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BUSINESS

## Tesla Looks to Raise \$2.3 Billion Through a Bond and Stock Sale

Tesla is looking to raise as much as \$2.3 billion through a bond sale and public offering of its shares, after a worse-than-expected quarter heightened concerns about the company's cash on hand.

*By Allison Prang and Tim Higgins*

Tesla Inc. is looking to raise as much as \$2.3 billion through a bond and stock sale after the electric-car maker reported a steep quarterly loss last week that heightened concerns about its dwindling reserves of cash.

Tesla shares, which have been under pressure, rose Thursday as investors said they welcomed the fresh injection of capital. Fidelity Investments, T. Rowe Price Group Inc. and other fund managers have sold millions of shares in 2019 amid concerns about the firm's finances and performance. Chief Executive Elon Musk had said Tesla didn't need to seek new financing as the Silicon Valley company wrestled with manufacturing and

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logistic challenges in bringing its mass-market Model 3 sedan to customers.

That message shifted last week after Tesla reported one of its worst quarterly losses in history, and its cash fell by more than 40% to \$2.2 billion from three months earlier. Mr. Musk said then that Tesla was operating more efficiently, but that there was “merit to the idea” of raising money.

Tesla said Thursday that it expects to bring in about \$642.3 million in net proceeds from a public offering of about 2.7 million shares. Mr. Musk signaled his intent to buy about \$10 million of those shares.

Tesla also said it is offering \$1.35 billion in convertible senior notes, due in five years. If the underwriters exercise their full options, Tesla could bring in \$738.7 million in net proceeds from the stock offering and \$1.55 billion from the debt issuance—about \$2.3 billion in total.

Shares of Tesla jumped 4.3% to \$244.10 on Thursday, an unusual response as shares in firms raising capital through stock sales often decline, reflecting the increased quantity of securities available in the market.

“This is an upside-down reaction,” said Joseph Osha, an analyst at JMP Securities LLC, who rates the stock as a buy. “But it tells you the issue of liquidity has been on people’s minds, and this capital raise puts that issue to bed.”

The timing of the stock sale comes after a brutal stretch for the company. Even with the gains Thursday, the stock is down 15% over the past month and 27% in 2019, according to FactSet.

T. Rowe Price sold nearly half of the Tesla shares it owned across several of its funds in the six months ended in March, according to FactSet’s data, with its remaining shares valued at about \$2.09 billion. More than a million of those shares were sold by T. Rowe’s blue-chip growth fund.

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Fidelity Investments sold roughly \$50 million worth of Tesla stock over that period, with the biggest drawdown in Fidelity's blue-chip growth fund. The investor continued to own about \$2.03 billion worth of Tesla stock across its funds, according to FactSet. Other sellers include Allianz Global Investors and TD Asset Management Inc., as well as wealth-management shops like BMO Family Officer LLC, which sold about \$700 million worth of stock.

"Tesla isn't going to get out of its trading range unless Elon succeeds in cracking the code of ramping up production," said Rob Lutts, chief investment officer of Cabot Wealth Management, a money-management firm that owns about \$2 million worth of Tesla shares and has no immediate plans to buy more.

It wasn't clear why all those money managers reduced their stakes in recent months. Tesla representatives didn't immediately respond to a request to comment.

Questions about whether Tesla has enough money to fund its ambitious plans have lingered since the company's founding 15 years ago. The lengthy development process for new vehicles, tooling required to build them, and logistics to deliver them around the world can easily eat through money.

Since production of the Model 3 began in 2017, Mr. Musk's plan has been to churn out enough compact cars to generate the revenue needed to pay for the company's growth. But as Tesla struggled to increase production, it burned through cash at an alarming rate, placing its limited reserve under greater scrutiny. Mr. Musk has said the company nearly died last year. Finally reaching a sustained rate of production in the second half of 2018, along with a subsequent increase in sales, helped Tesla turn its first back-to-back quarters of profit. That gave credibility to Mr. Musk's claims that the auto maker had entered a new era of continued profitability and cash generation.

Several analysts had called for Tesla to raise new money in last year's second half to build off the excitement. Mr. Musk refused, saying he didn't need to raise cash anymore to support growth. Tesla's stock approached a record high in mid-December, reaching about \$376 a share.

Issuing new stock will dilute Mr. Musk's ownership stake. Mr. Musk is Tesla's largest shareholder, owning nearly 22% of the company as of Dec. 31, but unlike other leaders of big Silicon Valley companies, he doesn't have a controlling vote. He has been able to exercise control through a company provision that requires holders of a supermajority of shares to approve changes.

Guidance from banks on Thursday was that the bonds, which are expected to price before week's end, will carry an interest rate between 1.5% and 2%, investors said. The so-called conversion price, determining whether the bonds convert to shares when they mature, is expected to fall in a range of a 27.5% to 32.5% premium to where Tesla's new shares are sold. Those terms are in the vicinity of Tesla's previous convertible-bond offerings. The company last sold convertible bonds in March 2017 with a 2.375% coupon and a conversion price 25% above the stock price at the time.

Many investors have liked Tesla convertible bonds because they offer some of the safety of debt with the higher potential returns of equity. There are also hedge funds that specialize in buying convertible bonds while shorting, or betting against, the stock of the same companies, another factor in driving demand for Tesla's convertible bonds.

Tesla has \$10.3 billion in debt with \$1.92 billion maturing this year and next.

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