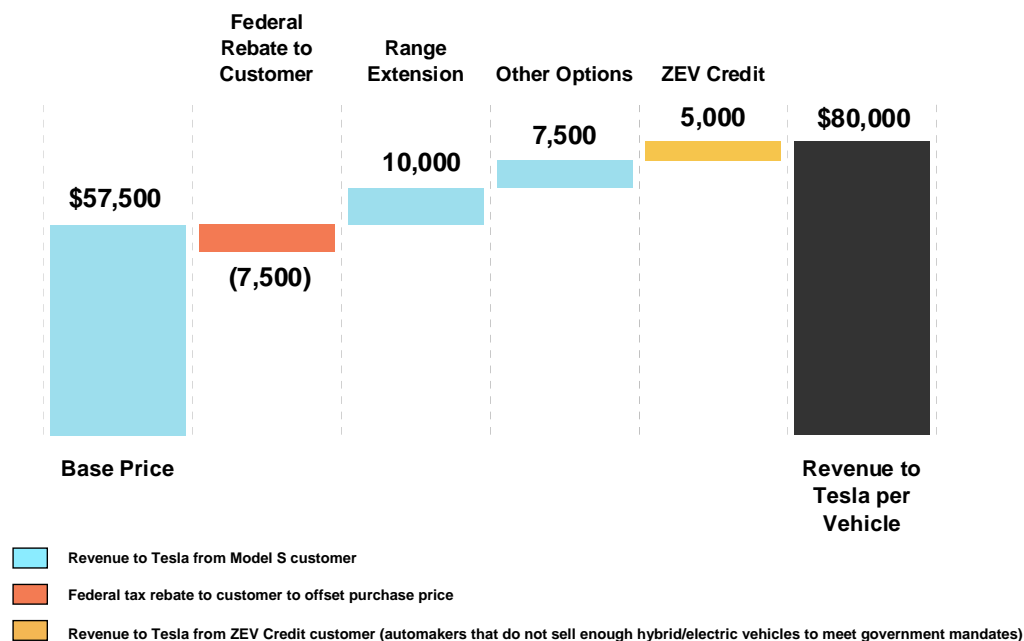


Brand and Model	Segment	2014 Forecast	Tesla as %
Tesla Model S	E1-2	20,000	
E1 = Mid-Range Luxury (e.g., BMW 5-series, Mercedes E-Class)		2,489,562	0.80%
E2 = Top Luxury (e.g., BMW 7-series, Mercedes S-Class)		424,906	4.71%
Total E1+E2 Global Sales		2,914,468	0.69%

Source: Morgan Stanley Research, Global Insight

Exhibit 35

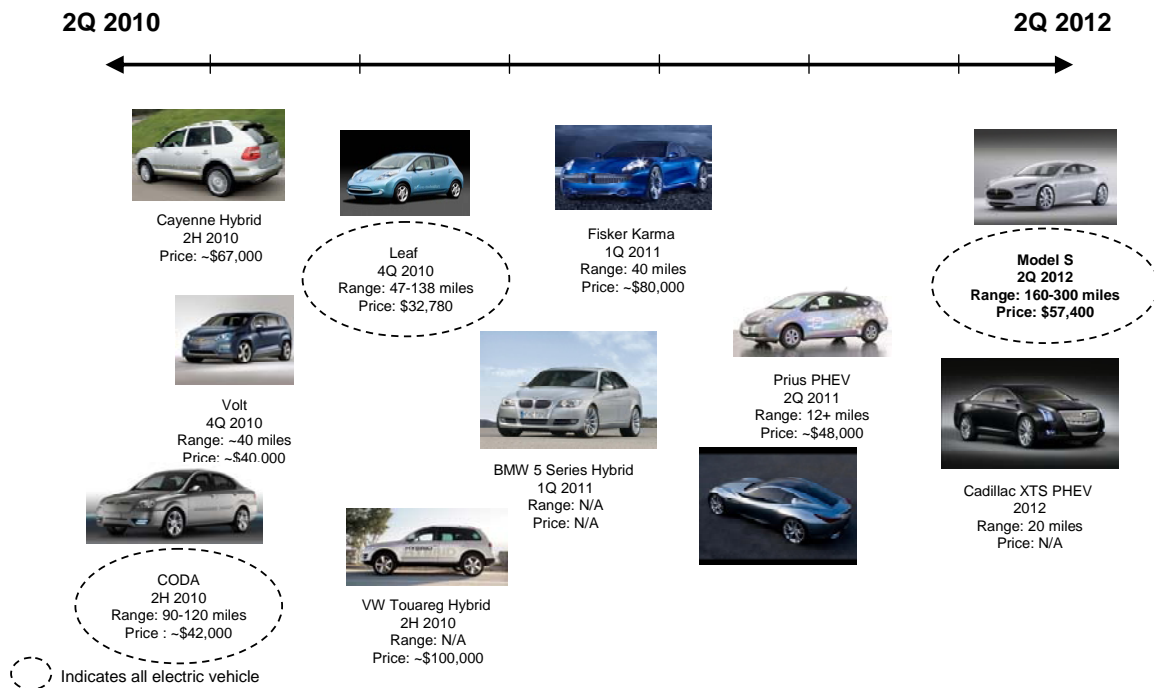
## Price: Tesla Revenue Includes Sales Price Plus Zero-Emission Vehicle (ZEV) Credits



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

August 9, 2010  
Tesla Motors Inc.

## Appendix: Financial Models

Exhibit 37

### Base Case Quarterly Income Statement

\$ millions	2009E				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
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
<b>Gross Profit</b>	<b>(2.0)</b>	<b>2.1</b>	<b>7.7</b>	<b>1.8</b>	<b>3.9</b>	<b>6.3</b>	<b>4.7</b>	<b>5.4</b>	<b>6.5</b>	<b>7.9</b>	<b>8.2</b>	<b>9.0</b>	<b>9.3</b>	<b>9.4</b>	<b>22.2</b>	<b>32.7</b>	<b>32.2</b>	<b>44.5</b>	<b>67.5</b>	<b>70.4</b>
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%
<b>Expenses</b>																				
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
<b>Total Expenses</b>	<b>14.5</b>	<b>10.2</b>	<b>12.0</b>	<b>24.7</b>	<b>29.9</b>	<b>37.7</b>	<b>46.0</b>	<b>59.0</b>	<b>60.7</b>	<b>60.7</b>	<b>60.7</b>	<b>60.7</b>	<b>49.7</b>	<b>49.7</b>	<b>49.7</b>	<b>49.7</b>	<b>61.1</b>	<b>55.7</b>	<b>55.7</b>	<b>50.3</b>
<b>Operating (Loss) Income</b>	<b>(16.6)</b>	<b>(8.1)</b>	<b>(4.3)</b>	<b>(22.9)</b>	<b>(26.0)</b>	<b>(31.4)</b>	<b>(41.3)</b>	<b>(53.6)</b>	<b>(54.2)</b>	<b>(52.8)</b>	<b>(52.5)</b>	<b>(51.7)</b>	<b>(40.4)</b>	<b>(40.4)</b>	<b>(27.5)</b>	<b>(17.0)</b>	<b>(28.9)</b>	<b>(11.1)</b>	<b>11.8</b>	<b>20.2</b>
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	3.1%	5.4%
<b>EBITDA (excl. SBC)</b>	<b>(16.6)</b>	<b>(8.1)</b>	<b>0.7</b>	<b>(21.0)</b>	<b>(20.5)</b>	<b>(22.8)</b>	<b>(36.0)</b>	<b>(46.0)</b>	<b>(47.9)</b>	<b>(45.4)</b>	<b>(44.6)</b>	<b>(42.6)</b>	<b>(29.5)</b>	<b>(28.0)</b>	<b>(14.3)</b>	<b>(3.4)</b>	<b>(14.0)</b>	<b>4.8</b>	<b>27.5</b>	<b>36.7</b>
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)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Other Income (Expense)</b>	<b>0.6</b>	<b>(2.8)</b>	<b>(0.5)</b>	<b>(1.1)</b>	<b>(3.4)</b>	<b>(7.1)</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>(1.3)</b>	<b>(2.0)</b>	<b>(2.7)</b>	<b>(3.4)</b>	<b>(3.8)</b>	<b>(4.3)</b>	<b>(4.3)</b>	<b>(4.4)</b>	<b>(4.3)</b>	<b>(4.3)</b>
<b>Pre-tax Income</b>	<b>(16.0)</b>	<b>(10.9)</b>	<b>(4.8)</b>	<b>(24.0)</b>	<b>(29.4)</b>	<b>(38.5)</b>	<b>(41.7)</b>	<b>(54.2)</b>	<b>(55.1)</b>	<b>(53.8)</b>	<b>(53.8)</b>	<b>(53.7)</b>	<b>(43.2)</b>	<b>(43.7)</b>	<b>(31.3)</b>	<b>(21.3)</b>	<b>(33.3)</b>	<b>(15.5)</b>	<b>7.5</b>	<b>15.8</b>
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Taxes, Recurring</b>	<b>0.0</b>	<b>0.0</b>	<b>(0.2)</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
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%
<b>Recurring Net Income</b>	<b>(16.0)</b>	<b>(10.9)</b>	<b>(4.6)</b>	<b>(24.2)</b>	<b>(29.5)</b>	<b>(38.5)</b>	<b>(41.7)</b>	<b>(54.2)</b>	<b>(55.1)</b>	<b>(53.8)</b>	<b>(53.8)</b>	<b>(53.7)</b>	<b>(43.2)</b>	<b>(43.7)</b>	<b>(31.3)</b>	<b>(21.3)</b>	<b>(33.3)</b>	<b>(15.5)</b>	<b>7.5</b>	<b>15.8</b>
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	<b>(16.0)</b>	<b>(10.9)</b>	<b>(4.6)</b>	<b>(24.2)</b>	<b>(29.5)</b>	<b>(38.5)</b>	<b>(41.7)</b>	<b>(54.2)</b>	<b>(55.1)</b>	<b>(53.8)</b>	<b>(53.8)</b>	<b>(53.7)</b>	<b>(43.2)</b>	<b>(43.7)</b>	<b>(31.3)</b>	<b>(21.3)</b>	<b>(33.3)</b>	<b>(15.5)</b>	<b>7.5</b>	<b>15.8</b>
<b>GAAP EPS</b>									<b>(\$0.45)</b>	<b>(\$0.58)</b>	<b>(\$0.56)</b>	<b>(\$0.56)</b>	<b>(\$0.45)</b>	<b>(\$0.45)</b>	<b>(\$0.32)</b>	<b>(\$0.22)</b>	<b>(\$0.34)</b>	<b>(\$0.16)</b>	<b>\$0.07</b>	<b>\$0.14</b>
<b>Adjusted EPS</b>									<b>(\$0.42)</b>	<b>(\$0.54)</b>	<b>(\$0.53)</b>	<b>(\$0.53)</b>	<b>(\$0.42)</b>	<b>(\$0.42)</b>	<b>(\$0.29)</b>	<b>(\$0.19)</b>	<b>(\$0.30)</b>	<b>(\$0.12)</b>	<b>\$0.09</b>	<b>\$0.17</b>

Source: Company data, Morgan Stanley Research estimates

August 9, 2010  
Tesla Motors Inc.

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



August 9, 2010  
Tesla Motors Inc.

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

August 9, 2010  
Tesla Motors Inc.

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

August 9, 2010  
Tesla Motors Inc.

Exhibit 41

## Bull Case Quarterly Income Statement

\$ millions	2009E				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
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%
<b>Expenses</b>																				
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)	(\$0.54)	(\$0.54)	(\$0.42)	(\$0.25)	(\$0.23)	(\$0.22)	\$0.45	\$0.50	\$0.62	\$0.63
Adjusted EPS									(\$0.41)	(\$0.53)	(\$0.51)	(\$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

August 9, 2010  
Tesla Motors Inc.

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

August 9, 2010  
Tesla Motors Inc.

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

August 9, 2010  
Tesla Motors Inc.

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	5,949.9

Source: Company data, Morgan Stanley Research estimates

August 9, 2010  
Tesla Motors Inc.

Exhibit 45

## Bear Case Quarterly Income Statement

\$ millions	2009E				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
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)	(\$0.57)	(\$0.57)	(\$0.48)	(\$0.48)	(\$0.49)	(\$0.47)	(\$0.59)	(\$0.48)	(\$0.48)	(\$0.42)
Adjusted EPS									(\$0.43)	(\$0.55)	(\$0.54)	(\$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

August 9, 2010  
Tesla Motors Inc.

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



August 9, 2010  
Tesla Motors Inc.

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

August 9, 2010  
Tesla Motors Inc.

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

August 9, 2010  
Tesla Motors Inc.



**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

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. Incorporated, and/or Morgan Stanley C.T.V.M. S.A. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. Incorporated, Morgan Stanley C.T.V.M. S.A. and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures), or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

### Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Joshua Paradise.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

### Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflict/policies](http://www.morganstanley.com/institutional/research/conflict/policies).

### Important US Regulatory Disclosures on Subject Companies

As of June 30, 2010, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: First Solar Inc..

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Tesla Motors Inc..

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from First Solar Inc., Tesla Motors Inc..

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Energy Conversion Devices, Inc, First Solar Inc., Tesla Motors Inc..

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from First Solar Inc..

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Energy Conversion Devices, Inc, First Solar Inc., Tesla Motors Inc..

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: First Solar Inc..

Morgan Stanley & Co. Incorporated makes a market in the securities of Energy Conversion Devices, Inc, Evergreen Solar Inc, First Solar Inc., Tesla Motors Inc..

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

### STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below).

Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. 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.

### Global Stock Ratings Distribution

(as of July 31, 2010)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

August 9, 2010  
Tesla Motors Inc.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1095</b>	<b>42%</b>	<b>380</b>	<b>44%</b>	<b>35%</b>
<b>Equal-weight/Hold</b>	<b>1123</b>	<b>43%</b>	<b>388</b>	<b>45%</b>	<b>35%</b>
<b>Not-Rated/Hold</b>	<b>14</b>	<b>1%</b>	<b>4</b>	<b>0%</b>	<b>29%</b>
<b>Underweight/Sell</b>	<b>362</b>	<b>14%</b>	<b>93</b>	<b>11%</b>	<b>26%</b>
<b>Total</b>	<b>2,594</b>		<b>865</b>		

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.

## Analyst Stock Ratings

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.

## Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies or topics that are the subject of Morgan Stanley Research. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports.

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC, Morgan Stanley and Citigroup Global Markets Inc. or any of their affiliates, are available on the Morgan Stanley Smith Barney disclosure website at [www.morganstanleysmithbarney.com/researchdisclosures](http://www.morganstanleysmithbarney.com/researchdisclosures).

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures) and [https://www.citigroupgeo.com/geopublic/Disclosures/index\\_a.html](https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html).

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

## Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of First Solar Inc..

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at [www.morganstanley.com](http://www.morganstanley.com).

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

The fixed income research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

August 9, 2010  
Tesla Motors Inc.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley MUFG Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents); in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by the Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Services Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

**Additional information on recommended securities/instruments is available on request.**

**The Americas**

1585 Broadway  
New York, NY 10036-8293  
**United States**  
Tel: +1 (1) 212 761 4000

**Europe**

20 Bank Street, Canary Wharf  
London E14 4AD  
**United Kingdom**  
Tel: +44 (0) 20 7 425 8000

**Japan**

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008  
**Japan**  
Tel: +81 (0) 3 5424 5000

**Asia/Pacific**

1 Austin Road West  
Kowloon  
**Hong Kong**  
Tel: +852 2848 5200

**Industry Coverage: Clean Tech**

Company (Ticker)	Rating (as of)	Price* (08/06/2010)
<b>Joshua Paradise</b>		
Tesla Motors Inc. (TSLA.O)	E (08/09/2010)	\$19.59
Energy Conversion Devices, Inc (ENER.O)	U (03/24/2010)	\$5.24
<b>Smittipon Srethapramote</b>		
Evergreen Solar Inc (ESLR.O)	E (03/24/2010)	\$.7
First Solar Inc. (FSLR.O)	O (03/24/2010)	\$129.34

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