Q4 2016 Earnings Call

Company Participants

- Elon Musk, Chairman, Product Architect & CEO
- JB Straubel, Chief Technical Officer
- Jason Wheeler, CFO
- Jeff Evanson, IR
- Jon McNeill, President of Global Sales & Service

Other Participants

- Adam Jones, Analyst
- Aileen Smith, Analyst
- Brian Johnson, Analyst
- Charlie Anderson, Analyst
- Colin Langan, Analyst
- Colin Rusch, Analyst
- David Tamberrino, Analyst
- James Albertine, Analyst
- Jeff Osborne, Analyst
- Joseph Spak, Analyst
- Rob Cihra, Analyst
- Rod Lache, Analyst
- Ryan Brinkman, Analyst
- Tyler Frank, Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the Tesla Q4 and full-year 2016 financial results and Q&A webcast.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference Mr. Jeff Evanson of Investor Relations. You may begin.

Jeff Evanson {BIO 17513488 <GO>}

Thank you, Vicki. Good afternoon everyone and welcome to Tesla's Fourth Quarter and full-year 2016 Q&A webcast. I'm joined today by Elon Musk, JB Straubel, Jason Wheeler. And Jon McNeill. Our Q4 results are announced in the update letter at the same link as this webcast.

During our call we will discuss our business outlook and make forward-looking statements. These are based on our predictions and expectations as of today. Actual events or results could differ materially due to a number of risks and uncertainties including those mentioned in our most recent filings with the SEC.

We will start today's call with some brief comments by Elon, followed by the Q&A session. During the Q&A, try and limit yourself to one question and one follow-up please. And press star one now to join the question queue. Okay Elon, over to you.

Elon Musk {BIO 1954518 <GO>}

Thank you. First of all I would like to announce that our CFO Jason Wheeler has decided to leave Tesla in April. So the end of next month, to pursue opportunities in public policy. Jason will be replaced by Deepak Ahuja who was Tesla's first CFO and worked for the Company for more than seven years before stepping away in 2015.

Deepak will formally take over CFO in early March, with Jason remaining at Tesla through April to ensure a smooth transition. And Jason, would you like to say anything?

Jason Wheeler {BIO 19481227 <GO>}

Yes, sure. First, Elon, thanks for the opportunity. It's been a great ride. And I'm really going to miss working with all the wonderful people at Tesla. This is an (A) team. When I walked in the door I was very passionate about the mission of the Company. And today I'm even more passionate than I was on the day I walked in.

I think it is also important to say I'm looking to scratch an itch that I've had for many, many years now. I'm going to go do something in the public sector. But I wouldn't have felt comfortable about leaving if we didn't have a really good plug-in place, or solution in place, for the Company. I think with Deepak's history here on the verge of bankruptcy and everything he has gone through, he is well-positioned.

Elon Musk {BIO 1954518 <GO>}

Long, long time ago.

Jason Wheeler {BIO 19481227 <GO>}

Long time ago. Long, long time ago. He's well-positioned to take it to the next level of growth and I've spent a good amount of time with him in the past week. And he's super energized and ready to go. He's a great leader and I think I'm leaving Tesla in good hands.

Elon Musk {BIO 1954518 <GO>}

And Jason, thank you again for everything you've done.

Jason Wheeler {BIO 19481227 <GO>}

Absolutely. My pleasure.

Elon Musk {BIO 1954518 <GO>}

So let's see.

Jeff Evanson {BIO 17513488 <GO>}

I think we're ready for the first question.

Elon Musk {BIO 1954518 <GO>}

Let's dive right into the questions.

Jeff Evanson {BIO 17513488 <GO>}

All right, Vicki, first question please.

Questions And Answers

Operator

Our first question comes from the line of Adam Jones, Morgan Stanley. Your line is now open.

Q - Adam Jones {BIO 18735049 <GO>}

First good luck, Jason. And congrats, Deepak, welcome back. Elon, a question for you on Mars. Let's kick it off with Mars.

A - Elon Musk {BIO 1954518 <GO>}

Really?

Q - Adam Jones {BIO 18735049 <GO>}

Yes. It has Tesla relevance though. So just bear with me.

A - Elon Musk {BIO 1954518 <GO>}

I admire long-term thinking but that's impressive.

Q - Adam Jones {BIO 18735049 <GO>}

Numerous reports have suggested the new administration may be in favor of accelerating a mission to send humans to Mars. I'm curious if you think this is accurate in spirit and if launched how could this potentially change your balance of time spent between Tesla and SpaceX? Could it potentially change the rationale of keeping Tesla and SpaceX as independent companies? And this is a serious question, Elon.

A - Elon Musk {BIO 1954518 <GO>}

Okay. Well yes. (Laughter) When you started out I was a little curious as to how this would become relevant to Tesla. As I said before, I expect to remain with Tesla essentially forever, unless somebody kicks me out. So that remains my intention.

And I've been pursuing the Mars thing at SpaceX and sustainable energy at Tesla for a long time as it pertains (to it). So I think it's going into a pretty good rhythm and yes, I don't think -- I still don't think I'm going to change my actions as a result of initiative by the administration. Although I think a Mars initiative would be amazing and really energize the public domestically and worldwide, just as the Apollo mission to the moon did almost half a century ago. So that's probably the best -- the most I can say about that, yes.

Q - Adam Jones {BIO 18735049 <GO>}

Okay. Thanks.

A - Elon Musk {BIO 1954518 <GO>}

(Fireside).

Q - Adam Jones {BIO 18735049 <GO>}

Thank you, thank you. Just a follow up, on insurance, if your cars prove to be as much as 90% safer than other cars on a per mile basis, as I think you've alluded as a reasonable target medium-term. And if insurance companies only offer your customers, say, a piddling 5% discount versus a comparably priced car, would you consider offering a service or product like P&C insurance directly to Tesla owners from your own platform and you own stores? Thanks.

A - Elon Musk {BIO 1954518 <GO>}

Jon, do you want to take that?

A - Jon McNeill {BIO 4091220 <GO>}

Hi, Adam, it's Jon. We're actually currently doing that. We've been doing it quietly. But in Asia, in particular when we started this, now the majority of Tesla cars are sold with an insurance product that is customized to Tesla. It takes into account not only this autopilot safety features. But also the maintenance costs of the car. It is our vision in the future that we will be able to offer a single price for the car, maintenance and insurance, in a really compelling offering for the consumer and we're currently doing that today.

A - Elon Musk {BIO 1954518 <GO>}

And this is Elon. Not to the exclusion of insurance providers but if we find that insurance providers are not matching the insurance proportionate to the risk of the car, then if we need to, we will (in source) it. I think we will find that insurance providers do adjust the insurance cost proportionate to the risk of a Tesla.

A - Jon McNeill {BIO 4091220 <GO>}

And that's true, that's true. We are doing this with insurance partners today.

A - Elon Musk {BIO 1954518 <GO>}

Right.

Q - Adam Jones {BIO 18735049 <GO>}

Thanks a lot.

A - Elon Musk {BIO 1954518 <GO>}

Thank you.

Operator

Our next question comes from the line of David Tamberrino, Goldman Sachs. Your line is open.

Q - David Tamberrino {BIO 18631663 <GO>}

Thanks. Good evening, gentlemen.

A - Elon Musk {BIO 1954518 <GO>}

Good afternoon. Evening for you I'm sure.

Q - David Tamberrino {BIO 18631663 <GO>}

It's been a long day for me and it will be a long night. Curious as to what has changed on your end. Obviously you've got a -- made an acquisition. You've hired an individual in manufacturing from last year.

Really moving from the Model S and X to the Model 3 ramp that you are looking for in the back half of 2017 here and 2018. How have you gone about the Model 3 development differently versus the Model S and Model X that will really be able to unlock the key to driving production much higher than what your previous ramps have looked like for new products?

A - Elon Musk {BIO 1954518 <GO>}

Right. The Model 3 is designed with -- it's really designed for manufacturing. It is conservatively a simpler car than the S or the X. Some of these -- some of the indications are obvious. For example the Model 3 only has one screen whereas the S and X have two screens and two separate computers powering each screen. The Model 3 has 1.5 kilometers of wiring. The Model S has 3 kilometers of wiring so we've simplified the wiring system conservatively.

A lot of the bells and whistles that are present on an S and X are not present on a Model 3. We don't have self-presenting door handles for example or buckling doors. These reduce the risk substantially in the ramp and make it just easier to scale. So I think it is going to be a very compelling car. But it's a simpler design and we also understand manufacturing a lot better than we did in the past.

And we are also able to get usually the A team at the A supplier for Model 3. It's rare that we are not able to get that. Whereas for -- particularly for S and to some degree for X -- when we were trying to get suppliers for the Model S, a lot of the top-tier suppliers wouldn't even work with us. They thought we'd go bankrupt. And the IHS, I think it's called (multiple speakers).

Basically the industry predictor for volume of the Model S predicted -- had an official prediction -- of 3,000 units lifetime for the Model S. And for a lot of the big supplier -- that the large conglomerate suppliers, they just plug that number into their predictions. They ignore what we say and then they say, well, the volume is either too small to count or the (hard cost) is enormous because the fixed costs must be allocated over such a small volume.

Now in fact we are forming something in the order of 50,000 Model S per year. And showing the results of the S and the X, the interest from suppliers, anywhere from basically getting the worst team on second-tier suppliers to getting the best team on first-tier suppliers. Really a big difference.

Q - David Tamberrino {BIO 18631663 <GO>}

Okay. Then just following up on that as I think about reduced complexity of the vehicle, understood from an actual line speed manufacturing perspective for the Model 3, what are you doing differently from the manufacturing process that is going to allow you to drive that ramp in production? So if I think about 50,000 units Model S, going on an annual basis, it is good, it's great. You have been making that vehicle for the past three or four years.

A - Elon Musk {BIO 1954518 <GO>}

Right. As opposed to aiming for an annualized rate of turning 50,000, at 5 times that number for Model 3, it's a reasonable question to ask. There is just a lot more automation than there is for S and X. We have the Gigafactory. Of course that is a huge asset for factory powertrain, power electronics, chargers and a few other things. So that's a huge asset. Yes.

Also, we refocused most of Tesla engineering including design engineering into designing the factory. I think in the future the factory will be a more important product than the car itself. I've said this before, our goal is to be the best manufacturer on Earth. This is the real goal. I don't know if we will succeed. But I think we are making good progress in that direction.

And yes, when you think the factory, it's an enormous product, with at least (tremendous) magnitude, more complex than whatever it makes. Do you have anything you want to add?

A - Jon McNeill {BIO 4091220 <GO>}

I might just add that we really learned a lot of lessons especially from the difficult Model X ramp. And that is something that's in our recent memory. We fought through it and succeeded. But I think in the design the Model 3 and the systems and the lines that produce it, many of those learnings have been incorporated from the beginning. So if the amount of complexity and the operations to assemble the car is dramatically reduced, the amount of operations that involve some sort of assembly craft, where there is more judgment of the operator, is dramatically reduced, almost eliminated.

And a lot of these things that we could identify directly as the bottlenecks that hurt us on the X ramp, we have been able to target specifically and reduce or eliminate. So that has -- though painful, it was a helpful experience for us to get ready for Model 3.

A - Elon Musk {BIO 1954518 <GO>}

Yes, I do want to emphasize with production ramps in general they follow an S-curve. The rate of production is as fast as the slowest component in the vehicle. And when you have several thousand unique items, it can move as fast as the least likely and worst executing part of Tesla or our suppliers. That's just the way it goes.

So you go through a series of constraints. You try to anticipate as many as possible. There are new issues that pop up every week and we attack them and get them to solve for schedule. But then another issue will pop up in the following week. It's schedule whack-a-mole. And if we knew what would be late now, we would have attacked it. But some of these things only come to light late in the game.

And when you have a global supply chain you inherit a lot of force majeure risk from around the world. Actually I think that's one of the things that I think we want to do is just minimize force majeure risk. If you inherit every force majeure risk on the Earth, then of course things are going to go wrong because the Earth is big. So I think there's an increasing of a time, when we can rationalize our supply chain to minimize the force majeure risk, is very important.

It's always tricky, when you think about a company and reporting on a quarterly basis, even small differences in where that exponential part of the S-curve is can make quite a big impact on the quarter. If you can imagine datelines moving around an exponential curve, just small changes here and there, have quite a big effect. Then things get more

predictable as you get to the flat part of the S-curve, the top of the S-curve. It's a lot easier to predict, to say what things would be next year or the end of this year as opposed to what they would be month by month this year.

Q - David Tamberrino {BIO 18631663 <GO>}

Understood. Thank you very much, gentlemen.

Operator

Our next question comes from the line of Ryan Brinkman, JPMorgan. Your line is now open.

Q - Ryan Brinkman {BIO 16417954 <GO>}

Thanks for taking my question. Just regarding the explanation on the shareholder letter that you experienced little autopilot revenue, a little new revenue in 4Q. Can you talk about delayed the latest software updates into 1Q? Was it the switch from Mobileye in any way? Then talk about how the current capabilities of autopilot in 1Q in terms of performance and safety, how that's better than maybe what was offered previously?

A - Elon Musk {BIO 1954518 <GO>}

Yes. We had some challenges in the transition from Mobileye to Tesla software running on GPU. The original plan was to have a migration strategy where we have Mobileye and Tesla Vision operating at the same time to have this kind of a smooth process. But Mobileye did not -- refused to do that so that forced us to re-spin the board and caused unexpected delays, where we had to basically leave our trip on the board (and of course to look on) on Tesla Vision.

They say safety is always our primary concern so really we could have released Tesla Vision, including orders there at high speed, three months ago -- I was driving it at high speed personally three months ago. But I think we want to just have an exhaustive testing process, a process before enabling that to drop the fleet. We've been edging our way up there gradually.

Longitudinal control, traffic aware cruise control is at 80 miles an hour. And (auto steer) 50 miles an hour and I think we should be able to get -- at least the car anyways -- unless testing shows something different, we should be able to get them both around the maybe 85 miles an hour next month. And be at a parity with (Hogle) one. Then lots of things will only improve from there. So that's --

Q - Ryan Brinkman {BIO 16417954 <GO>}

Great to hear. Last question on the $500 million cash generation outlook including growth of nonrecourse debt. How much of that relates to the automotive operations versus SolarCity? Or maybe you probably don't want to break it out that way. How are you thinking about the contribution from (tax) equity funding versus maybe call it combined, like, Tesla SolarCity ongoing operations?

A - Jason Wheeler {BIO 19481227 <GO>}

Sure, yes, this is Jason. That commitment that we made when we closed the deal was on the Solar side. So that's what's the $500 million really is from. And it's going to come from a number of factors. One of the things we are already starting to see great traction on is a shift away from leasing systems to doing loans and cash sales of systems.

We provided some information in the letter about that. And that's going well. We've also done that on the vehicle side. And that's worth noting. Then the other thing is, is part of the acquisition we committed to $150 million in synergies. And some of that cash generation is obviously going to come from going after those synergies and we are on track to look at that. We've got lots of opportunities on customer acquisition costs.

Tesla has a very strong global brand. We've got a great retail footprint. So we've got the pieces in place to really drive customer acquisition costs down. Then obviously on the manufacturing side as well, we are thinking through what that's going to do for us and how we can drive cost savings there as well.

Q - Ryan Brinkman {BIO 16417954 <GO>}

Great. Thanks for that color.

A - Jason Wheeler {BIO 19481227 <GO>}

Sure, no problem.

Operator

Our next question comes from the line of Joseph Spak, RBC Capital Markets. Your line is open.

Q - Joseph Spak {BIO 17457170 <GO>}

Thanks. The first question I guess relates to the delivery guidance, which I know you limited to the first half. But as we think about the full year and the back half. And the launch of the Model 3, is there the potential for disruption to S and X? Is that also one of the factors why you've decided to guide the way you did?

A - Elon Musk {BIO 1954518 <GO>}

Go ahead.

A - Jason Wheeler {BIO 19481227 <GO>}

Sure. I think the way we were thinking about that is there's going to be pretty high (yield) cars when looking at the deliveries for Model 3 in the second half of the year. And I think Elon described that well when he talked about the S-curve.

We didn't want to muddy our guidance by doing some kind of a combined number for the year. And obviously execution on the S and X and execution on getting ready for

Model 3 in the first half is what is important. And those other things that I really want to point investors to and how we are administrating ourselves.

A - Elon Musk {BIO 1954518 <GO>}

Calculating the area under the curve is tricky when you're in an exponential. And it always starts out tiny. Then it blows up exponentially. Generally people have trouble wrapping their minds around an exponential. The natural tendency is to extrapolate on a straight line. And so -- and I'm sorry. It's really important to emphasize that this blowup is an exponential -- it does get into a linear zone and then it goes into a long curve.

Q - Joseph Spak {BIO 17457170 <GO>}

Okay. Then I guess just to follow on that, I was wondering if you guys would be willing to indicate when you think the configuration for the 3 would open? But separately also, Elon, there has been a lot of news or noise around unionization at Fremont. I was wondering if you guys could give a little bit of color on your views of potentially unionization. And if it did occur sort of how that changes the cost structure?

A - Elon Musk {BIO 1954518 <GO>}

Sure. There is obviously quite a strong effort by the UAW to unionize Tesla. And actually a lot of people at Tesla that have been approached by UAW have expressed concern about this. And there was also a number of claims made by someone who I think is de facto an employee for UAW (that had) Tesla. There's one piece -- and it will probably be published in the next day or two, because I wanted to make sure I fully investigated the claims before it was published in the one piece.

The fact of the matter is over the last few months, Tesla's injury rate is less than half of the industry average. The (caused) allegations made. And the compensation, if you look at when we started four years ago, the best incurred (for the stock) is four years. So if you said what is the outcome for somebody who started four years ago, is by far the highest in the order industry.

There was an allegation that, through higher pay -- it tells they are in fact the highest paid in the industry, if you include the equity which obviously you should include it. There are really only disadvantages for someone to want the UAW here. I mean their track record is worse in every other company.

Q - Joseph Spak {BIO 17457170 <GO>}

Okay.

A - Elon Musk {BIO 1954518 <GO>}

That is likely to occur.

Q - Joseph Spak {BIO 17457170 <GO>}

Okay. Thank you.

Operator

Our next question comes from the line of John Murphy, Bank of America. Your line is now open.

Q - Aileen Smith {BIO 18820094 <GO>}

Good afternoon, guys. This is Aileen Smith on for John. First on a more high-level question, I realize it is still very early days in terms of the new Trump administration. But with Scott Pruitt now Head of the EPA, are you anticipating any changes with respect to the oversight or regulations under CARB and its relationship to the EPA? Elon, is that coming up in your meetings with the Trump team at all or any of the discussions? And how would you respond in the event that regulations and standards or the potential to generate ZEV credit for it to be altered?

A - Elon Musk {BIO 1954518 <GO>}

Sure. It's only come up briefly and my response is that I think it will be fine to get rid of incentives and subsidies. But that should be uniformly applied to all industries. It would obviously be wrong to get rid of any sort of government intervention in sustainable energy while retaining it in fossil fuels.

If the principle is to get rid of government intervention, that should be uniformly applied and fairly applied. But that's the only thing. There was no -- those are my comments. There was actually no response given. But they listened to that. And that's sort of -- that's how I feel.

And as I mentioned on a prior call, the reality actually is that if (electrical) incentives went away tomorrow, Tesla's competitive position would improve. Part of the reason why GM is able to sell the Bolt at the price that they are able to do, while on paper making a loss, is that their ZEV credits are worth twice as much as they are to Tesla, because they get the full retail value of reserve credits which is worth about $10,000 more to them than it is to Tesla. We get basically $0.50 on $1, when we can sell the ZEV credits, which is not always.

Last quarter we were able to sell only a tiny amount of ZEV credits. Because the ZEV mandate is just already very weak. The irony is getting rid of it, would actually improve our competitive position. And ZEV credits only apply to 14 states in the US. I believe there are 14, that are applied nationally.

Then things like the federal tax credit for electric vehicles caps out at I think only a few hundred thousand cars. And we are not far from, that point. Basically credits really don't scale to high volume or they are disadvantageous to Tesla.

Even in California, which is our home state. California legislature put an income cap on anyone who can get a California tax credit, for EVs, which then excluded a whole bunch of our customers, which I think is counterproductive to the biggest manufacturing employer in California. Why the hell (do they let that stage), I do not know. It was harmful to the state.

Q - Aileen Smith {BIO 18820094 <GO>}

Okay. Great, that's helpful. Then sort of a second question. You guys gave some helpful disclosure in terms of the vehicle order growth for the Model S and the X in the quarter. Can you talk about the order growth for the Model 3?

The last measurement that we received on the size -- the wait list in the order book was 400,000, plus or minus. Can you talk about how that's grown over the past few quarters? If we look at the customer deposits on your balance sheet actually declined sequentially from 3Q to 4Q. So how much if any of that is related to the Model 3?

A - Jason Wheeler {BIO 19481227 <GO>}

Yes, sure, this is Jason. It is not related to the Model 3. We still have a number of signatures series Model X reservations, where there was just a higher deposit required for those cars. We were able to deliver a number of those in Q4 so that's the primary driver behind the total reported increase in the customer deposit's line.

Q - Aileen Smith {BIO 18820094 <GO>}

Okay. And can you give any size of the order book for the Model 3, as it stands right now?

A - Jason Wheeler {BIO 19481227 <GO>}

We are still in great shape.

A - Elon Musk {BIO 1954518 <GO>}

We don't report that number because people read too much into it. As Jason is saying, that is really not our concern. Yes. And (anti-sell) the Model 3.

A - Jason Wheeler {BIO 19481227 <GO>}

We don't want to make the line longer at this point.

A - Elon Musk {BIO 1954518 <GO>}

Yes, good point.

Q - Aileen Smith {BIO 18820094 <GO>}

Okay. All right. Thank you very much.

Operator

Our next question comes from the line of Colin Langan with UBS, your line is now open.

Q - Colin Langan {BIO 15908877 <GO>}

Great. In the press release you give comments on margins for the first half of the year. Any broad color on how we should think about margins in the second half particularly as the

Model 3 launches? Will that be profitable day one or is that going to take some time for that to ramp? Any color there?

A - Elon Musk {BIO 1954518 <GO>}

Hopes that it will not be profitable on day one because of that exponential issue that I mentioned. The only Model 3s will be like horribly negative margin particularly on day one, when I say literally day one. Because just at a tiny rate as you scroll up this giant machine. So like no company on Earth -- this is not a function of Tesla -- it is physically impossible.

So you have to get the production rate to some reasonable capacity percentage of the system -- if the capacity of the production system is X, until you are at least half X, your gross margin is going to be weak. And it is going to be terrible with you are at order magnitude below -- if you are 10% of X, like or less it will be terrible. So but then it will get really good as you start to approach (100%) capacity then it gets great. And as we get to the initial phase of capacity of 5,000 a week, I would expect to see gross margins comparable to that of the S and X.

Q - Colin Langan {BIO 15908877 <GO>}

And that's next year that you should get to the 5,000 per week, is that right?

A - Elon Musk {BIO 1954518 <GO>}

Well I feel pretty confident that we should get there by the end of this year to 5,000 a week. Now I do want to separate this from parts orders. I know a number of our suppliers are listening. It's impossible to keep -- nothing is a secret these days, it seems. Major intelligence organizations cannot keep a secret. It's like really -- who can, honestly?

So when we place parts orders with our suppliers, we've told them 1,000 a week in July, 2,000 a week in August. And 4,000 a week in September. These are parts orders. Then the parts need to arrive. And they need to be turned into a car and the car needs to be delivered to customers. None of these things occur instantaneously.

And we have what I call the term paper problem. I was a teaching assistant in college and no matter what date we set the exam paper for when the term paper was due, there was always some people that were late. It's just the way it goes. People are sometimes -- and I'm guilty of this too. Optimistic about the timing or they get unlucky or something like that so we have to set these really strict dates. Then some number of people are late.

But it only has to be 1% and then we either have to make those parts manually at great cost or slow down the production rate. And when I say great cost, when you make something manually, as opposed through mass production, it can be 10, 20, 30 times more than a part that's made -- is handmade as opposed to made with high rate production program. So that's essentially the -- I'm trying to give you what does the problem space look like in my head so you can at least try to model it and you know what I know.

And if I knew which 1% of suppliers it was right now I would obviously take action. But I don't. Because I don't know who's going to be unlucky. I don't know who is being overly optimistic. So that's the 1,000, 2,000, 4,000, those are the deadlines we set up for our suppliers. For parts delivery, then parts get made into cars. Cars need to get delivered. Another three separate steps.

Q - Colin Langan {BIO 15908877 <GO>}

Last question. Any color on cash burn? I think last time you mentioned you were confident you wouldn't need a capital raise. You still feel that way? I think it was close to $1 billion in the quarter and it sounds like CapEx is going to rise next year. How should we think about cash burn cadence and the confidence of no capital raise going forward? Thank you.

A - Elon Musk {BIO 1954518 <GO>}

So this is really a question of what is the risk tolerance of the Company. Or how close to the edge do we want to go? According to our financial plan, no capital needs to be raised for the Model 3. But we get very close to the edge. So then that is probably not the best thing for shareholders on a risk-adjusted basis. So we are considering a number of options. But I think it probably makes sense to raise capital to reduce risk.

Q - Colin Langan {BIO 15908877 <GO>}

Got it. Thank you very much for the color.

A - Jason Wheeler {BIO 19481227 <GO>}

Colin, I just wanted to add a couple of points there too. On the cash receiving increase, the $1 billion in cash (on hand) but I don't think that is fully accurate. And we had $522 million in CapEx so we are investing at a very healthy rate ahead of what we need to do for Model 3. And there were certainly some timing differences.

We talked about in our deliveries press release, we had 2,750 cars that we missed delivering them by a couple of days. So I think there is a little cross-quarter timing going on here. And it is not indicative of what cash flow from operations is going to look like in the future.

To circle back to your point and one of the questions from earlier about what is different about Model 3. I thought maybe I'll provide you just a little bit more color on costing and this will help you think a little bit about margins on a go-forward basis too. From the very beginning of the Model 3 program, the costing of the car was front and center. And it has always been a key part of the conversation and the decisions that have been made.

It goes all the way back to first principles, as Elon likes to talk about. On a part-by-part basis we have been looking at what is the value of the commodities on that part, what's a reasonable cost to fabricate the part and what is a reasonable margin on top of it. And that's been the starting point for costing for everything that's gone into the Model 3. The other thing that is important. And we've talked about this a lot over the past couple of

quarters, is just being more efficient with our capital spend and JB has done a fabulous job with this up at the Gigafactory.

I don't know if you had a chance to attend the event or not. But the volumetric efficiency there is quite stunning. And if you can do more in a smaller footprint, the capital required is less. And the less capital that is required to do things, the less the depreciation load is going to be on each unit produced once you get to volume production and deliveries. I just thought it would be good to add that additional color to your comments and your questions.

Q - Colin Langan {BIO 15908877 <GO>}

Thanks very much.

A - Elon Musk {BIO 1954518 <GO>}

Applying the rocket equation to manufacturing. Essentially on the rocket equation taking its mass efficiency, take volumetric efficiency of the factory, as Jason was mentioning. And X velocity of product from the factory. Kind of just slow it down pretty much just to those two things.

Q - Colin Langan {BIO 15908877 <GO>}

Got it. Thank you very much.

Operator

Our next question comes from the line of Brian Johnson, Barclays. Your line is open.

Q - Brian Johnson {BIO 7256455 <GO>}

Yes. Good afternoon, just a few questions about the cash flow and CapEx and cash needs. You know first I recognize that you are now consolidating in SolarCity. But if you were just to very roughly give us what the old automotive adjusted cash flow was and try to disentangle that from the cash flow coming out of the former SolarCity, what would that roughly look like directionally?

A - Jason Wheeler {BIO 19481227 <GO>}

Sure, I think we put in the letter the cash generation was $70 million, about $70 million. So SolarCity was actually a cash generator for the five week (stub) period. Some of that was the cash and tax equity deals closing. So the way to think about SolarCity on a go-forward basis is prioritizing cash generation preservation over the near-term for that business. I don't anticipate any significant -- it's not going to have a significant impact on our cash position in future quarters.

Q - Brian Johnson {BIO 7256455 <GO>}

Okay. And secondly the $2 billion to $2.5 billion CapEx guide, that spend, does that imply that, that is not -- couple of questions. Does that imply that is not a full year 2017 number

given that production cadence that you're planning?

A - Jason Wheeler {BIO 19481227 <GO>}

Correct. That is between now and the start of production for Model 3.

Q - Brian Johnson {BIO 7256455 <GO>}

Okay. And second, can you talk a little bit more about the deferral of cash out for CapEx due to agreements with suppliers, or some of those equipment suppliers, to defer payments? What are those agreements, where does that liability show up on the balance sheet? And is that a hard, as soon as they deliver a proof part, does that become due or how does the actual timing of that payment work?

A - Jason Wheeler {BIO 19481227 <GO>}

Yes, sure absolutely. I think this is one of the benefits of having a very successful run over the last couple of years. We have developed a lot of trust with our suppliers. When I started, you would ask, okay, what our average days paid with outstanding. And it was lower than it should be.

And we have been able to renegotiate payment terms with just about everybody and stretch out those payables. It's not a question of not paying. It is actually we have trust and we are going with renegotiating these contracts with suppliers. And I believe we shared this data point last quarter on the call. But for the parts that have been sourced for Model 3 so far and the average payment terms is 59 days. So cash conversion cycle is something that we care deeply about and we are paying a lot of attention to.

And obviously as we head up this S-curve that we have talked about, working capital is going to be very important so we're going to have to keep a good eye on that. To sum it up, we are making great progress in stretching out our payables and we are doing it in a way that I think is productive and healthy with the relationships with our suppliers and vendors.

Q - Brian Johnson {BIO 7256455 <GO>}

Okay. So those deferred capital expenditure payments are actually in the accounts payable or is it in more like an accrued liability line? Just housekeeping.

A - Jason Wheeler {BIO 19481227 <GO>}

It depends on if there's -- many payments have milestones set to them. So when the piece of equipment is actually installed and up and running. And until you hit that milestone you won't see a payable.

Q - Brian Johnson {BIO 7256455 <GO>}

Okay. Thanks.

A - Jason Wheeler {BIO 19481227 <GO>}

Sure.

Operator

Our next question comes from the line of James Albertine, Consumer Edge. Your line is now open.

Q - James Albertine {BIO 17420845 <GO>}

Great, thank you. Good afternoon. And I will just add my congratulations to Jason and best of luck. Welcome back to Deepak. If I may quickly, Elon, you mentioned in response to a ZEV question earlier, the 14 states -- I believe it was -- that sort of share these standards and allow manufacturers to earn credits, buy credits, allow you to sell credits and so forth. Understanding that to the extent that a competitor vehicle is sold in California, it counts toward their quota, if you will, in other states and that the waiver that allows that might be expiring later this year.

And I am just wondering, number one, if that's correct, if I'm thinking about that the right way? And how that would theoretically impact your business? You've talked about how sort of these $7,500 federal -- and I know I'm mixing ZEV and GHG. And so forth. But you talked about how it could theoretically be a competitive advantage for Tesla. And I'm just wondering if you could opine on that?

A - Elon Musk {BIO 1954518 <GO>}

Well it's just that in order to scale -- the ZEV advantage is so weak, less than 1% or some tiny number of vehicles in ZEV states were sold in ZEV states. We are the only ones who currently make a car in California. I do think California maybe should do a bit more for its only remaining auto manufacturer, for those to be competitive. It's weird that they seem to do more to support non-California companies than Tesla.

This maybe becomes irrelevant at scale. Tesla will have as many -- more ZEV credits than the rest of the US industry combined. So the value of them drops to a negligible number. And the simple matter of it is though, the major manufacturers don't really need to sell them either because they make whatever their puny amount of electric vehicles are, 20,000 cars maybe. We are making 20 or 30 times that number. So these things are -- they're not important at scale, because the mandate is too weak.

Q - James Albertine {BIO 17420845 <GO>}

Understood. I was getting at the fact that if the (bulk) sale in California doesn't count toward New York or something, it's weaker, it's tougher for your competitors than it even is today. So that's more what I was alluding to and I agree with you. The mandate doesn't make a lot of sense.

A - Elon Musk {BIO 1954518 <GO>}

Yes. They are just very weak. They will have almost no impact on Model 3. Maybe for a few quarters and that's about it.

Q - James Albertine {BIO 17420845 <GO>}

Okay. Great. If I may on the Model 3 quickly. And I will get back in queue, the vehicle we have seen, is that a preproduction version or is that the version you plan to fully produce? If not, when could we maybe expect to see the fully sort of finished product?

Just to get an idea, you alluded to at the Gigafactory a couple of months ago, there is still some suppliers you want to make sure you're lining up properly to get everything ready to go for July 1. I am wondering if the revealing of the final production-ready version could be, between now and then, sort of additional catalyst?

A - Elon Musk {BIO 1954518 <GO>}

Yes. I'm not sure if it's going to make sense for us to show the final version before we start of production or after. The initial cars are -- (sort of a series) actually go to Company employees. I think it's important for us to have good (feedback loop) on the cars that we are making. And if there are any issues, bugs and things that need to addressed, that we can address those before customers experience them.

So I think in terms of showing a final version, it is probably at least a few months away, maybe as far as July itself. It's going to be pretty close to what I showed at the Model 3 unveiling. But with more polish and refinement and a few more details that are added. It will be better than what was unveiled. I guess in some ways it will be a lot better.

Q - James Albertine {BIO 17420845 <GO>}

Great. Thank you. So much for taking the questions and best of luck.

A - Elon Musk {BIO 1954518 <GO>}

All right.

Operator

Our next question comes from the line of Colin Rusch, Oppenheimer. Your line is open.

Q - Colin Rusch {BIO 15823117 <GO>}

Thank you. So much. Given the dependency on the Model 3 profitability and the Gigafactory, can you talk about timing for full ramp on both anode and cathode assembly? And I have a follow-up question on the debt that you drew down in the Fourth Quarter.

A - Jason Wheeler {BIO 19481227 <GO>}

I'm sorry, you mean the full ramp to what level? To the 35 gigawatt hours per year?

Q - Colin Rusch {BIO 15823117 <GO>}

No, no, because this is a modular facility, right? So you've got machines up and running. Just the first tranche of equipment that you have installed, when is that going to be up and running at full capacity?

A - Elon Musk {BIO 1954518 <GO>}

They are very big modules

A - Jason Wheeler {BIO 19481227 <GO>}

It's pretty large increments. Those will be up and running at full capacity for the first instances, within just a few months. We are already in the stages of beginning the second instance of anodes and cathodes, electrode assembly. So these are needed for the ramp of the Model 3. You can get a sense of the timing here.

A - Elon Musk {BIO 1954518 <GO>}

Two big modules, I guess, in that sense, right? Something like that.

Q - Colin Rusch {BIO 15823117 <GO>}

We can think about that being kind of done in the Second Quarter then, is what I'm hearing you say.

A - Elon Musk {BIO 1954518 <GO>}

First module. If you're not -- Module is all computing for -- because we actually have a module -- the battery pack is about the (sales modules) and packs.

A - Jason Wheeler {BIO 19481227 <GO>}

First instance of the electrode.

A - Elon Musk {BIO 1954518 <GO>}

First line -- line one of the -- it should be, yes, in the next few months operating.

A - Jason Wheeler {BIO 19481227 <GO>}

That first instance would be achieving full volume. It would be in Q3.

Q - Colin Rusch {BIO 15823117 <GO>}

Okay. Great. Then on the $969 million that you got in the bucket of debt activities, can you talk about where -- just break down where that came from and how much borrowing capacity you have entering the year with your current facilities?

A - Elon Musk {BIO 1954518 <GO>}

Now --

A - Jason Wheeler {BIO 19481227 <GO>}

The debt activity just comes from draws on our asset back line and our warehouse lines. We've got a lot of cash in transit as we move through the quarters, particularly at the end of the quarters, we are making deliveries. We just want to make sure we have maximum liquidity as we close out quarters.

A - Elon Musk {BIO 1954518 <GO>}

Particularly, essentially that is almost entirely a finished product in transit to a customer and to a non-customer. So it's not general corporate debt. It is just like we finished the car and it's got to be transported to a customer overseas and it may take four to eight weeks to get there.

A - Jason Wheeler {BIO 19481227 <GO>}

That's right. Then that cash has been largely realized (along the way).

A - Elon Musk {BIO 1954518 <GO>}

Yes, exactly.

Q - Colin Rusch {BIO 15823117 <GO>}

Okay and so how can we think about borrowing capacity at this point on a go-forward basis?

A - Jason Wheeler {BIO 19481227 <GO>}

We still had incremental capacity. At the end of the quarter, we have been steadily -- we made some announcements on this. We have increased our warehouse lines, which is a way for us to pull the cash forward (on our lease portfolios). And it's gone from $0 early in the year to $300 million. And then we added another $300 million. So we've got $600 million in capacity there. And our ABL has gone from $750 million at the beginning of the year to $1 billion and to $1.2 billion. So as we to continue to build assets, we've got this ability to use them to bring cash forward.

A - Elon Musk {BIO 1954518 <GO>}

And that is separate from general borrowing capacity.

A - Jason Wheeler {BIO 19481227 <GO>}

It's not recourse debt.

Q - Colin Rusch {BIO 15823117 <GO>}

We can take the rest of it off-line. Thanks, guys.

Operator

Our next question comes from the line of Tyler Frank with Robert Baird. Your line is open.

Q - Tyler Frank {BIO 20108167 <GO>}

Thanks for taking the question. Elon, I guess this is for you. Taking a step back and looking at the bigger picture, you have previously talked about producing 1 million units per year by 2020. And that 500,000 units in 2018.

How confident are you now in both of those targets. And does anything need to be done from the battery perspective side in order to reach those targets? Would you need to build another Gigafactory prior to hitting 1 million units per year in 2020, or do you think that the current Gigafactory will have enough capacity?

A - Elon Musk {BIO 1954518 <GO>}

Yes. The put forward -- you assume the average pack sizes. But if you say it is somewhere around the 60 to 70 kilowatt hour level, then you need 70 gigawatt hours to get to 1 million units. And we think that is the cell level and then we think the current Gigafactory should actually be able to do in excess of 100 gigawatt hours.

So that leaves probably -- a big Gigafactory 1 can manage -- it can support under probably 1 million vehicles a year plus maybe something like 30 gigawatt hours or so of storage. Depending upon how fast the storage market grows. I think the storage market is probably going to grow maybe twice the rate of the automotive business or something like that.

Q - Tyler Frank {BIO 20108167 <GO>}

Okay. Are you still on track, do you believe, for 1 million vehicles in 2020 and 500,000 in 2018? Then as a quick follow-up to Model 3, you had previously talked about 20% gross margin on that. When do you think that margin target will be able to be achieved?

A - Elon Musk {BIO 1954518 <GO>}

Yes. I currently think that we should build 0.5 million vehicles next year and 1 million vehicles by 2020. Yes, 0.5 million vehicles in total S, 3 and X combined, next year should -- as far as the information I have at my disposal right now, I believe that is the most likely outcome. Then with a couple more years getting to 1 million units. That seems also the most likely outcome. Yes.

Q - Tyler Frank {BIO 20108167 <GO>}

Okay. A quick follow-up. Obviously with Jason leaving. And a little bit abrupt. Obviously Deepak is welcomed back. Should we think of this as a permanent situation or how should we be thinking about the CFO position going forward?

A - Elon Musk {BIO 1954518 <GO>}

Deepak has come back in a long-term role. This is not an interim capacity.

Q - Tyler Frank {BIO 20108167 <GO>}

Okay. Thank you.

Operator

Our next question comes from the line of Rob Cihra, Guggenheim Partners.

Q - Rob Cihra {BIO 1541797 <GO>}

Thank you very much. Just wondering if I could ask a little more about the CapEx. I know you're talking about CapEx up until Model 3. But can you give us any kind of breakout maybe even in percentage terms looking throughout the year, how much CapEx you are thinking for Model 3 versus Gigafactory and versus Solar?

A - Jason Wheeler {BIO 19481227 <GO>}

Sure. We don't break down, we don't disclose the specifics here. But obviously Gigafactory and Model 3 are going to be the biggest investments. We've also got CapEx investments in equipment and tooling related to Model 3. But then also there's going to be a piece in CapEx on building out our service and our retail infrastructure as well. And the supercharger network. So it is the usual suspects.

A - Elon Musk {BIO 1954518 <GO>}

And solar glass, there are solar glass tiles.

Q - Rob Cihra {BIO 1541797 <GO>}

Yes. If I could just ask one more or two on that. Solar glass tile, you are looking to start production, I guess whatever, later this year or ramp capacity. Is that a meaningful amount of CapEx for that, or relatively speaking is it not?

A - Elon Musk {BIO 1954518 <GO>}

Relatively speaking, it is not.

A - Jason Wheeler {BIO 19481227 <GO>}

It is pretty modest.

A - Elon Musk {BIO 1954518 <GO>}

We are talking about insane numbers for Model 3. Gigafactory. It will look huge by comparison.

A - Jon McNeill {BIO 4091220 <GO>}

We will be scaling that in the Buffalo Tesla solar factory. So it is helpful that facility already exists. So we don't have to invest in CapEx for a new factory.

A - Elon Musk {BIO 1954518 <GO>}

Right, for something like this.

A - Jon McNeill {BIO 4091220 <GO>}

And also frankly a lot of the equipment already exists. So it's already purchased.

A - Jason Wheeler {BIO 19481227 <GO>}

It's like (minor).

A - Jon McNeill {BIO 4091220 <GO>}

But it will ramp and start scaling at the end of this year.

A - Elon Musk {BIO 1954518 <GO>}

Think of it in percentages. Think of it in percentages of the Model 3 CapEx.

A - Jason Wheeler {BIO 19481227 <GO>}

Yes.

Q - Rob Cihra {BIO 1541797 <GO>}

Great. Thanks. And if I could just ask a quick follow-up. I think someone started to ask it earlier. But I don't think it was answered, which was just if you know -- well if we knew when you were going to start opening customer configurations for Model 3?

A - Elon Musk {BIO 1954518 <GO>}

Probably going to be pretty close to production. We will open it internally because the first cars will go to Tesla employees. And so investors and whatnot (can know that) so that -- so we can experience any challenges before our customers do. So obviously we would do that internally. So then we would do it externally. I think it is probably three or four months away.

Q - Rob Cihra {BIO 1541797 <GO>}

Great. Thank you very much.

Operator

Our next question --

A - Jeff Evanson {BIO 17513488 <GO>}

Vicki, very quickly let me interrupt you here. So we are on the hour mark. We have a couple of more questioners in queue. Let's go into the speed round. All right, Vicki, take it away.

Operator

Thank you, our next question is from Jeff Osborne, Cowen and Company. Your line is now open.

Q - Jeff Osborne {BIO 15017297 <GO>}

Good afternoon. I appreciate you squeezing me in. Two quick ones, one was there a solar securitization in the quarter? And if so, large was it? Then two, Elon, I believe at the Gigafactory event on January 4, you mentioned that there was some equipment stamping tools and whatnot that needed to be put in place in Fremont. I was curious if, A, if those showed up. And B, if you can update us on what needs to be done from just a physical capacity to make the vehicle in July?

A - Jason Wheeler {BIO 19481227 <GO>}

I would answer no to solar securitization in Q4. There is one in Q1.

A - Elon Musk {BIO 1954518 <GO>}

And we are busy building out the stamping facility right now. The other question is not whether the stamping facility will be here -- whether the stamping facility will be here. It's going to be here well in advance of the Model 3. But the question is really how long does it take to work out the bugs in the stamping line? And how many iterations does this one have to go through to get it operating smoothly?

It will all be here and it will be a beehive of activity. And I will be personally down there looking at the line as I was when we put the Model S line. And I don't think that is going to be an issue. There are some long-lead stamping tools, the stamping dies. And there's a lot of them. And there is some sort of (fairly obscure) stamping dies. Like one die for a seat frame. That is currently along the item. Since we know about it, we are attacking it. And that is unlikely to be a schedule driver.

The things that are likely to be schedule issues are things that we actually just don't know about today. If we know about it, we are attacking it vigorously.

Q - Jeff Osborne {BIO 15017297 <GO>}

Great. Thank you.

Operator

Our next question comes from the line of Charlie Anderson, Dougherty. Your line is now open.

Q - Charlie Anderson {BIO 16577213 <GO>}

Yes. Thanks for squeezing me in as well, just a quick one for me from me on Gigafactory. In the shareholder letter you talked about Gigafactories 3, 4 and possibly 5. It sounds like you are pretty covered with Gigafactory 1 in terms of the 1 million vehicles. But I wonder if

you could speak to the strategy and thinking and timing there? Then Panasonic would be your partner on those as well? Thanks.

A - Elon Musk {BIO 1954518 <GO>}

I think we will reserve -- keep some powder dry for those announcements later this year. This probably was not enough news for today. But I think those announcements will be really quite exciting later this year.

Q - Charlie Anderson {BIO 16577213 <GO>}

All right. Thank you.

A - Jeff Evanson {BIO 17513488 <GO>}

Let's go to the next question.

Operator

Our next question comes from the line Rod Lache, Deutsche Bank.

Q - Rod Lache {BIO 1528384 <GO>}

I was hoping to get a few more points to calibrate to expected free cash flow breakeven at the Motors company. I guess there is a couple things on this. One is you mentioned that the CapEx of $2 billion to $2.5 billion is until the Model 3 launch. Could you give us an idea of what you are expecting for the full year, what the rate would be post-launch of Model 3?

A - Jason Wheeler {BIO 19481227 <GO>}

Yes, right now, like we said earlier, I think we're just focusing on our first-half guidance rather than the second half of the year. There's going to be lots of exciting things going on in the second half of the year with the solar roof and the Model 3 getting to scale and everything else. So we are just focused on that at this point in time.

A - Elon Musk {BIO 1954518 <GO>}

There is obviously going to be a fair bit of incremental investment to go from 5,000 cars a week to 10,000 cars a week. But it's going to be a lot less than getting to 5,000 cars a week in the first place. We don't know exactly what that's going to be, except I'm confident it will be less because the first thing we will try to increase output, is going back to rocket equation, is to increase exit velocity of the line.

We don't know exactly where the turning points are going to be. We try to model it out as carefully as possible but there will be things that are not captured in the model. But I think in a lot of cases, we will simply be able to run the lines faster as opposed to duplicate the line. That is by far the best CapEx maneuver. It's just make it go faster.

But I would say it's going from 5,000 to 10,000 is probably the total wild (expletive) guess. That's the right way to think about it. It's like 40% to 50% to 70% of the cost of the 5,000 line, something like that. If we're lucky and we're smart, 50 -- that's only half a gain, which obviously it is pretty awesome from a CapEx standpoint. I can't imagine it being more than about (70%). As much as there is. JB, what do you think?

A - JB Straubel

I think that's right and it's maybe helpful to realize that a lot of the infrastructure investments to get all the way to 10,000 are complete in the Gigafactory.

A - Elon Musk {BIO 1954518 <GO>}

That's true.

A - JB Straubel

It is not even as if we are starting from scratch, to go from 5,000 to 10,000.

A - Elon Musk {BIO 1954518 <GO>}

That's true. Some things will work like you can spent 10% more. Like in a really good case, you spend 10% more and have twice as much capacity. And you are like, Okay, sure. It's not great in the short term. But it's obvious, a good thing in the long-term.

A - JB Straubel

Where there were great efficiencies in the way the layout, the facility per instance, thus the word Gigafactory. So we don't anticipate needing to build much new square footage for instance to go all the way to 10,000. Even though we would be expanding the internal production lines while we speed them up and add new instances of production. But the Tesla CapEx would not be a one-to-one scaling, not even close.

Q - Rod Lache {BIO 1528384 <GO>}

Could you comment on the run rate of OpEx for 2017 for the Motors company or for the whole company?

A - Jason Wheeler {BIO 19481227 <GO>}

Sure. The way to think about it is we're going to continue to drive efficiencies in G&A. We have to do that.

A - Elon Musk {BIO 1954518 <GO>}

In part because we can't fit people in the building. It seems like a silly concern. But it's really quite difficult.

A - Jason Wheeler {BIO 19481227 <GO>}

We have a real volumetric problem, a good constraint to have.

A - Elon Musk {BIO 1954518 <GO>}

Parking is one of my biggest nightmares. Where do we park everyone? We can't fit everyone so we have to make our OpEx better, because there's nowhere for people to go.

A - Jason Wheeler {BIO 19481227 <GO>}

We are at that stage now where G&A will continue to scale sub-linearly with revenue and we will continue to always push productivity. Productivity, productivity, productivity. Then we will obviously need to continue to make investments on the sales side. Even in my new ventures, I will be calling Jon and harassing him about his numbers.

A - Elon Musk {BIO 1954518 <GO>}

From a demand generation standpoint, we don't need to make actually any investment for the Model 3 probably for the next 12 months. So the delivery of the cars is where the investment is needed. Deliver 3 or 4 times as many cars. But we don't want to have 3 or 4 times as many delivery centers.

How do we make that delivery process more streamlined, less paperwork, less bureaucracy and get people ahead of time, really well produced instruction videos for how to use their car. And well of course the best instruction -- the best thing is like not having instructions. And you will actually be able to play all of the instructions needed for your car on your car. Except you don't want to have -- you can look at that. You can look at your email or get in the car.

Sales actually, the demand generation. And then delivery of the car, that is as far as sales that is the scaling part. Then we are talking on (part of the inventions), like they were we increased the design lifetime of the powertrain from roughly a 0.25 million miles to aspirationally 1 million miles. So that should really help us.

Q - Rod Lache {BIO 1528384 <GO>}

I guess still trying to calibrate to this cash flow and cash needs. Maybe a different way to ask this is, is it reasonable to expect that you would hit for the Motors company free cash flow breakeven at the 250,000 unit a year level for Model 3, assuming what we know today?

A - Elon Musk {BIO 1954518 <GO>}

It depends on how quickly we want to ramp production to go from 5,000 a week to 10,000 a week on Model 3. There could be an argument that you don't want to go to cash flow breakeven or positive because you are losing a lot of sales. When you calculate the present value of future cash flows, then it's actually not smart to be in that case free cash flow positive. Or maybe you want to be a little negative at least. And not give up a huge number of sales because you would be talking -- the numbers get just so crazy.

A 0.25 million is roughly $1 billion a month revenue. And you double that and it's $2 billion per month. Again, maybe spending incremental $0.5 billion on CapEx would be a

pretty smart move if it advances things by two or three months.

Q - Rod Lache {BIO 1528384 <GO>}

It just seems like at that level of 250,000 you would be generating probably at least $2 billion of gross profit for Model 3 and if you continue this Model X rate, you are at $2.5 billion of gross from that. So even with OpEx of just under $3 billion. And CapEx of just under $3 billion, if you add in D&A it looks like it's pretty close. I understand, it sounds like it's within your control.

A - Elon Musk {BIO 1954518 <GO>}

It's within our control. If we were to just level off we could be cash flow positive right now.

Q - Rod Lache {BIO 1528384 <GO>}

Right.

A - Elon Musk {BIO 1954518 <GO>}

Obviously we are in the sort of low to mid-20s on gross margin on the car. At a $10 billion a year run rate, that's $2 billion to $2.5 billion. We could definitely be profitable and cash flow positive at that level. But then our growth rate would be much slower. So it's just really like a series of overlapping parallel MPV streams, like an obvious way to look at it, I think.

And by the way guys, it would be great to get some feedback if you think we're not making a smart move. Please tell us. We would love to hear feedback. We're definitely not going to hit the bull's-eye every time. We're going to make mistakes. So hearing feedback from you would be great.

Q - Rod Lache {BIO 1528384 <GO>}

Great. Thank you.

A - Elon Musk {BIO 1954518 <GO>}

Thanks.

Operator

I'm showing no further questions at this time. I would now like to turn the call back over to Mr. Jeff Evanson.

A - Jeff Evanson {BIO 17513488 <GO>}

Okay thank you, Vicki. Thank you, everyone for joining today. Have a lovely evening.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect.

Everyone have a great day.