

REVISITING THE SPACEX VALUATION: A POST-PROSPECTUS UPDATE!

Separating the wheat from the chaff in financial statements!

THE LEAD IN..

- In a post a few weeks ago, I assessed the value of SpaceX ahead of its initial public offering, with the admission that I **was making my estimates with drabs of data**, some of it coming from unofficial sources.
- I also promised to revisit my valuation, when the prospectus came out, and now that it has, **I will use this post to examine how the information it contains has changed my view of the company and its valuation.**
- I will also use this post to talk about the information gained by having access to a company's financials, and why the **information you glean from those financials is different at younger companies**, with growth potential, relative to mature companies.

THE SPACEX PROSPECTUS ARRIVES!

- In a paper focusing on IPOs from a couple of years ago, I noted that **prospectuses have become more bloated over time**, often running four to five times longer than those filed by companies that went public four decades ago, but not necessarily more informative.
- The SpaceX prospectus that we made public on May 20, 2026, is **277 pages long, with an addendum that runs another 100 pages**, with dozens of pictures (mostly of spaceships going into orbit) and a soaring story, but with **weak links and distractions galore**.
- **To get a measure of how the prospectus changes my pre-prospectus story and valuation,**
 - I will start with the easy part of the update, where I **use the numbers from the financial statements** in the prospectus to replace my pre-prospectus estimates.
 - I will then move on to the weightier part, where I assess how the information in the prospectus **change my story line and value for the company**.

THE PROSPECTUS DATA UPDATE: OPERATING AND FINANCING NUMBERS

Operating Numbers

	<i>Pre-prospectus (my estimates \$ millions)</i>	<i>Prospectus (\$ millions)</i>
Revenues (Launch)	\$4,100.00	\$4,086.00
Revenues (Starlink)	\$11,400.00	\$11,387.00
Revenues (xAI)	\$100.00	\$3,201.00
Operating income or EBIT	-\$2,000.00	-\$2,589.00
Interest expense	\$ -	\$1,945.00
Net Income	Not estimated	-\$4,937.00
R&D Expenses	Not available	Capitalized over 5 years
Operating income (adjusted for R&D)	Not available	\$4,020.00

Financing Numbers

	<i>Pre-prospectus (my estimates \$ millions)</i>	<i>Prospectus (\$ millions)</i>
Book value of equity	\$20,000.00	\$41,325.00
Book value of debt	\$0.00	\$22,896.00
Cash and Marketable Securities	\$0.00	\$24,747.00
Net Debt	\$0.00	-\$1,851.00

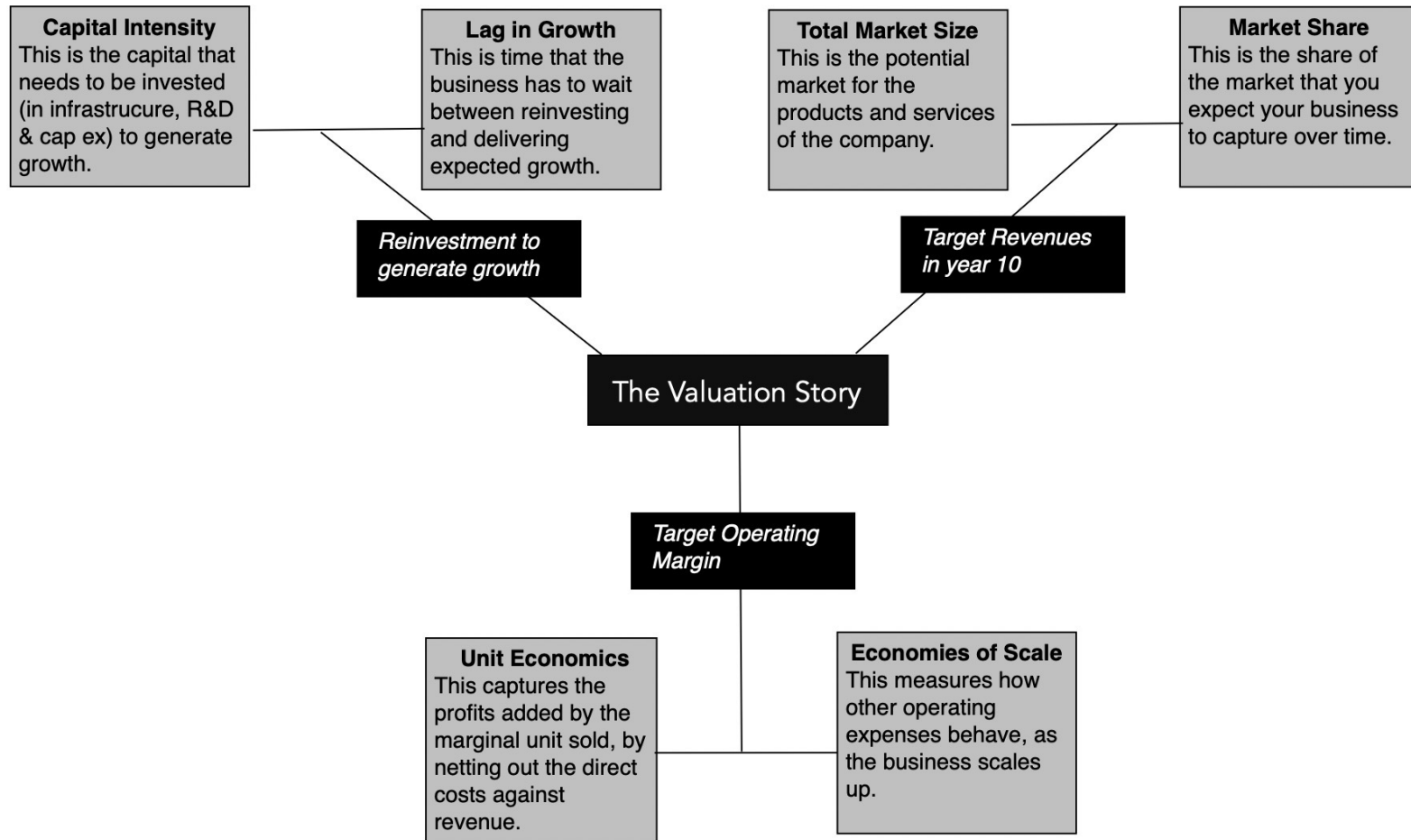
THE PROSPECTUS DATA UPDATE: SHARE COUNT AND USE OF PROCEEDS

- **Share count**: In my initial valuation, I used the **private company pricing per share in conjunction with estimated market cap to back out a share count of 2467 million shares**.
 - With the prospectus, we get a clearer sense of shares outstanding, with a basic share count of **12,535 million shares reported** in the prospectus (pages 246 & 247) in computing per share numbers.
 - That share count does not include the **new shares that will be issued in the offering**, but that share count will be determined by the magnitude of the offering as well as the expected issuance price or the **restricted stock units held by employees** (see prospectus, page 18) and that information is still not blanked out in the prospectus.
- **Use of proceeds**: It is estimated that SpaceX plans to **raise \$75-\$80 billion from the offering**, and the prospectus specifies that the company plans to hold the proceeds to cover infrastructure investments in these businesses.

THE PROSPECTUS DATA UPDATE: CORPORATE GOVERNANCE UPDATE & SUMMATION

- The prospectus also **lays bare the governance questions that will overhang the firm**, with information that there will be two classes of shares- 6,932 million class A shares with one vote per share and 5,602 million class B shares with ten votes per share.
- The public offering will be class A shares, and with **Elon Musk holding all of the class B shares, he will control more than 85% of the voting rights in the company.**
- The prospectus is **long and filled with distractions**, but there is almost nothing in it that surprises me. As anticipated, SpaceX is a **growing company that is money-losing and cash-burning, but growing in the aggregate, that will be a Elon Musk vehicle.**

VALUATION STORY DIMENSIONS

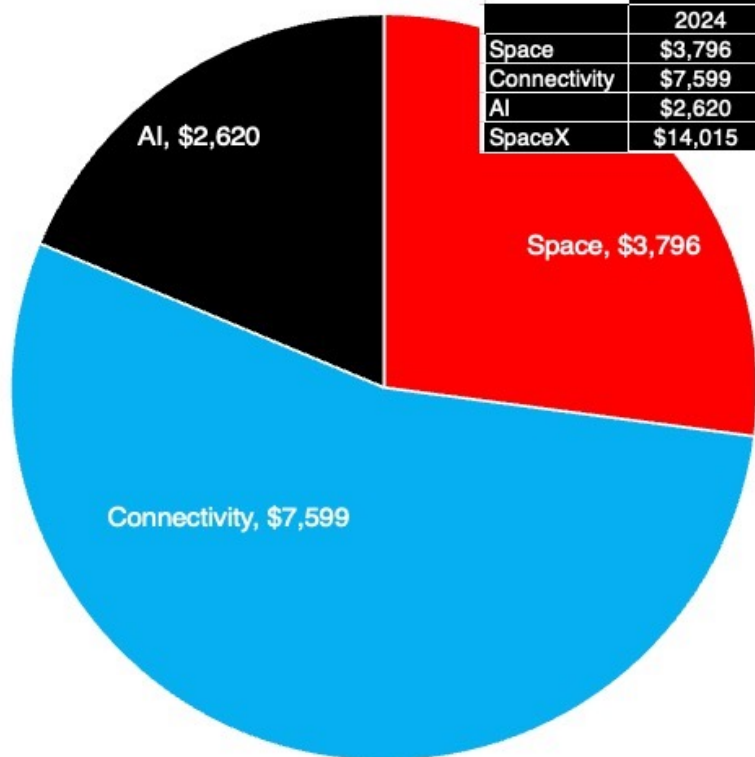


MY PRE-PROSPECTUS STORY (AND INPUTS)

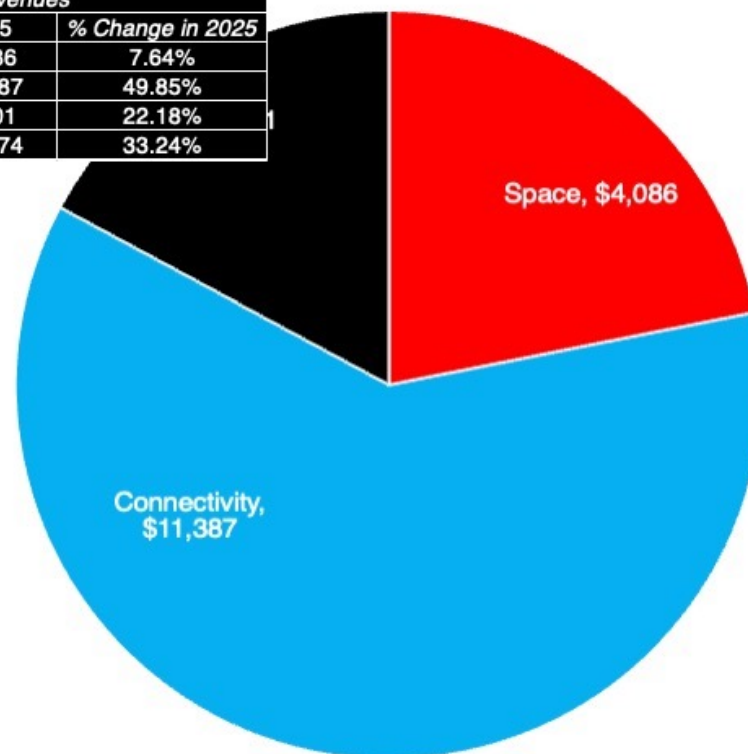
<i>Business</i>	<i>Storyline</i>	<i>Revenues in 2036 (\$ millions)</i>	<i>Operatng Margin in 2036</i>	<i>Sales to Capital: 2026-30</i>	<i>Sales to Capital: 2031-2035</i>
Launch	Dominant player in a growing launch market; 70% market share of \$100 billion market.	\$70,000	40%	4.00	2.00
Starlink	Market leader (75%) in satellite broadband, a niche (10%) of very large broadband service market (\$1.6 trillion)	\$120,000	60%	10.00	5.00
xAI	LLM with focus primarily on consumer subscriptions, rather than business-use	\$80,000	45%	2.50	1.50
Expansion Options	Expansion options in space (travel), internet services and AI-related businesses.	\$50,000	30%	3.00	3.00

1. REVENUE GROWTH (TARGET REVENUES)- HISTORICAL GROWTH

SpaceX Revenues in 2024

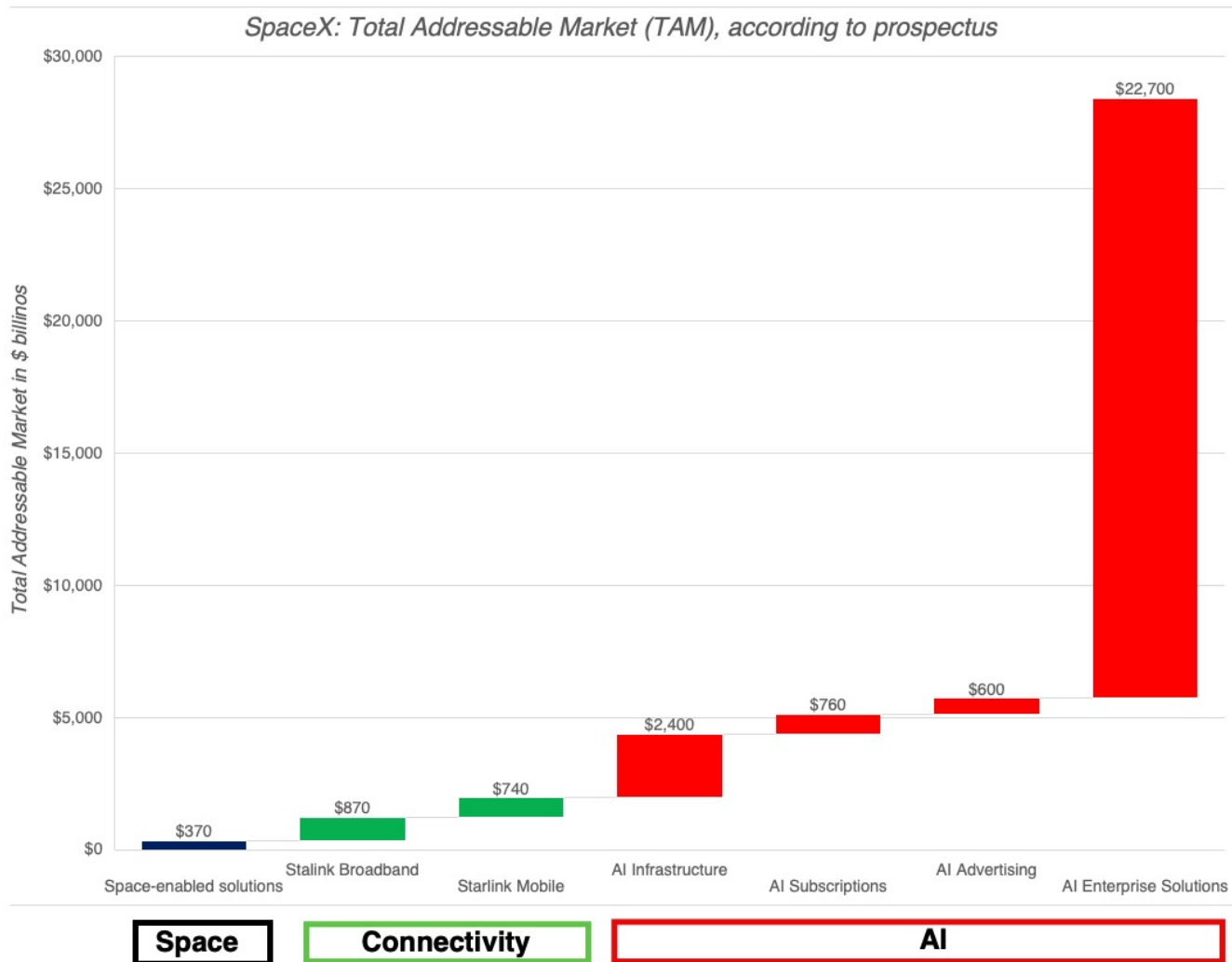


SpaceX Revenues in 2025



	Revenues		
	2024	2025	% Change in 2025
Space	\$3,796	\$4,086	7.64%
Connectivity	\$7,599	\$11,387	49.85%
AI	\$2,620	\$3,201	22.18%
SpaceX	\$14,015	\$18,674	33.24%

AND TOTAL ADDRESSABLE MARKETS (FROM THE PROSPECTUS)



MY REVENUE GROWTH STORY (POST-PROSPECTUS)

- I will **stick with my estimates for target markets for the space launch and connectivity businesses**, since the TAMs in the prospectus are, in my view, overreaches, and I will slow growth in the near years, to reflect that these businesses will take time to mature.
- In the AI business, I **disagree with the magnitude of the TAM in the prospectus**, but the acquisition of Cursor and the indications in the prospectus suggest that xAI very much wants to be part of the enterprise solutions space, notwithstanding its immense capitalization needs, and **I will double my target revenues for AI from \$80 billion to \$160 billion**, reflecting my estimate of a **TAM of about \$3 trillion to \$4 trillion for AI products and services**.

2. PROFITABILITY – THE STORY IN MARGINS

Space Business

Has the best unit economics, and showed improvement year-t-year, reflecting the superior economics of reusable spacecraft in space launches. R&D takes a substantial bite, but its effect should level off, as growth steadies.

Connectivity Business

Solid and improving unit economics, notwithstanding lower revenues per subscriber. As with space business, R&D has significant effect on operating income, but here again, treating R&D as a capital expense will cause its effect to level off.

SpaceX: Unit Economics, by business

	Space		Connectivity		AI	
	2024	2025	2024	2025	2024	2025
Revenues	\$3,796	\$4,086	\$7,599	\$11,387	\$2,620	\$3,201
Cost of goods sold	1,541	\$1,352	\$4,768	\$5,921	\$1,687	\$2,178
Gross Income	\$2,255	\$2,734	\$2,831	\$5,466	\$933	\$1,023
R&D Expenses	1,835	\$3,004	\$1,176	\$575	\$1,176	\$5,064
Other oper expense	399	\$387	\$372	\$468	\$1,318	\$1,827
Operating Income	\$21	-\$657	\$1,283	\$4,423	-\$1,561	-\$5,868
Gross Margin	59.40%	66.91%	37.25%	48.00%	35.61%	31.96%
Operating Margin	0.55%	-16.08%	16.88%	38.84%	-59.58%	-183.32%
EBITR&D Margin	48.89%	57.44%	32.36%	43.89%	-14.69%	-25.12%

AI Business

Least attractive unit economics, with worsening in 2025, driven partly by the cost of delivering on AI subscriptions and services and partly by competitive pricing. R&D is substantial, and with the capital expenditures in this business, it is the most capital intensive of the three businesses.

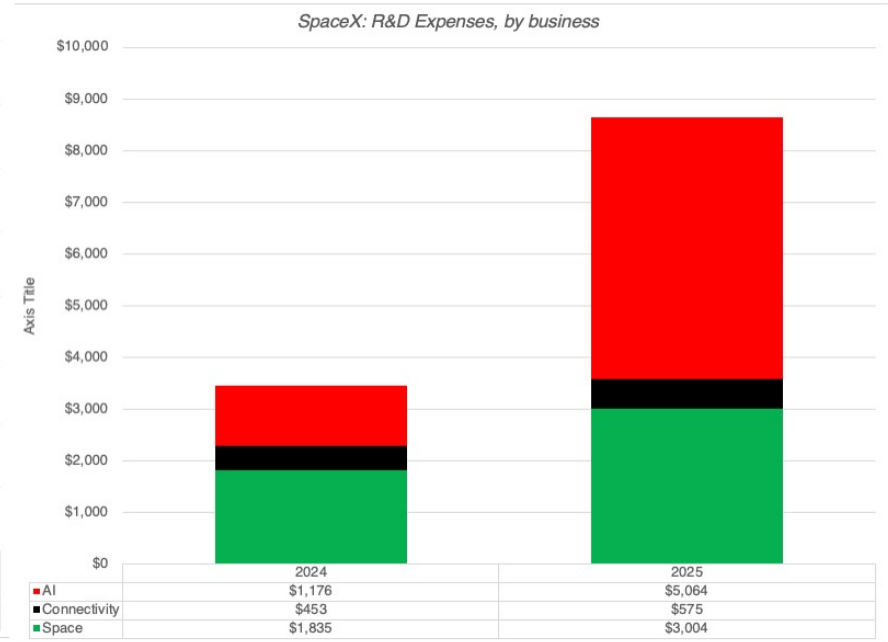
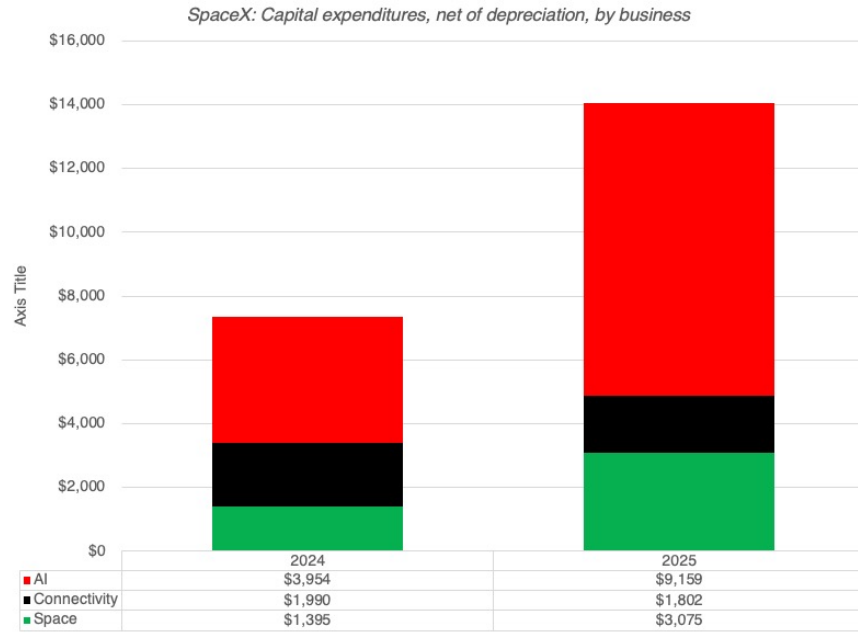
WITH MORE INFORMATION ON PROFITABILITY..

- On the space launch business, the **cost of launching payloads at SpaceX have been trending down**, making its already large cost advantages in the business even larger:
- On the connectivity businesses, there is bad news and good news on the per user front. The **bad news is that the revenues, per month, per subscriber, declined from \$99 in monthly revenues in 2024 to \$66 in monthly revenues in the first quarter of 2026**. The **good news is that the number of subscribers has doubled from 5 million in the first quarter of 2025 to 10.3 million in the first quarter of 2026**, with the bonus that the company has been able to improve its profitability (see gross margins in the table above) over time.
- **On the AI business, there is not much to go on, on the profitability front**, since the focus in the prospectus is more on the increase in compute capacity (see nameplate compute draw on Page 90 of the prospectus) than it is on revenues, especially on the enterprise front.

MY PROFITABILITY STORY UPDATED

- The unit economics for the **space businesses**, in conjunction with the recognition that there are no other substantial operating expenses (outside of the misclassified R&D expense) in either business, **lead me to increase the target margin for the business to 45%, from 40%.**
- I will **leave intact the target margin of 60% for the connectivity business**, because once the satellites that service this business are in space, the operating margins will continue their upward march.
- My biggest shift is in the target margin that I estimate for the AI business, where **the dynamics that are pushing gross margins down, i.e., increased competition and high costs of delivering AI services, will persist; my estimated operating margin drops from 45% to 25%.**

3. REINVESTMENT



MY REINVESTMENT STORY UPDATED

- Given that SpaceX is continuing to invest substantial amounts in its **space launch and connectivity businesses**, I will **increase reinvestment in the near term (years 1-5) by lowering how much they will generate as additional revenues for every additional dollar of capital invested (lower sales to capital ratios)**.
- **With AI**, where I was already assuming that reinvestment would be large (with a low sales to capital ratio), the **tripling of target revenues will result in a surge in reinvestment to generate the higher sales**.

MY UPDATED STORY (AND INPUTS) FOR SPACEX

<i>Business</i>	<i>Storyline</i>	<i>Revenues in 2036 (\$ millions)</i>	<i>Operating margin in 2036</i>	<i>Sales to Capital (2026-2030)</i>	<i>Sales to Capital (2031-2035)</i>
Space	Dominant player in a growing launch market; 70% market share of \$100 billion market	\$70,000	45.00%	3.00	4.00
Connectivity	Market leader in satellite broadband, a niche or a very large broadband service market (\$1.6 trillion)	\$120,000	60.00%	3.00	5.00
AI	LLM competing head-to-head with lead players in a very large, competitive and capital intensive space.	\$160,000	25.00%	1.50	2.50
Expansion	Expansion options in space (travel), internet services and AI	\$50,000	30.00%	5.00	5.00

SpaceX

To infinity and beyond

Jun-26

The news in 2023 for Tesla, ranging from price cuts on many of its lowest-priced models, in conjunction with the Cybertruck introduction, suggests that Tesla will continue to grow in its core auto business, maintaining a dominant market share of the electric car component. In conjunction, a rise in revenues and operating profits from the energy business, coming from a shift to energy storage solutions will expand the profitability of that business, and Tesla's commitment to FSD will translate into software revenues (from sale as an add-on) and provide an impetus to a robotaxi business.

The Assumptions

	Base year	Year 1	Year 10		After year 10	Link to story
Revenues (a)	\$ 18,674	→	4.56%		4.56%	Growth in EV market & Tesla's early mover advantage work in its favor.
Operating margin (b)	21.53%	21.53%	→ 22.21%		38.10%	Tech twist gives a boost, but price cuts and cost pressures will cap margins
Tax rate	10.00%	10.00%	→ 25.00%		25.00%	Global tax rate
Reinvestment (c)		Sales to capital	3.00	RIR =	30.40%	Capacity build up allows for less reinvestment in the near years.
Return on capital	6.80%	Marginal ROIC =	1563.53%		15.00%	Cost of entry will limit competition.
Cost of capital (d)		8.37%	→ 8.25%		8.25%	Moves to median company cost of

The Cash Flows

	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	\$38,762	8.46%	\$3,279	\$2,951	\$10,181	-\$7,229
2	\$62,868	11.40%	\$7,166	\$6,449	\$12,217	-\$5,767
3	\$85,367	14.84%	\$12,672	\$11,404	\$11,402	\$2
4	\$102,242	18.51%	\$18,923	\$17,031	\$8,552	\$8,479
5	\$119,116	22.21%	\$26,459	\$23,813	\$8,552	\$15,261
6	\$179,293	24.91%	\$44,653	\$38,848	\$16,456	\$22,392
7	\$247,505	28.04%	\$69,402	\$58,297	\$18,947	\$39,350
8	\$312,503	31.35%	\$97,977	\$79,361	\$17,951	\$61,411
9	\$366,251	34.70%	\$127,105	\$99,142	\$14,463	\$84,679
10	\$420,000	38.10%	\$160,000	\$120,000	\$14,463	\$105,537
Terminal year	\$439,152	38.10%	\$167,296	\$125,472	\$38,143	\$87,329

The Value

Terminal value	\$ 2,366,626		
PV(Terminal value)	\$ 1,062,566		
PV (CF over next 10 years)	\$ 161,882		
Value of operating assets =	\$ 1,224,448		
Adjustment for distress	\$ -	Probability of failure =	0.00%
- Debt & Minority Interests	\$ 22,896		
+ Cash & Other Non-operating assets	\$ 99,747	Includes \$75 billion from IPO offering	
Value of equity	\$ 1,301,299		
- Value of equity options	\$ -		
Number of shares	13,301.95	Includes added shares from \$75 billion @ intrinsic value	
Value per share	\$ 97.83	Offering price set at \$135 on June 3, 2026	

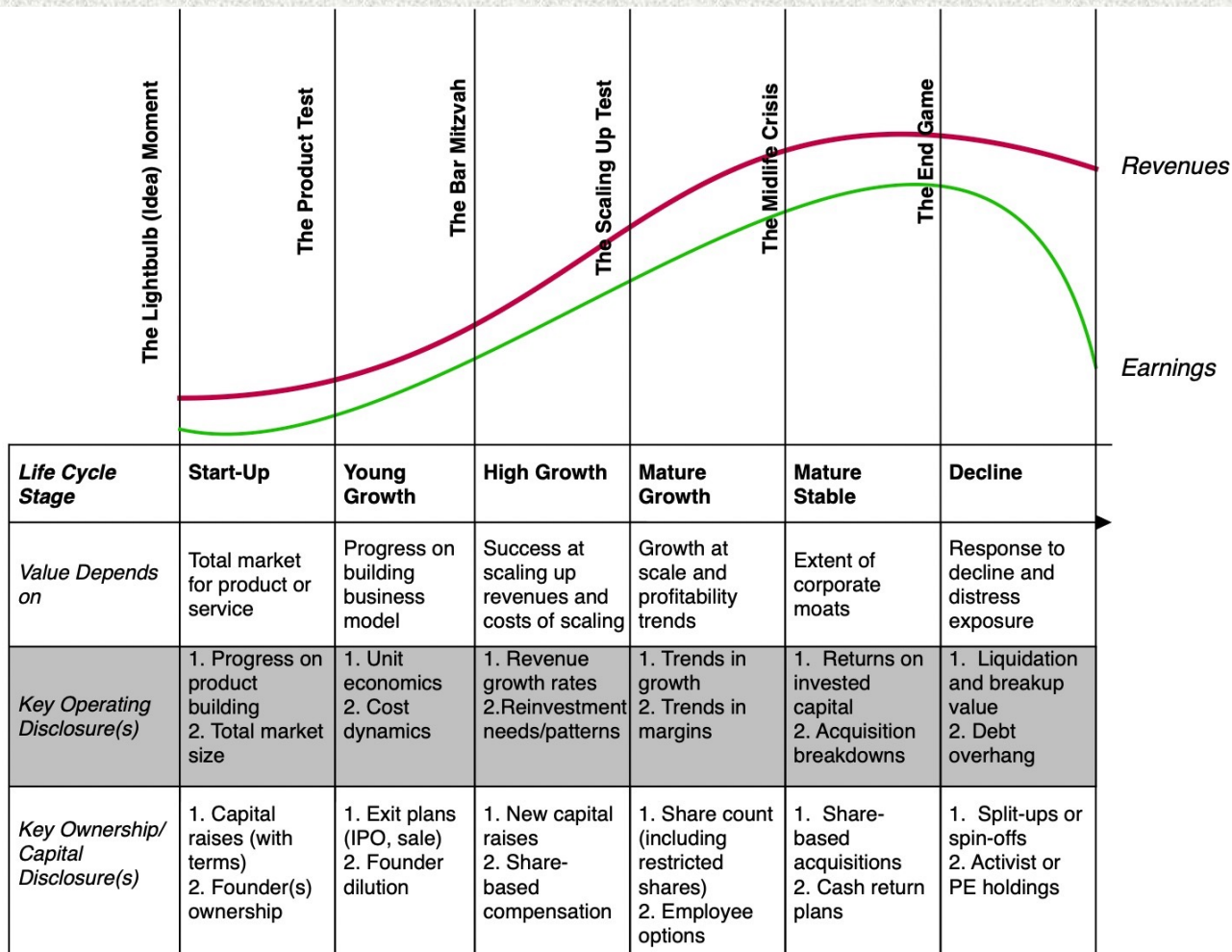
AI OVERREACH: THE BIGGEST RISK!

- There are a multitude of risks that SpaceX faces in each of its businesses, but the one that **I would be concerned about the most is that it will overreach in the AI business**, beginning with an overestimate of the target market for AI products and services and its own competitive position in that market, and following through with investments that reflect those misplaced assessments.
- Those concerns are **heightened by a voting share structure that locks in Elon Musk's control of the company**, since there is **little that shareholders can do to restrain the company**, if it doubles down on capital expenditures and acquisitions in the AI space, even after it becomes clear that the AI market is much smaller than anticipated and/or that xAI's offerings are not as good as the competition.

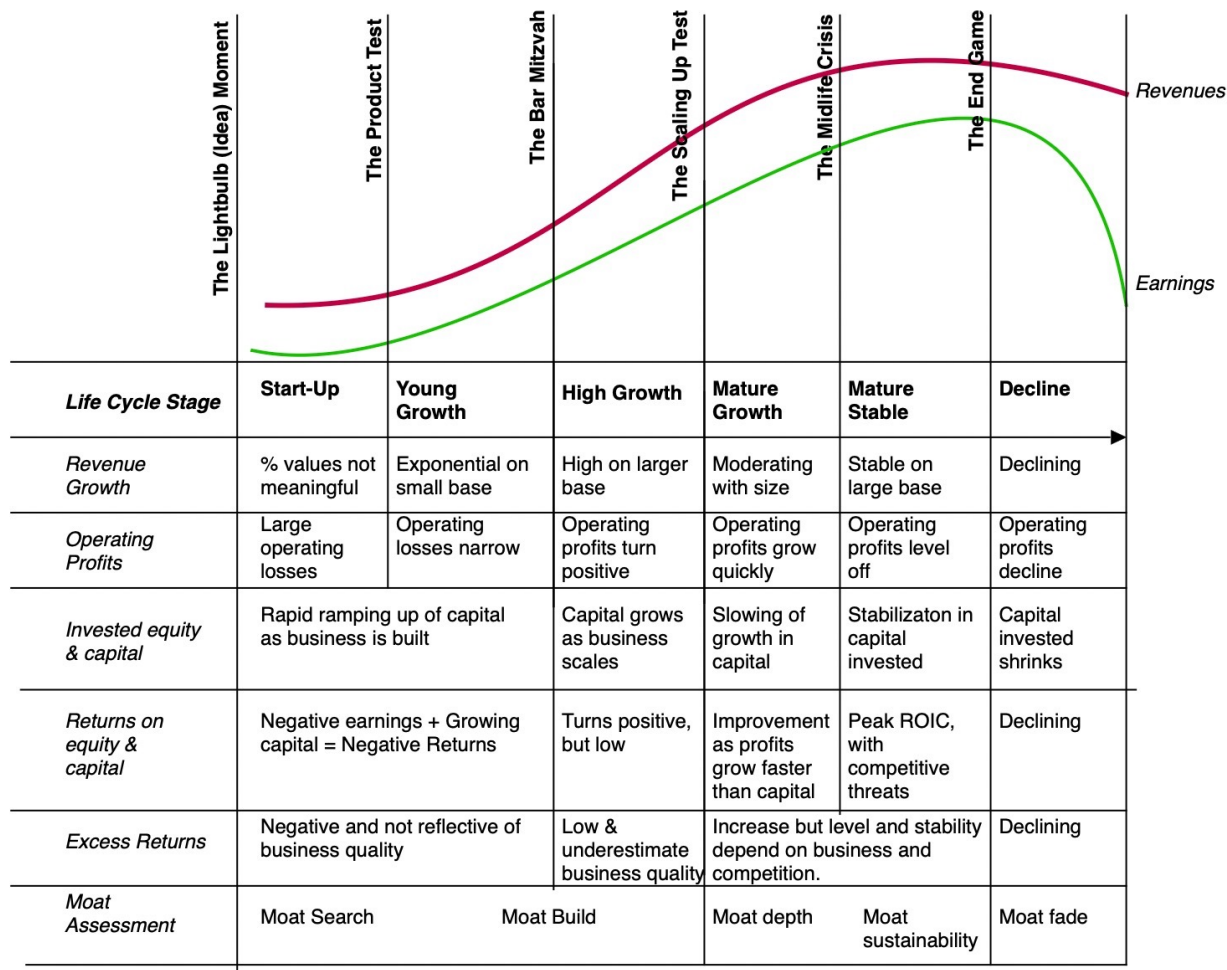
FINANCIAL STATEMENTS AND VALUE

- **Financial analysis and valuation, [going back to Ben Graham's Security Analysis](#), has always been centered on financial statements, and that focus has become more intense over the last few decades as access to data and analysis tools has expanded.**
- **In fact, much of what passes for valuation has become financial modeling, where line items are forecast based upon the historical time series, with the proverbial bottom lines being earnings and cash flows.**
- **Along the way, ratios computed from numbers in financial statements, with accounting returns on equity and capital taking a lead role, are used to screen companies for investment quality.**
- **The SpaceX prospectus is a case study in why this approach to investing is myopic and often misleading, and why the informational value of financial statements will shift as companies grow and mature.**

QUESTIONS AND VALUE DRIVERS ACROSS THE LIFE CYCLE



FINANCIAL STATEMENT EVOLUTION ACROSS THE LIFE CYCLE



WITH IMPLICATIONS FOR SPACEX!

- If you allow for the fact that **all three of SpaceX's businesses are young, falling in the young to high growth categories**, the big questions driving value are about market size and unit economics, since the former provides the basis for revenue growth and the latter determines profitability.
- That is why, when **looking at the prospectus for the company, it was the data on unit economics and capital intensity** that had a much bigger impact on value, and this information, for the most part, was in the footnotes to the financials, rather than in the financial statements themselves.
- The **mix of good news and bad news in the prospectus creating offsetting impacts** and left the overall value almost unchanged.

BAD AND GOOD REASONS TO AVOID SPACEX

- There are many good arguments that can be made about why you should not invest in SpaceX, but **basing that conclusion on the fact that they are money-losing or have negative cash flows is both lazy and unconvincing.**
- In contrast, **making a case against investing in SpaceX** because you believe that the **target markets** for its businesses will be far smaller than the company thinks they will be, or that cost and competitive pressures will **drive margins down** or even that you find its **corporate governance structure and dependence on a personality** (Elon Musk) off-putting is perfectly reasonable.
- If you do make that case, though, it is worth remembering that **you don't have a monopoly on the truth** and that **disagreements about market size and profitability across investors, especially in young companies, are natural and healthy.**
- In short, based on my inputs and story, **I think that SpaceX is worth about \$1.25-\$1.3 trillion**, but if you contend that it is worth \$3 trillion or only half a trillion, it is **neither my job nor place to convince you that I am right and that you are wrong.**

THE SPACEX IPO PROCESS: BANKERS

Issuing Company

Private company chooses to go public.

Company picks a lead investment banker to manage the process, who creates a syndicate of other banks to help market and distribute.

Issuing company files a prospectus and specifies how much it plans to raise in the issuance and how it plans to use the proceeds.

Bankers set a preliminary price and test out the price with prospective investors.

Bankers decide on final offering price and number of shares that will be offered.

Bankers and company managers do a road show for investors.

On offering date, shares start trading, with market setting a clearing price.

Post-offering, bankers provide support for the issuing company's shares, allowing for a smooth transition to owners cashing out.

Banker's Role

Timing

Help in finding timing window and location for public offering. Also help in crafting company's narrative and getting financials in order for offering.

Filing & Offering Details

Assist in the writing of the prospectus and in offering size.

Pricing

Frame the pricing (metric and peer group), gauge demand for the shares, and fine-tune the pricing to keep issuing company and investors "happy."

Selling/Marketing

With company's help, inform and excite potential investors.

Price Guarantee

If market opens at below "offer" price, deliver the guaranteed price.

After-Market Support

Provide both explicit support, by buying shares if needed, and implicit support, with favorable research and recommendations.

THE SPACEX IPO PROCESS: THE ISSUING COMPANY

- Looking at the IPO from SpaceX perspective, the public offering will provide benefits.
 - For the **owners in the company in its private form**, including venture capitalists from early in its life to public investors in more recent years, becoming publicly listed **will allow them to cash out**, albeit after the lock-out period expires in a few months.
 - **For the company, the increased access to capital** from being a public company will allow it to cover the capital expenditures and investment needs that emanate from the company's ambitions in the AI business.
 - **For Elon Musk, the public offering has the potential to make him the first trillionaire in history**, in addition to unlocking new pathways to further enrichment for meeting specified targets (including getting a million people on Mars).
- Since many of these benefits have been in existence for many years, the fact that company stayed private for that period is an indication that there are costs to going public.
 - The first is that, notwithstanding Musk's voting control of the company, become a public company will **open SpaceX to market scrutiny, in the form of earnings reports every quarter and insider trading reports**.
 - The second is that **the market is fickle**, and while it is rewarding companies that invest in AI with high market prices today, it can change its mind and punish them for the same reason.

THE SPACEX IPO PROCESS: INVESTORS

- I am **more investor than trader**, and I say that without judgment, since the end game in markets is to make money, not score intellectual points.
- In fact, my valuation of SpaceX was driven by my interest in the company and my belief that it is in unique, cutting-edge businesses, and my decision on whether to buy into the offering is therefore driven by my assessment of its value.
- While there is no offer price listed yet, at the rumored pricing of \$1.8 to \$ 2 trillion for the company, it is too richly priced for my tastes, given my valuation of \$1.25-\$1.35 trillion for the equity in the company.
- That does not imply that I will never buy the stock, since the market does change its mind, and if the price does drop by enough, my decision would change accordingly

THE SPACEX IPO PROCESS: TRADERS

- If you are a trader, though, the game changes. Your judgment on whether you seek to partake in the SpaceX offering **will depend on your reading of market mood and momentum.**
- **I would not be surprised in the least to see the offering priced at \$1.8 trillion**, and see a jump in the price on the day of or in the weeks after the offering, and if that is your most likely scenario, being able to get into the offering at the offer price or even in the first few hours or days of trading will be a winning strategy.
- The risk, of course, is **that momentum can shift quickly**, causing a significant price drop, effectively making timing your trades right key to your trading strategy.
- The shifting and often unpredictable forces of mood and momentum are also the reason that as an investor, **I would not sell short, notwithstanding my value assessment**, even if the pricing for the company pushes from \$1.8 trillion to \$2 trillion or more.

CONCLUSION

- As the IPO process for SpaceX heats up in the coming weeks, you should prepare yourself for a **flood of selling from the company and its bankers**, with talk of possibilities and potential predominating.
 - If you are on the receiving end of these sales pitches, you should listen but **check the numbers for plausibility and make your own judgments on value**.
 - For **the bankers involved and the issuing company, the biggest danger to a successful offering is not that there will be near-term reality checks on their hype**, but that the market mood will shift, either in the aggregate or specifically related to AI, in the weeks leading up to the offering.
- No matter what your views are about the SpaceX IPO, positive or negative, there is no denying that **this company is a loaded bet on futuristic technology and Elon Musk**, and while that may concern some of you, there are others who will look at Musk's track record with Tesla and feel the odds are in their favor.