


Why Nobody Wants Tesla And Why?

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 FILE- In this March 14, 2019, file photo Tesla CEO Elon Musk speaks before unveiling the Model Y at Tesla's design studio in Hawthorne, Calif. Musk was the top paid CEO in California for 2018, as calculated by The Associated Press and Equilar, an executive data firm. The survey includes only CEOs who have been in place for at least two years, but it does not limit the survey to companies in the S&P 500, as the AP's general compensation study does. That's why it includes Musk. Musk earned \$2.28 Billion in 2018. (AP Photo/Jae C. Hong, File)

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As I write this, the market value of Tesla has dropped by about half since it's last peak in mid-December. It's been pretty steadily downhill for the past six months. Of late there has been increasing speculation about someone stepping in to buy Tesla including [Kara Swisher's sidekick on the Pivot podcast Scott Galloway](#). Over the past couple of years, I've stated on several occasions and still believe that any acquisition of Tesla is going to be difficult with the biggest reason being CEO Elon Musk.

Even at its dramatically reduced price which now hovers below \$190 per share, Tesla is hugely overvalued relative to its core business. At a roughly \$33 billion market capitalization, it would likely cost somewhere between \$40 and \$50 billion to buy the company outright. The acquirer would also be taking on huge liabilities including more than \$11 billion in debt and \$16 billion of purchase obligations for Panasonic cells.

Tesla has one functional car assembly plant and the shell of another going up in China. It also has a factory in Nevada where it assembles motors and battery packs from lithium ion cells produced on site by Panasonic.

Unfortunately for Tesla, it only owns the building and pack and motor assembly equipment. The most valuable asset at the Gigafactory, the cell production equipment belongs to Panasonic. An acquisition of the automaker would not include the cell production. In order to get Panasonic to invest somewhere over \$1.5 billion, Tesla had to commit to buying all the cells produced there.

The Fremont assembly plant is also among the most inefficient in the industry and has terrible quality issues. So it's unlikely any

established player will want to add it to its portfolio, especially in an era when many companies are closing underutilized plants.

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Tesla has some interesting intellectual property around battery management and power electronics. It also has what may be a promising processor design for its claimed self-driving system. However, that's probably about the extent of the IP that other companies might be interested in.

The other aspect of Tesla that has value is the brand which has developed a hardcore fanbase over the past decade. A company could generate enormous goodwill by preserving the brand and its mission to electrify transportation. Tesla has done more than any other company to demonstrate the appeal and viability of electric vehicles. Unfortunately, every day that goes by without addressing the quality and customer service problems erodes that brand value.

However, there is one enormous deal-killer for Tesla, Musk. How much of the Tesla brand value is actually tied to an irrational faith in Musk himself? If Musk goes away, what happens to the value of the brand.

But what if Musk doesn't go away? Many, if not most huge acquisitions and mergers ultimately fail to deliver on their promise in part because of problems merging divergent corporate cultures. Many of Tesla's operational issues as a company are the direct result of the Musk culture of micromanagement and lack of organization and planning. I can't imagine the CEO of any automaker big enough to consider an acquisition would even consider bringing Musk into their organization. However, Musk owns about 22% of the shares in

the company and his board of directors has repeatedly shown themselves to be his lap dogs. It seems unfathomable that Musk would voluntarily sell his stake in the company and walk away.

Companies like Apple or Alphabet that have the financial resources to make a deal, would be unlikely to assume Musk as part of any purchase. He would simply be too disruptive to the existing organization, much as H. Ross Perot was to GM after they acquired EDS in the 1980s. Apple's Tim Cook has shown a willingness to get rid of executives like Scott Forstall that weren't seen as team players. While Alphabet founders Larry Page and Sergey Brin were early backers of Tesla, looking at where Elon is today would likely give them pause about any deal.

The only way forward seems like a fire sale rather than an outright acquisition. Musk personally has hundreds of millions of dollars in personal debt backed by his Tesla shares. If the stock price continues to decline, he may eventually face a margin call that causes him to lose up to half of his stake.

That could trigger a downward spiral for the stock. That could eventually push the acquisition price down enough to convince someone to make an offer. However, that would require assuming all that debt and purchase obligations which any rational CEO would want to avoid.

The other more likely scenario is that Tesla simply runs out of cash and has to file for bankruptcy. In the resulting reorganization, existing equity would be wiped out, leaving Musk out in the cold. In this case, there is the opportunity to cherry pick the assets of value.

I've long thought VW might be interested in the brand and maybe some of the IP as another way to recover from the dieselgate debacle. Prior to the current trade war, China's Geely would have been another good candidate. Geely has been an excellent steward of Volvo Cars. However, in the current environment, letting any Chinese company buy the best pieces of a failed American automaker seems improbable. This could even be a problem for VW. The Detroit three seem unlikely to invest what would probably be several billion dollars for pieces of Tesla.

In this case, Apple, Alphabet and potentially even Amazon could be candidates. Amazon could push a blending of Tesla assets with its stake in electric truck startup Rivian. It could even follow Tesla's online sales model and sell vehicles made under contract by someone like Magna through its site. Amazon is also a lot more capable at logistics than Tesla has been so far. Apple or Alphabet might leverage Teslas built under contract for future robotaxi services that utilize their respective automated driving systems.

There are a lot of ways this could eventually play out, however, none are likely to involve a direct acquisition of the company as long as Elon Musk is part of the deal.

The author is a principal analyst on the Transportation team at [Navigant Research](#) and co-host of the [Wheel Bearings](#) podcast