

Tesla Motors

Tesla boss Elon Musk tests investors with one-stop energy company

Founder calls on shareholders to support his bid to buy SolarCity business



Elon Musk plans to make an all-stock offer for SolarCity. He said the deal was a 'no-brainer' © FT montage; Getty Images

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by: **Richard Waters** in San Francisco

For shareholders in Tesla Motors, it sometimes seems as though Elon Musk can do little wrong as he raises billions of dollars to back his heady ambitions.

The shareholders have appeared relaxed during the past three years as the founder and chief executive raised more than \$6bn to support the electric car company's losses and finance its growth plans, including issuing \$3bn of stock and warrants. A sky-high valuation has been one of the South African-born businessman's main competitive weapons as he takes on the established automobile industry.

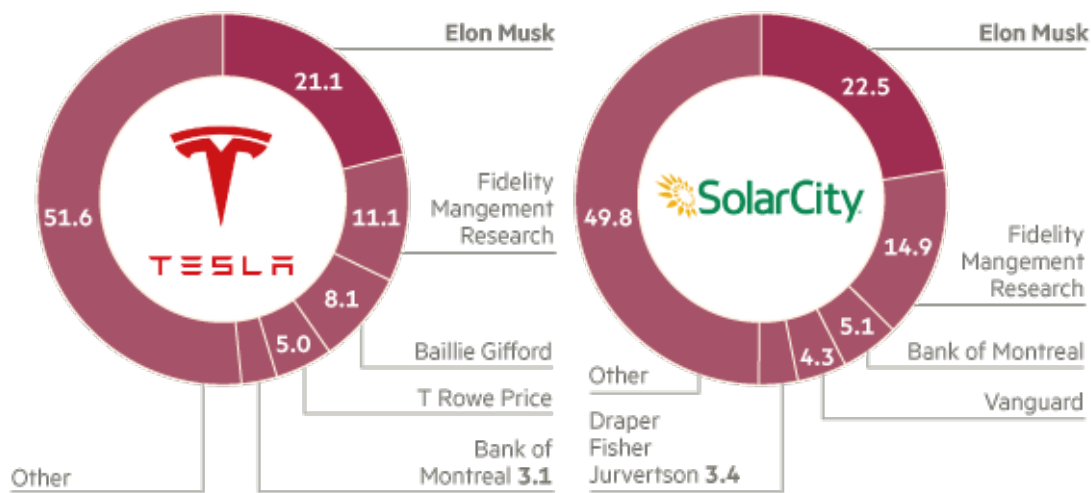
But with Tuesday's news that he plans to issue another \$2.5bn or so of Tesla stock to buy [SolarCity, a solar-panel installer \(http://next.ft.com/content/184f2de8-37fe-11e6-a780-b48ed7b6126f\)](http://next.ft.com/content/184f2de8-37fe-11e6-a780-b48ed7b6126f), Mr Musk may be stretching the patience of his enthusiastic shareholders too far.

Never one to pass up the chance to strike a visionary attitude, he cast the proposed all-stock deal as the next logical step in his dream of promoting sustainable energy and transport.

Buyers of Tesla’s electric vehicles would jump at the chance to have solar panels installed at home and store unused power in wall-mounted devices his company also sells, he said. It was a step towards an “integrated sustainable energy company”.

Top shareholder: Musk holdings in Tesla and SolarCity

Ownership (%)



Source: companies

FT

To Tesla’s investors, however, the logic did not seem so obvious. Its shares opened down almost 8 per cent on Wednesday, as Wall Street digested the logic of buying a struggling solar company whose shares had fallen 75 per cent from their high in 2014.

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Adding to the intrigue, Mr Musk is chairman of SolarCity and its largest shareholder, with 22 per cent, a similar stake to his holding in Tesla.

His promise to stand aside from helping to decide the outcome of the takeover offer should resolve any formal legal worries about possible conflicts of interest, said Stephen Diamond, a professor at Santa Clara

(<http://next.ft.com/content/ef255a6c-3804-11e6-9a05-82a9b15a8ee7>)

Tesla-SolarCity: storm ahead (<http://next.ft.com/content/ef255a6c-3804-11e6-9a05-82a9b15a8ee7>)

The deal looks like a bailout between two Musk companies that investors will vote down

University law school in Silicon Valley. Mr Musk has said he will not take part in board-level votes at either company about the deal or participate in shareholder votes that will be held at both companies.

However, it was still highly likely that he would face lawsuits from shareholders questioning his role at both companies in the run-up to this deal, Prof Diamond said.

The ties go beyond Mr Musk's board position and shareholdings. Two of his cousins, Lyndon and Peter Rive, are SolarCity's chief executive and chief technology officer,

respectively.

Deal hits Tesla investors' confidence



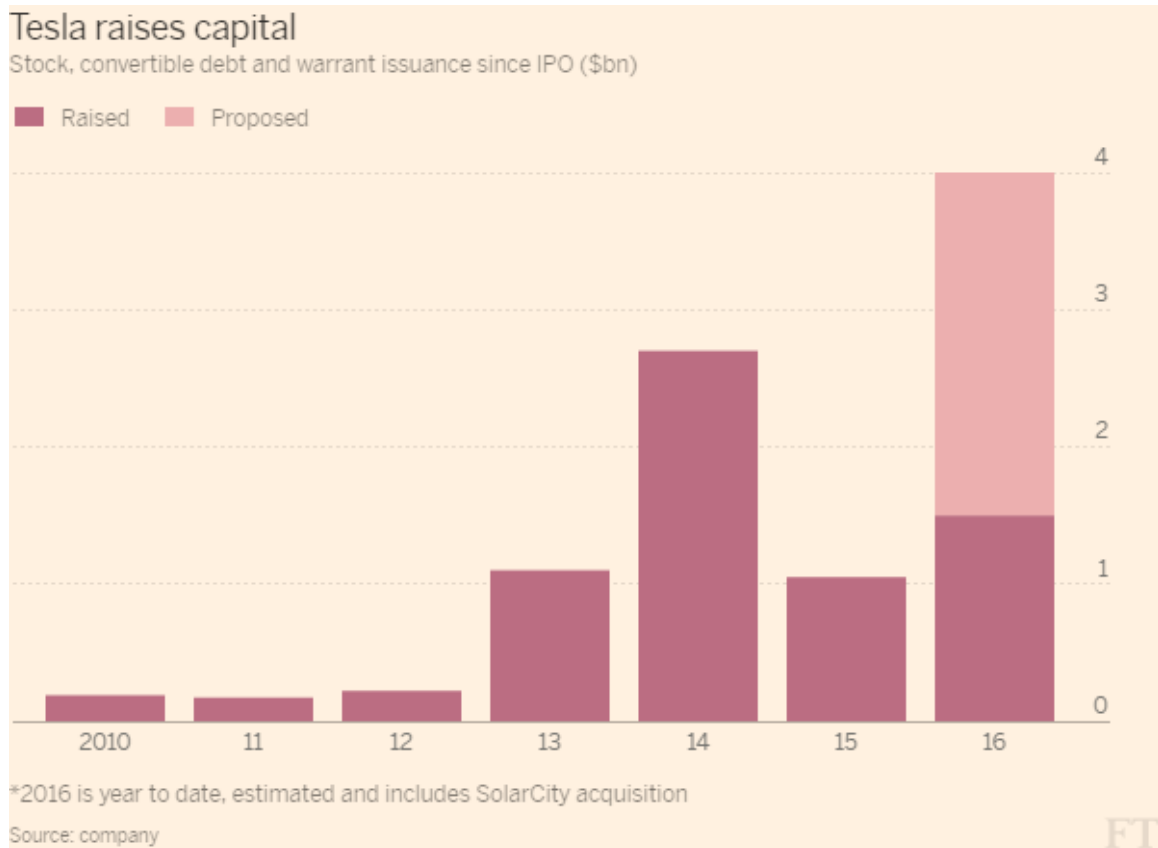
Source: Bloomberg

FT

Indeed, as Lyndon Rive told (<http://www.seattletimes.com/business/solar-exec-lyndon-rive-thrives-in-elon-musks-shadow/>) the San Jose Mercury News earlier this year, it was Mr Musk who suggested setting up a solar business to him as they drove to Burning Man, a festival in the Nevada desert that has grown from its hippy

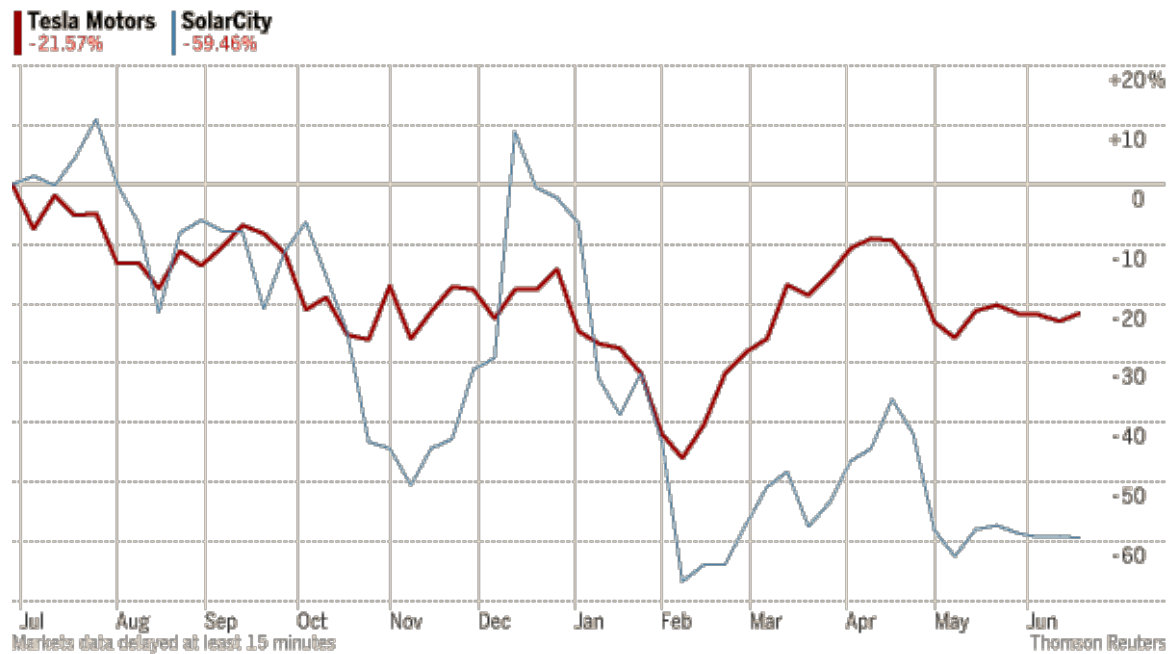
roots into a spiritual gathering for the technology sector's elite.

Mr Musk's financial ties to SolarCity are also complicated. SpaceX, his private space company, has invested \$165m in SolarCity's bonds. Along with Lyndon Rive, he has also personally invested \$13m in the company's convertible debt. And Mr Musk has pledged 4m of his 22m SolarCity shares as collateral against personal borrowings from Morgan Stanley.



A steep fall in SolarCity's share price this year has increased the possibility he might have to put up more collateral. At the same time, the solar company's financial position has increased the risk from its borrowings. In a note to clients before Tesla's buyout proposal was announced, Goldman Sachs said the company might be at risk of breaching a covenant on a \$399m revolving credit facility this quarter. The bank added, however, that it did not expect such an outcome, and that SolarCity should not face the same risk in future quarters.

For his part, Mr Musk said on Tuesday that the timing of his Tesla offer was determined by the converging product plans of the car company with those of SolarCity, rather than any other factors.



But the lack of enthusiasm among Tesla investors was hardly something he will be able to ignore easily. The 25 per cent takeover premium for SolarCity implied by the Tesla bid added a notional \$120m to Mr Musk's personal stake in the company. But the 8 per cent fall in Tesla's stock cut more than \$500m from his far more valuable stake in that company's shares.

Mr Musk insisted that buying SolarCity was a "no-brainer" for Tesla. But the stock price reaction suggests this will be a difficult deal to sell to his shareholders, now that all he has to back his case is the power of persuasion.

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