

NEW LUNA VENTURES

SYNOPSIS

Tesla Motors Inc. Grease, Skids and Momentum Financing of Renewable Entrepreneurial Ventures

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Silicon Valley has not typically embraced government as sources of finance for start-up companies. Yet, Tesla Motors was financed through an opportunistic union of private equity venture capital and government loans and grants.

In this case study, we explore how this union came to be and what shifts in company mission and plan occurred as a result. The full case study lays out the historical foundation for the company. We also perform a due diligence assessment of the company, its product, production, pricing, market and regulatory environment at its pre-IPO and pre-secondary offering stages.

This case study is of high-value to renewable and sustainable entrepreneurs and venture investors potentially blinded by easy access to government capital or whom overlook an assessment of how changes in the regulatory environment may affect success or failure of a venture.

COMPANY & MISSION

Tesla Motors Inc. was co-founded in 2003 by Marc Tarpenning and Martin Eberhard with Elon Musk joining in 2004 as the primary investor. Their mission, "accelerate the world's transition to electric mobility with a full range of increasingly affordable electric cars."

Tesla's did not start out as a fully integrated automobile manufacturer. Rather, the near collapse of the company in 2007, opportunistic government financings, and changes in the regulatory environment combined to shift the company's direction from component parts manufacturer and innovator with parts assembly into a full integrated automobile manufacturer.

As a young upstart with a big goal, Tesla was not on target with its initial product release when the 2007 global credit and liquidity crash occurred. A bold move by Elon Musk and access to an opportunistic program put in effect by the Bush administration to bail out the auto industry, discussed in the complete case study, were major inflection points for the company in the period 2007 - 2009.

PRODUCTS

Roadster

In 2008, Tesla released *Roadster*, the first all-electric sports car with long driving range and high-design. The two-seater, all-electric, plug-in prototype was designed to go 220 miles on a single charge and could do 0 – 60 in 3.9 seconds. The car went into limited production in 2008 priced at \$109,000.

Model S

In 2012, Tesla launched the Model S, an all-electric, luxury, four-door, sports car sedan that could seat seven. The car could go 265 miles per battery charge and 0 to 60 mph in about five seconds. The car had various options for battery size and horse power with the high-end vehicle priced at \$105,000.

MANUFACTURING & COST

In 2009, with intervention from Governor Arnold Schwarzeneger, City of Fremont, capital infusion from Toyota, and due to a failed joint venture between Toyota and General Motors, Tesla was able to acquire, at a substantial discount to land and equipment, an automotive manufacturing plant directly across the Bay from its headquarters. Was this opportunistic or strategic?

By 2013, Tesla had exceeded projected sales of the Model S, despite delays completing the vehicle that has plagued the company. In that same year, Tesla entered into a huge tax incentive plan from the State of Nevada. Tesla committed to build a state of the art battery manufacturing plant in state in exchange for tax credits.

If Tesla is to meet its long-term mission and build products across all price points, it will have to do so by maintaining battery range, while also lowering costs in order to increase demand in the mid-price vehicle range.

Discussion of the battery cost equation that will likely enable Tesla to meet this shift can be found in the complete case study.

FINANCING HISTORY

While the size of each investment round for Tesla was atypically large for a Silicon Valley start-up, the financing rounds followed a standard venture capital process- angel, seed, and A-round up to 2007.

By early 2008, Tesla had not met its product release schedule and was facing substantial cost overruns. With the 2008 credit crash in full swing, the company faced difficult, if not impossible, capitalization prospects and a possible closure.

A pivotal \$40M personal capital infusion by Elon Musk changed the complexion and trajectory of Tesla. The company shifted from a prodding, engineering, technology-oriented company to a high-ambition, financially opportunistic, vision-driven company.

Tesla, under Musk's leadership, was able to capitalize government intervention in the automotive industry under the Bush administration, which was expanded to include access to a \$465M DOE loan for innovative, electric vehicles at the peak of the credit crises.

The comprehensive financing history is discussed in detail in the complete case study addenda.

REGULATORY ENVIRONMENT

With the election of Barak Obama to the Presidency in 2009, a shifting regulatory environment put Tesla in a favorable position. It also completed an acceleration or shift in Tesla's initial strategy as an engineering innovator and parts assembler into an integrated automotive manufacturer. The Regulatory Environment affecting Tesla is also discussed in detail in the complete case study addenda.

EMISSIONS LITIGATION

Years of litigation between the State of California and other states to compel the EPA to allow more stringent emissions standards in California and other states were concluded during the Bush administration, but resisted in execution. This shifted with the change in White House administration from Republican to Democrat. The Emissions Litigation affecting Tesla is discussed in detail in the complete case study, Addenda.

Tesla was a direct beneficiary of the emissions litigation and shift in regulatory policy, particularly through California's Zero Emissions Vehicle Credits (ZEV credits) cap and trade program. The tax credit benefits to Tesla leading up to its IPO are discussed in the complete case study.

DUE DILIGENCE ASSESSMENT

Due diligence phase I assessment of Tesla in the period 2003 – 2010 is an informative baseline relative to all future direction of the company. Its results are a mixed bag. A key question is how did Tesla plan to scale after the Roadster and what factors affect that scale? Assessment is provided in the complete case study.

A phase II assessment is also an informative lesson on how opportunistic financing combined with changes in regulatory policy may take a company into an accelerated or shifted business plan.

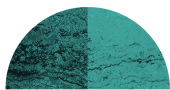
CONCLUSION

Tesla's moved off its original approach as a nimble Silicon Valley engineering oriented company. It closed opportunistic financing that changed the company direction or one might argue accelerated its mission.

Yet, a large-scale, fully-integrated, capital intensive company must consistently release new vehicle types on time & budget. Various other factors detailed in our case study reveal risks to Tesla.

The improving regulatory environment for BEVs, especially California ZEV credits and Nevada tax incentives accelerated a secondary offering allowing a repayment of government loans. And, improved sales numbers for the Model S led to successful secondary offering that cemented the company's transition to a fully-integrated automotive manufacturer.

Our complete case study, available for purchase, includes a historical overview, detail of the financing history, regulatory environment, and emissions litigation, and is combined with a due diligence assessment that leads to a series of important questions about Tesla's future.



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