

# TheCaseSolution.com

## Post-Crisis Compensation at Credit Suisse (A), Portuguese Version

### Tesla Motors' Company Overview

- Incorporated in July 2003 by Martin Eberhard and Marc Tarpenning
- Named after the genius electrical engineer, Nikola Tesla
- Tesla's first vehicle, the Tesla Roadster, introduced in 2008, was powered by an AC motor that descended directly from Nikola Tesla's original 1882 design

TheCaseSolution.com

### Financing Early Operations Continued; 2009

- May - Daimler AG acquires 10% equity stake in Tesla for \$50 million, strategic partnership to accelerate the development of Tesla's lithium battery and electric drive train technologies to collaborate on electric vehicles being developed at Mercedes
- July - Abu Dhabi's Asiar Investments purchases 40 percent of Daimler's ownership in Tesla
- June - Tesla received \$465 million in low interest loans from US Department of Energy (DOE), part of DOE's \$25 billion Advanced Technology Vehicle Manufacturing Program, created in 2007 by the Bush administration
- Tesla intended to use \$395 million for production engineering and assembly of the forthcoming Model S and \$100 million for a powertrain manufacturing plant that would supply all-electric powertrain solutions to other automakers and help accelerate the availability of low-cost, mass-market electric vehicles
- September - Tesla raised \$82.5 million from Daimler, Fjord Capital Partners, and Asiar Investments to open additional sales and service centers

TheCaseSolution.com

### Financing Early Operations

- March 1 - Funding round
- March 1 - \$20.2M, \$4.5 million in convertible preferred stock
- March 1 - \$12 million from Musk and others in convertible preferred stock
- March 1 - \$10 million, \$10 million in convertible preferred stock
- March 1 - \$10 million, \$10 million in convertible preferred stock
- March 1 - \$10 million, \$10 million in convertible preferred stock
- March 1 - \$10 million, \$10 million in convertible preferred stock
- March 1 - \$10 million, \$10 million in convertible preferred stock

TheCaseSolution.com

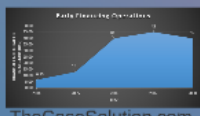
### Financing Early Operations Continued; Going Public

- June 2010 - Tesla raises \$100 million in convertible preferred stock
- October 2010 - Tesla completed a follow-up offering of \$100 million in convertible preferred stock
- June 2010 - Tesla raised \$100 million in convertible preferred stock
- October 2010 - Tesla completed a follow-up offering of \$100 million in convertible preferred stock

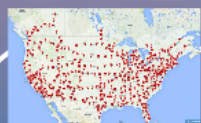
TheCaseSolution.com

### A broad differentiation strategy.

- Tesla's mission is to manufacture premium quality, high-performance electric vehicles capable of winning customer acceptance and accelerating the world's transition from carbon-powered, fossil-fueled vehicles to energy efficient, environmentally responsible electric vehicles
- A broad differentiation strategy offers unique product attributes that a wide range of buyers find appealing and are willing to pay for
- Customer is an elite customer, something that Tesla isn't at least in the terms of valuation
- Having a broad differentiation strategy allows a company to:
  - Command a premium price for its products
  - Reduce unit production costs by the differentiation
  - Gain higher loyalty from its buyers
- In order to be successful in a broad differentiation strategy a company should focus on the key value drivers:
  - Creating product and service performance solutions that appeal to a wide range of buyers
  - Provide customer service and sell with services
  - Reduce production and R&D expenses
  - Focus on innovation and technological solutions
  - Provide customer loyalty improvement
  - Increase marketing and brand-building activities
  - Build out high quality, reach
  - Emphasize human resource management activities that improve the skill, expertise, and knowledge in company processes



TheCaseSolution.com



Tesla's history

- Early Tesla history: Daimler AG acquires 10% stake in Tesla for \$50 million
- July 2008 - Tesla received \$465 million in low interest loans from US Department of Energy (DOE)
- September 2008 - Tesla raised \$82.5 million from Daimler, Fjord Capital Partners, and Asiar Investments
- June 2010 - Tesla raised \$100 million in convertible preferred stock
- October 2010 - Tesla completed a follow-up offering of \$100 million in convertible preferred stock

### Overview

- Company background
- Tesla's strategy to become the world's largest and most highly regarded producer of electric vehicles
- Questions to be asked: the safety of the Model S battery pack
- The electric vehicle segment of the global automotive industry

### Recent Financial Performance

- Tesla ended 2010 with \$446.6 million in cash and cash equivalents and a net reported debt of \$102.2 million
- From the end of the first quarter 2010, Tesla had a capital expenditure of \$24 million in 2010, an increase of 47% compared to the first quarter 2009
- Capital expenditures of \$100 million in 2010 were used for 2011

### Elon Musk

- Born in South Africa, target Harvard computer programming and, at age 12, sold code for a video game for his pocket for \$500
- Current employer: in business and physics from University of Pennsylvania
- Placed on the Important list: the world's need for an environmentally clean method of transportation and an idea that it would be good if humans could colonize another planet
- First entrepreneurial venture was Zipcar with the brother, Kimbal, which led to Compay Computer for \$200 million in cash and \$14 million in stock options in 1999
- March 1998 - Musk co-founded X.com, an online payment company, and one year later acquired CreditLy and PayPal
- June 2002 - Musk founded SpaceX by design and manufacturing space launch vehicles
- Musk discussed the idea involved in SolarCity, the solar system design company, and Solar Motors, because he concerned about the environment, while SpaceX is about trying to help us work toward ensuring the future of business in a somewhat basic and lacking a multi-planetary species
- In 2014 Elon Musk's home salary as Tesla CEO was \$3,398, California's minimum wage law, however, he was accepting only \$1 in salary

### Management Changes

- Elon Musk was the first CEO of Tesla
- In October 2010, Tesla completed a follow-up offering of \$100 million in convertible preferred stock
- June 2010 - Tesla raised \$100 million in convertible preferred stock
- October 2010 - Tesla completed a follow-up offering of \$100 million in convertible preferred stock

### Issues of Regulatory Credits

Regulatory credits are a key component of Tesla's business model. They are generated by manufacturers that produce more electric vehicles than required by law. Tesla has a significant amount of regulatory credits, which it can sell to other manufacturers that need them to meet their production requirements.

### Strategic Partnerships

### Renale Customer Program

### Strategic Partnerships

### Strategic Partnerships



### Tesla's Strategy

- Technology Continued:**
  - Battery Pack: Tesla had an internal battery cell testing lab and assembled extensive performance database of many lithium ion cell vendors and chemistry types. Purchased large quantities of lithium ion at low costs due to overproduction based on hype of electric car growth.
  - Power Electronics: two primary functions.
  - Induction Motors: Custom designed three phase alternating current induction motors for powertrain system.
  - Gearbox: combined low mass with high torque and could match the speed and torque capabilities (elimination of gear changes enhanced rapid acceleration characteristics of the company vehicles).
  - Control Software: Numerous microprocessors and sophisticated software.

Year	Revenue	Net Income	Operating Income	Capital Expenditures
2008	\$10.9	(\$1.1)	(\$1.1)	\$0.1
2009	\$19.7	(\$1.1)	(\$1.1)	\$0.1
2010	\$45.1	(\$1.1)	(\$1.1)	\$0.1
2011	\$109.0	(\$1.1)	(\$1.1)	\$0.1
2012	\$226.0	(\$1.1)	(\$1.1)	\$0.1
2013	\$419.0	(\$1.1)	(\$1.1)	\$0.1
2014	\$544.0	(\$1.1)	(\$1.1)	\$0.1
2015	\$662.0	(\$1.1)	(\$1.1)	\$0.1
2016	\$724.0	(\$1.1)	(\$1.1)	\$0.1
2017	\$786.0	(\$1.1)	(\$1.1)	\$0.1
2018	\$848.0	(\$1.1)	(\$1.1)	\$0.1
2019	\$910.0	(\$1.1)	(\$1.1)	\$0.1
2020	\$972.0	(\$1.1)	(\$1.1)	\$0.1
2021	\$1034.0	(\$1.1)	(\$1.1)	\$0.1
2022	\$1096.0	(\$1.1)	(\$1.1)	\$0.1
2023	\$1158.0	(\$1.1)	(\$1.1)	\$0.1
2024	\$1220.0	(\$1.1)	(\$1.1)	\$0.1
2025	\$1282.0	(\$1.1)	(\$1.1)	\$0.1
2026	\$1344.0	(\$1.1)	(\$1.1)	\$0.1
2027	\$1406.0	(\$1.1)	(\$1.1)	\$0.1
2028	\$1468.0	(\$1.1)	(\$1.1)	\$0.1
2029	\$1530.0	(\$1.1)	(\$1.1)	\$0.1
2030	\$1592.0	(\$1.1)	(\$1.1)	\$0.1

# TheCaseSolution.com

## Post-Crisis Compensation at Credit Suisse (A), Portuguese Version

### Tesla Motors' Company Overview

- Incorporated in July 2003 by Martin Eberhard and Marc Tarpenning
- Named after the genius electrical engineer, Nikola Tesla
- Tesla's first vehicle, the Tesla Roadster, introduced in 2008, was powered by an AC motor that descended directly from Nikola Tesla's original 1882 design

TheCaseSolution.com

### Financing Early Operations Continued; 2009

- May: Daimler AG acquires 10% equity stake in Tesla for \$50 million, strategic partnership to accelerate the development of Tesla's lithium-ion battery and electric drive train technologies to collaborate on electric vehicles being developed at Mercedes
- July: Abu Dhabi's Ashar Investments purchases 40 percent of Daimler's ownership in Tesla
- June: Tesla received \$465 million in low interest loans from US Department of Energy (DOE), part of DOE's \$25 billion Advanced Technology Vehicle Manufacturing Program, created in 2007 by the Bush administration
- Tesla intended to use \$365 million for production engineering and assembly of the forthcoming Model S and \$100 million for a powertrain manufacturing plant that would supply all-electric powertrain solutions to other automakers and help accelerate the scalability of low-cost, mass-market electric vehicles.
- September: Tesla raised \$82.5 million from Daimler, Ford Capital Partners, and Ashar Investments to open additional sales and service centers

TheCaseSolution.com

### Recent Financial Performance

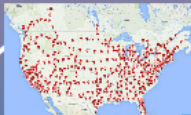
- Tesla ended 2011 with \$444.8 million in cash and cash equivalents and current liabilities each an increase of \$0.2 million from the end of the third quarter
- Tesla had capital expenditures of \$124 million in 2011, an increase of 4% compared to \$119 million in 2010
- Tesla's operating activities generated cash of \$100 million, an increase of 10% compared to \$91 million in 2010
- Capital expenditures in 2011, valued at \$100 million were financed for 2011

### Elon Musk

- Born in South Africa, sought a career in computer programming and, at age 12, sold code for a video game he created for \$500
- Earned degrees in business and physics from University of Pennsylvania
- Focused on two important markets: the world's need for an environmentally clean method of transportation and an idea that a novel but good #1 movie could capture another planet
- First entrepreneurial venture was Zipcar with his brother, Martin, which sold by General Computer for \$207 million in cash and \$10 million in stock options in 2006
- Also in 2006, Musk co-founded PayPal, an online payment gateway, and one year later acquired PayPal and merged it with his other venture PayPal and sold it to eBay for \$1.5 billion in 2002
- June 2002: Musk founded SpaceX to develop and manufacture space launch vehicles
- Musk founded the first startup in San Francisco, the solar system design company, and Tesla Motors, "because I'm concerned about the environment," while "SpaceX is about trying to help us work toward colonizing the farthest reaches of our planet, both on land and becoming a multiplanetary species."
- In 2014, Elon Musk's stake in Tesla as Tesla CEO was \$33,280, Musk's net worth is \$3.3 billion, however, he was occupying only 6% of equity

### Management Changes

- In July 2011, Tesla announced that Elon Musk had stepped down as CEO and as chairman of the board of directors, and was replaced by Martin Eberhard as CEO and as chairman of the board of directors
- In October 2011, Tesla completed a follow-on offering of 2.7 million shares, resulting in a price of \$22.5 million
- In February 2012, Tesla announced that Martin Eberhard had stepped down as CEO and as chairman of the board of directors, and was replaced by Elon Musk as CEO and as chairman of the board of directors



### Tesla Strategy

- Supply Chain Strategy: Tesla's supply chain is not as well established as other manufacturers, but it is more flexible and more responsive to change
- Distribution Strategy: Tesla's distribution strategy is to sell directly to the customer, bypassing the traditional dealership model
- Marketing Strategy: Tesla's marketing strategy is to use social media and word-of-mouth to create a buzz around the company's cars and services
- Financial Strategy: Tesla's financial strategy is to use a combination of debt and equity financing to fund its operations
- Research and Development Strategy: Tesla's R&D strategy is to focus on developing new technologies and products that will give it a competitive advantage



### Tesla's Strategy

- **Technology Continued:**
  - Battery Pack: Tesla had an internal battery cell testing lab and assembled extensive performance database of many lithium ion cell vendors and chemistry types. Purchased large quantities of lithium ion at low costs due to overproduction based on hype of electric car growth.
  - Power Electronics: two primary functions.
    - Induction Motors: Custom designed three phase alternating current induction motors for powertrain system.
    - Gearbox: combined low mass with high efficiency and could match the speed and torque capabilities (elimination of gear changes enhanced rapid acceleration characteristics of the company vehicles).
  - Control Software: Numerous microprocessors and sophisticated software.

Item	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenue	1,252	1,105	1,000	900	800	700	600	500	400
Operating Profit	100	150	200	250	300	350	400	450	500
Net Income	80	120	160	200	250	300	350	400	450
EPS	1.2	1.8	2.4	3.0	3.6	4.2	4.8	5.4	6.0
Operating Margin	8.0%	13.6%	20.0%	27.8%	37.5%	50.0%	66.7%	90.0%	125.0%
Net Profit Margin	6.4%	10.8%	16.0%	22.2%	30.0%	42.9%	58.3%	90.0%	125.0%
EPS Growth	33.3%	50.0%	66.7%	83.3%	100.0%	116.7%	133.3%	150.0%	166.7%
Operating Margin Growth	-36.4%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%
Net Profit Margin Growth	-36.4%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%
EPS Growth	-33.3%	-50.0%	-66.7%	-83.3%	-100.0%	-116.7%	-133.3%	-150.0%	-166.7%
Operating Margin Growth	36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%
Net Profit Margin Growth	36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%	-36.4%
EPS Growth	33.3%	-50.0%	-66.7%	-83.3%	-100.0%	-116.7%	-133.3%	-150.0%	-166.7%



TheCaseSolution.com

### Financing Early Operations Continued; Going Public

- In June 2011, Tesla raised \$50 million in public financing, raising \$10 million with an IPO of 2.7 million shares, resulting in a price of \$3.7 per share
- In March 2012, Tesla raised \$100 million in public financing, raising \$20 million with an IPO of 2.7 million shares, resulting in a price of \$3.7 per share
- Tesla's revenue for the first quarter of 2012 was \$1.2 billion, an increase of 10% compared to \$1.1 billion in the same quarter of 2011
- Tesla's operating profit for the first quarter of 2012 was \$100 million, an increase of 10% compared to \$90 million in the same quarter of 2011

TheCaseSolution.com

### A broad differentiation strategy.

- Tesla's mission goal is to manufacture premium-quality, high-performance electric vehicles capable of providing customer satisfaction and addressing the world's transition from carbon-producing, gasoline-powered vehicles to energy-efficient, environmentally responsible electric vehicles.
- A broad differentiation strategy offers unique product attributes that satisfy target buyers' self-identifying and self-worth by paying for its objectives in other customers' identifying their needs, such as:
  - In terms of substitution
    - Highly accessible differentiation allows a company to:
      - Command a premium price for its product
      - Increase unit sales due to differentiation
      - Gain buyer loyalty to its brand
    - In order to be successful in broad differentiation strategy a company should focus on the key value drivers:
      - Creating product features and performance attributes that appeal to a wide range of buyers
      - Improve customer service or add extra services
      - Invest in product research & D&I activities
      - Invest for innovation and technological advances
      - Improve customer loyalty management
      - Increase marketing and brand-building activities
      - Seek out high quality inputs
      - Emphasize human-based or management activities that improve the firm's reputation and knowledge of company process

TheCaseSolution.com

# Overview

1. Company Background
2. Tesla's Strategy to become the world's biggest and most highly regarded producer of electric vehicles
3. Questions arise about the safety of the Model S battery pack
4. The electric vehicle segment of the global automotive industry

## Tesla Motors' Company Overview

- Incorporated in July 2003 by Martin Eberhard and Marc Tarpenning
- Named after the genius electrical engineer, Nikola Tesla
- Tesla's first vehicle, the Tesla Roadster, introduced in 2008, was powered by an AC motor that descended directly from Nikola Tesla's original 1882 design

TheCaseSolution.com

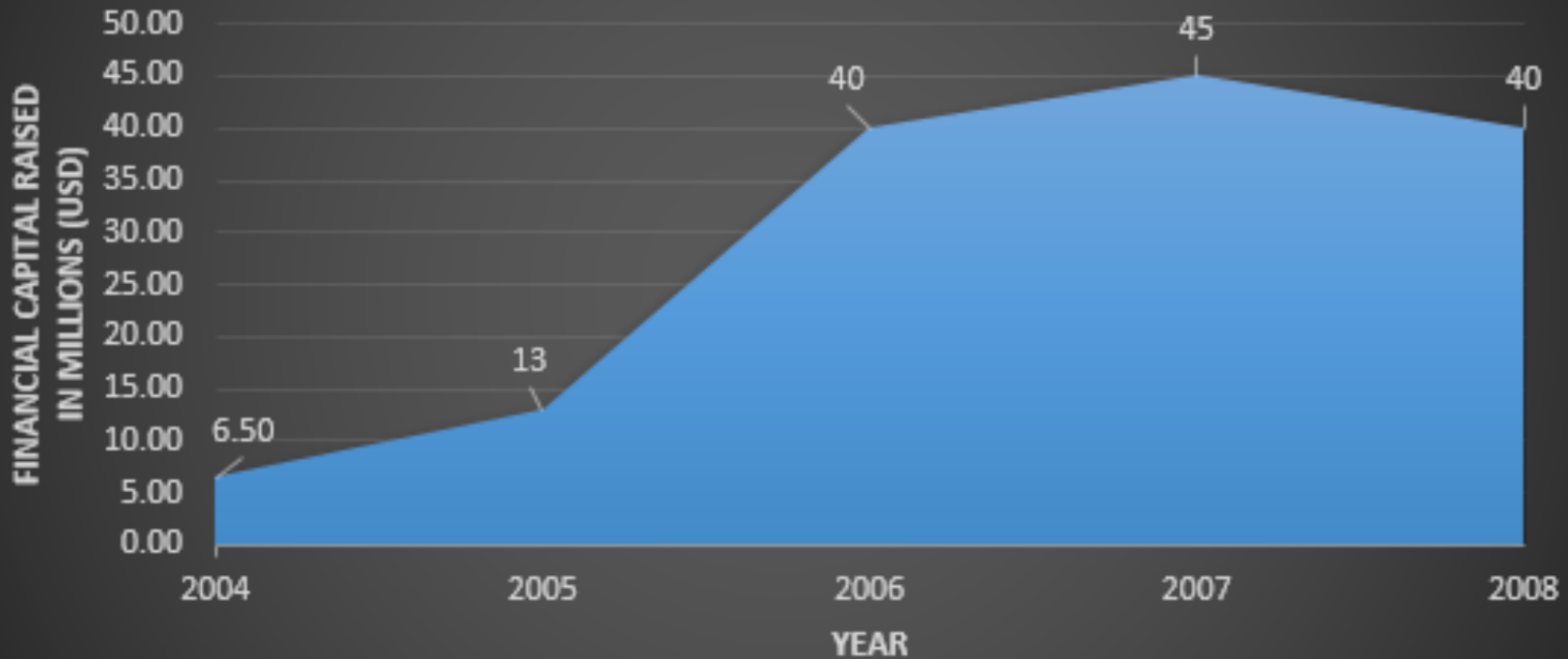
Fi

Oper

# Financing Early Operations

- First five financing rounds
  - Round 1 - Feb 2004, \$6.5 million. Elon Musk accounts for \$6.35 million, assumes position of Chairman of the Board of Directors
  - Round 2 - \$13 million from Musk and three private equity investment groups
  - Round 3 - May 2006, \$40 million. Majority from Musk and the Technology Partners investment group, included contributions from Google's Sergey Brin and Larry Page, and eBay president Jeff Skoll
  - Round 4 - May 2007, \$45 million. Spent quickly due to high R&D costs
  - Round 5 - Feb 2008, \$40 million
- Of the \$145 million in investment capital raised in the first five financing rounds, Elon Musk contributed \$74 million, making him the company's largest shareholder

## Early Financing Operations



TheCaseSolution.com

ed by an AC motor that  
aded directly from Nikola  
original 1882 design

neCaseSolution.com

# Financing Early Operations Continued; 2009

- May- Daimler AG acquires 10% equity stake in Tesla for \$50 million, strategic partnership to accelerate the development of Tesla's lithium-ion battery and electric drive train technologies to collaborate on electric vehicles being developed at Mercedes
- July- Abu Dhabi's Aabar Investments purchases 40 percent of Daimler's ownership in Tesla
- June- Tesla received \$465 million in low interest loans from US Department of Energy (DOE), part of DOE's \$25 billion Advanced Technology Vehicle Manufacturing Program, created in 2007 by the Bush administration
  - Tesla intended to use \$365 million for production engineering and assembly of the forthcoming Model S and \$100 million for a powertrain manufacturing plant that would supply all-electric powertrain solutions to other automakers and help accelerate the availability of low-cost, mass-market electric vehicles
- September- Tesla raised \$82.5 million from Daimler, Fjord Capital Partners, and Aabar Investments to open additional sales and service centers

TheCaseSolution.com

Financing Early

- Tesla en  
cash an  
restricte  
million fr
- Tesla ha  
million in  
expandi  
capabili  
sales ga  
Superch
- Capital  
\$850 mi

- Born in  
age 12,
- Earned  
Pennsy
- Focuse  
environ  
would b
- First en  
which s  
million i
- Also in  
compar
- X.com v  
2002
- June 20  
space la
- Musk in  
design  
the env  
toward

## **Financing Early Operations Continued; Going Public**

- In June 2010, Tesla Motors became a public company, raising \$226 million with an IPO of 13,300,000 shares of common stock sold at a price of \$17 per share
- Its shares began trading on Tuesday, June 29th, 2010 on the NASDAQ under the ticker symbol "TSLA"
- Tesla Motors was the first American car company to go public since the Ford Motor Company's IPO in 1956
- In October 2012, Tesla completed a follow-on offering of 7.97 million shares, receiving net proceeds of \$222.1 million



# Management Changes

- August 2007, due to production delays, Martin Eberhard was ousted as CEO
- Ze'ev Drori, an Israeli-born American technology entrepreneur, is named CEO in November 2007
- Drori conducted a performance review of the company's 250+ employees and proceeded to lay off roughly 10 percent
- Elon Musk was named CEO, while continuing to serve as Chairman of the Board of Directors, in October 2008
- By January 2009, the Tesla had raised \$187 million and delivered 147 cars, Musk declared the company would be cash-flow positive by mid-2009