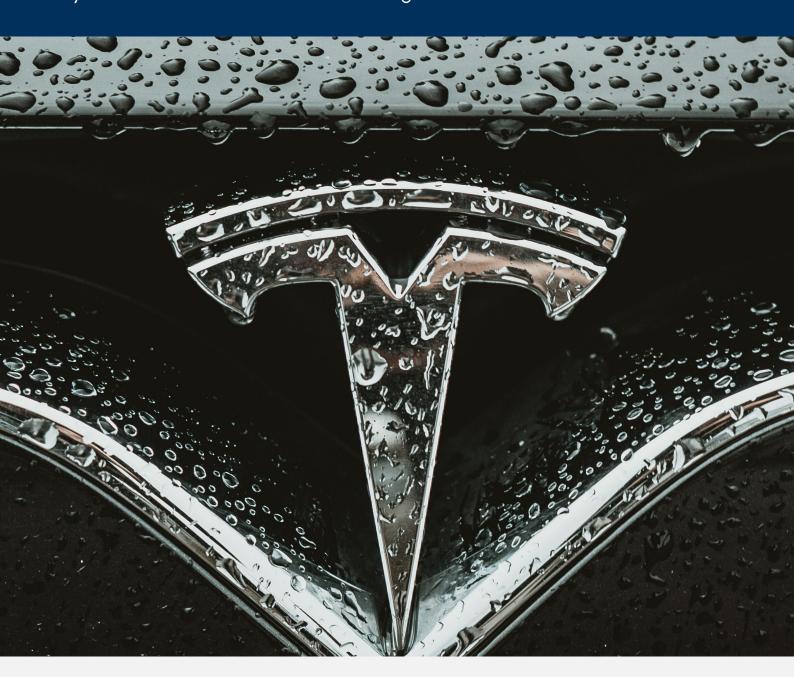
By Quirin Zundl & Juan Martin Aleaga



20th of February 2019

BY QUIRIN ZUNDL

STATEMENT

I see Tesla as an overvalued, overrated company with a business model which can hardly deliver sustainable solutions in the short and medium term. Maybe in the long term. The company delivers very inconsistent operative performance with revenue, EBITDA, EBIT and net income figures varying significantly. Tesla was founded in 2003 by Elon Musk, who also founded Paypal, SpaceX and The Boring Company. In fact, it is very difficult to evaluate Musk as entrepreneur, however Paypal is a significant corporate success story. Can he copy this success with Tesla?



As is of common knowledge, Tesla is a stock with very active short-selling activities. That is where we come in: The short interest on Tesla fell from 43,66 million shares in May 2019 to 22,75 million shares in January 2020. The short positions were held by a variety of asset management firms, including Steve Eisman's Neuberger Berman. Note that Eisman is one of the best short sellers in the world, yet he lost money in the phase between May 2019 and January 2020, covering his Tesla short position. This case is one of many, indicating that "smart money" lost money with Tesla shorts. However, smart money usually does not lose money, hence smart. So why did it lose money with Tesla? And most importantly, who made the profits?

DESCRIPTION

Tesla, Inc. (formerly Tesla Motors, Inc.), is an American electric vehicle and clean energy company based in Palo Alto, California. The company specializes in electric vehicle manufacturing, battery energy storage from home to grid scale and, through its acquisition of Solar City, solar panel and solar roof tile manufacturing.

https://en.wikipedia.org/wiki/Tesla,_Inc.

The way we see it, the silly money made the profits. Silly money which was and still is triggered by greed and the hope that Tesla might one become leading day manufacturer. One thing upfront: We do not know whether electric cars are the future of mobility. Personally, I see hydrogen as a more promising technology, but that is a different story. We do not know whether Tesla will become a leading electric car company. In fact, all we know is that nobody knows.

But, if you think closely, that is more knowledge than the silly money acts upon. Silly money created a bubble by buying Tesla and pushing prices in an unprecedented way. This was further fuelled by the necessity of short sellers to cover their increasingly loss-making short positions. In the end, the bubble reached a peak with two consecutive days (3.2. and 4.2.2020) where the stock rose roughly 20% per day. This was followed by a -25% day.

BY QUIRIN ZUNDL

We shorted Tesla on 10 February 2020 at \$770 per share. Currently the stock trades at \$930 per share, which is obviously not the way we expected things to develop. However, bear in mind: The company was valued at 180\$ eight months ago. If we assume efficient pricing in the markets, is it explicable that Tesla is now worth five times as much as eight months ago?



Do you remember the dotcom bubble? Actually, I was only one year old when it burst, but I had plenty of time to study it in retrospect and gain insights from doing so. The way I see it, we are currently seeing the electric mobility bubble.

ELON MUSK



Elon Reeve Musk FRS (/born June 28, 1971) is an engineer, industrial designer, and technology entrepreneur. He is a citizen of South Africa, Canada, and the United States (where he has lived most of his life and currently resides), and is the founder, CEO and chief engineer/designer of SpaceX; cofounder, CEO and product architect of Tesla, Inc.;founder of The Boring Company;cofounder of Neuralink; and cofounder and initial co-chairman of OpenAl.

https://en.wikipedia.org/wiki/Elon Musk

For now, we will assume that patience and good nerves are the only way to handle the situation properly. If Tesla had not have become a bubble, one might assume that Tesla would have performed identically to the NASDAQ index over the past eight months. This leads to a valuation of \$180 + 27% * \$180 equals \$228,6 per share (see chart). However, it is of general knowledge that Tesla is a stock which tends to outperform in bull markets, so a 50% increase seems justifiable to me. This leads to a "realistic" valuation of \$270. This is a price which is roughly 70% lower than the price at which Tesla is currently trading. We are aware that the market awards Tesla with a large premium, so our initial take profit level is "only" \$650, yet we will continue to observe the stock and act accordingly.

BY QUIRIN ZUNDL





Yours faithfully,

Quirin Zundl

Quirin Zundl Managing Director of FS Associates