

A couple reasons why Elon Musk could actually pull off his wild plan to take Tesla private (TSLA)



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elon musk

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- **Elon Musk's plan to take Tesla private has generated a lot of buzz, and it has been met with a lot of skepticism.**
- **But there are several reasons why he might actually be able to pull off the deal.**
- **He's got a few things going for him, including a market with mountains of uninvested cash, an army of believers, and ties to some massive backers that could help him make his plan a reality.**

Since setting Wall Street ablaze on Tuesday with an unexpected tweet about taking his car company Tesla private, Elon Musk has been met with a [healthy dose of skepticism](#) over his proposed plan as well as his unconventional method of announcing it.

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Analysts are taking Musk at his word that he has indeed [secured funding](#), has [investor support](#), and is seriously considering taking the company private — he could face serious [legal consequences](#) if he wasn't entirely truthful. But many nonetheless find the \$420 a share price tag he's floated exceptionally high given that Tesla ended trading on Wednesday at \$370.34 a share.

It would be the largest buyout of all time and would require gargantuan amounts of capital to complete at the more than \$70 billion valuation implied by Musk's tweet. The company would need [roughly \\$57 billion in committed financing](#) to buy up the 80% of the company Musk doesn't own, according to Goldman Sachs estimates.

"We don't believe the current fundamentals of Tesla support a valuation anywhere close to \$420 per share," Cowen analyst Jeffrey Osborne said. He [set a price target of \\$200](#).

"The deal would likely require participation from numerous banks and institutional investors, and we think it likely that news of the deal would have leaked had Tesla already held discussions to secure funding," Langan added.

In short, the skepticism around Musk's proposed deal is abundant.

So let's focus instead on a couple reasons why he might actually be able to pull it off.

Lots of capital sloshing around

Musk's take-private of Tesla would be unprecedented.

But so is the amount of capital available for investment right now — a byproduct of the ultra-low interest rate environment the decade following the financial crisis.

Private equity shops having been accumulating record amounts of dry powder as funding remains plentiful while smart deals are comparatively scarce. Pitchbook estimated in March that PE funds had amassed [nearly a trillion in undeployed funds](#).

Sovereign wealth funds and other large backers, such as Japanese investor SoftBank, have billions in cash to throw around and the appetite to do so, too.

A market ripe with cash looking to be invested is ideal for Tesla's charismatic leader.

"Right now there is so much money sloshing around the system that has no place to go," Rita McGrath, a [professor at Columbia Business School](#), told Business Insider.

As McGrath sees it, there are two types of Tesla investors: Those who view the company as just another car company, akin to Ford or General Motors. These tend to be the skeptics.

Then there are those who believe the company is on the cutting edge of batteries, energy transmission, and renewable energy and that "owning Tesla is a front-seat ticket to whatever the future holds."

An investment like Musk is seeking would carry a lot of risk given the rich price tag, but for those in the latter camp who believe Tesla offers incredible upside, that may be a bet worth making "if you've got nothing else to do with that cash."

Forget about the debt

Many have pointed out that the math on a leveraged buyout for Tesla looks dicey. The company doesn't generate enough free cash flow to justify massive amounts of additional debt burden, which would create crushing interest payments for company.

Given the cash-flow pressures and the ongoing Model 3 ramp-up, "adding as much as \$50 billion of net debt to the capital structure would clearly intensify the outcomes of such an action," Morgan Stanley analyst Adam Jonas wrote.

"Given Tesla's financials, we don't believe lenders would sign up to support the deal," RBC's Joseph Spak added.

But people shouldn't be viewing this as a potential LBO, according to David Erickson, a lecturer at the Wharton School.

The deal would instead be a debt-light transaction focused on converting existing public shareholders into private shareholders, and then raising enough additional equity to cash out the shareholders that want to exit.

"What it would have to be, predominantly, is an equity take out," said Erickson, who spent 25 years on Wall Street, including several years as the [global co-head of equity capital markets at Barclays](#). "They would have to come up with enough cash to monetize whoever doesn't want to stay in. Most of that I would assume would be equity related."

Getting a large chunk of existing shareholders to convert isn't that far-fetched. Large mutual funds have grown increasingly willing to invest in promising private companies.

As Musk himself has pointed out, Fidelity, the third-largest Tesla shareholder with an 8% stake, has already invested in private tech companies, including the likes Uber, Blue Apron, and his own SpaceX.

T. Rowe Price, the second-largest shareholder with a 9% stake, [has as well](#).

While funds that hold Tesla stock in their publicly traded indexes would be different, they could potentially cash out and shift their investment to a different arm of the company.

The unknowable question at this point is how many shareholders would want to exit, and how much Tesla would need to raise to cash them out.

"Let's assume \$20 billion is required. Is there somebody going to write equity checks for \$20 billion?" Erickson asked, noting that Japanese investor SoftBank could be a possibility, as could a sovereign wealth fund.

SoftBank CEO Masayoshi Son held talks with Musk about a potential investment in 2017, though a deal failed to materialize and discussions are no longer active, Bloomberg [reported Wednesday](#).

Musk has assured us the funding has been secured.

And it's quite possible it has.

Don't sleep on the Saudis

Who has that kind of money laying around?

As previously mentioned, private equity funds have mammoth amounts of capital to deploy. However, they tend to prefer companies that already generate gobs of cash rather than those that are still rapidly burning it as they carve out a business model.

A large private investor or a sovereign wealth fund are considered more likely candidates, with many suggesting the aforementioned SoftBank and the Public Investment Fund of Saudi Arabia as potential suitors.

The Saudis could make for a particularly good fit.

Under the direction of Crown Prince Mohammed bin Salman, the country has been trying to reduce its dependence on its vast oil reserves and diversify its income streams. The much ballyhooed initial public offering of state oil giant Saudi Aramco [has yet to materialize as a solution](#).

"The Saudi angle is interesting to me. Their existential problem is their whole economy is based on oil," McGrath said.

Tesla's rich price could seem justifiable to the Saudis if they believe Tesla isn't just car company, but rather a bet on the future that hedges their oil riches with a "window into batteries and renewable energy," McGrath said.

And there's evidence that of the two types of Tesla investors that McGrath highlights, the Saudis are Musk believers: The Financial Times [reported Tuesday](#) that the Saudi sovereign wealth fund had acquired a nearly 5% stake in Tesla.

Would they be willing add substantially to that stake? Or would several other large players need to step up as well?

Musk has a great track record of wooing big investors to back his projects. Even so, it still won't be easy.

"He'll have to convince an awful lot of people with very deep pockets," McGrath said.

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See Also:

- [The SEC has reportedly made inquiries into Tesla about Elon Musk's tweet regarding possibly taking the company private](#)
- [Elon Musk is in perilous territory after tweeting about wanting to take Tesla private, experts say](#)
- [Elon Musk says taking Tesla private would be 'enormous opportunity,' but says no final decision has been made](#)
- [If you didn't think Elon Musk might take Tesla private, you weren't paying attention](#)
- [Elon Musk announces proposal to take Tesla private, but says no final decision has been made](#)