

Tesla Motors Inc

Tesla sets rich rewards for Elon Musk to just be himself

A \$770m payday is in sight as CEO closes in on four ambitious milestones

Inside Business



Elon Musk hopes the mass market Model 3 will set Tesla on the road to profitability © FT montage; Reuters; Getty Images

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Tesla's recent sales growth and the launch of its Model 3 electric car have brought in sight for Elon Musk something that most other corporate leaders can only dream of: a \$770m payday. Not that his shareholders are likely to begrudge him the money. At more than \$60bn, the electric car company sits on top of the US auto industry, at least in terms of stock market value.

If the [Tesla](#) board was looking for a way to incentivise Mr Musk to shoot for supercharged growth, the formula it came up with looks to have been pretty effective. There's just one little problem: the company is still in a constant struggle to keep tapping new sources of cash, and it has not been able to shake off the persistent argument from the Wall Street bears that it will

eventually run out of money.

The massive payout to Mr Musk comes from a stock option award made five years ago, at a time when Tesla was a small company with very big dreams. In the quarter the options were granted, it shipped only 321 cars, and the company was worth about \$3bn.

Other chief executives are criticised for not thinking big enough. That has never been a problem for Mr Musk and Tesla. His options were set to pay out in 10 instalments, tied mainly to cumulative sales volumes (up to 300,000) and hitting future product targets five years out. The kicker: Mr Musk would only get the full award if he added another \$40bn to Tesla's market cap.

By the start of this year, the company had hit five of those 10 milestones. With the impending launch of the Model 3, four more — covering stock now worth \$770m — were in sight. One of those — hitting lifetime sales of 200,000 — came earlier this year. Other milestones were tied to getting the Model 3 on the road. Though its summer “launch” was of the soft variety, with the first customers being Tesla employees, this was a big part of what the Tesla board had in mind five years ago.

In total, Mr Musk's original option grant was estimated at the time to be worth \$78.1m, using the standard formula for valuing such things. But the options that have already vested, along with the four latest ones, are currently worth \$1.73bn.

Arguably, the ever-expansive Mr Musk did not need to be paid so much to think big, because it seems to be part of his DNA. Nor did the board exactly hold his feet to the fire to overcome the persistent problems that have bedevilled its new car launches. The options had a 10-year life, so Model 3 delays could have stretched on for years and he might still have cashed in fully.

If anything, the question before Tesla's board sometimes seems to be more about how to restrain their chief executive. In pushing his vision of a sustainable energy conglomerate, he often risks raising the expectations of customers and shareholders to unrealistic levels. This week's ruling from the National Transportation Safety Board in the US, about a fatal crash involving a Tesla driver, is a case in point. The agency concluded that the driver made the mistake of over-relying on Tesla's driver assistance system. But the company has not stopped

calling it “Autopilot”, and Mr Musk has not become any more restrained in his claims for the technology.

It is notable, meanwhile, that only one of the 10 targets set by Tesla’s board five years ago was directly tied to the company’s financial performance. It called for a gross profit margin of 30 per cent for at least a year. It stands at 24 per cent. While the high level of technology in the Model 3 means Tesla will struggle to make a profit at the base price of \$35,000, hopes are high that extra, high-margin features will help the profitability of the car at least match the company’s existing vehicles.

With Mr Musk’s 2012 stock option deal coming to a conclusion, Tesla’s compensation committee will have to think about new ways to stretch their CEO’s sights to the distant horizon.

Who knows what targets they might come up with. Overtaking Apple to become the world’s most valuable company, perhaps? Or leapfrogging Uber by launching a car-booking service for driverless cars? These are both things Mr Musk himself has said are eminently achievable.

However, while they are at it, maybe they could also come up with something a little more mundane — like making their company financially sustainable.

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