

Tesla: Musk's tweet a bridge too far?

August 12 2018

Tesla chief executive Elon Musk got into legal hot water this week after announcing on Twitter he had sufficient financing already in hand to take the electric automaker private.

Many in US financial circles are wondering where he will he get all this money, and have turned skeptical despite the reverence in which they normally hold Musk, who founded the company in 2003 to transform cars into tech marvels.

The transaction could amount to at least \$50 billion if Musk keeps his 20 percent stake in the company.

On Tuesday, the irascible entrepreneur tweeted that funding for the transaction at \$420 a share had been "secured," but offered no proof or documentation.

A classic way of de-listing from stock markets is a leveraged buyout, a deal in which investors purchase a company's equity and finance this with loans.

But none of the six major US banks has offered to lend the necessary amount to Musk, and they learned about the plans on Twitter with the rest of the public, several banking sources told AFP.

"We were not aware of any transaction. We haven't even heard from Tesla," one source said, speaking on condition of anonymity.

And it is unlikely a Wall Street firm would risk backing Tesla, which is burning through about \$1 billion a quarter and has not had a single profitable year in its 15 years of existence, said another.

Tesla borrowed at hefty interest rates last year, the person said, an additional cost burden for a company that had only \$2.2 billion in cash flow at the end of June.

The sources said any potential creditor would have to consider whether Tesla will be able to finance its operations once it goes private.

US market regulators are reportedly stepping up their scrutiny of Musk's claim and have asked Tesla if the CEO's remarks were genuine.

Securities laws forbid market manipulation by corporate leaders who announce pending stock purchases or sales when they have no intention or no means of carrying them out.

Debating Musk's credibility

Tesla has been targeted by short sellers—the hedge fund managers Jim Chanos and David Einhorn in particular—who are betting on the company's failure and, according to S3 partners, have lost more than \$4.4 billion since January as Tesla's share price rose.

They have frequently been the target of Musk's ire, and in announcing the plan this week he cited the advantage of getting away from short-term pressures and the "wild swings" in the stock price.

Thomas Farley, former head of the New York Stock Exchange operator NYSE Group, said Wednesday on Twitter the matter would be an "easy one" for the SEC to investigate.

"Ask TSLA to show you the agreement(s) signed by their funding source(s) by 5 pm EST that demonstrates funding is 'secured' and 'certain,'" he wrote, using the company's ticker symbol.

"If there is no such agreement, require a statement by 5:30 pm. Inspire market confidence."

In a research note, Bernstein analyst Toni Sacconaghi said, "if no firmer details emerge... investors would likely increasingly debate Musk's credibility and seemingly unhealthy focus on the shares' price and volatility."

Tesla declined to comment when contacted by AFP.

"Perhaps he has a few anchor investors and assumes they will work to find more capital," said Nicholas Colas, co-founder of DataTrek research.

Musk, who envisions sending tourists to the Moon and slashing travel times between major cities with advanced trains, is respected in Silicon Valley, where he could tap venture capital.

He could also seek funding from sovereign wealth funds such as Saudi Arabia's, which has just taken a stake in Tesla estimated at between three percent and five percent.

Furthermore, JP Morgan Chase, Goldman Sachs, Morgan Stanley and Citigroup are looking at different ways a deal might be structured, banking industry sources say.

One possibility involves a deal that would persuade most small shareholders to sell their stakes. This way, there would be no floating capital even if shares continued to be tradable on markets.

The cost of such a maneuver, banking sources say, would be more affordable, somewhere between \$10 billion and \$20 billion.

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Citation: Tesla: Musk's tweet a bridge too far? (2018, August 12) retrieved 18 April 2024 from <https://phys.org/news/2018-08-tesla-musk-tweet-bridge.html>

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