Tesla: The Fooling Numbers
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Abstract
This research assesses the challenges Tesla Motors Inc., a leading manufacturer of electric sports cars, overcame as a new technology company in the automotive industry. We examine the product, finances, and share price of Tesla and how all of these are related to each other.

Introduction
Tesla Motors Inc. (TSLA) designs, develops, manufactures, and sells electric vehicles. Before the 21st century, interests in electric vehicle never surfaced because the resulting cars were unattractive in both style and performance. This encouraged Mr. Elon Musk, the founder and CEO of Tesla Motors, to investigate the feasibility of a zero emissions luxury sports car.

The Product

Table 1: Snapshot of Income Statement for years 2009 to 2014

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<tbody>
<tr>
<td>Revenue</td>
<td>3198.36</td>
<td>2013.5</td>
<td>413.256</td>
<td>204.242</td>
<td>116.744</td>
<td>111.943</td>
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<tr>
<td>Cost of Revenue</td>
<td>2316.69</td>
<td>1557.23</td>
<td>383.189</td>
<td>142.647</td>
<td>86.013</td>
<td>102.408</td>
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<tr>
<td>Gross margin</td>
<td>-186.69</td>
<td>-61.283</td>
<td>-394.28</td>
<td>-251.49</td>
<td>-146.84</td>
<td>-51.897</td>
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<tr>
<td>Marketing expenses</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Operating Income</td>
<td>-186.69</td>
<td>-61.283</td>
<td>-394.28</td>
<td>-251.49</td>
<td>-146.84</td>
<td>-51.897</td>
</tr>
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Method
To complete my research, I reviewed the following:
- **Product**: Review press release for Tesla’s first production vehicles the Model S & Roadster
- **Finances**: Analyze company income statement beginning from IPO to 2014
- **Share Prices**: Evaluate share price fluctuations and breakouts caused by quarterly earning calls

Discussion
Tesla went public in July 2010 and as evident from table 1 and graph 1, chose to grow its sales aggressively and face losses than to remain a small profitable company. About two years later the stock began barely gripping profits for the Dec. 2012 last quarter. Few quarters later TSLA consistently posted greater than 20% growth in revenue that helped the stock breakout from $40 to over $100 in seven weeks. As of March 2014 sales overcame a 640% leading to a high price of $265 per share. Not only has the company expanded, but it also expanded with better margins, thus creating greater shareholder wealth.

Compounded Annual growth Rate (CAGR) for revenues

\[
Revenue_{for\ 2014}\ ($111.942) = (1 + x)^5 \Rightarrow x = 95.42\%
\]

At the brink of failure, Mr. Elon Musk catalyzed a change in peoples’ opinion about Tesla from its darkest hours beginning from financial armageddon of 2008. Not only did he help launch Tesla with $6.4 million dollars of his own, he then reinvested his personal capital of $40 million dollars to save the company in 2008. From an underdog Tesla went on to be a leader in its market segment and has now expanded to a $35 billion dollar company. It’s clear that investors can’t always be sure of a company by only poring over financial statements and there is no magic formula for evaluating management style.

Sources:
Business Insights: Essentials, NASDAQ, HGS Investors, Motor Trend, NY Times, Wall street Journal, and Mergent Online