# Venture Capital Investment Decisions on Tesla

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**Abstract.** The boom in electric vehicles in recent years has draw the attention of many companies to this mass-market, This article discusses the business analysis of Tesla, a leader in the electric car market and a technological corporation with an ambition to innovate in the energy sector. Its CEO is the most famous American entrepreneur, Elton Musk. Tesla has attained a crucial level of reference value. Due to the quick evolution of the electric vehicle automobile sector, the majority of the historical data spans the last five years. Investors hope Tesla will dominate the car business and grab all the profits, but Tesla's rivals are established enterprises building electric vehicles with excellent teams as well. Since the debut of the Roadster in 2006, company has swiftly conquered the worldwide high-end electric car industry as well as expanded the low-end market. Elements of a company's fundamental competitiveness have a greater benchmark value for the expansion of the electric car sector. This paper analyses the company strategy and future development of Tesla before discussing value investment, venture capital, and strategic analysis, among other issues. This study provides a complete overview of Tesla's historical background and assesses his evolution. Examines the current quo of Tesla using SWOT models, and concludes with recommendations based on the outcomes of the investigation.

**Keywords:** Tesla · value investing · venture capital · strategic analysis · Industry development · Electric vehicle

## 1 Introduction

Tesla is an American firm formed by Martin Eberhard and Marc Tarpenning, whose original names were Martin Eberhard and Marc Tarpenning. Elon Musk was appointed CEO in 2008 and became the company's largest shareholder in 2004 after investing $6.5 million. Musk believes that the motto of our company is to pave for ourselves as well as the rest of the industry to move towards a sustainable transport and energy program via the use of electricity and solar power [1]. As of 2020, Tesla is rated as the most valued automaker and one of the world's most promising tech firms [2].

The business and financial study of Tesla Inc., a United States-based automobile and energy corporation, is the primary emphasis of this thesis. This particular subject was selected for discussion for a number of different reasons. To begin, the automobile sector has a significant influence on economies all around the world. Every year, automobile manufacturers produce sixty million automobiles, which results in the consumption of


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close to fifty percent of the world's oil. There are nine million individuals who are directly engaged in the automotive business, and an even greater number are employed indirectly. Because of the industry's close relationship with the industries that supply the materials, not only does it play an essential part in the growth of the economy but it also has significant sway in political affairs. The sector has been around for more than a century, which contributes to its age, and it has a strong reputation for offering workers competitive salaries and benefits. Nevertheless, there has been a diminishment in the standard margins.

This thesis comprises three body paragraphs and a conclusion. Tesla's annual reports as well as market figures, are all accessible to the public and serve as a source of information. This thesis will give a presentation of established concepts.

## 2 Data and Method

### 2.1 Data

Elon Musk, the chief executive officer of Tesla Motors Inc., intends to debunk sceptics after a potentially profitable partnership with Daimler AG, which purchased a 10 percent interest in the start-up in May and committed to work on the development of its own electric automobiles. A few months after it looked like Tesla was ready to drive over a cliff, the agreement with Daimler provides a sought-after endorsement from an established carmaker as well as a partner with substantial money, market access, and technological experience.

By December, Musk had persuaded investors to give Tesla more than $40 million in debt financing by promising that the company would be profitable by mid-2009 - no word yet on whether that goal will be met. Even though only 200 of the company's Roadster sports cars had been sold, that bold promise appeared in an open letter to customers in February. Daimler's investment strengthens the company's financial position by providing additional funding - around $50 million, according to sources close to the company - and converting more than $40 million in convertible debt raised from existing venture capital investors into prefered stock.

In June 2010, Tesla Motors raised over $225 million in an initial public offering that valued the electric car manufacturer at $2 billion. It was the first time a U.S. automobile company went public since Ford Motor in 1956 [3]. Company is now: The core elements of Tesla's strategy have been: (i) proprietary integrated electric power-train, (ii) vertical integration from development through to production and retail sales, (iii) significant incorporation of IT capabilities into the auto, (iv) uncompromising focus on battery electric vehicles, and (v) build-out of supercharger network and free charging for customers [4].

In a company valuation, there are four main methodologies to choose from, each of which provides us with a prediction of the company's future value. The DCF valuation method is the first.

### 2.1.1 Discounted Cash Flow Valuation

The discounted cash flow model is applicable when a company is now producing positive cash flows, its future cash flows are predictable, and an acceptable risk proxy for determining the discount rate is available.

J.P. Morgan's price prediction was based on financial projections for Tesla through 2020, as well as a discounted cash flow (DCF) analysis and an examination of market multiples for similar companies.The price target based on comparable company market multiples was an average of the values obtained using three multiples:enterprise value (EV) to earnings before interest, taxes, depreciation, and amortisation (EBITDA) ratio and pension expense (EBITDAP); the stock price to earnings-per-share ratio; and the stock price to sales-per-share ratio.In estimating Tesla's value, these multiples were applied to Tesla's forecasted 2020 earnings, rather than forecasted 2017 earnings as was done in valuing other companies under coverage, to reflect "the full impact of the profit potential of the Model S, Model X and Model 3 vehicles [5]."

## 3 Results and Discussion

The SWOT analysis is a strategy and tool for strategic planning that helps an organisation evaluate its strengths, weaknesses, opportunities, and threats. A model will be utilised to illustrate the company's background in order to analyse Tesla's situation in more depth.

### 3.1 Strengths

### 3.1.1 America's Best Employer 2021

One of the Most Enticing Employers Due to the Variety of Opportunities Available, Tesla is Considered to Be One of the Most Enticing Employers for Engineers. Because of the high level of technological innovation, the stimulating atmosphere, and the market impression of the firm, recently ranked as one of the perfect places to work, attracting young blood with abilities and enthusiasm who are looking for employment. Additionally, Forbes' "America's Best Employer 2021" recognised the organisation as a top place to work.

### 3.1.2 The Market Value

Tesla is the most Valuable Automotive Company which reported a sales revenue of $53.8 billion and 936,172 vehicles sold to individual consumers during its fiscal year 2021. The rise in the number of deliveries coupled with the company's profitability of $5.6 billion pushed the company's market capitalisation to over $1 trillion, surpassing the combined market caps of the world's top five automakers. As a result, the company is now the most valuable automaker in the world measured by market value. Tesla now produces a top-selling luxury car and has a market capitalization twice that of Fiat Chrysler and half that of General Motors or Ford [6].

#### 3.1.3 Innovative Business Mode

Particularly evident in its whole industrial chain technological integration and all-around business mode innovation is Tesla's fundamental competitiveness [7]. As previously said, Tesla automobile models have received several awards for quality, creativity, and progress, making them the finest automobiles in their class and the best EVs overall. As Chesbrough evidenced in "Beyond high tech: early adopters of open innovation in other industries" [8]. And as the image above illustrate. [9] The high pace of technological innovation at Tesla may be translated into a market's faith that the firm will create competitive and lucrative goods, which will lead to long-term financial advantages. This trust can be turned into a market's confidence in Tesla.

### 3.2 Weaknesses

#### 3.2.1 Long Research and Development Cycle

Due to the high degree of technical skill necessary to assemble items, mechanical issues are always a possibility, which raises the danger of failing to satisfy customer expectations. Due to the challenging transition from a single prototype to a fully scaled vehicle, Tesla has continually delayed the introduction and manufacture of their new models.

#### 3.2.2 Strong Supply Capacity of Core Resources

Since the firm lacks the necessary infrastructure to adapt to the market, it encounters spikes in orders that cannot be fulfilled on time. Tesla's capacity to deliver and increase production is constrained by the reality that it can only create as many vehicles as it can make batteries. This issue is also being addressed; the corporation is constructing plants dedicated only to power manufacture.

### 3.3 Opportunities

#### 3.3.1 Market Share

When looking at the markets that have the most potential for expansion, there are two that jump out as having the most promise. These two markets present an opportunity for Tesla to go even further. As was noted earlier, Europe is the region that saw the biggest quantity of units sold which is the market that represents the largest percentage of the global market. Both of these markets are far from being saturated, which means there is a significant possibility here. Tesla is well aware of the situation and has already established a Giga factory in Berlin in addition to the one it has established in Shanghai. In addition, Tesla is planning to establish a number of additional facilities, the most of which will be situated in Asia, with the goals of satisfying the demand in the market and bringing down costs. A well-funded company could develop a new electric vehicle (EV) from scratch and move it into production within 3 to 5 years, by spending $1–2 billion of capital for design, development, and manufacturing [4].

Tesla is able to accomplish its primary goal because to its increased production capacity and its scalable vehicle types.

On July 20, 2016, Tesla presented its development plan and specific objectives and the current state of China's EV industry with the social technology developing trend. In conclusion, the pick-up that Tesla has received is a significant opportunity to capture a larger portion of the market. According to Manzi (2019), pickup trucks account for 17.6 percent of annual sales of cars in the United States alone. Tesla has a significant chance to capture a portion of the market for vehicles of this type by launching one of the first fully electric pickups on the market. This will allow the company to compete with other automakers.

### 3.4 Threats

The fact that Tesla assures quality in production and innovation via their added services creates a risk for the firm, as it might lead to product liability claims being launched against the company. I In the case that the system is liable for an accident, features such as the autopilot pose a major risk to the corporation. This has the potential to jeopardise the company's reputation. Tesla was need to defend itself against various lawsuits in relation to this increased capabilities. As a consequence, the firm faced financial difficulties and a loss of customer faith in both the system and the brand. Due to the lack of appropriate regulations for autonomous vehicles, the auto pilot feature has the potential to affect Tesla's car sales in areas where such cars are not allowed to be driven on public roads and because customers could be reluctant to buy such vehicles.

#### 3.4.1 Peer Competition

The growing number of companies that are entering the electric vehicle (EV) industry is a significant challenge for Tesla's operations. Legacy brands are getting ready to launch a full-scale assault on the market, which might put Tesla in a vulnerable position because legacy brands have the capacity and the financial resources to out-compete Tesla.

#### 3.4.2 Customer Instability

Due to the fact that the market is so heavily dependent on consumers, there is a risk that consumers will be slow to adapt to the new market, and there is also the possibility that consumer preferences will shift in the future. These factors may act as barriers to the company's ability to achieve long-term success.

In conclusion, Tesla automobiles need a multitude of components, including aluminium, steel, lead, nickel, copper, chromium, and lithium, to be manufactured. The fluctuation in price of these materials has the ability to have an effect on the firm and pose a threat to its production line since it has the capacity to generate a major financial deficit as well as a halt in production owing to a shortage of readily accessible resources.

## 4 Conclusion

This thesis establishes Tesla's value by examining the company's actual financial and commercial status. Due to the fact that Tesla is a innovative and fast developing company, the findings were straightforward: The performance is unsustainable, resulting

in an excessive share price. As Tesla has not yet had a profitable year, their success will be determined by their future growth. Since they are currently losing money, they must make considerable investments in order to do this. Shareholders will receive this exorbitant price because they believe the company will dominate the automotive market and grow into a major carmaker. This would enable them to obtain all of the funds on their own. However, the risk is substantial due to the fact that Tesla's rivals are established manufacturers with vast development teams who are also joining the electric vehicle market. Tesla must provide something that no one else can and be superior than others in order to become a successful automobile manufacturer. They currently have nothing significantly greater to offer. Throughout Tesla's public life, the price of its shares has fluctuated wildly. There have been challenges in delivering automobiles on time, attaining the intended manufacturing pace, generating autonomous vehicles, and automating production. Over the years, Elon Musk is also known for his exaggerated claims to investors. As worries about climate change intensify, it is expected that the political climate will promote electric vehicles more and more. Tesla confronts a number of dangers. If they are unable to minimise production costs and meet output targets, they will be unable to start mass production. Less adaptable and less willing to often swap automotive manufacturers are individuals. Not to mention the established manufacturers on the market that produce hybrid and electric vehicles as well. And as it relates to Tesla's China endeavour, China is recognised for its ability to rapidly learn and start doing things on its own. China could take Tesla's problems seriously and start relying only on domestic firms in the future. Tesla has had amazing moments, such as Model S becoming the most popular electric vehicle in the world in 2018. However, these sales increases will not be sufficient to make Tesla an industry leader and a viable business. To become a big player, Tesla must excel at something much more than its competitors. They have not been able to locate this till now.

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