

**From:** Brinkman, Ryan J <ryan.j.brinkman@jpmorgan.com>  
**To:** EQR - Approval Request <EQR\_-\_Approval\_Request@jpmorgan.com>  
**CC:** EQR - Brinkman <eqr\_\_\_\_brinkman@restricted.chase.com>  
**Sent:** 8/20/2018 6:03:29 AM  
**Subject:** Request to reduce Tesla (TSLA) price target by more than -20% (i.e., by -37%)

Hi – We would like to request permission to reduce our price target on Tesla (TSLA) shares by -37%. On August 8, we increased our price target from \$195 (which is what we value the firm on fundamentals alone) to \$308, which was based upon weighting our unchanged fundamentals-based analysis 50% but newly incorporating a 50% weighting to a going private transaction valuing TSLA shares at \$420, for which the funding was then said to have been secured. As we explain in the note below, subsequent events (including updated statements from the company and its CEO) have revealed that, in fact, there was not funding secured for such a transaction, nor was there any specific formally proposed transaction to fund (charitably interpreted, there was a misunderstanding on Tesla CEO Elon Musk's part that the Saudi sovereign wealth fund was ready to fund such a transaction, although it has since been clarified through subsequent discussion between Mr. Musk and the fund that the fund has not made any decision and did not commit to any offer). As such, we feel it is appropriate to take away the 50% weighting we briefly assigned to a \$420 going private transaction. This would bring our price target -37% back down to the \$195 where it stood prior to our recent increase.

The text of the note is below:

**Tesla, Inc.**

**Reverting to Valuing TSLA Shares on Fundamentals Alone Given Funding Appears to Not Have Been Secured; PT Back to \$195**

We are reverting to valuing Tesla shares on the basis of fundamentals alone, which entails a \$113 reduction in our price target back to the \$195 level where it stood prior to our August 8 note in which we newly weighted 50% in our valuation analysis a go-private scenario for which funding was at that time said to have been secured to take the company private at \$420 per share (see related research, *"Tesla, Inc.: Raise PT to Reflect Possible Go-Private Offer, But Remain Underweight on Chance Shares Could Again Trade on Fundamentals"*). In reference to statements on Twitter on August 7 by Tesla CEO Elon Musk that "funding has been secured", we wrote in our August 8 note, "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." We also stated, "Our price target could move up or down based upon further developments affecting the likelihood the transaction will or will not go through."

Our interpretation of subsequent events leads us to believe that funding was not secured for a going private transaction, nor was there any formal proposal. On August 13, Mr. Musk posted a statement to Tesla's website in which he explained that the comment relative to funding being secured was based upon a July 31 meeting with the Saudi Arabian sovereign wealth fund in which its representative expressed support for funding a transaction to go private. However, it was also stated, "Following the August 7th announcement, I have continued to communicate with the Managing Director of the Saudi fund. He has expressed support for proceeding subject to financial and other due diligence and their internal review process for obtaining approvals. He has also asked for additional details on how the company would be taken private, including any required percentages and any regulatory requirements." We had imagined following the surprise August 7 announcement that another party (e.g., the Saudi fund) had already firmly decided (including having completed any internal review process) to fund a going private transaction. The revelation the Saudi fund is subsequently asking Tesla for details of how the company would be taken private suggests to us that any deal is potentially

UNITED STATES DISTRICT COURT	
NORTHERN DISTRICT OF CALIFORNIA	
Case Number:	3:18-cv-04865-EMC
PLTF / DEFT	
Exhibit No.	22
Date Admitted:	
By:	
Angella Meuleman, Deputy Clerk	

**Exhibit 22**

far from even being formally proposed, which is different from our understanding on August 8 which was based on Mr. Musk's statement on Twitter that, "Only reason why this is not certain is that it's contingent on a shareholder vote".

Tesla does appear to be exploring a going private transaction, but we now believe that such a process appears much less developed than we had earlier presumed (more along the lines of high level intention), suggesting formal incorporation into our valuation analysis seems premature at this time. Mr. Musk has announced the hiring of financial and legal advisors in support of exploring a going private transaction (this appears to have been done after the August 7 announcement), and has stated conversations with the Saudi fund continue and also that he is having discussions with a number of other investors. Tesla's Board of Directors has also announced a special committee comprised of three independent directors to evaluate any transaction (the Board stated it has not yet received a formal proposal). This to us suggests a going private transaction is clearly possible, which could potentially provide upside risk to the shares, but that such a process appears much less developed than we had earlier presumed. When Mr. Musk tweeted on August 7 that, "Only reason why this is not certain is that it's contingent on a shareholder vote," we had presumed that a formal proposal had been received from another party, that funding had been secured for that formal proposal, and that the Board was at least informally supportive of the formal proposal. Given our updated interpretation that none of these three presumptions are currently the case, we feel it is appropriate at this time to remove the 50% weighting we had briefly assigned to a going private transaction, and instead return to our previous fundamentals-based valuation approach (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) that values TSLA shares at \$195.

Ryan J. Brinkman | Equity Research - US Autos | J.P. Morgan | 383 Madison Avenue – 34th Floor, New York, NY 10179 | T: 212 622 6581 | [ryan.j.brinkman@jpmorgan.com](mailto:ryan.j.brinkman@jpmorgan.com) |