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# STOCK STORIES - TESLA

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TOM SLATER

When Tesla designed an electric car that won rave reviews in the motoring press, not just as a great electric car, but a great car per se, the Long Term Global Growth team sat up and took notice. Four years plus later, Tom Slater brings the investment case for Tesla up to date.

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**Rosemary Shannon (RS):** I am joined today by Tom to talk about Tesla, which has been held in the portfolio since 2013, but Tom, when did the company first come to your attention?

**Tom Slater (TS):** Going back to the end of 2012, they had released a product – the Model S – a high-end Sedan that was winning rave reviews in the motoring press. Not as a great electric car, but just as a great car. And at the same time they were demonstrating that they were able to produce this vehicle at commercial delivery rates and to us it seemed like that they had taken a lot of the technology risk out of what they were doing. You had a great product and you were able to produce it and so that's why we really started getting interested and eventually bought the shares in 2013.

**RS:** What would you say is the real competitive advantage of Tesla?

**TS:** I think they are building competitive advantage in a whole number of ways. The first one would be brand. It is an extremely rare thing to build a high-end luxury auto brand in less than a decade. And to be associated with what we think would be a really important technology shift within the industry to be the leader in this area, I think is going to be an important advantage. They are prepared to invest in long-term projects, to take risk, in an industry which has not had a track record of doing anything of that kind. You know, Tesla started out as an enterprise to make drive trains, electric drive trains that they could sell to the established auto industry, but what they discovered was that they couldn't get people to innovate, to build new products, so the pace of change, the pace of innovation was extremely slow. Tesla came from a software background, a Silicon Valley background, so this combination of a drive to change, to innovate, to invent, and to take risk, made them completely different in the automotive industry.

**RS:** In the build up to the Model X launch, I understand Elon Musk was sleeping on the factory floor. Can you tell us a little bit more about this leader?

**TS:** Elon Musk is remarkable for a number of reasons. He created a lot of wealth through being one of the founders of PayPal. That business was sold to eBay, it made him a very rich man and instead of taking the money and going off into the sunset, he chose to reinvest all of it into an electric car company and space exploration company. So I think that tells you that this is somebody who takes some of those long-term investment decisions that other people have been too afraid to take and when he has faced issues, he personally has been very involved in trying to resolve them. The Model X, the large SUV, proved to be a real challenge because, in his own words, they had over-specified the vehicle, they had used two leading edge technologies and so to actually get the manufacturing process working at all required a huge amount of senior time and him sleeping on the factory floor to actually get that through. So I think there are lots of aspects of what he does that are really pretty remarkable.



**RS:** Would you say that one of the risks to the investment case is that Elon Musk spends less time at Tesla and more at SpaceX, for example?

**TS:** I wouldn't say that's necessarily a risk to the investment case. I would say that it is an inevitability. That is what we anticipate. He committed to being the Chief Executive of Tesla up until the point where they launch a mass market electric vehicle. We hope that will happen later this year. But, after that, I think he will determine his own priorities. He is somebody with almost boundless energy and some real long-term objectives, but what matters from the perspective of a Tesla shareholder is what is the strength and depth within the company – are there other leaders there that we think can continue to build the growth of this franchise? And, absolutely, we think there are.

**RS:** And maybe a little recap on the investment case. We have talked a lot about the vehicles, but perhaps you can say something about the acquisition of Solar City. So how does that fit in to your investment thesis?

**TS:** It goes back to Elon Musk's original objective in setting up the company. It was, let's look for some of the biggest problems that face humanity and try and solve them. The aim was that grandiose. And the objective with Tesla was to reduce the world's reliance on carbon. So it seems to me, at least, that all the moves they have taken in this direction are absolutely consistent with that long-term aim. The solar industry has been very successful at driving down costs of the energy produced through solar panels, but it has not been great at producing a desirable product for the consumer. Tesla has demonstrated that they can do that in the auto industry. Electric cars were becoming more feasible but nobody could make them desirable. So I think the next step is can you make solar panels a desirable product. It is something that could drive much, much more widespread adoption.

**RS:** So we are very much in it for the long term and, presumably, we want to engage with the company. So how does that engagement evolve over time?

**TS:** What Elon Musk has done is really pretty remarkable. He and the people at Tesla know the markets they are operating in far better than we do. I think what we can offer is being a patient, supportive shareholder in an environment where they encounter really hostile financial markets. We are not interested in doing quarterly earnings calls. We don't want to discuss very short-term trading news. We want to have a more in-depth conversation on a more infrequent basis. And I think it helps if you are a long-term shareholder to do that. When you've owned the shares for a number of years, I think management then begin to see you as somebody who is aligned with what they are trying to do.

**RS:** We have held the stock in the portfolio now for four years and our investment horizon tends to be sort of five to ten years, but is this a story that is may be going to play out over 20 or 30 years?

**TS:** The challenges they are taking on are huge. They've got a very small part of the way there. What we really don't know is if you start to offer products that are much, much better than the ones that exist today, how quickly will that drive demand? How quickly will that change the market? How quickly will you move from this slow pace of development to a revolution? And, I think that is really difficult to predict. The good news is that we don't have to predict it. We are just there providing support, backing these people who are pursuing this vision and we can be patient.

**RS:** Thanks, Tom for indulging me today and talking about such an interesting company.

**TS:** Thank you.

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