Tesla Inc

SPCX-TSLA Combination Thoughts: Strategically Coherent; Regulatory Challenges and SPCX Acquisition Currency Key to Watch

Neutral

TSLA, TSLA US
Price (06 Jul 26):$419.77

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We see the possibility of a SpaceX-Tesla combination as strategically coherent on paper, allowing CEO Musk to unify vision, mission, and engineering leadership across both platforms. This includes vertical integration across AI, robotics, energy, transportation, & space, anchored by Terafab & a combined ~$28.5T TAM narrative on the SPCX side (see JPM initiation this morning). In addition, SPCX's record IPO furnishes a high-value acquisition currency. That said, we think recent press reports understate the practical bottleneck of securing multi-jurisdictional regulatory approvals, especially in markets where TSLA has meaningful manufacturing exposure. China could be a particular hurdle given the potential national security sensitivities created by SPCX's defense/U.S. government ties, the absence of Starlink approval in China, and TSLA's large, profitable China manufacturing footprint – key dynamics that are at odds with each other. Other hurdles include governance/voting symmetry given Musk controls ~85% of SPCX voting power but only 20% of TSLA's, as well as the perception that a combination would be a SPCX-led acquisition rather than a merger of equals, particularly in the context of recent signs of a turnaround in TSLA's fundamentals with strong 2Q26 deliveries and FSD approvals/robotaxi roll-outs gathering pace (see our robotaxi and TSLA deep-dives). Net-net, we would monitor SPCX acquisition currency, regulatory landscape, and Musk's TSLA voting power as catalysts to nearing a potential combination.

The case for a combination: Operational integration between the two entities is already deep, which would help facilitate an eventual combination. The companies share engineering talent, AI infrastructure, the $55B-119B Terafab chip facility in Texas, and, most importantly, in our view, Elon Musk's leadership and engineering philosophy. The commercial linkages are also concrete—SPCX has purchased TSLA Megapack batteries & Cybertrucks, while TSLA invested $2B in xAI (now part of SPCX). The shared AI ambition is, in our view, the potential strategic glue. SPCX allocated 76% of its $10.1B 1Q26 capex to AI, and TSLA plans ~$25B of capex in 2026 focused on AI/robotics/chips. Layered atop this is Musk's well-documented consolidation track record & the end thesis of unifying the AI ecosystem under a single corporate roof. Importantly, President Gwynne Shotwell recently acknowledged the potential synergies and did not rule out a future combination, noting it "might make Elon's life a little easier." We highlight two potentially enabling catalysts in particular. First, SPCX's record $1.77T IPO (priced at $135/share, ~$85B raised) furnishes a high-value acquisition currency. Second, Musk's move to lift his TSLA voting stake to ~20% (via exercise of his 2018 award) meaningfully increases his control.

The case against/potential hurdles: Against this, we flag a set of structural impediments that, in our view, could complicate such a move. Regulatory scrutiny is a gating item, with SPCX's government contracts (NASA/Pentagon) and TSLA's China exposure likely inviting antitrust/national-security review. TSLA has historically managed this balance within its existing structure, maintaining a

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sizeable wholly owned footprint as a non-Chinese OEM, and advancing FSD, so there could be an eventual pathway through approvals. The other hurdle is governance/voting asymmetry. Musk controls ~85% of SPCX voting power but only ~20% of TSLA's, complicating potential deal dynamics & raising possible dilution/governance concerns for minority TSLA holders. In addition, SPCX's market cap (~$2.2T) exceeds TSLA's ($1.4T), which could imply an acquisition of TSLA by SPCX rather than a merger of equals – after challenges in 2025, fundamentals are turning a corner at TSLA with a strong 2Q deliveries print and pickup in FSD approval and robotaxi/Cybercab roll-outs.

Potential deal structures: We see four primary potential paths for a SPCX-TSLA combination: 1) An all-stock, SPCX-led acquisition of TSLA is most likely, w/SPCX issuing new shares at a fixed conversion ratio & modest premium—a structure we believe likely best reconciles the valuation gap while avoiding a large cash outlay; 2) NewCo/HoldCo roll-up—both entities folding into a newly formed parent—could offer cleaner "merger of equals" optics & ease minority-holder concerns, though we'd expect exchange ratios to still likely skew toward SPCX in such a scenario; 3) A cash-and-stock hybrid could deliver a sharper premium & accelerate approval, but we view it as less likely near term since any cash outlay would likely further strain leverage/FCF against SPCX's AI-heavy capex; and 4) A phased/partial combination could de-risk the likely regulatory & governance hurdles & provide a longer runway toward what we think may ultimately be an all but inevitable combination. Across potential alternatives, we continue to flag conversion ratio/premium, regulatory clearance, & dual board/shareholder approval as the gating items to watch.

