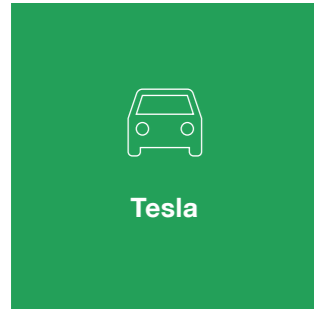


Tesla

Electric vehicles and clean energy

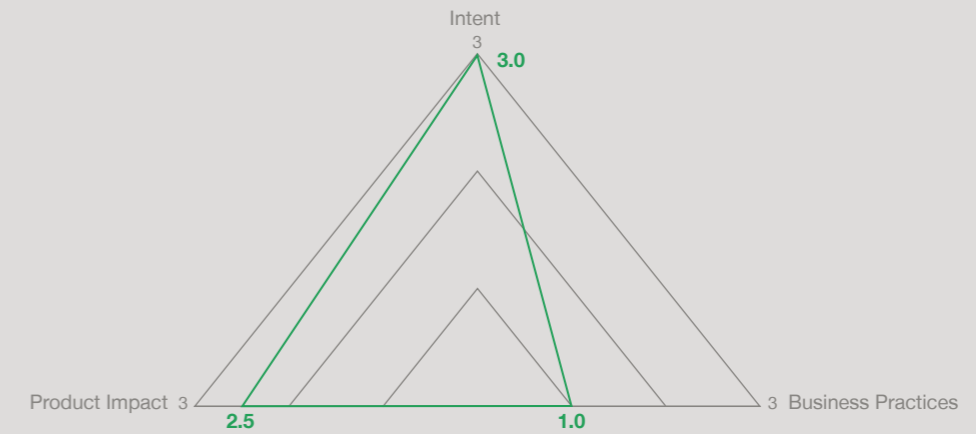


Tesla makes electric cars. The company also has a battery storage business and a solar panel (or shingle) business. Tesla strives to ensure that being green does not mean having to give up on quality or the desirability of a product.

Investment Case

What challenge is the Company tackling?	Climate change is the most significant challenge of our time and a major threat to society and the environment. The combustion engine is a significant contributor to climate change (automobiles account for ~15% of the global CO ₂ emissions), alongside air pollution in major cities. Tesla aims to increase the adoption of electric vehicles which are more environmentally friendly. Through this process, Tesla could also play a significant role in reducing climate change.
Is the Company's offering sufficiently different and better than the status quo?	Tesla's electric vehicles have lower lifecycle emissions compared to conventional combustion engine vehicles. Over time, as renewables account for a larger percentage of electricity generation, the environmental benefits of electric vehicles should widen. Compared to previous attempts at making electric vehicles, Tesla has created vehicles that don't compromise on handling and aesthetics, making them appealing to the mass market. Tesla's newer model, the Model 3, managed to attract over 400,000 pre-orders without significant advertising campaign. In addition to electric vehicles, Tesla also make solar panels and energy storage system, which help to increase the adoption of renewable energy.
Is there a committed management team? What have they done before?	Musk is a visionary, and he certainly has an incentive to ensure the company succeeds as a substantial part of his personal wealth is tied up in Tesla. His overarching ambition is to 'save' humanity by addressing climate change and transforming us to a multi-planetary species. He is the founder CEO of Space X and splits his time between the two companies.
How does the Company treat stakeholders?	Looking at the positives, Tesla has leading business practices on many fronts. For example, the Gigafactory will be entirely powered by renewable energy and utilise waste heat and water recycling. Tesla also opened up its patents to other car makers who are serious about electric vehicles. In terms of its supply chain, Tesla joined a number of initiatives including the Responsible Cobalt Initiative and is collaborating with partners such as Umicore on battery recycling. However, looking at the negatives, executive turnover remains high, and Musk's expectations of employees are high. However, the company is explicit that it demands a lot from its employees, stating that 'changing the world is not a 9-5' job, and external review sites report employees derive significant job satisfaction from contributing to Tesla's mission.
Is there a potential to create a profitable and defensible business?	The immediate opportunity is in growing new car sales. The company sold 350k cars in 2019; for comparison Toyota sold 10.7m. Growth will come from the introduction of more affordable cars such as the Model 3 and Model Y. New factories in Shanghai, Berlin and the Cybertruck are all new areas the company is actively pursuing, and further down the line, Musk's masterplan discusses potential opportunities in lorries and buses. Stationary storage is also a significant growth opportunity which leverages the company's battery technology. The purchase of Solar City allows Tesla to introduce solar and storage products for the domestic market. Tesla's competitive advantage comes from its vertical integration, hardware edge (especially on battery) and software expertise.
Is the business attractively valued?	Tesla is in investment mode; it is developing the Model 3 and Model Y (mass market vehicles) production capability and growing manufacturing capacity across the world. In the long-run, it has the potential to become an incredibly valuable business if it can scale up the production of its mass market and other products at an economic level. We think the value in other parts of the business such as energy generation, storage and software also unrecognised.

Impact Analysis



Product Impact

The company has demonstrated its role as a key innovator within the auto industry and aims to achieve a similar impact within the energy generation sector. On this basis, the ambition of the business model and its holistic consideration of transport and energy result in a breadth and depth that are rightly considered to be significant.

Intent

The presence of a visionary and committed founder ensures that the company's long-term objectives are prioritised and protected ahead of short term market demands, while selected actions indicate that management understand the magnitude of the challenge and the importance of collaboration.

Business Practices

Some of Tesla's business practices are industry leading however there are significant gaps in the company's disclosure, a lack of evidence as to how they seek to address important areas of the value chain and specific areas for improvement. Ongoing engagement and developing our relationship is particularly important in this context.

	Relevant Targets	Relevant Products
3 GOOD HEALTH AND WELL-BEING	<p>Target 3.6 By 2020, halve the number of global deaths and injuries from road traffic accidents.</p> <p>Target 3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.</p>	Tesla's cars are equipped with advanced safety technologies and their goal for autonomous driving should reduce human errors on the road.
7 AFFORDABLE AND CLEAN ENERGY	<p>Target 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.</p> <p>Target 7.3 By 2030, double the global rate of improvement in energy efficiency.</p>	Tesla's solar roof and energy storage help to increase renewable energy generation and usage.
11 SUSTAINABLE CITIES AND COMMUNITIES	Target 11.6 By 2030, reduce the adverse per capita environmental impact of cities.	Tesla's electric vehicles have lower lifecycle emissions compared to internal combustion vehicles, and the environmental benefits will only increase as more of our electricity is generated through renewable energy.
13 CLIMATE ACTION	With reference to UN Framework Convention on Climate Change.	

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