

When Unicorns Fly: SpaceX Prepares History's Largest IPO

We expect the transition to be spectacular, with a chance of turbulence ahead.

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Why It Matters

Successive rounds of private investment culminated in a \$250 billion deal to acquire artificial intelligence lab xAI from its founder that pegged SpaceX's private market valuation around \$1.5 trillion. Market conditions are primed for the company's owners to offer around 3% of the company's shares to public investors.

- ▶ We initiate coverage of SpaceX, assessing the fundamentals of its three main business lines and their potential value to an independent investor.
- ▶ Amid unprecedented supply and potentially fervent demand for its shares, we spell out how we think the boost, separation, and Max Q phases of the company's public launch could unfold.

Bulls Say

- ▶ With a small initial float boosted by almost every investment bank on the planet, buoyant investor appetite for AI infrastructure bids, and an unprecedented path to inclusion in the Nasdaq 100 Index just 15 trading days after the IPO, we expect SpaceX's share price will likely survive separation and even ascent toward orbit, at least for a time.
- ▶ Max Q, the moment of greatest atmospheric pressure on a launch vehicle, will come for SpaceX's stock in the months following the IPO, when successive tranches of stock held by private investors and employees are slated to become available for sale into the public market.
- ▶ We think long-term investors eager to participate in SpaceX's future will have opportunities to do so with a greater margin of safety than the initial offering is likely to provide.

Key Takeaways

- ▶ Our discounted cash flow valuation of SpaceX is \$780 billion, about 48% below its private market valuation, including a wide range of probability-weighted scenarios for the AI business.
- ▶ Our Morningstar Economic Moat Rating is narrow: The firm's core launch and satellite communications businesses drive its moat rating due to the prodigious cost advantages achieved through continued research and development and accelerated economies of scale.
- ▶ We see a wide range of possibilities around the newly acquired AI business and find its economic moat indeterminate. It poses a material threat of value destruction to the company, which limits our overall economic moat rating to narrow.

Companies Mentioned

Name/Ticker	Economic Moat	Currency	Fair Value Estimate	Current Price	Uncertainty Rating	Morningstar Rating	Market Cap (Bil)
Space Exploration Technologies	Narrow	USD	780 Bil	N/A	Very High	N/A	1,500

SpaceX Is a Vertically Integrated Conglomerate

Founded in 2002 and commonly known as SpaceX, the Space Exploration Technologies Corporation designs, manufactures, and operates a family of reusable rockets to launch various payloads into Earth orbit for government and commercial customers. Starting in 2019, the company began launching a constellation of its own communication satellites to provide mobile broadband and wireless services under the Starlink brand. In early 2026, the company acquired xAI from its founder Elon Musk, which operates a large language AI model named Grok, a gigawatt-scale data center called Colossus, and the social media network X.

SpaceX is a vertically integrated conglomerate built around its global dominance in space-centric infrastructure. The company's core strength is its ability to deliver payloads to orbit at unmatched scale, frequency, reliability, and cost efficiency. Other major business lines of the company, from Starlink to future orbital infrastructure initiatives, are ultimately derived from and enabled by its leadership in low-cost space transportation. The company's technological lead over its competitors is evident in its having more than 80% global share in mass delivered to orbit and in having reduced launch cost per kilogram by more than 95%.

SpaceX's cost advantage is driven by its reusable launch architecture, particularly the ability to repeatedly reuse boosters, thereby significantly lowering per-launch costs and spreading fixed manufacturing costs across multiple missions. The Falcon 9 platform has been the workhorse for the firm, but its next-generation Starship rocket has the potential to further reduce launch costs, increase payload capacity, and expand the range of economically viable orbital applications. Successful scaling of Starship, which we expect could occur by 2029, would significantly widen the firm's advantage over its competitors, improve Starlink's economics, and unlock new business models across communications, logistics, and space infrastructure. The firm's current market value is contingent upon paving the way for novel revenue streams, such as orbital computing, which we believe are possible given the firm's unique advantages, but their viability, timelines, and financial outcomes remain highly uncertain.

Launch Cadence Drives Profitability for SpaceX's Rocket Business

Profit drivers for the space launch business are basically launch cadence times payloads minus the steadily decreasing average cost to launch before reinvestments in research and development. The unit invested over \$3 billion in research and development in 2025, with a focus on its large next-generation rocket, the Starship, on which much of its future business rests. Its enormous lift capacity and potential for full reusability, if it proves out, will provide a meaningful further step change downward in SpaceX's average cost to launch, especially per unit of payload mass.

It may happen behind schedule, but we assume that the engineering of the reusable upper stages of Starship will eventually pan out. The challenge is to develop heat-shield materials that can withstand 1,800 degrees Fahrenheit and the stresses of atmospheric reentry without requiring time-consuming or costly remanufacture before they can repeat the journey. We point to advanced materials science and manufacturing techniques that enable turbine jet engine components to withstand thousands of flight

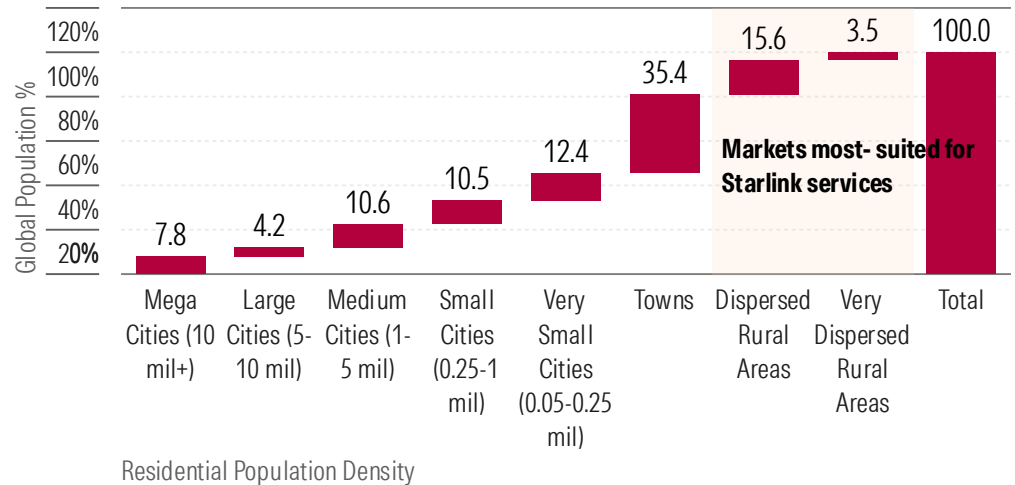
cycles at temperatures above 3,000 degrees. We don't think the turbines' technology is transferable; we only point out why we think a solution is within the realm of possibility.

Once paying customers use Starship, the company's research and development costs will diminish as a percentage of sales, and we expect the launch business' margin profile to improve over time, reaching \$18 billion in revenue at a 20% operating margin by 2035 in our base-case scenario, as provided by PitchBook.

What Are the Profit Drivers and Outlook for Starlink?

We expect Starlink to continue as the primary cash generation engine and internal funding source for other ambitious projects the firm has underway in the medium term. Starlink benefits from the firm's extensive launch cost advantage, and a majority of the company's future launches will be allocated to scaling Starlink deployment by launching tens of thousands of communications satellites into low Earth orbit. We expect Starlink's revenue and profits to compound at a high rate, supported by its unmatched ability to provide connectivity in remote areas worldwide.

Exhibit 1 Nearly 2 Billion People Reside in Low-Density Areas Best Served by Starlink Services



Source: SpaceX, Morningstar estimates, PitchBook, Anthropic, United Nations, DESA Population Division, World Urbanization Prospects 2025. Data as of Dec. 31, 2025.

Our thesis does not depend on the company achieving all or even most of its stated aims. In SpaceX's registration statement, it identifies a combined \$1.6 trillion total addressable market for its mobile and broadband services. The figures equal or exceed all current global spending on mobile and broadband services outside Russia and China. Our forecast does provide for aggressive growth and very high incremental margins for Starlink service, and based on Starlink's 2025 reported 50% revenue growth to \$11.3 billion and 58% (positive) operating income growth exceeding \$4.4 billion or 39% margin, we see the business model validated.

We can see a path to further tens, not necessarily hundreds, of billions of dollars in annual revenue growth in the coming decade, and operating margins potentially exceeding 75%, driven by the company's leading operating cost advantage and the negligible incremental cost of adding users to existing network infrastructure. An important consideration is that the biggest structural difference between a scaled satellite network operator such as Starlink and traditional cable, fiber, or wireless operators is that an investment in SpaceX's orbital telecom infrastructure increases its utility to all users globally, whereas investments by fixed-line and wireless operators apply locally.

Limitations on the amount of data that can travel to and from orbit over the available radio spectrum mean that Starlink faces meaningful barriers to adoption in the densest population centers, as well as a disadvantage in the latency of the signals it can maintain, especially relative to cable and fiber transmission. However, we don't think Starlink has to solve these limitations or necessarily face them to succeed. Nearly one-fifth of the Earth's population resides in the least-densely populated areas, providing close to 2 billion potential customers. A growing array of services, such as powering onboard Wi-Fi for airlines, plays directly into Starlink's capabilities that incumbents cannot match. We call these niche-plus growth opportunities, and they include jobs such as telemetry and fleet connectivity that tend to operate across wide swaths of terrain and may not require the lowest latency. Our base-case forecast entails \$56 billion in revenue for Starlink in these niche and growth areas by 2035, representing about 45% of the identifiable market we've sized.

Another area where Starlink has seen rapid adoption is offering direct-to-cellular service. We don't think the company will necessarily take on incumbent wireless providers, nor do we think it would be likely to succeed in doing so. However, we think that a global market opportunity amounting to \$67 billion by 2035 exists, largely for Starlink's taking: striking deals with mobile providers across the globe to offer an add-on service that provides satellite-based wireless connectivity where cell tower coverage is insufficient or nonexistent. We see this wireless "add-on" opportunity as requiring only a few dollars per user across many hundreds of millions of potential users, using existing providers' radio spectrum. We estimate Starlink could generate \$24 billion in such revenue by 2035, 36% of the market we identified.

Will SpaceX's AI Business Make Money, and What Are Its Prospects?

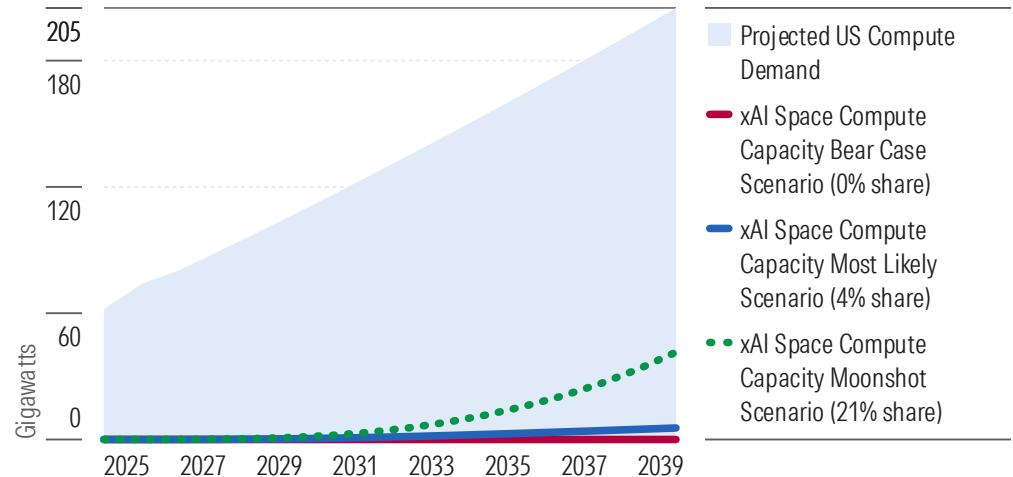
SpaceX's AI division, which was Musk's stand-alone firm xAI until February 2026, has a lot going on, including operating the social network X, formerly known as Twitter. We estimate xAI has invested the equivalent of \$50 billion to build a large language AI model named Grok and a gigawatt-scale data center called Colossus. One of the many lofty goals the company plans to pursue with IPO proceeds is to demonstrate its ability to build and commercialize orbital data centers. For the purposes of our analysis of the IPO, we built a discounted cash flow forecast of the AI unit's existing businesses and a model of how orbital computing infrastructure could potentially take shape, leveraging the company's launch capability in the Starship rocket and its expertise in designing, building, and launching networked satellites at scale in its Starlink business.

We don't think X is material or particularly relevant to the overall business case, and our forecast offers fairly straightforward advertising revenue and some other ancillary subscription and licensing income.

We don't see Grok as one of the leading AI labs today, and while we modeled a range of outcomes for this portion of the business, none of them meaningfully add to or subtract from our valuation of the AI business.

Profit drivers we identified for the AI business that matter most to our forecast and valuation, which we in turn suggest investors should focus on, are capacity utilization of the Colossus I and Colossus II terrestrial data centers, and in turn the potential for AI computational infrastructure in orbit, representing capacity expansion for SpaceX's AI business, and the ability to commercialize it.

Exhibit 2 In Our Base-Case Scenario, We Estimate SpaceX Can Provide 4% of Global Compute Capacity
A lot has to go right, including the successful reuse of Starship launch vehicles and the viability of orbital data centers.



Source: Morningstar estimates. Data as of May 22, 2026.

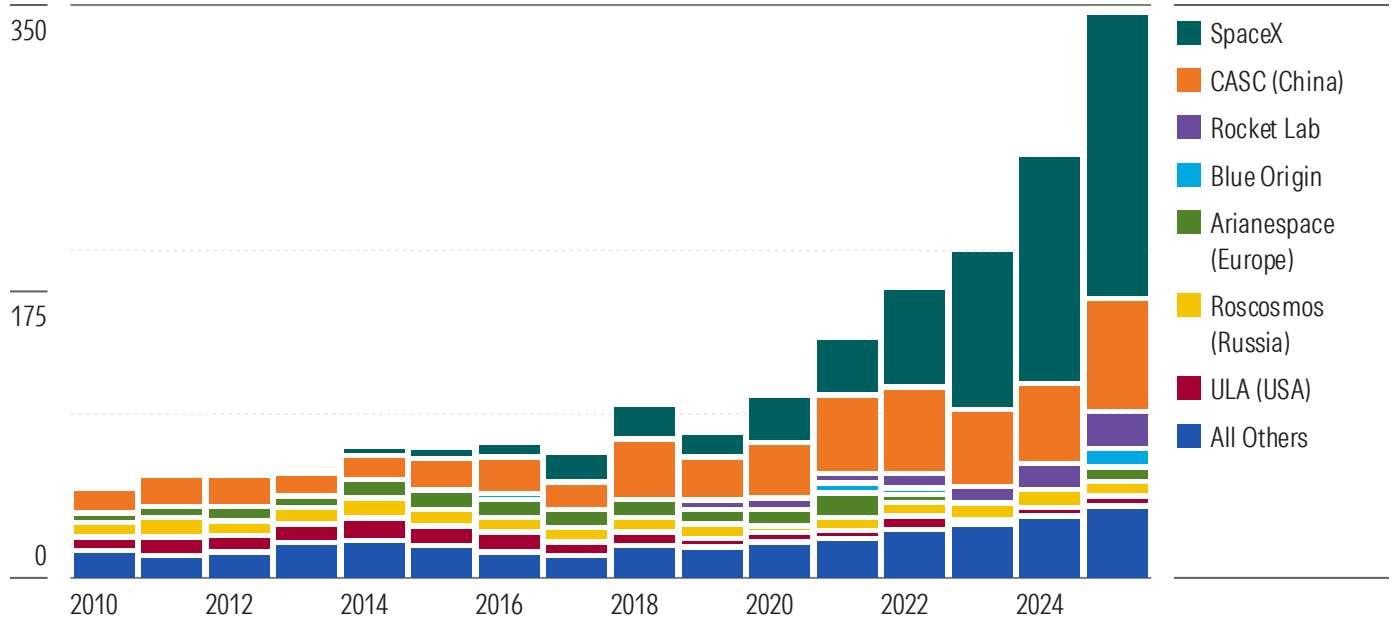
In short, the outlook is very uncertain. We modeled three scenarios to ascertain what the AI business might achieve. In the first, our most optimistic "Moonshot" scenario, SpaceX's orbital AI platform works, offers meaningful operating cost advantages over terrestrial computing, and eventually deploys and commercializes one-fifth of our forecast of global AI infrastructure computing capacity. In a downside scenario we call "No Go," orbital data centers won't work or offer any advantage. We surmise the company, having invested tens of billions to find out orbital data centers will not work, would cut bait and find ways to commercialize Colossus but would not take any meaningful share of global computing capacity. In our most likely scenario, orbital data centers prove viable, subject to some capacity constraints, but also benefit from SpaceX's decreasing cost to launch large payloads, and the company successfully deploys and commercializes around 4% of our forecast global AI computational capacity (excluding Russia and China)—probably best serving those use cases that can tolerate higher data transmission latency. It's a project that requires some unproven engineering to succeed, but we do see SpaceX as the best positioned to pursue it.

Cost Advantage Establishes SpaceX's Narrow Moat

We believe SpaceX has established a demonstrable, durable, and widening competitive advantage in the form of a cost advantage in its space and connectivity businesses. This cost advantage stems from

the extensive research and development the company has conducted to design its rockets to be reusable, lightweight, and powerful, making them radically cheaper to operate than other systems, especially when measured per unit of payload mass the rockets carry into Earth’s orbit. The company’s rapid testing and iteration cycle, followed by its rapid dominance over the space launch market in sheer volume of rockets built and payloads deployed, provides it with formidable economies of scale.

Exhibit 3 SpaceX Performed More Than 50% of Global Launches by 2025
 It has the most cumulative launches of any provider and currently has 10,000 Starlink satellites orbiting Earth.



Source: Rocketlaunch.org, BryceTech. Data as of May 28, 2026.

We believe these advantages are likely to endure despite imitators because of SpaceX’s absolute cost advantage and the long lead it has in the race, as each successive launch, especially when reusing existing equipment, further lowers SpaceX’s average cost. The company’s dominance of the global orbital launch market is striking: In 2025 alone, it launched 83% of the mass sent to orbit from Earth, nearly 10 times more than the nearest competitor, the Chinese state space agency. SpaceX’s 165 launches last year represent 51% of the global total, and 122 of these were primarily dedicated to Starlink satellites. If we exclude Starlink payloads, we estimate SpaceX lifted 41% of the remaining commercial and sovereign payloads in 2025, still a dominant share.

We have observed SpaceX outperform in reusable rocketry and doggedly swallow launch opportunities from the Arianespace and United Launch Alliance platforms. Arianespace is a joint venture of Airbus and Safran, while ULA is operated by Boeing and Lockheed Martin. Blue Origin, a private startup funded by Amazon.com founder Jeff Bezos, shares similar aims as SpaceX including deploying reusable launchers and constellations of communication satellites, but along with other ventures including several in China that show promise developing reusable launch componentry, they are each hundreds

of cumulative launches behind SpaceX in cadence and satellite capacity, which is what matters to the average launch and operating cost, in our view.

Starlink Inherits and Extends the Moat

Two-thirds of SpaceX's 516 launch payloads since 2019 were dedicated primarily to Starlink satellites. Starlink thus operates as the only satellite communications company that has its own fully vertically integrated launch capability. The company capitalizes Starlink launch costs at its steadily decreasing internal cost and amortizes them over the useful lives of each satellite, which stand at three years for early models and five for newer ones. In a virtuous cycle, which has become an explicit strategic aim of the company, the space business' cost advantage in launch confers an operating cost advantage to the satellite connectivity business, and the high volume of launches for Starlink drove the space business' gains from rapid research and development and its economies of scale.

We believe Starlink inherits part of its competitive advantage from the space business and reinforces it by pushing the combined business rapidly down the learning curve. Where SpaceX's reusability practically moved the fulcrum that determines what can be considered feasible or cost effective to launch into space, Starlink multiplies the benefit by being able to use SpaceX launch capacity at the "in-house" cost, which accrues to a lower satellite deployment and depreciation cost than any other provider as well as being the only satellite constellation provider other than the Chinese Aerospace Science and Technology Corporation to be able to organize its manufacture and supply chain at true industrial scale, which we see as one of the attributes that give it the characteristics of having a wide economic moat.

AI Uncertainty Limits SpaceX's Moat to Narrow

A stated purpose of the funds raised by its initial public offering is to develop a commercial model for placing AI computing power into orbit, using SpaceX's newest family of rockets, the Starship, capable of delivering 100,000 kilograms of payload to orbit in an unprecedentedly large fairing (cargo space). Free solar energy in orbit offers a potential cost advantage over terrestrial data centers. We believe the engineering challenges of shielding processors from radiation, sinking the heat they produce into space, and securing sufficient radio spectrum bandwidth to move the data to and from Earth are surmountable, though far from certain at this stage. With solutions to those problems, we believe SpaceX's AI segment would have a pathway to replicate Starlink's vertical integration strategy and could develop an operating cost advantage over some AI-centric cloud infrastructure providers. We think this outcome is possible, though the range of possibilities is too uncertain to profess that the AI segment has any competitive advantage, and indeed, given the large proportion of the company's investments and their potential for material value destruction, it limits the overall company's economic moat to narrow. For general consumers of AI tools, we do not observe significant switching costs, as very little prevents users from using multiple platforms or moving between different LLMs over time. We see Anthropic's rapid rise in 2026 as evidence of this: Its Opus model's superior reasoning enabled the firm to quickly gain users and market share from OpenAI and Google. At present, Grok has not demonstrated significant performance advantages over leading peers, and we believe this has prevented its products from gaining meaningful market share.

Even looking at recent staggering growth in enterprise licenses for AI model usage, we also see no meaningful switching costs. The AI race has pushed corporations to chase efficiency, including chasing the best models. This would explain the rapid adoption of enterprise licenses for Anthropic's Claude platform in 2026, as corporations flocked to Opus for its superior reasoning. Similarly, we do not think that the development of agentic workflows creates meaningful switching costs for enterprises. When a company builds an AI agent, it typically accesses an LLM via application programming interfaces that allow the software to prompt the model and receive responses. The surrounding infrastructure (the prompts, tools, memory, orchestration logic, and evaluation systems) is usually built in-house by the company itself. Importantly, this means that swapping one model for another only means changing the API code that is used to ask questions to the LLM, with few, if any, other infrastructure changes required. Moreover, we think that the rapid pace of model development has pushed many companies to insulate themselves against switching costs, since the best model today may not be the best model tomorrow. In other words, we expect enterprise customers may endeavor to build their AI systems so they are not stuck with any one model, while model providers may develop platform services and extensions that may engender some stickiness in time.

We believe this leaves cost advantage as the most likely place a moat could realistically emerge for SpaceX's AI division. Vertical integration has been a long-term theme among Musk's companies, and SpaceX's AI seems no different. In 2024, the company built its Colossus 1 supercomputer and is now scaling up Colossus 2 to target 2 GW of capacity. So far, this infrastructure has primarily been used to train Grok. Google, Meta, and xAI all own data centers to train and service their LLMs, and we think this provides a relative cost advantage versus Anthropic and OpenAI, which currently buy capacity from third parties, including SpaceX, which has agreed to rent some of its Colossus capacity to Anthropic for \$1.25 billion per month for up to three years.

Google goes one step further in vertical integration by designing its own chips (tensor processing units), making it the only AI lab that controls every part of the value chain, from chips to products. More specifically, Google's TPUs use custom-built circuits designed for machine learning, which makes them up to 4 times cheaper than Nvidia's H100 GPUs at the same level of performance. Meanwhile, xAI is developing its own "X1" chip, but we believe that transitioning to an in-house platform will take time, especially since Colossus 1 and 2 are entirely reliant on Nvidia GPUs.

The plan to put data centers in space could theoretically give SpaceX a cost advantage, even compared with Google, but for different reasons. The biggest expense in training and running AI models on Earth is electricity and cooling, which, in orbit, could both be effectively free. The sun's light is 30% brighter and uninterrupted in heliosynchronous polar orbit, and the vacuum of space would (theoretically) dissipate heat without the massive energy cost of terrestrial cooling systems. We think the most likely approach in orbit would be to use the large reverse surfaces of a satellite's solar panels as radiators. We also think SpaceX is the only company that can launch enough satellites cheaply enough to make space-based data centers economically viable.

We think the most likely path to a durable edge for xAI is through its space-based infrastructure, but we are uncertain about the scientific and economic feasibility of such a plan.

Twitter Is for Users

We don't see X as having a moat as it faces intense competition, lacks advertising loyalty, and faces difficulty monetizing users. Our thesis is that the value of the platform primarily accrues to its users, not shareholders. Most of X's users are nonpaying, with only approximately 4.4 million X Premium and Premium+ paid subscribers, making up under 1% of monthly active users as of 2026. Furthermore, advertisers have been reluctant to remain on the platform, as X has historically faced criticism for tolerating extreme political views, resulting in high-profile advertiser boycotts that eroded shareholder value. We estimate that revenue dropped by 50% since Musk's takeover of X in 2022. Thus, we are skeptical of X's long-term ability to generate returns on invested capital in excess of its cost of capital.

Investors Face Very High Uncertainty and Considerable Risks

Our Morningstar Uncertainty Rating for SpaceX is Very High, based on our assessment of the probabilistic distribution of the company's future financial outcomes. The company faces substantial risks related to strategic execution, technological evolution, market dynamics, regulations, AI buildout, and key-person dependency.

The growth potential for Starlink and other businesses, such as orbital data centers, depends on successful execution by management across several technological fronts. For instance, Starship underpins the firm's ambitions to continue reducing launch costs. While the firm has demonstrated impressive progress, the Starship project still faces major technical hurdles around its reusability at scale.

While SpaceX's core strength remains its launch capabilities, its medium-term financial outlook will be driven by Starlink. Starlink's long-term scalability faces significant regulatory and technological uncertainties, many of which are outside management's control. These include spectrum availability and telecom approval challenges, as well as inherent limitations of satellite broadband, such as higher latency and lower upload speeds than terrestrial networks, capacity constraints in densely populated regions, intra-system interference, and limited ability to efficiently reuse co-frequency beams at scale. Potential future revenue streams, such as orbital data centers, face even greater technological uncertainty, as the underlying infrastructure and economics of these concepts have yet to be proven, let alone approach any kind of commercial scale.

SpaceX is the undisputed global market leader in launch economics and satellite-based connectivity, but the market could become more competitive if the technological capabilities of players such as Blue Origin, Rocket Lab, or Chinese startups improve meaningfully.

SpaceX's capital-allocation history and corporate governance contain areas that warrant investor scrutiny. The February 2026 xAI merger is the prominent example, as the core AI business operates outside what we view as SpaceX's primary strategic domain and offers potential synergies that remain

unproven. More importantly, the transaction was not conducted at arm's length, given Musk's ownership and control of xAI, creating a clear related-party conflict. Similar governance concerns also apply to the combination of X and xAI. With Musk expected to retain roughly 85% voting control of SpaceX through the company's dual-class share structure, minority shareholders will have severely limited ability to influence governance outcomes or challenge future transactions or other corporate decisions. This concentration of decision-making authority in a single individual creates governance risks that warrant careful consideration. The company's governance profile is further complicated by Musk's simultaneous leadership across multiple companies and by SpaceX's charter's renunciation of any expectation that he would prioritize opportunities for SpaceX first, all of which amplify the firm's key-person risk.

Private Equity Capitalization at Scale

SpaceX's balance sheet reflects a company in an aggressive investment phase, supported in part by some strong underlying cash-generating businesses and an upcoming IPO cash infusion that should meaningfully improve its financial strength.

As of the end of the first quarter of 2026, SpaceX had about \$30 billion in debt and \$16 billion in cash on the balance sheet, resulting in a net debt position of around \$14 billion against total assets of \$92 billion. SpaceX's debt at 4.3 times adjusted EBITDA is on the high side for our industrials coverage but not especially leveraged for a private company. The debt accumulated in recent years primarily relates to its investments in AI infrastructure, \$20 billion of which is in the form of a bridge loan that matures 15 months after the planned IPO, presenting a potential refinancing risk, though we expect the company will surmount it, subject to market conditions. The upcoming IPO should improve the firm's near- to midterm liquidity. The company targets gross proceeds between \$50 billion and \$80 billion at a valuation of around \$1.75 trillion and is earmarked to fund additional R&D, AI infrastructure, and Starlink deployment.

We expect the Starlink business to be the company's main cash flow contributor in the near term and project that operating profits will exceed \$5 billion in 2026. Starlink is inherently a high-operating-leverage business, and we expect revenues in this segment to scale rapidly and cash flows to improve. In the medium term, we expect the profitability of the Starlink business to offset R&D investments in the next-generation Starship rocket and help ameliorate cash burn in other businesses that are early in their lifecycles. The projected net cash position after the IPO and the strength of the firm's core business give us reason for optimism about the firm's financial position in the coming years, although the company's aggressive investment agenda and multi-billion-dollar price tags for most of its projects could quickly drain resources.

We Like Investing in Innovation

We assign SpaceX an Exemplary Morningstar Capital Allocation Rating. This rating reflects our assessments of its reasonably sound balance sheet, exceptional investment performance, and appropriate shareholder distributions.

SpaceX has a sound balance sheet. The company has generally operated with a net cash position, but recent aggressive spending on the AI buildout has increased its debt burden. The upcoming IPO should improve the firm's financial profile and its liquidity. Given the Starlink business' cash-generating capacity and the cash raised in the IPO, we think management should have adequate flexibility to fund organic investments without relying on additional external financing for the time being. Were the shares to perform well post-IPO and after lockups expire, the company's most logical source of incremental funding, should the need arise, would be to sell more shares.

Given that SpaceX is early in its corporate lifecycle and the breadth of growth opportunities available, we believe the absence of shareholder distribution through dividends or share repurchases is appropriate. Reinvesting cash flows back into its business, particularly into Starship, Starlink expansion, and potential adjacent space-based revenue opportunities, is likely to generate higher long-term shareholder returns, provided the firm's reinvestments build on existing capabilities. We prefer reinvesting in the business rather than returning capital, as long as the firm's reinvestments focus on building on SpaceX's core launch and orbital infrastructure capabilities that reinforce the company's competitive advantage.

The company has an extraordinary history of innovation and execution in the technology space, paving the way for novel revenue streams that did not exist before. Our Capital Allocation Rating of Exemplary is partly driven by our assessment of management's ability to continue scaling its current capabilities and to unlock new tangential revenue opportunities through innovation. While many reasonable investors will likely remain skeptical of the company's aggressive AI-related investment spending, we note that management has a strong track record of pursuing ambitious initiatives that were initially met with investor skepticism but ultimately proved both strategically and financially successful. Moreover, we believe the same team has also demonstrated discipline in closing off avenues of investment once they were deemed not viable, such as walking away from plans to build multiple small-car factories at Tesla. Solving a hard physics or engineering problem and then building a business on top of it is a core part of SpaceX's DNA, and we suspect it adds to its investor appeal. We do not necessarily view the firm burning cash in AI-related businesses and possibly orbital data centers as negative. Pursuing difficult frontier problems and building entirely new businesses usually involves setbacks and significant investment, but even a single breakthrough success, such as the company's first successful upright landing of an orbital booster in 2015, can more than offset the cost of multiple failures.

Our Intrinsic Valuation Is Probabilistic

Our analysis of fair value focuses on the profit drivers and forecasts for the company's businesses described above. Building on base-case forecasts provided by PitchBook for the space and connectivity businesses, we have employed a discounted cash flow model to value them and assessed the value of a range of potential outcomes for the AI segment. Our enterprise value for the core space and connectivity businesses is stable around \$611 billion, with a slower-growth scenario for Starlink after 2028 potentially reducing that estimate by \$65 billion. A probability-weighted average of the three wide-ranging AI scenarios adds \$170 billion to our overall valuation estimate, which we view as more akin to the value of a call option on the commercialization of orbital AI infrastructure.

We give our wildly optimistic Moonshot scenario a 7% chance of happening. We appraise it at potentially worth some \$1.3 trillion in enterprise value, and, probability-weighted, it adds \$93 billion to our overall estimate. We assign the No Go scenario a 43% chance of occurring, which is worth more than \$81 billion in capital destruction on its own, and weigh the average down by \$35 billion. What we deem a most-likely scenario, though far from guaranteed, we call the minimum viable product or MVP scenario, and it is worth \$230 billion on its own, adding \$114 billion weighted at 50% probability.

We won't know the precise number of shares offered, how many shares remain outstanding, or the stakes of various existing owners until the IPO underwriters have built their order book. We will also find out what the per-share offering price will be, but with our enterprise value estimate 45% below the company's last private market valuation, we think it's very likely we will see the shares as overvalued.

Unprecedented Supply and Fervent Demand Will Drive the Stock

With talk of an IPO that would peg SpaceX's market capitalization at north of \$1.5 trillion, we are likely to view the shares as overvalued in almost any scenario, at least in the near term. Existing shareholders other than founder Musk, who has agreed not to sell any of his approximately 40% economic stake for at least one year after the IPO, are lined up to benefit from the relative liquidity a public market for their shares provides, by selling in one or more of many windows that will open over the course of 2026 and 2027 including not just the expiration of customary IPO and insider lockup terms around 180 days after the offering, but groups of early release windows that will open on the days after the company announces earnings, likely in July and October and every 15-20 days in between.

Bottom line, with a small initial float boosted by almost every investment bank on the planet, buoyant investor appetite for AI infrastructure bids, and an unprecedented path to inclusion in the Nasdaq 100 Index just 15 trading days after the IPO, we expect SpaceX's share price will likely survive separation and may even ascend, at least for a time. In the months following the IPO, when successive tranches of stock held by private investors and employees are slated for sale into the public market, selling pressure may weigh on the shares. As a result, we think long-term investors eager to participate in SpaceX's future endeavors and potential success will have opportunities to do so with more margin of safety than the initial offering is likely to provide. ○

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (mines, for example), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's Equity Research Group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating:

- ▶ our assessment of the firm's economic moat.
- ▶ our estimate of the stock's fair value.
- ▶ our uncertainty around that fair value estimate.
- ▶ the current market price.

This process ultimately culminates in our single-point star rating.

Economic Moat

The Morningstar Economic Moat Rating is a structural feature that Morningstar believes positions a firm to earn durable excess profits over a long period of time, with excess profits defined as returns on invested capital above our estimate of a firm's cost of capital. The economic moat rating is not an indicator of the investment performance of the investment highlighted in this report. Narrow-moat companies are those that Morningstar believes are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those that Morningstar believes will earn excess returns for 10 years, with excess returns more likely than not to remain for at least 20 years. Firms without a moat, including those that have a substantial threat of value destruction-related risks related to environmental, social, and governance; industry disruption; financial health; or other idiosyncratic issues, are more susceptible to competition. Morningstar has identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Fair Value Estimate

Each stock's fair value is estimated by using a proprietary discounted cash flow model, which assumes that the stock's value is equal to the total of the free cash flows of the company is expected to generate in the future, discounted back to the present at the rate commensurate with the riskiness of the cash flows. As with any DCF model, the ending value is highly sensitive to Morningstar's projections of future growth.

Fair Value Uncertainty

The Morningstar Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors. Based on these factors, analysts classify the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases.

Market Price

The market prices used in this analysis and noted in the report come from exchanges on which the stock is listed, which we believe is a reliable source.

Morningstar Rating for Stocks

The Morningstar Rating for Stocks is a forward-looking, analyst-driven measure of a stock's current price relative to the analyst's estimate of what the shares are worth. Stock star ratings indicate whether a stock, in the equity analyst's educated opinion, is cheap, expensive, or fairly priced. To rate a stock, analysts estimate what they think it is worth (its "fair value"), using a detailed, long-term cash flow forecast for the company. A stock's star rating depends on whether its current market price is above or below the fair value estimate. Those stocks trading at large discounts to their fair values receive the highest ratings (4 or 5 stars). Stocks trading at large premiums to their fair values receive lower ratings (1 or 2 stars). A 3-star rating means the current stock price is close to the analyst's fair value estimate.

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