

How is Tesla's balance sheet impacted by its issuance of common stock and convertible five-year notes?

Tesla, Inc. ([NASDAQ: TSLA](#)) is ramping up to begin production of the Tesla Model 3. The Model 3 is an all-electric four-door compact luxury sedan that will have a range of at least 215 miles. It will be the most affordable of the Tesla models, starting at \$35,000 for the base model. As of mid-March 2017, Tesla had taken reservations for 325,000 Model 3 cars, totaling more than \$14 billion in potential sales revenue. Production of the Model 3 is expected to begin in the second half of 2017.

To help to finance the Model 3 production, Tesla issued common stock and convertible bonds in March 2017 to raise approximately \$1.15 billion in cash. The offering included \$250 million of common stock and \$850 million in convertible notes due in 2022.

Tesla is also using some of the common stock and note proceeds to grow its recently acquired solar business and to supplement other parts of its business.

The notes issued by Tesla on March 22, 2017, consisted of \$850 million principal, 2.375%, five-year convertible notes. The notes mature on March 15, 2022. The total price received from the note issuance was \$709 million. Interest is payable semiannually on March 15 and September 15 each year. If certain conditions are met, these bonds are convertible into Tesla common stock at the rate of 3.0534 shares of common stock per \$1,000 note principal. The common stock price on the date of note issuance was approximately \$255 (March 22, 2017.)

Questions

1. How will Tesla's balance sheet be impacted by the common stock issuance?
2. How will Tesla's balance sheet be impacted by the note issuance?
3. Assuming the notes are not converted into common stock, how much will Tesla have to pay its note holders in 2022 (ignore interest.) Compare this amount to the amount Tesla received on the date of note issuance. Why could this difference exist?
4. Assume it is March 14, 2022. At what common stock price would it be profitable for the note holders to convert their notes into shares of common stock? Explain.
5. If you were an investor, why would a convertible feature on a note be attractive?