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Morgan Stanley | RESEARCH

UPDATE

October 21, 2026 09:52 PM GMT

Tesla Inc | North America

FSD Momentum Accelerates; Margin Strength and FCF Upside Drive a Solid Beat

AlphaSignals Earnings Reaction

Unchanged	Meaningful upside	Modest revision higher
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Our take: A stronger quarter supported by higher gross margins in both core auto and energy. FCF also beat on the basis of working capital tailwinds and much lower-than-expected capex. Regarding capex, Tesla has only spent $13bn YTD, implying a significant ramp in 4Q assuming the $25bn capex guidance for the year still holds.

Noteworthy data points: (i) FSD attach rates on new vehicle sales in North America was >75% (vs. 55% in 2Q26). **(ii)** Cumulative unsupervised robotaxi miles reached nearly 2mn at the end of September and have subsequently increased to ~3.3mn miles today, implying a ~20% weekly growth rate. **(iii)** Energy Storage margins came in well ahead of expectations (unclear if there are any one-timers), with the company highlighting record order rates and backlog. We look for more clarity on the pricing environment, given the implied Energy ASP compression in the quarter.

3Q26 Results

- **Revenue:** $28.05bn, -0.7%/-0.3% vs. MSe of $28.24bn and cons of $28.13bn, with strength in Auto, Services & Other offset by weaker Energy relative to consensus.
- **Auto gross margin ex-credits:** 18.1% vs. MSe of 16.4% and cons of 16.7% supported by improved vehicle region/product mix and higher FSD subscriptions.
- **Energy gross margin:** 33.1% vs. MSe of 26.5% and cons of 25.7%.
- **Operating Income:** $718mn (2.6% margin) vs. MSe of $526mn (1.9% margin) and cons of $687mn (2.4% margin).
- **Adj. EBITDA:** $3.90bn (13.9% margin) vs. MSe of $3.90bn (13.8% margin) and cons of $3.66bn (13.0% margin).
- **Adj. EPS**: $0.48 vs. MSe of $0.54 and cons of $0.45.
- **FCF:** +$1.53bn vs. MSe of -$4.48bn and cons of -$4.39bn.

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Tesla Inc (TSLA.O, TSLA US)

Autos & Shared Mobility | United States of America

Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	**$400.00**
Shr price, close (Oct 20, 2026)	$373.71
Mkt cap, curr (mm)	$1,322,933
52-Week Range	$498.83-297.38

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Exhibit 1: 3Q26 Earnings Variance

Tesla Income Statement ($MM)	3Q26	Cons	MSe	% Difference vs. Cons	% Difference vs. MSe
Revenue					
Auto (inc credits)	20,560	19,834	20,863	3.7%	(1.5%)
Reg Credit	*113*	*180*	*389*		
Energy	2,881	3,908	3,619	(26.3%)	(20.4%)
Services and Other	4,605	4,298	3,758	7.1%	22.5%
Total Revenue	**28,046**	**28,131**	**28,239**	**(0.3%)**	**(0.7%)**
COGS					
Auto	16,754	16,340	17,117		
Energy	1,927	2,909	2,660		
Services and Other	3,871	3,827	3,333		
Gross Profit					
Auto	3,806	3,494	3,746	8.9%	1.6%
% Gross Margin (inc Credits)	18.5%	17.6%	18.0%		
% Gross Margin (exc. Credits)	**18.1%**	**16.7%**	**16.4%**		
Energy	954	999	959	(4.5%)	(0.5%)
% Gross Margin	*33.1%*	*25.7%*	*26.5%*		
Services and Other	734	470	425	56.0%	72.9%
% Gross Margin	*15.9%*	*10.6%*	*11.3%*		
Total Gross Profit	**5,494**	**4,986**	**5,129**	**10.2%**	**7.1%**
% Gross Margin	19.6%	17.7%	18.2%		
R&D	2,761	2,334	2,486	18.3%	11.1%
% of Sales	*9.8%*	*8.3%*	*8.8%*		
SG&A	2,015	1,956	2,118	3.0%	(4.9%)
% of Sales	*7.2%*	*7.0%*	*7.5%*		
Restructuring + Other Expenses	0	9	-		
Operating Income	**718**	**687**	**526**	**4.5%**	**36.6%**
% Margin	*2.6%*	*2.4%*	*1.9%*		
SBC	982	875	1,266	12.2%	(22.4%)
Net Interest Expense	(355)	(341)	(336)	4.1%	5.8%
Other (income) / expense, net	117	17	0		
Pre-Tax Earnings	956	1,011	861	(5.4%)	11.0%
Income Tax	152	244	218	(37.7%)	(30.2%)
% Tax Rate	*15.9%*	*24.1%*	*25.3%*		
Net (income) / loss attributable to NCI	17	14	12		
GAAP Net Income	**787**	**755**	**631**	**4.2%**	**24.6%**
Adj Net Income	**1,769**	**1,630**	**1,897**	**8.5%**	**(6.8%)**
GAAP EPS Diluted	**$0.22**	**$0.21**	**$0.18**	4.8%	23.0%
Diluted Common Shares Outstanding	3,541	3,543	3,531		0.3%
Non-GAAP Dil. EPS	**$0.48**	**$0.45**	**$0.54**	**6.7%**	**(10.7%)**
FCF	**1,531**	**(4,385)**	**(4,483)**	NA	NA
Capital Expenditures	4,732	8,000	7,500	(40.9%)	(36.9%)
Cash, Cash Equivalents and Marketable Securities	45,447	39,087	39,041	16.3%	16.4%
Adj EBITDA	**3,900**	**3,664**	**3,896**	**6.4%**	**0.1%**
Adj EBITDA Margin	13.9%	13.0%	13.8%	6.8%	0.8%

Source: Morgan Stanley Research estimates, Tesla, FactSet, Visible Alpha

Valuation Methodology and Risks

Tesla Inc (TSLA.O)

Our PT of $400 is comprised of 5 components: **(1)** $44/share for core Tesla Auto business on ~8.5mm units in 2040, 8.2% exit EBIT margin (ex-FSD), 10.9% WACC, and 10x 2040 exit EBITDA multiple. **(2)** Network Services at $145/share, 80% attach rate at $240/month ARPU by 2040 **(3)** Tesla Mobility at $120/share on DCF with ~5mn cars at ~$1.33/mile by 2040. **(4)** Energy at $35/share, and **(5)** Humanoids at $56/share (50% probability discount).

Risks to Upside

- Increased FSD attach rate / unsupervised FSD
- Cost milestones on new battery
- New model intro (Roadster, multivan)
- Robotaxi rollout
- Optimus announcement

Risks to Downside

- Competition: legacy OEMs/Chinese players/big tech in Autos and Robotics
- Execution risk across robotaxi/FSD/humanoid
- Regulatory
- China risk
- Dilution
- Valuation



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(as of September 30, 2026)

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Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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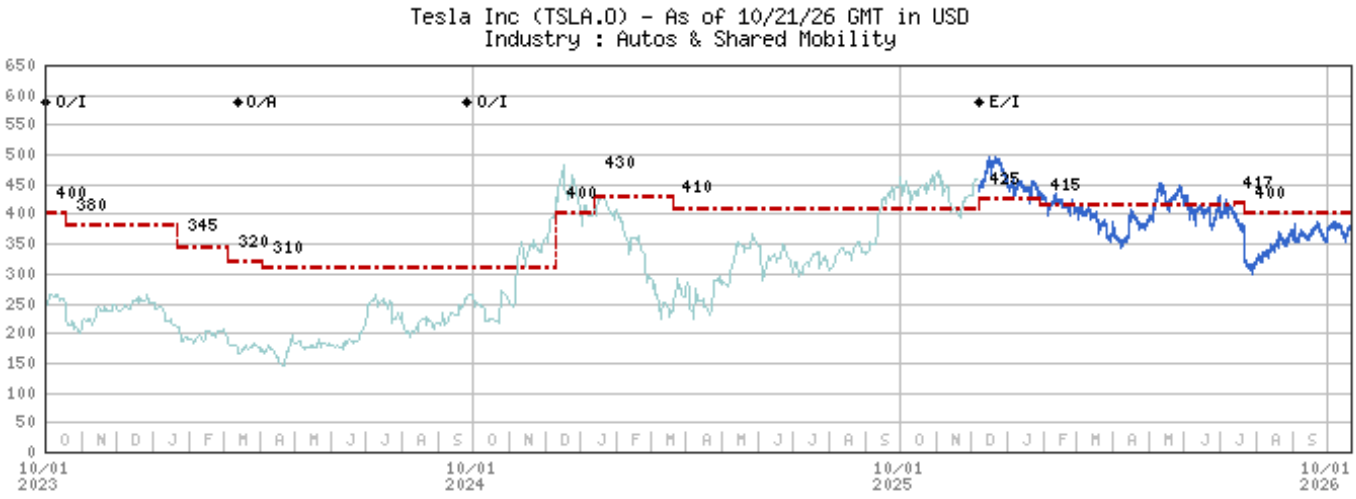
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Price Target History: 4/22/21 : 300; 10/24/21 : 400; 1/10/22 : 433.33; 6/22/22 : 400; 7/14/22 : 383.33; 8/25/22 : 383; 10/10/22 : 350; 10/24/22 : 330; 12/28/22 : 250; 1/25/23 : 220; 4/20/23 : 200; 6/22/23 : 250; 9/10/23 : 400; 10/19/23 : 380; 1/22/24 : 345; 3/5/24 : 320; 4/4/24 : 310; 12/10/24 : 400; 1/13/25 : 430; 3/20/25 : 410; 12/7/25 : 425; 1/29/26 : 415; 7/13/26 : 417; 7/23/26 : 400

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
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INDUSTRY COVERAGE: Autos & Shared Mobility

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/21/2026)
Andrew S Percoco		
Adient PLC (ADNT.N)	E (12/07/2025)	$17.12
Aptiv Plc (APTV.N)	E (08/04/2026)	$44.34
Avis Budget Group Inc (CAR.O)	E (12/07/2025)	$102.45
BorgWarner Inc. (BWA.N)	O (10/06/2026)	$57.45
Dauch Corporation (DCH.N)	E (12/07/2025)	$4.86
Ford Motor Company (F.N)	E (09/25/2024)	$11.90
General Motors Company (GM.N)	O (12/07/2025)	$76.11
Hertz Global Holdings Inc (HTZ.O)	E (02/08/2024)	$1.92
Lear Corporation (LEA.N)	E (12/07/2025)	$117.89
Lucid Group Inc (LCID.O)	U (12/07/2025)	$3.27
Magna International Inc. (MGA.N)	E (09/25/2024)	$63.83
Mobileye Global Inc (MBLY.O)	E (08/02/2024)	$7.30
Quantumscape Corp (QS.O)	E (12/07/2025)	$3.98
Rivian Automotive, Inc. (RIVN.O)	U (12/07/2025)	$12.43
Tesla Inc (TSLA.O)	E (12/07/2025)	$373.71
Versigent Plc (VGNT.N)	O (05/07/2026)	$43.39
Visteon Corporation (VC.O)	E (06/01/2022)	$87.78
Daniela M Haigian		
Asbury Automotive Group Inc (ABG.N)	E (09/25/2024)	$164.05
AutoNation Inc. (AN.N)	E (10/04/2026)	$153.01
Carmax Inc (KMX.N)	E (11/10/2025)	$51.49
Carvana Co (CVNA.N)	O (08/07/2025)	$59.19
Group 1 Automotive, Inc (GPI.N)	U (10/04/2026)	$224.85
Lithia Motors Inc. (LAD.N)	E (09/25/2024)	$269.13

Penske Automotive Group, Inc (PAG.N)	E (07/23/2026)	$212.05
Sonic Automotive Inc (SAH.N)	U (08/06/2026)	$60.68
Javier Martinez de Olcoz Cerdan		
Goodyear Tire & Rubber Company (GT.O)	U (09/28/2025)	$4.24

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* Historical prices are not split adjusted.

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