

Market capitalization growth stock test tool

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When it comes to analyzing the potential of a growth stock, especially of those stocks where there are many exuberant forecasts, a good tool to use is the **market capitalization test tool**.

The market capitalization test tool simply compares the market value of the company to what the fundamentals should grow into in the future to justify the current stock price. To explain the market cap tool, I will use Tesla’s stock market capitalization example.

Tesla’s stock market capitalization and related fundamentals

The market capitalization of a stock is equal to the number of shares outstanding multiplied by the share price.

As I am writing this, TSLA stock price is at \$1.483.27.

Tesla Inc
NASDAQ: TSLA

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1.483,27 USD -3,73 (0,25%) ↓

5 Aug, 13:55 GMT-4 · Disclaimer

1 day 5 days 1 month 6 months YTD 1 year **5 years** Max



Open	1.492,99	Div yield	-
High	1.499,84	Prev close	1.487,00
Low	1.468,31	52-wk high	1.794,99
Mkt cap	276,42B	52-wk low	211,00
P/E ratio	763,26		

Tesla stock market capitalization

Tesla number of shares outstanding

You can find the most updated number of shares outstanding in the latest financial report, SEC filing 10Q. In this case, within [Tesla's Investor Relations page](#).

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-34756

Tesla, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
3500 Deer Creek Road
Palo Alto, California
(Address of principal executive offices)

91-2197729
(I.R.S. Employer
Identification No.)

94304
(Zip Code)

(650) 681-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	TSLA	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 20, 2020, there were 186,361,726 shares of the registrant's common stock outstanding.

Tesla stock – number outstanding – Source: [Tesla's Investor Relations page](#)

If I multiply 186,361,726 by \$1,483.27, I get \$276,424,757,324.02. So, both me and Google are correct.

A short note here, the above number doesn't include the shares that will most likely be issued in the form of option stock rewards or coming from convertible bonds. If you add those, you get to the diluted number of shares outstanding which is 2017 million for Tesla.

Net income (loss) per share of common stock attributable to common stockholders				
Basic	\$ 0.56	\$ (2.31)	0.65	\$ (6.40)
Diluted	\$ 0.50	\$ (2.31)	0.59	\$ (6.40)
Weighted average shares used in computing net income (loss) per share of common stock				
Basic	186	177	184	175
Diluted	207	177	203	175

The accompanying notes are an integral part of these consolidated financial statements.

c

Tesla diluted number of shares outstanding - Source: [Tesla's Investor Relations page](#)



A dilution of 11% is already a significant number. Investors might want to take that into account when calculating future earnings and possible dividends because those are going to be divided by a bigger number in the future as the number of shares outstanding in the future will be higher.

Let's connect the above with the fundamentals.

Tesla's fundamentals versus market capitalization

Tesla's market capitalization is \$276 billion while its ttm (trailing twelve months) revenues were \$25.7 billion. This gives us a price to sales ratio of 10.73. You might argue the price to sales ratio is not even that high as Apple is at 7.1 and it is a Buffett owned stock.

Tesla Inc TSLA | ★

Financials Export  Ascending 

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	117	204	413	2,013	3,198	4,046	7,000	11,759	21,461	24,578	25,708
Gross Margin %	26.3	30.2	7.3	22.7	27.6	22.8	22.8	18.9	18.8	16.6	19.8
Operating Income USD Mil	-147	-251	-394	-61	-187	-717	-667	-1,632	-253	80	1,218
Operating Margin %	-125.8	-123.1	-95.4	-3.0	-5.8	-17.7	-9.5	-13.9	-1.2	0.3	4.7
Net Income USD Mil	-154	-254	-396	-74	-294	-889	-675	-1,961	-976	-862	368
Earnings Per Share USD	-3.04	-2.53	-3.69	-0.62	-2.36	-6.93	-4.68	-11.83	-5.72	-4.92	2.07
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Payout Ratio % *	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	51	100	107	119	125	128	144	166	171	177	191
Book Value Per Share * USD	2.18	2.81	1.09	4.58	7.62	10.00	16.59	27.91	26.12	33.36	52.88
Operating Cash Flow USD Mil	-128	-114	-266	258	-57	-524	-124	-61	2,098	2,405	2,705
Cap Spending USD Mil	-40	-198	-239	-264	-970	-1,635	-1,440	-4,081	-2,320	-1,437	-1,906
Free Cash Flow USD Mil	-168	-312	-505	-6	-1,027	-2,159	-1,564	-4,142	-222	968	799
Free Cash Flow Per Share * USD	-3.31	-2.88	-4.71	-1.26	-4.31	-17.14	-6.34	-30.01	-8.84	4.98	—
Working Capital USD Mil	150	181	-14	591	1,091	-25	433	-1,104	-1,686	1,436	—

* Indicates calendar year-end data information

Tesla stock fundamentals – [Tesla stock quote Morningstar](#)

However, Apple's profit margins are a bit better. Tesla earned 368 million on \$25.7 billion in revenue which gives it a net profit margin of 1.4%. On the other hand, Apple earned \$58.4 billion on revenues of \$273.8 billion for a profit margin of 21.3%. Some say Model 3 and Y margins will be 20%, but the points here is not to argue about Tesla, but to discuss the tool that will help you make your own decisions.

Apple's current price to earnings ratio is 27 which gives a 3.7% earnings return (100/27). Let's say that a 3.7% earnings return is also something a long-term investor in Tesla hopes to achieve as we can compare current Apple to future Tesla because apple has reached its maturity level while Tesla is still a growth stock. Here we come back to the market capitalization.

Tesla market cap test examples

In order to give investors a return of 3.7% on a market capitalization of \$276 billion, Tesla needs to earn 3.7% of \$276 billion which is \$10 billion per year. So, if the company manages to reach a 10% net profit margin and quadruples its revenues by 2030, then the current valuation would be equal to Apple's. The only very significant difference being that Apple is already there and if Tesla quadruples its revenue and increases its net profit margin up to 10%

by 2030, only then it would be at the same valuation level. And, 10 years when it comes to investing in a lot.

For example, if you wish to get a 7.2% yearly investing return from your investment, your stock has to double over 10 years. Thus, based on the above Apple valuation comparison, to reward shareholders with a 7.2% return, Tesla would need to increase revenues 8 times and increase profit margins to 10% by 2030.

This means Tesla's 2030 revenues would have to be at \$205 billion with a net profit of \$20 billion. With a PE ratio of 27, the market cap would only double by then. I am not saying this is not possible as the Volkswagen group has similar revenue levels with albeit a lower net profit margin.

Volkswagen Group	
Central headquarters in Volkswagen AG complex in Wolfsburg, Germany	
Revenue	€252.632 billion US\$282.9 billion (2019)
Operating income	€16.960 billion (2019)
Net income	€13.346 billion (2019)
Total assets	€488.071 billion (2019)

Volkswagen revenue and profit margin example

I don't know Tesla well enough to assess whether will Tesla reach the above level in 2030, but the point of this simple method is to give perspective from a market capitalization perspective.

Tesla \$7,000 stock price forecast

I have found even more exuberant Tesla [stock analyses](#) where the stock is forecasted to reach \$7,000 by 2024. A \$7,000 stock price would imply a market capitalization of \$1.449 trillion if we multiply the price with the diluted number of shares outstanding of at least 207 million.

To have a price to earnings ratio of 27, like Apple has now, Tesla would have to earn \$53 billion per year in net profits. Even with a 20% profit margin like apple has, the revenues would have to be at \$265 billion. So, to reach such expectations the business would have to increase sales by 10 times over the next 4 years and increase its margin by 14 times too.

Market capitalization tool test conclusion

If you are investing, you will constantly hear about exuberant forecasts and great stock market investing opportunities. An example is the 3D printer revolution in 2014 with the 3D Systems stock.

3D Systems Corporation

NYSE: DDD

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6,92 USD +0,080 (1,17%) ↑

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1 day 5 days 1 month 6 months YTD 1 year 5 years Max



Tesla stock comparison to 3D stock

Tesla's stock chart resembles the above but in 2008 there has been exuberance also in more boring industries. Shipping stocks were expected to grow perpetually.

Frontline Ltd

NYSE: FRO

+ Follow

8,18 USD +0,035 (0,43%) ↑

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1 day 5 days 1 month 6 months YTD 1 year 5 years Max



Tesla stock – Frontline example – when reality doesn't meet forecasts

And we all know about the late 1990s when every stock that had something like ‘net’ or ‘com’ withing its name was doing greatly. It took 15 years for the NASDAQ index to reach its 2000 high of 5,000 points.



Nasdaq index

The internet did change the world, but investing is about having the right expectations at the right moment in time alongside realistic forecasts and possibilities. If you go around telling people how you are going to make a lot of money doing this or that, be sure many of them will try to take a piece of the cake too. The same applies to business and many competitors are already trying to eat Tesla’s cake.

I hope the market capitalization tool helps you put things into perspective when it comes to promising growth stocks. Some of those will do greatly over time like Amazon did, but knowing what is the business potential will give you a good assessment of whether it is a good time to jump in or not.