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To: EQR - Approval Request <EQR_-_Approval_Request@jpmorgan.com>
CC: EQR - Brinkman <eqr___brinkman@restricted.chase.com>
Sent: 8/8/2018 2:29:51 AM
Subject: Request approval to raise Tesla (TSLA) price target by +58%
Attachments: image007.png; image008.png; image009.png

Hi – We are writing to request approval to raise our price target on Tesla shares by more than +20% (actually, by +58%, from \$195 to \$308) after the firm’s CEO announced during the market on Twitter plans to potentially bring the company private at \$420 per share (prompting the shares to rally +11% to \$380). The new price target weights equally the \$420 suggested take-out price (CEO says no final decision has been made but that he expects this course will be pursued, and that funding has been secured – no details were provided and it would be subject to a shareholder vote) and our previous price target of \$195, which is based upon fundamentals alone. We propose to remain Underweight-rated, given the comparatively little +11% upside remaining vs. Tuesday’s close to the purported \$420 take-out price in comparison to the much larger -49% downside to the \$195 we feel Tesla could trade at based upon an analysis of fundamentals alone. We plan to reassess our price target in the future, moving it up or down based upon further developments affecting the likelihood the transaction will or will not go through.

Raise PT to Reflect Possible Go-Private Offer, But Remain Underweight on Chance Shares Could Again Trade on Fundamentals

On Tuesday during the market, Tesla CEO Elon Musk announced via Twitter that he is considering pursuing a path (no final decision has been made) which would take the company private at a price of \$420 per share. This was followed up by further statements that “funding has been secured” and “investor support confirmed”. As surprising to us as these developments are, and as lacking as the statements are in any details regarding whom is expected to provide the required amount of financing and on what terms, they are nevertheless declarative statements from the CEO of a public company which we feel should be considered seriously. Either funding is secured or it is not secured, and Tesla’s CEO says funding is secured. Therefore, we are incorporating into our valuation the real possibility the equity will be taken out at \$420 per share. Separate from the Twitter statements, the company also made public a letter Mr. Musk had written to Tesla employees in which he states, “If the process ends the way I expect it will, a private Tesla would ultimately be an enormous opportunity for all of us.” To us, this suggests more than mere consideration — Mr. Musk expects Tesla will go private. We are not as certain, and so assign only a 50% probability to such a scenario in our updated valuation. We continue to believe Tesla’s valuation based on fundamentals alone (i.e., a 50/50 blend of DCF and 2020-based multiples analysis — itself consisting of a blend of P/E, EV/EBITDA, and Price-to-Sales) is worth no more than \$195 (our previous price target). But introducing a new 50% weighting of \$420 suggests a large upward revision to our price target is warranted, and we newly value Tesla at \$308 per share (i.e., 50/50 blend of \$195 and \$420).

• **We continue to rate TSLA shares Underweight:** We remain Underweight-rated, including given the comparatively little +11% upside remaining vs. Tuesday’s close to the purported \$420 take-out price in comparison to the much larger -49% downside to the \$195 we feel Tesla should trade at based upon an analysis of fundamentals alone. Our price target could move up or down based upon further developments affecting the likelihood the transaction will or will not go through.

• **Details of the proposed transaction are very few at this time:** Tesla provided no details regarding the needed funding, except to say that it has been secured. Mr. Musk stated current shareholders could continue to participate in the private company, suggesting the actual amount of needed cash could be far less than the firm’s current equity valuation or enterprise value (equivalent to only the amount of shares tendered times \$420 per share). Mr. Musk plans to continue to own ~20%.

• **In the event Tesla shares remain public, our concerns regarding Tesla’s business model are unchanged:** As a reminder, we are concerned about the ability for Tesla to generate the substantially better than industry EBIT margins which the firm guides to (“mid-teens”) and that seem embedded in valuation. We have highlighted before concerns regarding increased competition, including from automakers looking to use the sale of battery electric vehicles to subsidize their more lucrative internal combustion engine portfolio vehicles from a legal, regulatory, and compliance perspective.

Exhibit 14

UNITED STATES DISTRICT COURT	
NORTHERN DISTRICT OF CALIFORNIA	
Case Number:	3:18-cv-04865-EMC
PLTF / DEFT	14
Exhibit No.	
Date Admitted:	
By:	
Angella Meuleman, Deputy Clerk	

rather than trying to generate profit on the sale of these battery electric vehicles in and of themselves, suggesting that these automakers may be incentivized to price battery electric vehicles at price points that could be below cost, such that they may sell in sufficient enough quantity to accomplish this aim (in turn, the more profitable internal combustion portfolio vehicles of these automakers subsidize the battery electric vehicles from a financial perspective). We expect these pressures could become more acute as governments increasingly mandate (such as in the case of China's NEV standards) or effectively mandate (such as in the case of US Corporate Average Fuel Economy or European Union Grams of CO₂ per Kilometer requirements) larger portions of automaker fleets be comprised of battery electric vehicles.

Investment Thesis, Valuation and Risks

Tesla Inc (*Underweight; Price Target: \$308.00*)

Investment Thesis

Our Underweight rating considers notable investment positives, including a highly differentiated business model, appealing product portfolio, and leading-edge technology, which we believe are more than offset by above-average execution risk and valuation that seems to be pricing in a lot. Tesla is attractively saddled with none of the pension, OPEB, and other legacy costs which frequently burden large entrenched automakers. Its products are bold, distinctive, elegant, and highly entertaining to drive. The company is led by visionary leadership, backed by a management team with solid functional strength. Although both technology and execution risk seem substantially less than was once feared, expansion into higher-volume segments with lower price points seems fraught with greater risk relative to demand, execution, and competition. Meanwhile, valuation appears to be pricing in upside related to expansion into mass-market segments well beyond our volume forecasts for the Model 3.

Valuation

We maintain our Underweight rating on Tesla shares but raise our December 2018 price target substantially, to \$308 from \$195 prior, on account of newly incorporating the very real possibility the company could be taken private at \$420 per share, based upon statements from the company's CEO. We derive our December 2018 price target of \$308 based upon a blended approach which values the firm 50% using the proposed take-out price of \$420 and 50% upon our pre-existing framework which valued the company at \$195 based upon an assessment of fundamentals (50% DCF and 50% 2020-based multiples analysis — itself a blend of P/E, EV/EBITDA, and Price-to-Sales).

Risks to Rating and Price Target

Upside risks include: (1) The company could in fact be taken private for \$420 per share, as suggested by the firm's CEO who has stated that funding for such a transaction has been secured and investor interest is confirmed but that it would be subject to a shareholder vote; (2) In the event the firm remains public, demand for Tesla vehicles could rise materially beyond our expectations; (3) Gasoline prices could increase or government penalties and regulations on rival internal combustion engine vehicles could increase, which could drive adoption towards electric vehicles, benefitting Tesla.

Detailed TSLA Combined Company Price Target Analysis

We value Tesla, including the Solar City business, using a blend of a multiple-based analysis and DCF, which suggests \$195 value. We value TSLA shares using a 50/50 blend of (1) the proposed \$420 go-private take-out price; and (2) our pre-existing valuation framework which is based upon fundamentals and considers DCF, P/E, EV/EBITDA, and Price-to-Sales. A summary of our December 2018 price target methodology is shown below in Table 1.

Table 1: TSLA Blended Value per Share Analysis

In \$/share



Source: J.P. Morgan estimates.

The value we ascribe to Tesla based only upon fundamentals (\$195) is shown in Table 2, which now receives only a 50% weighting. This was our previous price target.

Table 2: TSLA Value per Share Analysis Based Upon Fundamentals Alone

In \$/share



Source: J.P. Morgan estimates.

Our multiple-based analysis on 2020E financial estimates suggests value of \$175/share

A summary of our multiples-based valuation approach is shown in Table 3.

Table 3: 2017 Financial Performance-based TSLA Automotive Value Per Share Analysis

In \$/share



Source: J.P. Morgan estimates.

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