



# THE PRIVATIZATION OF TESLA: STRAY TWEET OR DEAL TO COME?

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# The Musk Tweet

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**Elon Musk** ✓ @elonmusk · 7 Aug  
Am considering taking Tesla private at  
\$420. Funding secured.



- Even by Musk's own standards, his [tweet on August 7 that Tesla would be going private](#), adding both a price (\$420) and a postscript (that funding had been secured), was a news maker, posing the stock up more than 10% for the day.
- The questions that have followed have been wide ranging, from whether Tesla is a good candidate for "going private" to the mechanics of how it will do so (about funding and structure) to the legality of conveying a market-moving news story in a tweet.




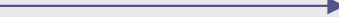
# Public versus Private: Business Trade off

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	Private Business	Publicly traded firm
<b>Access to capital</b>	Less Access to capital, especially in large amounts, is easier for publicly traded companies than for private businesses, who are more dependent on VCs and PE funds.	More
<b>Information Disclosure</b>	Less Disclosure requirements, both for financial data and for any news that may move prices are more stringent and onerous for public companies than for private businesses.	More
<b>Control and Governance</b>	Investor negotiated In private businesses, the founders and investors (VCs and PE investors) negotiate how control is shared, but <u>control rests with insiders</u> . In public companies, the corporate governance rules are set by laws and backed by regulators and <u>opened up to outsiders</u> (investors with shares).	Corporate Governance Laws
<b>Monitoring</b>	Internal The monitoring of a private company's operations and results is internal and oriented to its investors (VC, PE and founder). Public companies are followed by equity analysts from both the buy and sell-side and their questioning will reflect what they view as important for determining pricing.	External
<b>Pricing</b>	Negotiated & Infrequent With private companies, the pricing of the company is usually estimated at the time new capital is raised and is a negotiated number. With public companies, the market sets the price and does so continuously.	Market-set & Continuous

# Public versus Private: Investor Perspective

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	Private Business	Publicly traded firm
<b>Design flexibility</b>	High  Low When investing in equity in a private business, you have lots of flexibility in how the investment is designed; many VCs build in protection against future dilution and lower pricing. With public companies, it is more of one size fits all, though you can have shares with different voting & cash flow rights.	
<b>Liquidity</b>	Low  High An investment in a private business is much less liquid than an equivalent investment in a public company. Put differently, there will be a much higher cost to getting in and out of the investment.	
<b>Information Disclosure</b>	Negotiated  Mandated Private business investors are entitled to less mandated disclosure than public company investors, but they can ask for and get information that might not be accessible in public markets	
<b>Control and Governance</b>	Investor negotiated  Corporate Governance Laws The control that investors have in private companies is determined by how much power they have negotiated for themselves. The control that investors have in public companies stems from how voting rights are distributed across shares and the effectiveness of corporate governance mechanisms (board of directors, voting rules).	

# Public to Private: The Right Candidate

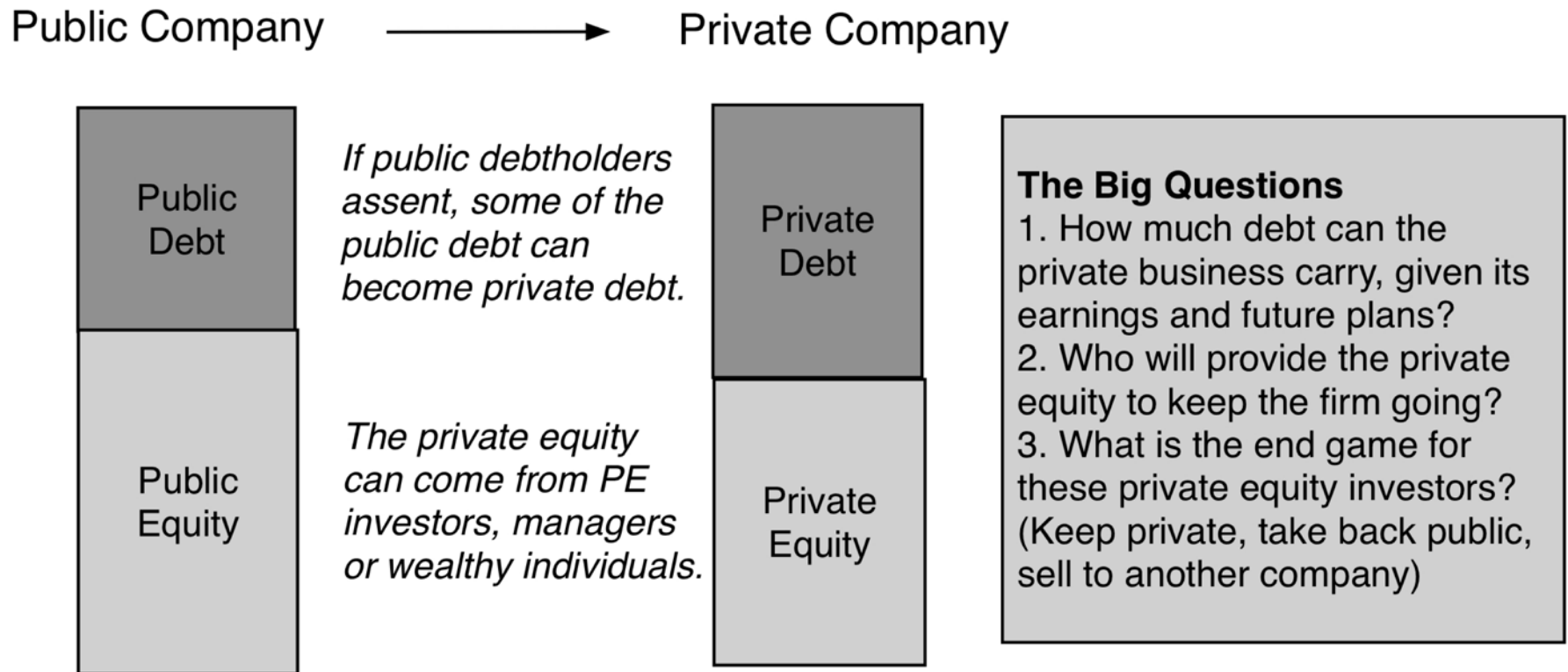
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- This transition makes sense if a public company
  - that does not need access to large amounts of new capital to continue operating
  - where the market is under pricing the company, relative to its intrinsic value
  - that feels the actions that it needs to take in its best long term interests will either create public backlash (layoffs and plant closures) or adverse market reactions (because of the effect that they will have on metrics that investors are focused upon.)
- *Target:* Aging companies (no growth, no capital needed), trading at prices that are below their peer group (lower multiples of earnings or cash flows) and that need to shrink or slim down to keep operating.

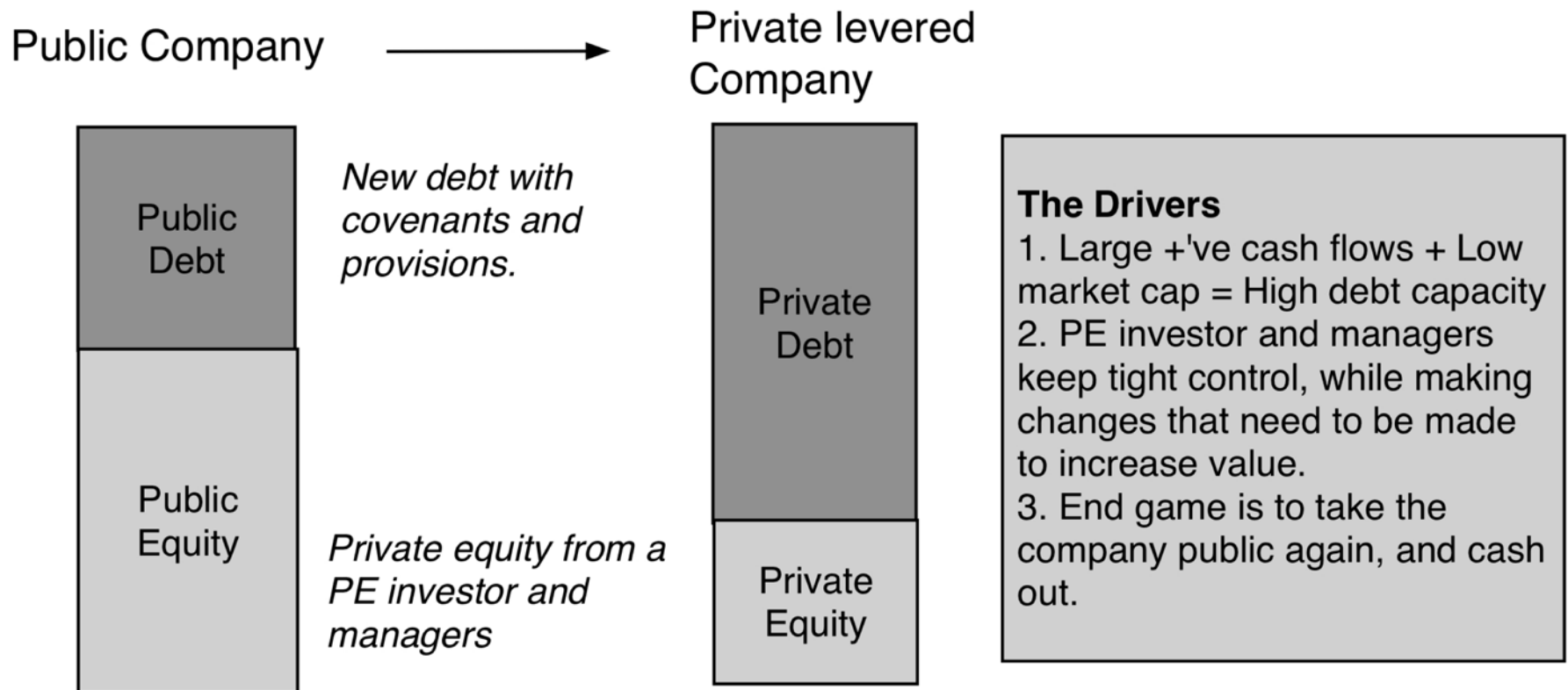
# Is Tesla a good candidate?

- If It is a growing company and it needs new capital to not only deliver on its growth promise but to survive for the next few years.
- If markets are punishing Tesla by under pricing the company, they are doing so in a very strange manner, giving it a higher market capitalization than much larger, more profitable automobile companies, ignoring large losses and generally tolerant of Elon Musk's errant behavior.
- It is true that there was substantial drama and market volatility around the 5000 cars/week production target, but almost all of the drama in this episode, from setting the target (5000 cars/week) to the constant tweets about whether the targets would be met, was generated by Elon Musk, not the market.

# Public to Private: The Funding



# Public to Private: Classic Buyout





# Public to Private: Tesla's Painless Solution

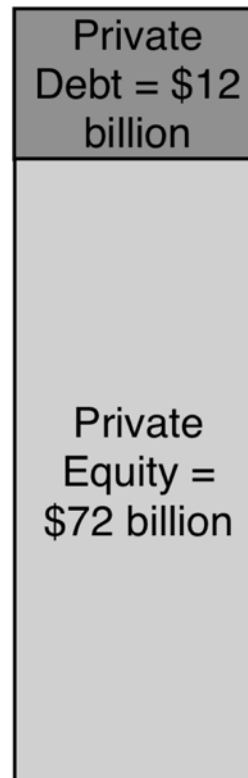
## Public Tesla



*Public debtholders accept debt in private entity*

*All existing public shareholders become private company shareholders*

## Private Tesla



### The No-Pain Solution

1. Existing bondholders & lenders assume debt in new private entity.
2. All existing shareholders turn down the option to sell the shares at \$420/share and become private company shareholders.

# Why it may not be plausible

- It may not be legal: The deal may not pass legal muster, since the SEC restricts private companies to having less than 2000 shareholders, and Tesla has far more than that number. It is true that you might be able to create a fund that has individual shareholders, which then holds equity in the private company, like Uber has, but that fund is restricted to very wealthy, big investors, and the SEC may be unwilling to go along with a structure where there are thousands of small stockholders in the fund.
- It may not be viable: The second is that even if Tesla manages to get regulatory approval for this unconventional set up, many shareholders may choose to cash out at \$420, if the company goes private, even if they think that the shares are worth more, because they value liquidity.

# A Big Partner?

- Tesla's large market capitalization and cash burning status work against it, reducing the number of potential players in the game. At the limit, if all existing shareholders, other than Musk, cash out at \$420/share, you would need about \$55-\$60 billion in funding. No sovereign fund or passive investment vehicle can afford to have that much money tied up in one company, and especially one that will need more capital infusions in the future.
- Even the biggest private equity and venture capital investors, generally more willing to hold concentrated positions, will be hard pressed to put this much capital, for the same reasons. The only name that you can come up with that has even the possibility of pulling this off is Softbank, for three reasons:
  - ▣ They may be big enough to make the investment
  - ▣ They have and are invested in young, growth companies
  - ▣ They have a history with Tesla

# So, where is the "secured funding"?

- It is at this point that the "secured funding" claim that Musk made in his initial tweet comes into question.
  - ▣ If the statement is true, he has either found an inept bank that will lend tens of billions to a money losing company with an undisciplined CEO, or a private equity investor who is willing to make the largest PE investment in history, while allowing Musk to continue running the company, with no checks and balances.
  - ▣ If the statement is false, we will be seeing lawyers debating the meaning of the words "secured" and "funding" for a while.

# A Simpler Explanation: Occam's Razor at Work

- This entire post has been premised on the notion that Elon Musk had done his homework and that he intended to send a serious signal to markets about a future buyout.
- Given Musk's history of impetuous and personal tweets, that premise might be completely wrong, in which case the explanation for this episode may be far simpler and rooted in the war with short sellers that Musk has been fighting for a while.

# Musk hates short sellers

- ❑ Musk is convinced, rightly or wrongly, that short sellers in Tesla are conspiring to bring not just the stock price, but the entire company, down.
- ❑ He is obsessed with short sellers and spends a disproportionate amount of his time and attention on bringing them down.
- ❑ So, it is true that short sellers are a distraction to the company, but only because Elon Musk has made it so.

# The short sellers hate Musk

- Many of the short sellers in Tesla seem to be just as obsessed with Musk and are convinced that he is a scam artist.
- I have a sneaking feeling that for many of them, winning will mean not just making money on their Tesla positions, but seeing the company cease to exist (and taking Musk down with it).

# When investing gets personal, nothing good follows!

- Investing is a difficult game, to begin with, but it becomes doubly so, when it becomes personal. Just as it is dangerous to fall in love with a company that you have invested in, it is just as dangerous to bet against a company because you hate its management and want it to fail.
- I think both sides of the Tesla short selling game are so infected with personal bias that they may do or say things that are not in their best long term investing interests.
- I hope, for Tesla's sake, that Musk's personal dislike of short sellers did not lead him to tweet out that Tesla would go private. with both the price (\$420) and the "secured funding" being spur of the moment inventions. In his zeal to make short sellers pay, he may have handed them the weapon they need to bring him down.