Revolutionizing the Way Tesla Motors Inc. Goes To Market

Redefining Tesla’s Strategy and Aligning their Business Model to Support Continued Growth

Team Six

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Agenda

- Current State Tesla
- Reasons for Change
- Redefining the Organization Structure
- Strategy & Focus: Tesla Motors Group
- Strategy & Focus: Tesla Energy Group
Current State of Tesla

It’s not all Roses in Shallow Alto...Can I get a Check Please?

Company Description:
- Founded in 2003
- Approximately 6,000 employees
- Over 100 retail locations
- Initial Public Offering: June 2010
- Operates in the Automotive and Energy Storage segments
- Market cap: $25bn
- Enterprise value: $27bn

Revenue Growth:
- 103% Revenue CAGR (‘10 – ’15)
- 52% Revenue CAGR (‘15 – ’18E)

EBITDA Performance:
- $1,887

Share Price Performance Since IPO:

Source: Tesla Motors company filings and CapitalIQ
# Reasons for Change

## A SWOT Analysis Leaves Much to be Desired

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Eco Friendly</th>
<th>Pollution free and utilize a low cost fuel source (electricity)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Luxury</td>
<td>Luxury vehicle with futuristic and elegant design</td>
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<tr>
<td>Weaknesses</td>
<td>What is Tesla?</td>
<td>A car company? Energy company?</td>
</tr>
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<td></td>
<td>Unclear Vision</td>
<td>Tesla is a means to an end – Musk wants the company to revolutionize the move away from fossil fuels</td>
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<td></td>
<td></td>
<td>Not driven by profitability</td>
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<td>Opportunities</td>
<td>Battery Technology</td>
<td>Limited energy storage capacity and mileage</td>
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<tr>
<td></td>
<td></td>
<td>Today’s consumers are all about convenience and infinite supply</td>
</tr>
<tr>
<td>Threats</td>
<td>Competition</td>
<td>Many large auto makers have at least one hybrid or electric vehicle</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Often, these green vehicles are simply for political or social benefit in order to drive additional profit through gas guzzlers</td>
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<td></td>
<td>Low Gas Prices</td>
<td>If gas prices remain low, demand for electric cars may not be as forecasted</td>
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<td></td>
<td>Price Point</td>
<td>Tesla cars are expensive!</td>
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<td></td>
<td>Even at a $35K price point, while more affordable, lots of competition at that price point</td>
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<td>New Technology</td>
<td>Tesla is already at risk of obsolete technology</td>
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<td>Driverless cars are the future</td>
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Redefining the Organization Structure
The “What is Tesla” Mystery Finally Solved

Tesla envisions itself as an energy innovation company. However, in its current form, it is identified as a car company. What is Tesla? We propose splitting Tesla into two distinct operating segments...

- **Tesla Holdings Co.**
  - **Tesla Motors Group (TMG)**: TMG focused exclusively on automobile design and manufacturing (Core Business)
  - **Tesla Energy Group (TEG)**: TEG focused exclusively on developing battery and other technology for use in TMG autos and utilities (R&D, Thinktank, Incubator Model)

This reorganization is very similar to the way Google has transitioned to its “Alphabet” model.
Strategy & Focus: Tesla Motors Group
A Willing Partner Desperate for Brand Enhancement

Volvo’s powered by Tesla’s powertrain | Tesla powered by Volvo’s global market capacity
Strategy & Focus: Tesla Motors Group

Why Volvo? Just Ask Your Parents

When you think of Volvo. You think

- Safety
- Quality
- Luxury?
- When it’s powered by Tesla, you’ll see this..

Gaining Market Access

- Volvo, now owned by Geely, a $23Bn Chinese automaker, that brings the Asian market to Tesla, along with Volvo’s existing European market

Source: volvocars.com/us/cars/concept-cars/concept-coupe

Global Unit Sales 000’s

<table>
<thead>
<tr>
<th>Year</th>
<th>Tesla</th>
<th>Volvo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>18</td>
<td>503</td>
</tr>
<tr>
<td>2015</td>
<td>465</td>
<td>50</td>
</tr>
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### Strategy & Focus: Tesla Motors Group

**No Range? No Problem**

Tesla enters a strategic partnership with Starbucks to put charging stations at Starbucks locations around the US

#### Benefits to Partnership:

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<th>Tesla</th>
<th>Starbucks</th>
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<td>▪ Brand recognition and enhance luxury status</td>
<td>▪ Generate additional foot traffic at select locations</td>
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<tr>
<td>▪ Marketing benefit as brand becomes more visible across the country</td>
<td>▪ Maintain mature branding with Tesla target market – 18-44 yrs: 33.2%, 45-64 yrs: 50.6%</td>
</tr>
<tr>
<td><strong>Tesla: ~500 Charging Stations Worldwide</strong></td>
<td>▪ Expand “eco” friendly image <strong>Starbucks: 11,563 US Stores</strong></td>
</tr>
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</table>

Source: CNN.com

Source: Starbucks.com, Edmunds.com

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**Tesla Motors**

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**Starbucks: 11,563 US Stores**
Introduction of the Gigafactory

- ~$5 billion investment
- Construction started 2014
- Planned annual production capacity: 35 GWh
- Production set to begin in 2017 with a goal of reducing battery cost by ~30% through economies of scale

2020 Production Exceeds 2013 Global Output

- By lowering the cost of the battery, Tesla will be able to sell a Tesla Motors automobile for $35,000; low enough to compete with ICE automobiles
- Enters new markets: Utilities, Residential, Businesses with energy storage
Strategy & Focus: Tesla Energy Group

It’s Time for Some Skin in the Game

Current Strategy → Supply Agreement

- $2bn investment in Gigafactory
- Funds production equipment for battery assembly
- Purchase battery cells at negotiated prices

Inherently creates an internal conflict: Panasonic also a competitor to Tesla

Proposed Strategy → Joint Venture

- $1.6bn investment in Gigafactory
- Funds production equipment to produce lithium-ion battery cells
- Produce battery cells for Tesla

Tesla-Panasonic Joint Venture

- 60% Equity
- 40% Equity

- JV aligns Tesla and Panasonic to the same strategy (shared revenue and costs)
- JV allows Tesla to enter new energy storage markets with utilities
- Reduces competition – competitors compete primarily on price
- Focus on R&D: Develop incubator model to design and produce NextGen battery technology (“bet” of “Alphabet”)

Inherently creates an internal conflict: Panasonic also a competitor to Tesla
### Pro and Con of the Restructuring

*We Get it, It’s Good…but Humor us With a Slice of Humble Pie*

There are many PROs and CONs to the proposed structure

<table>
<thead>
<tr>
<th>PRO</th>
<th>CON</th>
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<tbody>
<tr>
<td><strong>Clear Delineation of skills</strong> and exclusive focus on core business units</td>
<td><strong>Increased expectation of financial performance</strong> from investment community</td>
</tr>
<tr>
<td><strong>Improved access to capital through</strong> enhanced investor transparency</td>
<td><strong>Success reliant on continued innovation</strong> in battery technology and energy generation</td>
</tr>
<tr>
<td><strong>Cost savings</strong> (beyond the 30% expected from the Gigafactory) and technology produced by the redefined Tesla/Panasonic relationship</td>
<td><strong>Tesla auto sales not continuing to gain market share</strong></td>
</tr>
<tr>
<td><strong>Volvo partnership enables</strong> reduced competition and manufacturing economies of scale</td>
<td><strong>Decision of mainstream auto manufacturers seriously entering the electric vehicle market</strong></td>
</tr>
<tr>
<td><strong>Mitigate potential switching cost issues</strong> by deepening partnership with Panasonic</td>
<td><strong>Battery related environmental concerns</strong></td>
</tr>
<tr>
<td><strong>Control the production cycle</strong> to ensure deliveries keep up with demand</td>
<td><strong>Potential culture conflict</strong> with Panasonic</td>
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Any Questions?

*Just Remember You’re Next…*
Excerpt from Tesla’s 2013 10K:

“Most of our current and potential competitors have significantly greater financial, technical, manufacturing, marketing and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products. Virtually all of our competitors have more extensive customer bases and broader customer and industry relationships than we do. In addition, almost all of these companies have longer operating histories and greater name recognition than we do. Our competitors may be in a stronger position to respond quickly to new technologies and may be able to design, develop, market and sell their products more effectively. We believe our exclusive focus on electric vehicles and electric vehicle components, as well as our history of vehicle development and production, are the basis on which we can compete in the global automotive market in spite of the challenges posed by our competition; however, we have a limited history of operations.”
Managing Excess Demand:

Regional reserve margin estimates and targets for summer 2012

- Northwest: 20%, 15%
- California: 15%, 15%
- Southwest: 22%, 14%
- Texas: 13%, 14%
- Midwest: 27%, 17%
- Central: 20%, 14%
- Gulf: 36%, 15%
- Southern: 33%, 15%
- TVA: 31%, 15%
- Carolinas: 23%, 15%
- Florida: 30%, 15%
- Mid-Atlantic: 31%, 16%
- New York: 17%, 16%
- New England: 26%, 15%
- Region Name Reserve Margin estimate, target
Strategy & Focus: Tesla Energy Group

Tesla Energy Overview and Product Portfolio

The world currently consumes 20 trillion kWh of energy annually

Launched: 2015

Tesla Energy’s goal is to move the electricity grid off of fossil fuels and towards renewable energy sources

Tesla Energy offers a suite of battery products globally:
- Homes
- Businesses
- Utilities