EV Industry’s Growth Prospects and Investment Recommendations -
Tesla as an Example

Jinpeng Li

Abstract:
The purpose of this paper is to discuss the growth prospects of the electric vehicle industry, particularly Tesla, Inc., and recommendations for investors. By analyzing Tesla’s innovative practices, market performance, competitive position, and future strategies in the electric vehicle sector, this paper forecasts the development trends of the electric vehicle industry. It provides investment recommendations based on the current market environment and technological advances.

Keywords: EV, Tesla, Development prospects, Risks, Investment

1. Introduction:
The electric vehicle industry is fast-growing and focuses on designing, manufacturing, and marketing vehicles powered by electricity rather than traditional gasoline or diesel fuel. This industry encompasses a variety of vehicle types, including electric cars, buses, trucks, and even bicycles. The electric vehicle industry is expected to grow in the coming years. Many governments worldwide are implementing policies to encourage the adoption of electric vehicles, such as offering tax incentives or mandating the use of electric vehicles in certain sectors, such as public transportation.

I have chosen Tesla (NASDAQ: TSLA) as a research target to forecast the growth prospects and give investment recommendations. The reasons are as follows. First of all, Tesla Inc., as a prominent representative of the electric vehicle industry, has been able to highlight its influence and status in several ways. Since its inception, Tesla has advanced the industry as an innovator and trailblazer. Tesla’s spirit of innovation permeates every aspect of its product design and technology application. Whether developing high-capacity battery technology, providing revolutionary charging solutions, implementing remote software updates, or exploring self-driving technology, Tesla has always been at the forefront of the industry. These innovations not only enhance the performance of electric vehicles but also greatly improve the user experience. In addition, Tesla holds a prominent position in the electric vehicle market. With its best-selling models, Model 3 and Model Y, Tesla has successfully penetrated the mainstream market and gained a leading position in several countries, sometimes surpassing traditional gasoline car sales. This market performance reflects the popularity of its products and shows the increase in consumer acceptance of electric vehicles. Financially, Tesla has shown strong growth, becoming one of the world’s automakers with the highest market capitalization. This achievement not only reflects investors’ confidence in Tesla’s prospects but also highlights the huge potential of the electric vehicle industry.

2. Thesis Statement:
I believe the EV industry also has a very high potential for growth and is well-suited for investment. The electric vehicle industry has a promising future due to its environmental benefits, technological advances, growing market demand, government support, and potential for return on investment. However, investors should also be concerned about the potential risks, including uncertainty of technological change, increased market competition, and policy changes. Therefore, Investment decisions should be based on in-depth analysis and comprehensive assessment to achieve stable returns over the long term.

3. Growth prospects
3.1 Overview:
Using Tesla as the object of analysis, a general analysis of Tesla’s strengths and weaknesses, growth opportunities, and potential risks is conducted by borrowing the SWOT analysis.
As you can roughly see from the table above, Tesla has a strong presence as a leader in the EV industry and is highly skilled and innovative. At the same time, he also has good development prospects, such as technological advances, increased demand for electric vehicles, and further upgrades along with developing other areas such as AI. But at the same time, it is important to be aware of its own shortcomings, such as a high dependence on Elon Musk, and potential risks, such as supply chain issues that make car deliveries take longer (Zhang, Y., 2022, p153).

3.2. Advances in electric vehicle technology:

At the technical level, the most far-reaching impact on the electric vehicle industry’s development is its progress in battery technology. Currently, the industry generally expects that the cost of electric vehicle batteries will continue to decline while the range will be significantly improved. This prediction is based on the experience and data accumulated over the past years. Looking back at history, in 2010, the manufacturing cost of electric vehicle battery packs was as high as $1,000/kWh; however, by 2019, that cost had dropped significantly to about $200/kWh. It is reasonable to believe that over the next decade, between 2020-2030, the cost of battery packs will decrease to approximately $100/kWh. While not all experts believe lithium batteries will reach this price point, industry research into alternative battery technologies is underway. These alternatives are expected to fill the market gap and drive technological progress in the future when lithium batteries fail to develop as expected.

In terms of range, early EVs were typically limited to 100 miles or less between charges. However, as battery technology has advanced, modern EVs have been equipped with larger, more powerful battery packs that have increased their range to over 200 miles. Looking ahead, the range is still expected to increase even further. Companies like Tesla have already introduced models with ranges of up to 390 miles, setting a new benchmark for the industry. This optimism about the development of battery technology stems not only from the automotive industry but is also strongly supported by the power industry, which strives to make energy storage technology an integral part of the energy system (Barkenbus, J. N., 2019).

3.3. The scale of EVP’s revenues is still expanding.

According to TSLA’s financial summary (Tesla, Inc., 2022), TSLA’s total revenues and income from operations continue to rise. Therefore, TSLA is a company that is between a quick growth period and a growth period.

![Figure 1 Net Income and Adjusted EBITDA by Tesla vehicles by region](image1.png)

![Figure 2 Market share of Tesla vehicles by region (TTM)](image2.png)

Source: Tesla estimates based on ACEA; Autonews.com; CAAM – light-duty vehicles only TTM = Trailing twelve months

According to the Balance Sheets, in 2022, the Total assets are equal to the Total liabilities and Equity, which is $82,338M. Its fixed assets (PPE, intangible assets) are $23,763M, 28.86% of its Total assets. Its preferred stock is $0.001 par value; 100 shares are authorized, and no shares are issued or outstanding. Its Common stock is $0.001 par
of powerful AI algorithms, which enables its vehicles to realize assisted driving or even a near fully autonomous driving experience on the highway.

In addition, Tesla’s advantages in data collection and processing also provide fertile soil for the development of AI technology. Every Tesla vehicle on the road is a data collection unit that continuously uploads a large amount of driving data to the central database. This valuable data is used to train more accurate self-driving models and optimize vehicle performance and user experience.

3.5 . Risks:

Although the EV industry has a very beautiful and broad prospect, the risks implied in its development should not be ignored. This article will take the risks faced by Tesla as an example to reveal to readers the risks faced by the EV industry.

3.5.1 . Risks Related to Ability to Grow Business

3.5.1.1 . Impact of Macroeconomic Conditions

Tesla’s capacity to expand its operations may be significantly influenced by prevailing macroeconomic conditions shaped by the worldwide COVID-19 pandemic. Economic activity fluctuations can directly affect consumer demand for Tesla’s offerings, subsequently altering its sales and revenue growth trajectory.

3.5.1.2 . Supply Chain Management

The failure of suppliers to deliver components as scheduled or at acceptable prices, quality, and volumes poses a potential risk. Tesla’s reliance on a global supply chain makes it susceptible to disruptions that could impact production efficiency and incur additional costs. Consequently, Tesla must effectively manage these components to ensure operational excellence.

3.5.1.3 . Expansion of Global Infrastructure

Tesla may encounter difficulties expanding its international product sales, enhancing delivery and installation capacities, and optimizing its service and vehicle charging infrastructure. To uphold its market leadership, it is imperative for the company to precisely anticipate and competently manage this expansion.

3.5.2 . Risks Related to Operations

3.5.2.1 . International Operations

Tesla faces various risks in maintaining and expanding its international operations, including exposure to unpredictable and unfavorable regulatory, political, economic, tax, and labor environments. These factors can adversely affect Tesla’s operational efficiency and profitability in foreign
markets.

3.5.2 .2.Dependence on Key Executives

Tesla’s reliance on the services of Elon Musk, who holds the position of Technoking and Chief Executive Officer, is substantial. Musk’s guidance and foresight are integral to the company’s prosperity, and any alterations to his position within the organization could potentially influence Tesla’s operational flow and strategic trajectory.

3.5.2 .3.Financing Programs

Tesla may be unable to effectively manage and mitigate compliance, residual value, financing, and credit risks associated with various financing programs. Such risks could potentially hinder the company’s financial stability and its ability to finance ongoing operations and future expansion plans.

3.5.2 .4.Cash Flow and Indebtedness

Tesla must guarantee that its business operations generate adequate cash flow to fulfill its financial commitments and prevent further debt accumulation. Preserving the company’s liquidity and financial stability is imperative for its long-term viability.

3.5.2 .5.Currency Exchange Rates

Due to its international presence, the company is subject to fluctuations in currency exchange rates, potentially impacting its financial performance and profitability across various regions.

3.5.3 .Risks Related to the Ownership of Our Common Stock

3.5.3 .1.Force Sale of Shares by Elon Musk

If forced to dispose of Tesla’s common stock to secure personal loans or fulfill other commitments, Elon Musk could potentially trigger a decrease in Tesla’s stock price. Such an occurrence may introduce market volatility and erode investor trust in the company.

Despite its continuous innovation and market expansion, Tesla confronts a range of risks that could hinder its growth, operational sustainability, and stock ownership stability. It is imperative to meticulously manage these risk factors to safeguard the company’s long-term prosperity and profitability.

4. Investment recommendation:

4.1 .Direct investment.

As mentioned, the EV industry remains robust. It has significant growth potential, allowing investors to engage directly with EV manufacturing companies, including the acquisition of shares in Tesla as a representative example.

4.2 .Investing in EV Technology:

For investors who possess profound knowledge of the electric vehicle (EV) industry and relevant technical expertise, engaging in the research and development of EV technology represents a highly promising avenue. As battery technology advances steadily, the range and performance of electric vehicles are constantly enhancing, thus opening up vast market opportunities for EV technology research and development.

4.3 .Invest in infrastructure facilities:

Investors are advised to pay attention to the development of electric vehicle (EV) charging infrastructure. Given the expanding EV market, the demand for charging facilities is also rising. By investing in the construction and operation of charging facilities, such as charging stations and piles, investors can cater to the charging requirements of EV users and simultaneously provide crucial support for the EV industry’s growth.

4.4 .Investment in lithium:

Investors interested in the electric vehicle (EV) industry have several options for allocating their capital. Apart from investing downstream in the manufacturing of EVs, they can also consider investing upstream in lithium mining. Lithium, a crucial raw material for lithium-ion batteries, is vital to the EV industry as it powers these vehicles. Given the expanding EV market, the demand for lithium is also on the rise. Therefore, investing in lithium mining companies offers investors a unique opportunity to tap into the source of EV industry growth.

Investing in lithium mining enterprises gives investors direct exposure to the mining and production of lithium resources. This allows them to reap the benefits of increasing lithium prices, improving production efficiency, and reducing costs through enterprise expansion and technological advancements. Additionally, these mining enterprises often engage in the downstream processing of lithium resources, producing lithium carbonate, lithium hydroxide, and other key components for EV battery manufacturing.

Beyond the direct economic gains, investing in lithium mining enterprises holds strategic significance. As the world increasingly relies on renewable energy, the EV industry is poised to become a key player in the global economy. Lithium mining enterprises will play a pivotal role in shaping the industry’s future as a supplier of raw materials upstream of the EV supply chain. Therefore, establishing a foothold in these companies now can provide investors with a competitive edge in the future market.
4.5 Invest in Internet and technology companies:
Simultaneously, many significant internet and technology firms have established increasingly tighter relationships with the electric vehicle (EV) sector. Many technology companies offer technical support to EVs, encompassing areas like artificial intelligence (AI) technology. (Yuyan, P., Shi, J., & Shi, Z., 2017) Notably, some of these firms, including Huawei and Xiaomi, are directly entering the EV industry, leveraging their mature technologies to craft cutting-edge electric vehicles. Consequently, investors may wish to pay particular attention to these prominent technology companies and the EV firms with whom they collaborate closely.

5. Conclusion:
The global automobile industry is experiencing a significant transformation and upgrading, propelled by the widespread electrification trend and the rapid advancement of new energy vehicles (Wan Xiaofeng, 2020). Electric car companies such as Tesla possess ample opportunities to add further value. Concurrently, with the evolving AI technology and the maturation of autonomous driving technology, the electric car industry stands poised to ascend to a superior level. Nonetheless, it is imperative to acknowledge the potential risks involved in this development.

Consequently, investors must allocate increased capital towards new energy vehicles to foster their encouragement and advancement. In doing so, investors may consider investing in the following aspects: direct investment in electric vehicle companies, electric vehicle battery technology, supporting infrastructure, lithium, and related internet technology companies.

References