

August 8, 2018

## TESLA MOTORS, INC.

TSLA | \$379.57

IN LINE | TARGET PRICE: \$301.00

Commentary

George Galliers  
+44 207 847 3503  
george.galliers@evercoreisi.com

Chris McNally  
+44 207 847 3502  
chris.mcnelly@evercoreisi.com

Arndt Ellinghorst  
+44 207 847 3501  
arndt.ellinghorst@evercoreisi.com

## A Private Life is a Happy Life

*"Am considering taking Tesla private at \$420. Funding secured."*

*"Investor support is confirmed. Only reason why this is not certain is that it's contingent on a shareholder vote."*

- **What happened?** The above are two of a series of tweets by Tesla CEO Elon Musk yesterday, where the company announced that it is considering going private. In an e-mail to employees, posted on the Tesla website, Musk outlined his reasons. Among them, Musk pointed out that as a public company Tesla is "subject to wild swings in our stock price that can be a major distraction", subject "to the quarterly earnings cycle that puts enormous pressure on Tesla to make decisions... not necessarily right for the long-term" and opens Tesla to short sellers "who have the incentive to attack the company". He also wrote that his other company SpaceX, which is private and Musk does not want to take public, "is far more operationally efficient, and that is largely due to the fact that it is privately held". We believe Musk's intent is serious and genuine.
- **What is proposed?** Clearly, CEO Musk would like to take the company private. Again, in the e-mail to employees, he stated that he would like a structure where existing shareholders "can stay investors in a private Tesla or... can be bought out at \$420 a share", his intention that "all Tesla employees... remain shareholders of the company" so that they can "share in the growing value of the company" and that there is no plan "to merge SpaceX and Tesla". Musk added that "this has nothing to do with accumulating control for myself. I own about 20% of the company now, and I don't envision that being substantially different".
- **Could this happen?** It is important to note that, as of today, no details have been provided with regards to what "Funding secured" means, who is providing that funding and what any potential funding structure might look like. Our view is that "Funding secured" should be interpreted as a strong verbal commitment, with funds available and parties willing to execute quickly. However, it could be less than this. It may also be that initial legal documents, term sheets, letters of intent have been signed. While several press reports suggest an "LBO", given Tesla's EBITDA and cash generation today, we don't see material leverage as likely. Instead, we see a possible scenario where 50 to 60% of existing shareholders (including Musk's 20% holding) continue, with their holdings rolled into a new private structure. This would leave Tesla needing to raise equity capital of \$31 to \$39Bn to buy out those existing public shareholders who tender; 40 to 50% of a \$78Bn market value (\$420 x 185Mn shares outstanding). We assume that the debt is rolled. We see the most likely route through which the \$31 to \$39Bn is funded being a combination of, 1/ a strategic investor acquiring a 15% to 20% stake, 2/ two to three private investment firms/ sovereign wealth funds acquiring up to 10% stakes and 3/ certain larger members of the existing shareholder base or some form of fund for smaller accredited investors making up the delta.
- **Is going private the right move?** The notion of going private is not new for Elon Musk. In an interview with Rolling Stone (Nov '17) Musk stated "I wish we could be private with Tesla... it actually makes us less efficient to be a public company". Musk's frustration with the capital markets, notably short sellers and the analyst community, has been evident in recent quarters. If a CEO, and the largest individual shareholder, of a company takes issue with public markets, then going private would seem to make sense. Traditionally, public markets have been there to provide a source of funding (note, we also believe they bring scrutiny and accountability which in many cases does lead to better practice). However, if a company does not need that funding or is able to source future funding privately, then there is no obvious reason for it to remain public. As Musk points out, being public does have disadvantages and can lead to short-termism. Depending on where the private funding may come from, going private may also provide Tesla with 1/ deeper pockets to grow internationally at a faster rate and 2/ security through the next US/capital markets recession where public funding would dry up.
- **Stock Implications** The majority of the move towards \$420 is now done, with the share price sitting within 11%. As a result, unless there is evidence to suggest that the funding is not secured and a transaction cannot be completed, we believe there is little to be done with the stock at these levels. More broadly, if Tesla has attracted a strategic investor who is willing to not only help take the company private but also to provide material funding going forward, it should enable the company to execute and move faster as it seeks to complete its mission to move the world to a solar electric future. In the context of the industry, this only increases the need for transition at traditional OEMs who must carry out exhaustive powertrain restructuring if they choose to compete with a potentially faster and more nimble Tesla.

UNITED STATES DISTRICT COURT	
NORTHERN DISTRICT OF CALIFORNIA	
Case Number:	3:18-cv-04865-EMC
PLTF / DEFT	
Exhibit No.	33
Date Admitted:	
By:	
Angella Meuleman, Deputy Clerk	

**Exhibit 33**

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**TIMESTAMP**

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: August 08, 2018, 04:05 ET.

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**Equal-Weight** – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.

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**Suspended** – the company rating, target price and earnings estimates have been temporarily suspended.

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Hold	271	39%	Hold	26	10%
Sell	34	5%	Sell	2	6%
Coverage Suspended	19	3%	Coverage Suspended	6	32%
Rating Suspended	3	0%	Rating Suspended	0	0%

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## Price Charts

## Tesla Motors, Inc. Rating History as of 08/07/2018

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