



Tesla

What it does

Tesla is an automotive and energy company run by CEO Elon Musk. The company is accelerating the world's transition to sustainable energy with electric cars, solar panels and integrated renewable energy solutions for homes and businesses.

Why we own it

- Massive opportunities: still small market share, better cars versus compromised incumbents of huge scale.
- It isn't just cars: energy and utilities in the crosshairs.
- They've done the hard stuff (scaling and credibility) already.
- A flawed but visionary leader.

How it could be worth many times more

- The multi-decade auto fleet replacement continues, of which Tesla holds a commanding position on profitability and mindshare. It no longer has the field to itself, but that matters little with 1.5bn ICE cars on their way out.
- Tesla's factories soon match the speed of the most efficient OEMs (i.e. a vehicle made every 25s), or better (Musk's target is 19s). Existing manufacturing footprint reaches c.5m pa. ASP per car falls to \$50k = \$250bn sales.
- Three additional gigafactories in the next 5 years or so, coupled with a greater share of leasing (bundled with insurance + autonomy features), adds a further 2.5m vehicles delivered pa = additional \$18bn revenue.
- Margins healthy given the level of software integration and service-like elements. All told, there is a plausible path to >\$100bn gross profit on 7.5m vehicles pa.
- Add to this autonomous driving software licenses. 10% of the global vehicle fleet @ \$150 per month implies further recurring revenues of near \$200bn.
- Beyond the auto business, Tesla's manufacturing expertise integrates into energy storage and solar roofs = potentially hundreds of billions of additional market cap. While nascent, Optimus may offer a huge yet undefined opportunity too.

Where we might be wrong

- Ongoing governance challenges.
- Execution: still lots of growth required!
- Sustained profitability: this is a capital-intensive business model.

Short 10 questions

Can sales double in the next five years?

1

Yes. Vehicle production is growing at c.50% p.a. Tesla is now into the phase of attacking the mid-price mass market.

Ten years and beyond?

2

Vehicle expansion, autonomous driving, solar, insurance, energy storage, robotics...

Competitive advantage?

3

Pure electric focus and no baggage. Mindset of software iteration, not committee-led brand preservation.

Is the business culture different?

4

A cultural anathema in the auto industry. The extreme work ethic and urgency to improve are not for everyone.

Customers like you? Contribute to society?

5

Most customers love Tesla, though the company musn't drop the ball on service. Huge contribution to the planet by instigating and leading the electrification of transport.

Are returns worthwhile?

6

Capital requirements high for production however vertical integration (including distribution) along with falling battery costs make margins attractive.

Will they rise or fall?

7

Rise in the long run (could achieve Porsche-like margins) but investment will remain high in the near term.

How is capital allocated?

8

All required by core business – vertical integration an important asset.

Could it be worth 5x as much?

9

Lower probability of outlier returns but still could be worth multiples of its current value.

What doesn't the market understand?

10

It still underestimates how profitable the core business could be, and how big its other businesses could be.

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