

EQUITY VALUATION · CONSUMER CYCLICAL · TSLA · 21 OCTOBER 2026

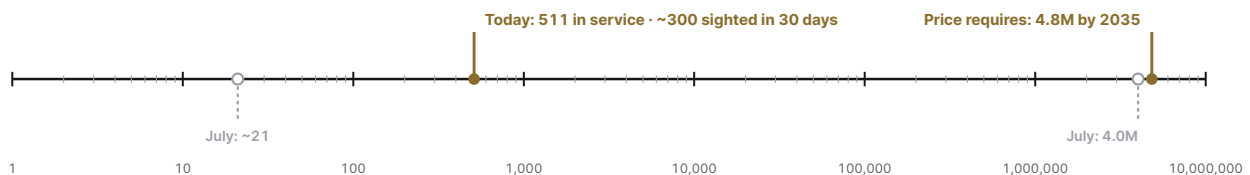
Tesla (TSLA) — The Price Moved the Finish Line

Tesla beat the estimate, and this time the profit came mostly from operations rather than from a paper gain on SpaceX. Our fair value moves from \$91 to \$93.88; the quarter's operating results account for \$0.27 of the change. The share price has risen 21% since July, and what it requires of robotaxis and humanoid robots has grown by a fifth.

TON618 CAPITAL RESEARCH · AS OF 21 OCTOBER 2026

THE RULER, AGAIN · ROBOTAXIS, LOGARITHMIC SCALE

Both ends of the ruler moved. The near end from about 21 cars to 511 in service, about 300 sighted in 30 days; the far end by a fifth: the robotaxi half of what the price requires is now 4.8 million cars.



In July we asked how far the share price sat from what Tesla's businesses earn. We measured the distance in cars and robots: twenty-one unsupervised Teslas on public roads against about four million robotaxis by 2035, and a few hundred humanoid robots against twenty-six million a year. Both ends of that ruler moved in the third quarter. The near end moved by evidence: the count of cars rose from tens to hundreds, real progress though not yet thousands. The price moved the far end further. This note re-marks the July valuation on the quarter's figures, shows exactly which inputs moved it, and re-solves what \$386.47 now requires.

THE QUESTIONS

What this note answers

1. What did the quarter earn, and how much of it came from the operating business rather than marks and tax items?
2. How good was the cash, and what happened to the capital-spending guide?
3. Why did a beat trade lower in the evening session?
4. What is Tesla worth after the quarter, and which inputs moved the number from \$91?
5. What does the price now require, and how did the two triggers we armed in July progress?

\$94

PROBABILITY-WEIGHTED FAIR VALUE A
SHARE · BEAR \$28 / BASE \$56 / BULL
\$240 AT 30 / 45 / 25

Fair value \$93.88 against \$386.47. The quarter's operating results added \$0.27 a share. The balance sheet added \$1.03, and one quarter's passage of time added \$1.92. The price, up 21% since the July close, now asks for about 4.8 million robotaxis and 31 million humanoid robots a year by 2035. In July it asked for 4.0 million and 26 million. On our base-case operating forecast, the discount rate that reproduces the price is about 4.2%, below the 5.13% ten-year Treasury yield. The Fund holds no position.

\$0.48

non-GAAP EPS vs \$0.45
consensus; GAAP \$0.22, 9% of it
not covered by operating income
(Q2: 64%)

2.6%

operating margin; operating income
\$718M against \$1.62B a year ago

-\$1.06B

free cash flow before a \$2.59B
working-capital inflow (reported:
\$1.53B)

88%

share of enterprise value that
today's businesses do not support
(\$1,312B)

Terms used throughout, defined once. GAAP earnings follow US accounting rules. **Non-GAAP** earnings are Tesla's own measure, which adds back stock-based compensation, the marks on its bitcoin and SpaceX holdings and certain tax items. **Below the operating line:** profit that does not come from selling cars, energy products and services, such as interest on cash, investment marks and tax items. **Free cash flow:** operating cash flow less capital spending. **Working capital:** money tied up in or released from receivables, inventory, payables and customer deposits. **Residual:** the part of enterprise value (equity value less net cash and the SpaceX stake) left after the base-case value of the businesses that earn money today. Those businesses are cars and services, energy storage and Full Self-Driving (FSD) subscriptions. **Reverse DCF:** a discounted-cash-flow model run backwards from the price, to ask what future the price assumes. **Unsupervised:** a Tesla carrying riders with no employee aboard. **Growth stages:** periods in the forecast, each as long as the thing driving its growth; every length is argued in the stage table. **Fair value:** the probability-weighted sum of three scenario values at the July note's segment discount rates (10.1% for cars to 13.7% for Optimus).

 THE OTHER SIDE, FIRST

The case for the price, in the company's terms

The quarter answers the July note's sharpest accounting objection. In the second quarter, 64% of GAAP net income came from below the operating line, mostly a paper gain on SpaceX and a tax release. In the third, operating income rose 80% sequentially to \$718M. On the July note's measure it covered all but 9% of net income, and the SpaceX mark was a small loss. Gross margin rose to 19.6% from 16.8%. The automotive margin excluding regulatory credits reached 18.1%, against 15.4% a year earlier, while credit revenue shrank to \$113M. Services and other revenue grew +33%. The company ended the quarter with what it called its largest passenger-vehicle backlog in four years and eleven days of inventory, and it says battery supply, not demand, is what limits volume.

On the autonomy side, paying FSD customers rose +67% on the year to 1.74M, 17.1% of every Tesla ever delivered; about half are now on monthly subscriptions, the rest upfront purchases. Cybercab began carrying riders in Austin on 3 September. A community tracker now lists about five hundred cars in service with no employee aboard, with about three hundred distinct cars sighted in the last 30 days, against roughly twenty counted in July. Tesla's own new safety page claims 3.1 million monitor-free miles without an injury by its definitions. Optimus production began on Fremont's high-volume lines. The balance sheet holds \$45.4B of cash and investments against \$9.52B of debt, nearly all non-recourse.

The proponent's conclusion: a company whose core margin is recovering, whose paying FSD base grows two-thirds a year, and whose robotaxi fleet went from tens to hundreds in a quarter is pricing the slope, not the level, and a model anchored to today's fleet will always look too low. The proponent's yardstick is also the right one. If self-driving works, it replaces car ownership, not ride-hailing: at 55,000 miles a car, the 4.8 million robotaxis the price requires would drive about 8% of the 3.29 trillion miles Americans drive in a year (Federal Highway Administration, 2024), a large share but not an impossible one.

Of these claims this note tests the earnings quality, the cash behind the free cash flow, the value of the businesses that earn money, and the size and growth of what the price requires. It cannot test, within a ten-year model, how fast an unsupervised fleet compounds once it works; that rate is carried as the bull case and as the tripwires, not as a verdict. Nor can it value two things the call raised: what a combination with SpaceX would be worth to Tesla's holders, and what Terafab's chips would earn.

 THE PRINT

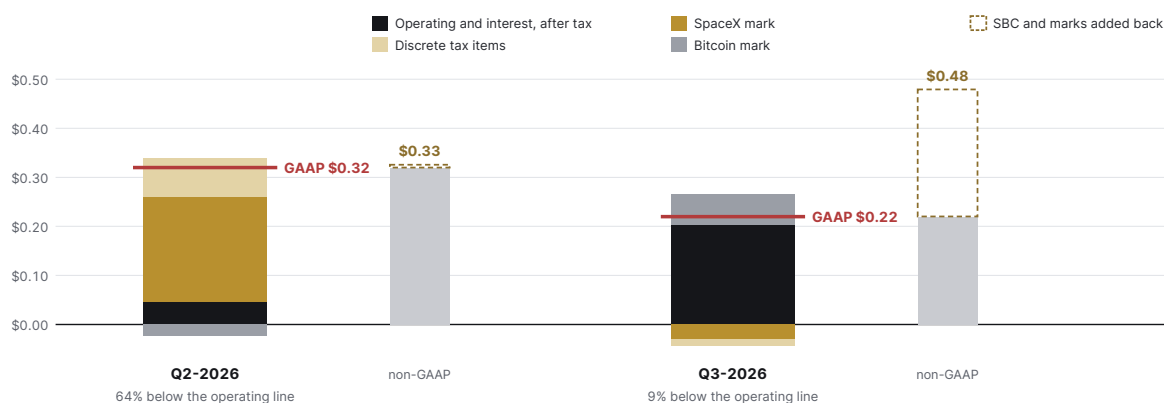
What the quarter earned, and where it came from

Revenue was \$28.05B, -0.2% on the year. Automotive revenue fell -3%, with deliveries of 486,532 down -2%. Energy revenue fell -16% to \$2.88B, which the deck attributes partly to tariff-related customer refunds, even though

deployments rose 10% on the year to 13.7 GWh. Services and other revenue grew +33% to \$4.61B. Gross profit rose \$440M on the year, and operating expenses rose +39%. Research and development alone rose +69% to \$2.76B. Operating income was therefore \$718M, against \$1.62B a year ago, a margin of 2.6%. The July note's description still holds: the margin did not collapse; Tesla spent it.

The July note's earnings test drew the most attention, so we repeat it on the same basis. Of the second quarter's \$0.32 of GAAP earnings per share, \$0.22 was the SpaceX mark and \$0.08 a California tax release; July measured that as the share of GAAP net income not covered by operating income, 64%. The third quarter is 9% on the same measure. That measure sets after-tax net income against pre-tax operating income, so we add a like-for-like check: non-operating income (interest, investment marks, currency) was 70% of pre-tax income in the second quarter and 25% in the third. Both say the same thing. The earnings moved most of the way back to operations. In detail, GAAP earnings of \$0.22 break down as follows. The SpaceX mark took off \$0.03 (a \$142M pre-tax loss) and a tax accrual took off \$0.01; a \$288M gain on Tesla's bitcoin added \$0.06. What remains, \$0.20, is operating income plus net interest, less a \$302M currency loss, after tax. Interest income of \$445M on the cash pile, about \$0.10 a share after tax before interest expense, is still a large part of it.

EXHIBIT 1 — EARNINGS PER SHARE BY SOURCE, SECOND AND THIRD QUARTERS



How to read it. One stacked bar per quarter, in dollars per diluted share on the left scale. Black is operating income plus net interest after tax; gold is the SpaceX mark; light gold is discrete tax items; gray is the bitcoin mark. Segments above zero add, segments below subtract. The red tick is reported GAAP earnings per share. The narrow bar beside each stack is non-GAAP earnings: the gray part is GAAP, the dashed part what Tesla adds back. Compare the black segments: the one thing it shows is that the third quarter's GAAP earnings are almost entirely operating, while the gap to the non-GAAP figure is now mostly the add-back.

That settles one question and opens another. The beat was measured on non-GAAP earnings: \$0.48 against a \$0.45 consensus. Non-GAAP earnings add back stock-based compensation, \$0.28 a share after tax this quarter, or 58% of the figure. The add-back is standard and consensus is built on the same basis, so the beat is real on its own terms. But share-based pay is a cost that dilutes owners every quarter, and the house expenses it. On GAAP, the quarter's operating income after a 21% tax was worth about \$0.16 a share. In July, the question was whether the earnings were operating. This quarter they mostly were, but there were not many of them.

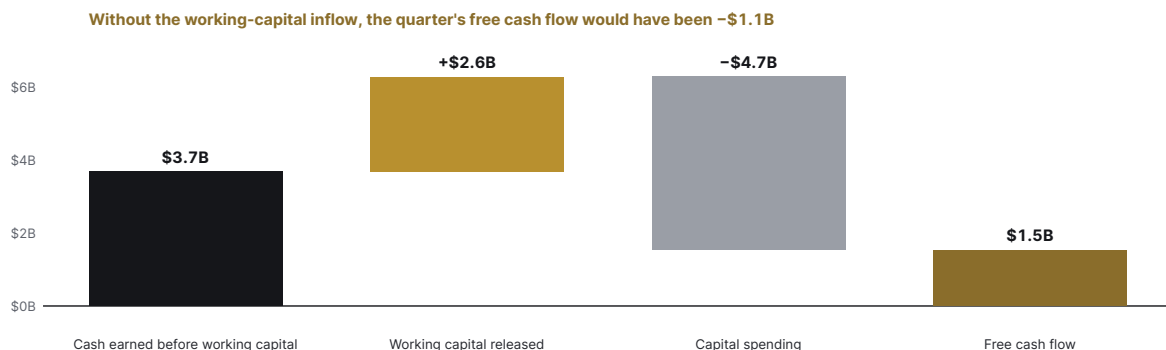
THE CASH

The cash, and a capital plan that changed shape

The cash statement is thinner still. Operating cash flow was \$6.26B and capital spending \$4.73B, so free cash flow was \$1.53B, after -\$1.09B in the second quarter. Most of it came from working capital. Payables and accrued liabilities rose \$3.99B and deferred revenue \$1.25B, against a -\$1.82B build in prepaid and other assets. Net of all six working-capital lines, \$2.59B of the quarter's operating cash was released rather than earned. Before that release, the business generated \$3.67B of operating cash and spent \$4.73B: free cash flow of -\$1.06B. The second quarter on the same

basis was $-\$2.50\text{B}$. Payables rising with production is normal; payables rising by $\$3.99\text{B}$ in a quarter when revenue was flat is a timing benefit that tends to reverse.

EXHIBIT 2 — WHERE THE THIRD QUARTER'S FREE CASH FLOW CAME FROM



How to read it. A waterfall in billions of dollars. The first bar is operating cash before working capital: net income plus depreciation, share-based pay and other non-cash items. The gold bar adds the net release from the six working-capital lines of the cash-flow statement. The gray bar subtracts capital spending. The last bar is reported free cash flow. Compare the gold bar with the last one: the one thing it shows is that the working-capital release is larger than the free cash flow, so without it the quarter would have consumed cash.

The capital plan is the second point. In July, Tesla guided 2026 capital spending to more than \$25 billion, growing for two to three years more. Spending through September was \$13.0B, so reaching \$25 billion would have needed \$12.0B in the fourth quarter, more than twice any quarter on record. On the call the chief financial officer cut the guide to "approximately 20 billion for the current year," citing "managing our capital deployment efficiently"; that implies about \$7.0B in the fourth quarter. He did not describe a smaller plan. Capital spending "for the next few years would continue to expand" across robotaxi fleet, Optimus capacity, solar manufacturing, AI compute and a semiconductor fab. The fab, which Tesla calls Terafab, is the new line item: "tens of billions" of equipment through early 2028 by the chief executive's estimate, probably more than \$100 billion over the long term, with the split between Tesla and SpaceX still to be settled. Management said the related spending becomes more meaningful next year and reaches the tens of billions in 2028. The CFO also said Tesla has now "secured capacity to borrow up to \$30 billion," which it does not plan to draw this year; in July that capacity was being arranged, and the 10-Q should show the terms.

The house reads the cut as a deferral rather than a saving. The CFO's own explanation is efficiency, and tripwire 2 is written to decide between the two. The July base case carried \$26.9 billion of 2026 capital spending, easing to \$24 billion by 2028; a plan that spends \$7 billion less this year and tens of billions more on a fab in 2028 has a different shape, and the house does not re-model it on a spoken range. Net cash rose to \$35.9B from \$34.2B at the end of June. The July position on funding holds: the money is there, but the business no longer funds its own plan, and a quarter of positive free cash flow built on payables does not change that.

THE REACTION

Why a beat traded lower

Start with the size of the move. The stock closed at \$386.47, up +3.4% on the day, and traded at \$374.29 at 8:29 p.m. ET, -3.2%. Options had priced a move of about 6.1% either way (the straddle to 23 October, which includes one extra day). The evening price is within a dollar of Tuesday's \$373.71 close, so it handed back the day's run-up into the report and little more. We record it as one data point. A beat that trades lower is not unusual for Tesla. It fell in the session after each of its two most recent beats, by 3.5% in January and 3.6% in April.

Against expectations, the beat was narrow. FactSet's consensus, as cited by Electrek, was \$0.45 of non-GAAP earnings per share on \$28.06B of revenue; Investing.com's was also \$0.45. Tesla delivered \$0.48 on \$28.05B: revenue in line, earnings three cents ahead. The brokerage feed's estimate was lower, at \$0.40, which is why the brokerage feed showed an eight-cent beat. On either figure it is a beat.

Five things in the written materials and on the call cut against the headline number, and each can be checked.

1. **Profit fell, and the company says the cost line keeps rising.** Operating income was \$718M, against \$1.62B a year earlier, on flat revenue. The CFO said the "trend of growing OPEX would continue till we commercialize these new products," naming AI compute depreciation and pre-production costs for Optimus, Megapack 3 and the Semi.
2. **The margin beat leaned on items that will not repeat.** Energy gross margin of 33.1%, against 20.4% in the second quarter, came "primarily" from tariff refunds and a warranty true-down agreed with a cell supplier, the CFO said. The second quarter's figure was itself depressed by a \$240 million warranty charge. The automotive improvement came from a richer mix of deliveries in Asia-Pacific, against commodity and interest-rate headwinds.
3. **The free cash flow was working capital (§2).** Before a \$2.59B working-capital release, the quarter consumed – \$1.06B.
4. **The capital plan got a new, unpriced line.** The 2026 capex cut came with a fab costing "tens of billions" through early 2028, with Tesla's share of the cost not yet agreed with SpaceX, which the chief executive also runs.
5. **The merger went unanswered.** Investor relations said the company would "not be addressing any questions today on a potential merger with SpaceX"; the chief executive said he had said everything the day before.

Against those, the call offered dates: Cybercab service in Dallas next month; the first customer-owned cars joining the geofenced robotaxi fleet around the second quarter of 2027; robotaxi "a big deal by Q3 or Q4 of next year"; Optimus delivered to outside companies from "around the end of next year"; an aspiration of five million vehicles a year by about 2030, above the July bull case's 2.96 million. None is a reported figure, and the house does not price a date; each that matters is a tripwire in §8. The coverage that night was consistent with this list. Stocktwits reported a 2% gain on the release that reversed as the capex cut and the slower Optimus timetable came out on the call; Electrek's headline was that margins rebounded but profit still fell. We do not attribute the move to any single item.

THE VALUE

What Tesla is worth after the quarter, and what moved the number

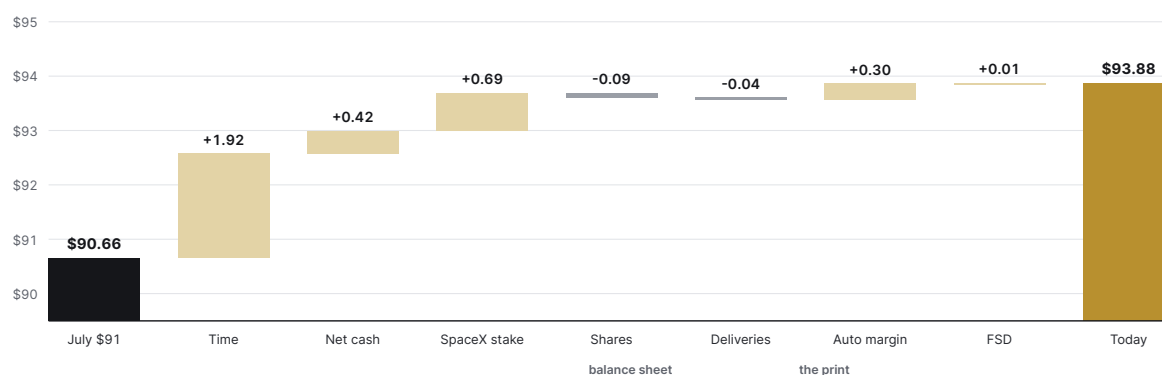
The July note summed five businesses, each on its own drivers and discount rate, weighted 30 / 45 / 25 across three scenarios. Its data capture kept the drivers and the business values but not the year-by-year cash flows behind them, as that note disclosed. We rebuilt the cash flows from the stored drivers, setting one cost parameter per business and scenario so the rebuild reproduces every July value at the July date, then tested it against figures it was never fitted to: July's grid of single discount rates applied to all five businesses. At 12.81% the rebuild's base case gives \$43 against July's \$41; at 8% it gives \$88 against \$96, and the bull case \$520 against \$539. That is close enough to re-mark from, and slightly less sensitive to the discount rate than the original. One calibration is worth stating: the July bull-case robotaxi value is larger than its stated drivers produce under the rebuild's timing, by about \$4.1B a year after tax, and the rebuild keeps the July bull as published rather than trimming it.

Then we change only what the quarter changed, one input at a time, so every step is a row in the attribution table. Discount rates, scenario weights and every long-run assumption stay as published in July, including the 2030 and 2035 fleet, robot, delivery and margin anchors. The robotaxi and Optimus paths are not moved. The fleet count moved by an order of magnitude, but from a base so small that the July base case's 2030 fleet of about 130,000 cars is still the relevant test. Optimus has no customer.

FACTOR	KIND	\$ A SHARE	SHARE OF MOVE
Time: valuation date 23 Jul → 21 Oct (one quarter of discounting; July inputs)	time	+1.92	+60%
Net cash \$34.2B → \$35.9B	balance-sheet	+0.42	+13%
SpaceX stake at Tesla's carrying value (\$2.87B; not in the July sum)	balance-sheet	+0.69	+22%
Shares 3,949M → 3,952.7M (scenario 2035 counts scaled alike)	balance-sheet	-0.09	-3%
2026 deliveries 1.86M (base) → 1.81M (YTD + Q4 at the Q3 rate)	this-year	-0.04	-1%
2026 auto gross margin ex-credits 16.5% (base) → 17.9% (YTD, Q4 at Q3's 18.1%); 2030/2035 anchors unchanged	this-year	+0.30	+9%
FSD: 2026 penetration 16.0% (base) → 17.1% (1.74M of 10.2M); 2030/2035 anchors unchanged	this-year	+0.01	+0%
Fair value 90.66 (July \$91, rebuilt) → 93.88		+3.22	100%

Each row is one factor, sourced in the model workbook's Attribution sheet; the rows reconcile to the move. Kinds: time (one quarter nearer the cash flows), balance-sheet (filed), this-year (inputs the print moved). Robotaxi and Optimus paths, discount rates and weights are unchanged and carry no row.

EXHIBIT 3 — FROM \$91 TO TODAY'S FAIR VALUE, ONE FACTOR AT A TIME



How to read it. A waterfall in dollars a share on the left scale, which starts at \$89.50 so the small steps are visible. The first black bar is the July fair value as rebuilt. Each following bar adds (light gold) or subtracts (gray) one factor, with its size printed above. The last gold bar is the new fair value. From left: one quarter of time, net cash, the SpaceX stake, the share count, 2026 deliveries, the 2026 automotive margin and FSD penetration. Compare the last three bars with the first four: the one thing it shows is that the quarter's operating results moved value by cents, while time and the balance sheet moved it by dollars.

Read plainly: \$1.92 of the change is the passage of a quarter, which brings the future cash flows nearer. \$0.42 is the rise in net cash and \$0.69 is the SpaceX stake, which Tesla carries at \$2.87B and which the July sum left out. The share count took off a few cents. Of the quarter's own figures, lower 2026 deliveries took off \$0.04. A 2026 automotive margin of 17.9% instead of the July base case's 16.5% added \$0.30. FSD penetration already at 17.1% added \$0.01. Fair value is **\$93.88**: bear \$28.47, base \$56.28, bull \$240.03. Even the bull case is 38% below the price, so every scenario we draw still lands below it, as in July. July's headline was a range, \$69–91; its lower end came from a 40,000-draw simulation that was not stored and is not re-run, so this note re-marks the probability-weighted figure, the range's top and the figure the house logged.

How long each business grows faster than normal. The lengths are the July anchors, now argued from what drives each stage. The model workbook's Stages sheet carries the year-by-year cash flows.

BUSINESS	WHAT DRIVES THE FASTER GROWTH	HOW LONG, AND WHY	THEN
Cars and services	Deliveries rising into installed capacity; battery supply sets the pace inside it	4 years: the base case's 2.39 million deliveries in 2030 slightly exceed the ~2.25 million units a year of Model 3/Y capacity in the deck (~2.4 million with Cybertruck). Growth after that needs new lines or a cheaper model	Five years to 2.64 million (base) / 3.74 million (bull), then 3%
Energy storage	Gigawatt-hours shipped into Megafactory capacity	4 years: the base case's 108 GWh in 2030 matches the 110 GWh now installed, since Megafactory Texas started production in the quarter	Five years to 173 GWh (base) at about 4% a year price deflation, then 3%
FSD subscriptions	Share of the installed fleet that pays	9 years: penetration needs no regulator, factory or new technology, so the stage runs the full horizon (base: 17.1% today to 30% of ~33 million cars)	3%
Robotaxi	Unsupervised approvals city by city, and Cybercab output	4 years: the base case's 2030 fleet of about 130,000 is roughly one year of the Cybercab line's stated capacity of more than 125,000. Profit per mile reaches \$0.50 by 2030	Five years to 250,000 (base) / 1.5 million (bull), then an H-model fade
Optimus	Fremont line output, and a first external customer	4 years of pilot production at a cost. The volume stage is not dated until a first external sale at a disclosed price, which is the house trigger	Five years to 500,000 a year (base) / 3 million (bull)

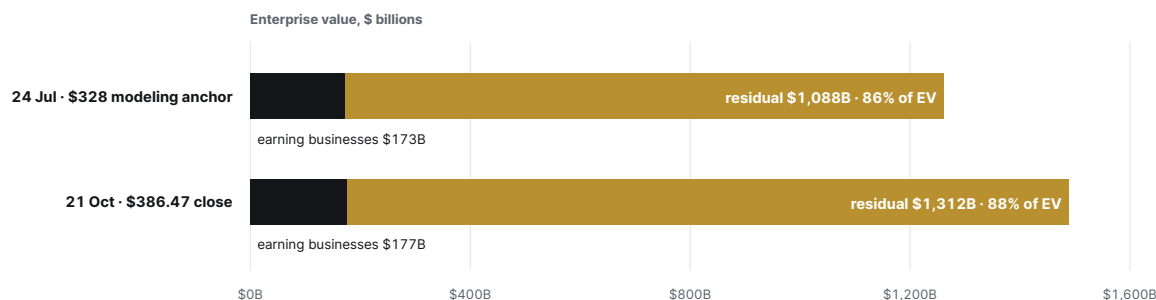
Why these lengths. Every stage ends where a physical constraint the company has disclosed would bind: installed vehicle capacity, installed Megapack capacity, the Cybercab line, or the fleet itself for software. Where a stage depends on something that has not happened, such as Optimus's first sale, its start is not dated, and the tripwires track it instead. Two sensitivities: if the robotaxi fleet reaches its 2030 size two years later, fair value is \$91. Terminal growth of 2.5% or 3.5% gives \$91 or \$97. Terminal value is 65% of the base case's operating value.

WHAT THE PRICE REQUIRES

What the price now requires

At \$386.47 the market values Tesla's equity at \$1,528B. Less net cash and the SpaceX stake, that leaves \$1,489B of enterprise value. The base-case value of the businesses that earn money today is \$177B: cars and services \$117.8B, energy \$15.2B, FSD \$43.9B. The residual is therefore \$1,312B, or 88% of enterprise value and \$332 of the share price. In July, at that note's \$328 modeling anchor, it was \$1,088B and \$275. The quarter added a few billion dollars to the businesses that earn money; the residual is \$224B larger.

EXHIBIT 4 — WHAT THE ENTERPRISE VALUE IS PAYING FOR, JULY AND TODAY



How to read it. Two horizontal bars of enterprise value in billions of dollars on the bottom scale: July at the note's \$328 modeling anchor, and today at the 21 October close. The black segment is the base-case value of cars and services, energy and FSD; the gold segment is the residual, labeled with its share of enterprise value. Compare the two gold segments: the one thing it shows is that the earning businesses barely moved while the residual grew by about a fifth.

We translate the residual into physical output the same way the July note did. Split evenly between the two programs, at economics set in their favor (\$0.50 of robotaxi operating profit a mile over 55,000 miles a year; a 20% Optimus operating margin on a \$28,000 robot), it requires about **4.8 million robotaxis operating and 31 million Optimus units a year by 2035**. In July it was 4.0 million and 26 million. If robotaxi alone must carry it, the fleet is 9.7 million. The tracker's broadest count, about five hundred, is about one ten-thousandth of what the price now asks for.

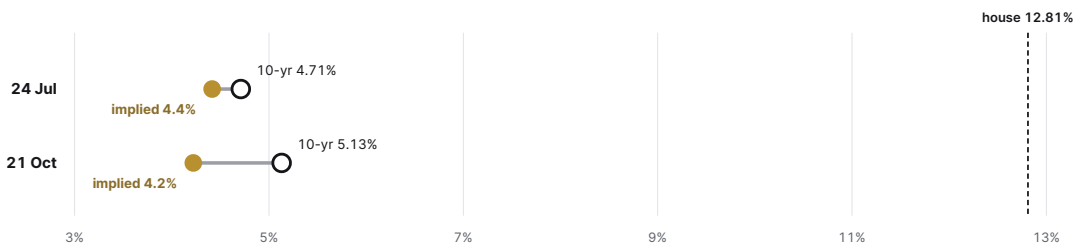
The whole-company cross-check moved further, because free cash flow fell while the price rose. To justify today's enterprise value at the July company cost of equity (12.81%) and 3% growth thereafter, trailing free cash flow of \$3.30B must compound at 67% a year to \$326B in 2035. In July the figure was 53% from \$5.76B. Had trailing free cash flow stayed at the July level, the rate would be 56%. The price alone moved it, and the weaker trailing cash moved it further.

4.2%

the discount rate that reproduces today's price on our base-case operating forecast, against a 5.13% ten-year Treasury yield

The discount-rate objection is the one the July note answered with its 4.7% solve. The rebuild solves it from cash flows rather than from a grid: 4.4% at the July \$328 anchor, already just under that day's 4.71% Treasury yield, and 4.2% at today's price, against a yield that has risen to 5.13%. Holding our base-case forecast fixed, the price implies an equity risk premium of about -0.9 points: an owner of the equity would be paid less than a Treasury bond. No investor underwrites that on purpose, which is the point. The price does not rest on a friendlier rate applied to our forecast. It rests on a different forecast, and our own bull case is that forecast: it reproduces today's price at about 9.4%, an ordinary rate for an equity. The price is our bull case at full weight and an ordinary discount rate, not a lower rate applied to our base case. At 8% for every business, a rate a reader could fairly argue for given \$35.9B of net cash, fair value is \$183 (base \$90, bull \$530), and the price is still 111% above it; at 10% it is \$124.

EXHIBIT 5 — THE DISCOUNT RATE THE PRICE IMPLIES, AGAINST THE RISK-FREE RATE



How to read it. One row per date on a scale of annual rates. The hollow circle is the ten-year Treasury yield. The gold dot is the single discount rate that makes the base-case forecast worth the share price, from the rebuilt model on both dates (July at the \$328 modeling anchor). The dashed line is the 12.81% company cost of equity the July note used. Compare the dot with the circle on each row: the one thing it shows is that the gap between the implied rate and the risk-free rate widened from a fraction of a point in July to almost a full point today, as Treasury yields rose and the price rose.



The SpaceX stake, and the combination

Tesla agreed in January to invest in xAI. After SpaceX acquired xAI in February, Tesla bought about \$2.0 billion of SpaceX Class A stock in March in its place. With SpaceX now listed, the mark swings each quarter with a traded price: a \$1,005M gain in the second quarter and a \$142M loss in the third, leaving a carrying value of about \$2.87B. The third-quarter mark does not reconcile to the quoted price on the obvious basis: the stake's value fell about 4.7% while SpaceX's share price fell 11.7% between the quarter-end closes (\$170.86 to \$150.86). The 10-Q will state the measurement basis, and we read nothing into the gap until it does. SpaceX closed 21 October at \$159.31, 5.6% above its September close, so on a quoted-price basis the fourth quarter would start with a gain. The stake is too small to move fair value; what matters is the quarterly GAAP noise it puts into earnings.

The combination matters more than the stake. On 20 October, on SpaceX's call, Elon Musk said both companies have formed special committees of independent directors to consider a merger, that no terms have been agreed, and that a Tesla vote would need a majority of all outstanding shares. Tesla's proxy for its 3 December annual meeting, filed the day

before, has three items: three directors, the advisory vote on pay, and the auditor. It contains no shareholder proposals and no combination item, and Tesla says it knows of no other matters. A combination therefore cannot reach this meeting on the current ballot. It would need a supplemental proxy adding an item, or, as with SolarCity in 2016, a separate special meeting with its own proxy. On Tesla's own call the next day, the company declined merger questions. Our SpaceX note of 20 October carries the merger probabilities. This note does not value a combination, and the tripwire below is written on the filings that would show one coming.

THE RECEIPT

The receipt: two tests armed in July, graded for progress

The July note armed two triggers that would reverse its call. Both carry a January 2028 outer date and either could fire earlier; neither has. Each is graded against its own words.

 fired  not fired  progress graded, not due

PROGRESS — NOT FIRED (COUNT: TENS TO HUNDREDS; SAFETY RECORD: NOT YET THIRD-PARTY)

Unsupervised fleet in the thousands, independently counted, with a third-party safety record (due 24 Jan 2028)

Count: from about 21 in July to 511 cars the community Robotaxi Tracker lists as in service without a monitor on 21 Oct (190 of them Cybercabs, all in Austin), against 299 distinct cars actually sighted in unsupervised markets in the last 30 days and 49 in the last 7; Texas registers 811 Tesla autonomous vehicles. An order of magnitude, not yet the three the trigger needs, and the methods still disagree. Safety record: NHTSA crash reports for Tesla's robotaxi rose to 36 from 22 in July (Electrek's count); Tesla's new Robotaxi Safety Report claims 3.1M monitor-free miles with no injuries by its own definitions. That is a company document; no independent per-mile study exists. Half the condition moved; the other half did not.

PROGRESS — NOT FIRED (PRODUCTION STARTED; NO CUSTOMER, PRICE OR DATE)

First external Optimus unit at a disclosed price (due 24 Jan 2028)

The deck says production began on Fremont's high-volume lines, 'the first production-quality bots that we have manufactured'. No customer, price or ship date has been disclosed; Tesla told JPMorgan in August that external sales could start 'as early as' the second half of 2027, inside the trigger's window. The proxy's related-party section (data through February 2026) lists no Optimus sale or lease to SpaceX or xAI. A reported Fremont rate of several hundred a week is single-source and not used. Progress is upstream of the condition: a line exists, a sale does not.

THE TRIPWIRES

What carries the story to the next update

 **\$1,312B** the residual: every tripwire below either grows the businesses that earn money toward it, or shows the price paying for it with less

Each tripwire states its basis, its tolerance and what the model does with the answer, so the next update applies a rule written now.

1. **The annual meeting, and the SpaceX combination.** Basis: Tesla's EDGAR filings from now to 3 December. A DEFA14A or revised proxy that adds a combination item to the annual meeting, a PREM14A or DEFM14A for a special meeting, or an 8-K under Item 1.01 announcing a definitive agreement fires it. Committee statements, leaks and prediction-market moves do not. If the meeting is held on the 19 October ballot and the Item 5.07 results 8-K reports only the three proposals, the house records no definitive agreement by early December and the SPCX note's merger probabilities stay where they are. If it fires, a standalone merger note follows, and Tesla's fair value is re-marked on the exchange ratio, not on the committee.
2. **Fourth-quarter capital spending and the 2027 guide.** Basis: the Q4 release's capital-spending line and the call. The guide implies \$7.0B for the fourth quarter (about \$20 billion for the year less \$13.0B spent); within \$1.5 billion of that, the deferral reading holds. The main read is a first 2027 figure, or a Terafab budget with the Tesla-SpaceX split. Any

agreement on sharing the fab's cost is a related-party transaction and must appear in an 8-K, the 10-K or the next proxy. If Tesla's share is \$20 billion or more through 2028, the base case's free cash flow from 2027 to 2029 is cut by that amount from the cars-and-services leg, which funds the company; the fab's payoff gets no value until it makes useful chips at volume, which the chief executive's stated aspiration puts around the third quarter of 2028. Cost is charged before output because the cost will be contracted and disclosed before any chip exists, while a chip's value depends on yields and a customer the house cannot yet observe. A 2027 guide at or below the July base case's path, with Tesla's Terafab share under \$20 billion, records the 2026 cut as a saving.

3. **Free cash flow before working capital.** Basis: operating cash flow less the six working-capital lines less capital spending, each quarter, from the cash-flow statement. Third quarter -\$1.06B, second quarter -\$2.50B. If two consecutive quarters come in at zero or better while capital spending is at or above the guide, the base case's cash conversion is confirmed and its 2027 free cash flow is raised to the run-rate. If the payables release reverses by more than half in the fourth quarter, the house records the third quarter's free cash flow as timing.
4. **The automotive margin excluding credits.** Basis: Tesla's non-GAAP reconciliation. The base case's path is 17.9% in 2026 rising to 18.2% by 2030. Two consecutive quarters at or above 19% move the base 2030 anchor to the bull's path (20.2%). Two at or below 16% move it to the bear's 15.5%. One quarter moves nothing.
5. **The independent fleet count.** Basis: the community Robotaxi Tracker's "in service, unsupervised" count and its 30-day sighting count, read on each print date. Today: 511 and 299. The armed trigger fires only at thousands, with a third-party safety record. Short of that, a 30-day sighting count above 2,000 by the first-quarter 2027 print, a pace consistent with the base case's 2030 fleet, holds the base case. A count still below 1,000 at the second-quarter 2027 print moves the base case's robotaxi stage from four years to six. A count above 2,000 with a third-party safety record moves the robotaxi stage toward the bull's path. The asymmetry is deliberate: a falling count shows slower deployment on its own, while a rising one needs a safety record to show the deployment is safe.
6. **A third-party safety record.** Basis: an independent per-mile analysis of NHTSA crash reports for the unsupervised fleet, or a state regulator's published rate. Tesla's own Safety Report page does not count. This is the second half of the fleet trigger, and it is tracked separately so progress on one half is not read as the whole.
7. **Optimus: a customer, a price and a date.** Basis: any Tesla disclosure or verified report of an external sale. Tesla told JPMorgan sales could start "as early as" the second half of 2027. No disclosure by the second-quarter 2027 print leaves the volume stage undated and the base case's Optimus leg at a cost. A disclosed external sale fires the armed trigger and moves the base case's volume stage to start in the year of the sale.
8. **The price.** Fair value \$93.88. A close at or below it resolves the call, and the house re-underwrites. The residual is resolved at every update; a residual below 70% of enterprise value, by either route, would be the first sign that what earns money is catching up with what is priced.

What would change our view

The house would move toward the price's case on any two of the following, observed rather than announced. An independently counted unsupervised fleet above 2,000 with a third-party safety record (tripwires 5 and 6). An external Optimus sale at a disclosed price (tripwire 7). Two consecutive quarters of positive free cash flow before working capital while capital spending runs at the guide (tripwire 3). An automotive margin excluding credits of 19% or more for two quarters (tripwire 4). Any two of those move the base case toward the bull's inputs, and the fair value with it, by tens of dollars: in our scenarios the robotaxi leg alone spans a negative value in the bear to \$585B in the bull. The house would move further from the price on any two of the mirror conditions. An unsupervised 30-day sighting count below 1,000 at the second-quarter 2027 print. A state regulator suspending or revoking the unsupervised permit in a market where Tesla operates. A fourth-quarter reversal of more than half the working-capital release with no change in the capital plan. Two quarters of automotive margin excluding credits at or below 16%. A combination with SpaceX changes the subject of the note, not the value of either business, and would be written as its own note.

The call

Fair value \$93.88 a share (bear \$28.47 / base \$56.28 / bull \$240.03 at 30 / 45 / 25), from \$91 on 24 July, against the \$386.47 close: an expected return to fair value of -76%. The quarter improved the quality of Tesla's reported earnings and lifted the core margin. It did not add enough to the businesses that earn money to change their value by more than \$0.27 a share, and its free cash flow rested on working capital. In the same three months the price rose 21%. The distance the July note measured is therefore larger. It is now about 4.8 million robotaxis and 31 million robots a year by 2035, and on our base-case forecast it implies a discount rate below the risk-free rate. The two triggers that would reverse the call both moved, and neither is close. The Fund holds no position in TSLA or SPCX.

SOURCES

Sources & Method

Company filings. Third-quarter results: Form 8-K and Exhibit 99.1 (the Q3 2026 Update), SEC accession 0001628280-26-066738, furnished 21 October 2026. It supplies every revenue, cost, margin, earnings, non-GAAP reconciliation, cash-flow, balance-sheet, delivery, production, FSD, storage, capacity-table and narrative figure for the quarters Q3-2025 to Q3-2026. Shares outstanding: 3,952,730,153 at the 13 October 2026 record date, from Tesla's Definitive Proxy Statement, accession 0001104659-26-116700, filed 19 October 2026, which also gives the 3 December meeting's three proposals, the related-person transactions and the SpaceX directorships. Second-quarter comparatives and the July note's inputs: Form 10-Q, accession 0001628280-26-049270, and the Q2 8-K, accession 0001628280-26-049213. The SpaceX stake's carrying value is derived from the cash-flow statement (\$2,002 million purchase in Q1-2026, \$1,005 million gain in Q2, \$142 million loss in Q3); no third-quarter Form 10-Q had been filed when this note was prepared. All filings retrieved from SEC EDGAR on 21 October 2026.

Earnings call. Q3-2026 webcast, 21 October 2026, 4:30 p.m. CT. Two independent transcriptions are archived with the note's data: Benzinga's automated transcript (posted 6:40 p.m. ET) and Investing.com's (6:39 p.m. ET). The two differ in speaker spellings and segmentation. Wording is quoted only where both carry it; everything else is paraphrased, including one capex remark the two attribute to different speakers. Tesla's IR replay was not transcribed when this note was prepared. Call-only figures (the roughly \$20 billion 2026 capex guide, the Terafab cost, the borrowing capacity, the Optimus and robotaxi dates, the five-million-vehicle aspiration) appear in no filing and are identified as spoken.

Market data. TSLA \$386.47: the settled close of 21 October 2026 from the brokerage consolidated feed (exchange closing print). The after-hours print of \$374.29 at 8:29 p.m. ET is cited as one data point. The July closes (\$374.01 on 22 July, \$319.69 on 23 July) are from the same feed. SPCX closes of \$170.86 (30 June), \$150.86 (30 September) and \$159.31 (21 October) are from the same feed. The brokerage earnings feed shows a \$0.40 estimate and a \$0.48 actual; the actual matches Tesla's non-GAAP figure, which confirms the basis. Other consensus figures: FactSet (\$0.45, \$28.06 billion) as cited by Electrek, 21 October 2026; Investing.com (\$0.45, \$27.92 billion), 21 October 2026. The evening reports are Stocktwits (7:57 p.m. ET) and Electrek (21 October 2026). The reactions after the two previous beats (-3.5% on 29 January 2026, -3.6% on 23 April 2026) are close-to-close moves from the brokerage feed's daily bars. The ten-year Treasury yield of 5.13% is the US Treasury daily par yield curve for 21 October 2026; July's 4.71% is the same series for 23 July. The pre-print options-implied move of about 6.1% is the at-the-money straddle for 23 October expiry.

Independent fleet and safety evidence. Robotaxi Tracker (robotaxitracker.com) dashboard, fleet and vehicle pages, read 21 October 2026: 511 Tesla cars "in service, unsupervised" (321 Model Y, 190 Cybercab); 747 supervised; a national floor of 485; 811 Texas-registered Tesla autonomous vehicles. The house's own tally of the vehicle directory gives 299 distinct cars sighted in unsupervised markets in 30 days and 49 in 7, and the script is archived with the note's data. NHTSA Standing General Order crash reports: 36 Tesla robotaxi reports to date against 22 in July, as counted by Electrek (15 October 2026), from the release covering reports through 15 September. Tesla Robotaxi Safety Report (tesla.com/robotaxi/safety, 21 October 2026): 3.1 million miles with no safety monitor, 22 January to 18 October; a company document. Optimus timing: Electrek (20 August 2026) and DigitalToday (21 August 2026), both reporting the same Tesla meeting with JPMorgan. The July baseline of about 21 unsupervised cars is Electrek, 21 July 2026.

Model. The 24 July note's five-business sum, rebuilt. Its drivers come from that note's data capture (snapshot 2026-07-23-134744, forecast and valuation sections): deliveries, prices and margins, energy volumes and prices, FSD penetration of an installed fleet derived from its subscriber anchors, robotaxi fleet, miles and profit a mile with vehicles capitalized at \$30,000, and Optimus units, price and gross margin, each at anchors for 2026, 2030 and 2035 with interpolation between them. Segment discount rates are 10.11% (cars and services), 10.56% (energy), 11.01% (FSD), 12.81% (robotaxi) and 13.71% (Optimus), with 3% terminal growth and a 25% tax rate. Discounting is mid-year from the valuation date. Robotaxi and Optimus use the July reverse-DCF's H-model fade (half-life 7.5 years; 18% and 15% growth in 2035). Each scenario is divided by its own 2035 diluted share count from July, scaled to today's count. Share-based pay is expensed, not added back. One cost parameter per business and scenario is solved so the rebuild reproduces each July business value at 23 July 2026; the parameters and the out-of-sample grid test are in the workbook's Calibration sheet. The re-mark changes, in order: the valuation date (23 July to 21 October); net cash (\$35.9 billion: \$45,447 million of cash and investments less \$9,523 million of debt and finance leases); the SpaceX stake at carrying value; the share count; 2026 deliveries (year to date plus a fourth quarter at the third-quarter rate, 1.81M); the 2026 automotive margin excluding credits (year to date, fourth quarter at 18.1%: 17.9%); and 2026 FSD penetration (17.1%). Every later anchor is unchanged. Reverse DCF: residual = market equity less net cash and the SpaceX stake, less the base-case value of cars and services, energy and FSD. Physical units use the July note's H-model method and unit economics. Whole-company growth is solved on trailing free cash flow at 12.81% and 3%. The implied discount rate applies one rate to every business on the base-case forecast. The workbook carries every input, path, sensitivity and the attribution.

Prior TON618 research relied upon. *Tesla (TSLA) — Four Times the Finish Line* (24 July 2026), whose model, triggers and reverse-DCF method this note re-marks; *SpaceX (SPCX) — The Quarter That Doubled the Bill* (20 October 2026), which carries the merger arithmetic and probabilities.

Limitations. The rebuilt cash flows reproduce the July business values by construction, but they are not the original schedules. Terminal value is 65% of the rebuild's base-case operating value against 81% in July's published model, so the rebuild carries more value in the explicit years, and the grid test shows it somewhat less sensitive to the discount rate than the original; on that evidence the rebuild's implied discount rates may sit slightly below what the original would give. The July simulation behind the \$69 end of the July range was not stored and is not re-run. Tesla's SpaceX mark basis awaits the 10-Q. Fleet

counts rest on one community tracker whose measures disagree with each other by up to an order of magnitude; the note quotes the range, not a point. Call-sourced statements carry the provenance noted above.

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