Monday, June 24, 2024 / Why investors look past Elon’s musk

[HALF SECOND OF SILENCE]

[BILLBOARD]

NOEL KING (host): Elon Musk welcomed a twelfth child into the world earlier this year. And last week we learned Mom is also the mom of his twins and an executive at one of his companies, Neuralink.

*<CLIP> SKY NEWS AUSTRALIA, HOST: They met at work! Who would have believed…   
HOST 2: Scandal!   
HOST: Shivon Zilas… <fade down>*

SCORING <A Peaceful Plummet BMC>

NOEL: Neuralink currently has zero openings in HR, so that relationship must be deemed kosher even if it seems… questionable. Meanwhile, a lawsuit from eight of Elon’s former employees at another of his companies - SpaceX - accuses him of creating a “perversely sexist culture.”

*<CLIP> CNN: Elon Musk is running a quote “animal” house.*

NOEL: SpaceX has fifteen openings in HR. Recently, Tesla’s shareholders - Tesla’s head of HR quit in May - had an opportunity to send Elon Musk a message. And they said: great job, guy.

SCORING OUT

NOEL: Coming up on *Today, Explained*:

SCORING BACK IN

NOEL: Teflon Elon.

SCORING OUT

[THEME]

NOEL: It’s Today, Explained. I’m Noel King. Joe Palazzolo is an investigative reporter at *The Wall Street Journal*. He recently wrote a piece about several women working at SpaceX who received unusual amounts of attention from CEO Elon Musk. Joe’s piece starts with the story of a woman who worked as a SpaceX intern more than a decade ago.

JOE PALAZZOLO (investigative reporter, *The Wall Street Journal*): Yeah. So in the early 2000s, she's a SpaceX engineering intern.

SCORING <Abundance of Caution-UNDERSCORE>

JOE: And she had been introduced to Musk, during her internship. And then, she kind of boldly sends Musk some pointers for improving the company. And so that outreach leads to a date, which leads to a kiss and then a sexual relationship, according to what she told friends. So, you know, they bonded over Star Wars, and a year after the internship – so she's now a fresh college graduate – Musk invites her to this exclusive Google event in Sicily.

MINI SCORING BUMP

JOE: So then you fast forward a few years, and Musk contacts her about a job on his executive staff. It's a high-level role. It's like a really big job for someone a few years removed from college. But the description is kind of amorphous, right? She's to find problems and fix them at SpaceX. And so she's really excited about the job. She moves from New York to LA, and Musk tries to rekindle their relationship. So she's telling friends that he invites her for drinks and comes on to her and touches her breast. You know, one of them recalled her saying that Musk said, ‘Oh, I'm so bad. I shouldn't be doing this.’ And so, you know, she's at the company now, and Musk continues to lavish her with attention. He's sending her, like, late night text to come over. Sometimes she goes over there. Sometimes she either sleeps through or ignores his invitations, and she tells friends that his behavior is making what's already, like, a pretty tough job even harder.

MINI SCORING BUMP

JOE: So she's like, she's unhappy at SpaceX. She doesn't have any authority. She's telling friends she's having trouble getting executives to take her ideas seriously. Sometimes she's hiding out in the bathroom there, right? This is what she's telling friends. And meanwhile, Musk is texting her, like, like, a lot. And one of the late night texts that we reviewed and that we recount in, in the story, you know, he's like, ‘Come by,’ you know, this late night text, and when she doesn't respond, he, like, quadruple-texts her, right? He's like, ‘Look, it's either me or 6 a.m. exercise.’ And then a little bit later he's like, ‘Just finished the Model 3 production call. It's going to be hell.’ And then, you know, then he's like sending another text, like, ‘Are you coming over? You know, if not, I'll probably try and tranq out.’ He says he's too stressed to sleep naturally. And then when she still hasn't responded, he writes, ‘Probably best if we don't see each other.’

SCORING OUT

JOE: In the morning, she responds, and is like, you know, ‘Sorry. I fell asleep.’ And then we also have a text exchange in there between her and a friend that takes place, you know, right after this invitation. And she's kind of like contextualizing the invitation. And she is complaining about how she feels like an imposter at the job and how Musks behavior makes it so much worse. And her friend is like, ‘Well, if it's a problem, like, why don't you just chill on hanging out with him?’ And then she sends her friend, like, Musk's late night invitation, and says, I think you broke up with me, you know? And then she kind of concludes with, you know, ‘Why – why are all the men in my life so weird? So she, is telling friends that the job isn't going well because it got awkward with Musk. Eventually, she's moved off the executive staff to a role reporting to another engineer. And then in 2019, after less than two years at the company, she leaves.

NOEL: Alright, so you reported this in The Journal. It is worth knowing that through her lawyers, this woman told a different story of what happened. What is she saying happened?

JOE: Right. So, our reporting and what she said through her lawyers lines up in a lot of parts. But it also, you know, departs in some ways. So as we were reporting the story, we got contacted by lawyers at Claire Locke, which, you know, also represents Musk and Tesla. And so they told us they're representing this woman. And in response to our reporting, like our, you know, request for comment, they sent us affidavits signed by the woman. What the affidavit said – what the woman said through these affidavits – is that, yes, she and Musk had a romantic relationship before she returned to SpaceX in 2017. But then they sort of later qualified that and said that they never had sexual relations. And then she said, you know, in no uncertain terms that there was no romantic relationship between 2017 and 2019 when she worked there as a salaried employee. You know, she said that nothing Elon did towards me during either of my periods of employment at SpaceX was predatory or wrongful in any way. She said that yeah, she did go over to his house late at night, you know, while she worked at SpaceX. But, you know, it was just to talk and watch anime. She said Musk did try to rekindle their relationship before her return to SpaceX and that she rejected his advance. And she said, yeah, there was some initial awkwardness, but we got over it. And then she said that her feelings about her job at SpaceX were, quote, completely unrelated to any romantic or personal interactions with Elon Musk. So she said the discomfort she described in the text to her friend relating to Musk, was about him not having much interest in the the role she was filling at SpaceX. Not about his attention.

NOEL: This type of relationship that you reported on was not isolated to this woman. Tell me about the other women in your story.

JOE: Yeah. So. I'll start with the one who leaves the company in the summer of 2013, and she comes back with a lawyer. And in mediation with the company, she alleges that Musk had asked her on multiple occasions to have his babies.

SCORING <Inquisitive Mind-UNDERSCORE>

JOE: Musk has said, you know, over and over that we face an underpopulation crisis. And he encourages his employees to have kids. Like, that's just something that he does.

*<CLIP> ELON MUSK, WSJ LIVE EVENT: I can’t emphasize this enough: there are not enough people. Um, and I think one of the biggest risks to civilization is the low birth rate, and the rapidly declining birth rate. If people don’t have more children, civilization is going to crumble. Mark my words.   
WSJ SENIOR PERSONAL TECH COLUMNIST JOANNA STERN: Is this why you have so many children? <laughs>  
MUSK: I’m trying to set a good example <crowd laughs>*

JOE: Her last year at SpaceX had been pretty – pretty tense. She and Musk were arguing a lot. She'd been denied a raise. He'd made complaints about her performance. So, you know, like I said, when she leaves the company and she comes back with a lawyer. And she makes these allegations about him asking her to have children.

SCORING BUMP

JOE: The third woman’s story also involves Gwynne Shotwell, who is SpaceX president and COO. This one, the woman alleges – she's telling her friends and family about this contemporaneously – she's saying that she's retaliated against at SpaceX by Shotwell. And the retaliation, you know, happens after Shotwell accuses this woman of having an affair with Shotwell's husband. So, like, that's kind of a story on its own. And we describe emails in the story, where, you know, Shotwell’s husband is telling this woman, Gwynne thinks we're having an affair. And the reason that Gwynne thought they were having an affair is because this woman was helping Robert Shotwell, her husband, plan a surprise birthday party for Gwynne Shotwell. And she had a bunch of boxes at her house, the woman did, you know, kind of on her own time. She's working for Shotwell and Musk. And so she's helping plan this party. She has, like, boxes with bullhorns that Robert had sent over there and, you know, other party stuff. And, you know, she is about to leave town and is arranging for Robert to come pick him up, and she gives him a call. And that's what sort of triggers, according to Robert Shotwell, Gwynne’s suspicion that they were having an affair. So, you know, pretty soon after these affair allegations, Shotwell is telling the HR department that she wants this woman gone.

SCORING BUMP

JOE: After that happens,this woman is now working exclusively for, for Musk. And, according to what she told people at the time, Musk comes up to her at the office, invites her for drinks, and, you know, she goes over there, and that initiates, month-long sexual relationship.

SCORING OUT

JOE: It ended pretty badly because she sort of initially thinks that this is something real. And pretty soon is telling friends that she's feeling used. And, you know, as the, the tensions kind of ratchet up, Musk has his chief of staff, Sam Teller, negotiate an exit agreement for the woman that includes $85,000 for some unpaid work that she had done at Tesla. And, you know, so she signs this agreement for that money that requires her to, you know, not discuss anything about Musk or her services to him.

NOEL: The question that leaps to the top of my mind is: is this behavior that you documented in your reporting… is it unusual and grody? Does it break SpaceX’s rules? Is it illegal? Can you sort of put a fine point on where this falls on the spectrum of workplace abuses?

JOE: Yeah, sure. I mean, for starters, there have been a lot of stories about executives, you know, getting fired, their boards throwing them out and sometimes paying financial penalties for having affairs with subordinates, right? So there's kind of a cultural reaction to it. Then there's the SpaceX policy, which, you know, really discourages employees from having romantic relationships with people they supervise. And then there's kind of this broad shift since MeToo, where companies are implementing hard bans on supervisor employee relationships. And they do that because there's this inherent power imbalance between, you know, the supervisor and the employee. And then, you know, it can also cause sort of conflicts of interest in the workplace. And, you know, obviously, sexual harassment is illegal, under state and federal laws. But there's also, kind of this theory of harassment called sexual favoritism that some courts have recognized where like, if you are an employee and your colleague is having an affair with your boss and is getting preferential treatment as a result of that, you can make a claim of a hostile work environment. So there are kind of a lot of, different, you know, lines that this behavior as alleged could cross.

NOEL: How have Elon Musk and SpaceX responded to your story?

JOE: Musk hasn't responded to it at all. He didn't respond to our request for comment, and Shotwell did respond through SpaceX's public affairs department. And you know what she said – I'll just quote or right here, “The untruths, mischaracterizations and revisionist history in your email paint a completely misleading narrative.” You know, then she says, “I continue to be amazed by what this extraordinary group of people are achieving every day, even amidst all the forces acting against us. And Elon is one of the best humans I know.” She also says that all allegations of harassment are, you know, investigated and handled appropriately.

NOEL: Hm. Why, why, then, was it important for you to do this reporting? Why do you feel like this is significant?

JOE: Well, look, we wanted to see what it was like, you know, for a woman working closely with Musk. And as we were doing our reporting, we kept hearing about these examples.

SCORING <Intriguing Notion UNDERSCORE>

JOE: You know, that's not to say that every woman who's worked for Musk has, you know, had a bad experience. We talked to people who had good experience[s]. SpaceX is a very mission-focused place. It's full of like, you know, young, brilliant people. And, you know, some of the women that we spoke with said that they felt like they had an experience there, an opportunity that they wouldn't have been able to find elsewhere. But as we were reporting and we were talking to people and hearing about these experiences, we thought it was important for people to know, especially by prospective employees or investors. You know, I mean, this is information that we thought was important in decision-making.

NOEL: Joe Palazzolo, *Wall Street Journal*. His story ran on June 11th and 48 hours later shareholders in one of Musk’s OTHER companies did have the option of using this information in their decision making. You won’t believe what happened next!

[BREAK]

[BUMPER]

NOEL: It’s *Today, Explained*. So, two days after the Wall Street Journal dropped their investigation into Elon Musk and SpaceX, the shareholders of ANOTHER of his companies, Tesla, voted to give him a pay package of around $56 billion dollars in stock - though of course that number fluctuates as the stock does. Still: billions and billions of dollars!

*The Verge’s* transportation editor Andrew Hawkin is with me. Andrew, this enormous pay package didn't come out of nowhere. There was a fight leading up to it. Tell us where this all started.

ANDREW HAWKINS (*The Verge* transportation editor): Yeah, it was a very, atypical situation, I would say, this pay package was actually first approved in 2018.

SCORING <Action Comedy UNDERSCORE>

ANDREW: At that time, Tesla was a much smaller company. It was just in the midst of producing its first major car, which was the Tesla Model 3. There was a lot of problems with that production.

*<CLIP> CBC: There is more trouble for Tesla today. The company announced it is temporarily shutting down production of the Model 3. The electric sedan… <fade>*

ANDREW: And this pay package was approved by shareholders, was devised by the company's board and approved by shareholders as a way to incentivize Elon Musk to take the company essentially to new heights. So it was tied to certain milestones. And if Tesla's share price reached a certain threshold – if it increased in value and reached certain thresholds – that he would see these shares vested.

*<CLIP> FOX BUSINESS: Tesla commands attention. It’s been on an incredible run…*

ANDREW: And lo and behold, over the next few years, Tesla's share price skyrocketed.

*<CLIP> CNBC: Tesla shares, they surged another 11% yesterday, closing at a record high and tacking on another – get this – $7.8B to the wealth of Elon Musk.*

ANDREW: The Model 3 was a huge success. The Model Y came out soon afterward.

*<CLIP> CNBC: Everybody’s favorite stock: Tesla continues to gain steam after breaking above a trillion-dollar valuation. Shares up 50% in just a month.*

ANDREW: And Tesla, as a result, became the most valuable car company in the entire world.

*<CLIP> FOX BUSINESS: It’s worth more than GM, Ford, Fiat-Chrysler, and Honda combined. That is amazing, when you consider Tesla may sell 500,000 vehicles this year. Toyota alone sells 10 million.*

ANDREW: And so, he met those thresholds, the pay package was vested and he became $56 billion richer, essentially. But then things sort of fell apart at that point.

SCORING OUT

*<CLIP> BBC: This mega payday prompted some noise from this man, Richard Tornetta.  [heavy metal interlude] A former heavy-metal drummer who owned just nine Tesla shares challenged the deal in a court in the state of Delaware <fade>*

ANDREW: Almost immediately after this pay package was approved, a single shareholder, a man named Richard Tornetta, filed a lawsuit claiming that this pay package was too much. He was being overcompensated. It was going to dilute the shares of all the rest of the shareholders.

*<CLIP> TORNETTA’S LAWYER GREG VARALLO: 56 billion is so large that it basically skewed dramatically upward the entire data set for the compensation consulting industry.*

ANDREW: And not only that, but, you know, the way that it was formulated and created by the board, it was sort of an opaque process, and shareholders sort of lacked insight into how that process unfolded.

*<CLIP> VARALLO: Look, the bottom line is: capital markets don’t work if you don’t tell stockholders material facts when asking them to take action. And that’s exactly what happened here.*

ANDREW: Mr. Tornetta's case worked its way through the, the court system, and then finally, in January of this year, a Delaware court judge, ruled in favor of the shareholder and voided Elon Musk's pay package, agreeing with the argument that the process was opaque and obscure and its shareholders lacked insight, that the board was too buddy-buddy with, with Musk. You know, his brother is on the board. One of his best friends is on the board. And so that there was just too many flaws in this process, and therefore this pay package was invalid.

NOEL: Okay, so the judge's critique is aimed at the board. How does the board address those concerns?

ANDREW: So it was pretty fascinating to watch over the last few months. Tesla's board and Elon Musk sort of came together and said that this ruling from the judge was, was ridiculous and that not only were they going to fight it, but they were essentially just going to go right back to shareholders, and ask them again whether or not Elon Musk should receive this money. This is, you know, a public company. Let's use direct democracy, essentially. And prove to this court system and to this judge, that the shareholders truly want Elon Musk to receive this massive pay package. And it was an interesting strategy, because if you think about it, the company sort of was, was gambling on the fact that if they went through the process again, but also took the entire lawsuit and the ruling from the judge and basically submitted it to the SEC and disclosed it all to shareholders, then shareholders would have – then – all of the information that the judge had claimed that they lacked in the first go-round.

NOEL: And then all of this came to a head at Tesla's annual shareholder meeting. Tell us what happens there.

*<CLIP> TESLA GENERAL COUNSEL AND CORPORATE SEC. BRANDON EHRHART: Welcome to Texas, the home of Tesla. <applause>*

ANDREW: Yeah. So the meeting opened up and it was, you know, sort of going through kind of like the very dry way in which public company shareholder meetings go, go forward.

*<CLIP> EHRHART: This meeting’s gonna be in two parts: first we’re gonna cover the 12 items that stockholders have been asked to vote on…*

ANDREW: Many of the votes had already been cast at this point, because Tesla shareholders had been given the opportunity to vote, prior to the to the to the to the meeting, they went through they read all of the proposals. There were proposals that were supported by the board. And then, as is usually the case, there's a list of proposals proposed by various shareholders that are opposed by the board around things like transparency and sustainability.

*<CLIP> EHRHART: Let’s move on to the seventh stockholder proposal, which is an advisory vote regarding committing to a moratorium on sourcing minerals from deep-sea mining. Our board has recommended against for the reasons set forward in the proxy….*

ANDREW: And, after a few minutes of reading all these proposals and people sort of making the case for them, the voting was closed. Preliminary vote total came in. And lo and behold, Elon Musk had yet to get yet again won his gigantic pay package from Tesla shareholders.

*<CLIP> MUSK: I just wanna start off by saying: hot damn, I love you guys. <laughs, applause> Yeah.*

NOEL: Which on some level makes sense because Elon Musk did what he promised to do for the business. On the other hand, you have *The Wall Street Journal* reporting on these inappropriate relationships with women. And that's not Elon Musk's only problematic workplace behavior. When people talked about, ‘Does this man deserve this money?’ Did anyone say, ‘Well, yeah, he did his job. We're profitable. He did great. But also, he's kind of a dick...

ANDREW: <laughs>

NOEL: …Maybe we shouldn't reward that?’

ANDREW: I don't think those words were exactly used. But, yes, it it did come up several times. There were shareholders that were allowed to sort of make statements in support of their own proposals. And during those statements, there were shareholders that that sort of pierced the reality bubble that you may not normally hear these kind of things discussed amongst the, the Elon Musk faithful…

*<CLIP> SHAREHOLDER 1: Year after year, more harassment and discrimination allegations have emerged with few visible improvements in Tesla’s people management policies or practices to assuage our concerns.*

*<CLIP> SHAREHOLDER 2: The Musk premium is already eroding. Tesla is Musk’s liquid piggy bank. // Bite the bullet. Prepare for a future that doesn’t depend on a superhero dictatorship.*

ANDREW: So it was a very interesting moment in which these things sort of pierced the bubble and cropped up very briefly, but then were sort of immediately, brushed aside, then, by sort of the, the overwhelming support that he got for, for his pay package and his proposals that he was in support of.

NOEL: So this vote was a referendum on his leadership at Tesla, but also at his other companies. What are we to take away from the fact that he got exactly what he wanted?

ANDREW: Well, I think what that means is that Elon Musk is going to be the CEO of Tesla for, for – as far as we can tell – for the years to come. Musk is very much trying to sell this vision of of Tesla as more than just your average car company as being something that is, on the vanguard of, of the development of artificial intelligence, much like all of these other companies like OpenAI and Google and Microsoft. And so if there are things that are going on behind the scenes, if he is sort of treating employees poorly, which has always been the case at Tesla for years, and people know this about them because they have been sued countless times for gender discrimination, for harassment, for racial discrimination. There have been labor violations. There's just a litany of problems even aside from Elon Musk and his own personal behavior that have implicated the company in really horrendous things for many, many years. And yet, because he is [a] very good salesman, he is very good at marketing himself and marketing sort of the mission of Tesla and sort of as being seen as this person who is capturing the zeitgeist of right now around technology and AI. That is why there is less accountability for him than I think might typically be the case, at a public company like Tesla.

SCORING <Neutral Satoshi>

NOEL: Andrew Hawkins, *The Verge*. Amanda Lewellyn worked on Sunday. Amina al-Sadi edited it. Patrick Boyd and Andrea Kristinsdottir engineered. Laura! Bullard! Fact-checked. I’m Noel King. It’s *Today, Explained*.

[10 SECONDS OF SILENCE]