

## Q1 2019 Earnings Call

### Company Participants

- Elon R. Musk, Chief Executive Officer
- Jeffrey B. Straubel, Chief Technology Officer
- Jerome Guillen, President of Automotive Division
- Jonathan Chang, General Counsel
- Martin Viecha, Senior Director of Investor Relations
- Vaibhav Taneja, Chief Accounting Officer
- Zachary Kirkhorn, Chief Financial Officer

### Other Participants

- Adam Jonas, Analyst, Morgan Stanley
- Alexander Potter, Analyst, Piper Jaffray
- Colin Langan, Analyst, UBS
- Colin Rusch, Analyst, Oppenheimer
- Daniel V. Galves, Analyst, Wolfe Research
- David Tamberrino, Analyst, Goldman Sachs
- Joseph Spak, Analyst, RBC Capital Markets
- Maynard Um, Analyst, Macquarie
- Philippe Houchois, Analyst, Jefferies
- Pierre Ferragu, Analyst, New Street Research
- Ryan Brinkman, Analyst, J.P. Morgan
- Toni Sacconaghi, Analyst, Sanford C. Bernstein & Co.

### Presentation

#### Operator

Good day, ladies and gentlemen, and welcome to the Tesla Q1 2019 Financial Results and Q&A Webcast. My name is Sherry and I will be your coordinator for today. At this time, all participants are in a listen-only mode. Following the prepared remarks, there will be a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the call over to your host, Mr. Martin Viecha, Senior Director of Investor Relations. Mr. Viecha, you may now proceed.

**Martin Viecha** {BIO 17153377 <GO>}

Thank you, Sherry, and good afternoon, everyone. Welcome to Tesla's First Quarter 2019 Q&A Webcast. I'm joined today by Elon Musk; JB Straubel; Zachary Kirkhorn and a number of other executives. Our Q1 results were announced at about 2:00 P.M. Pacific Time in the update later we published at the same link as this webcast.

During this call, we will discuss our business outlook and make forward-looking statements. These comments 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.

During the question-and-answer portion of today's call, please limit yourself to one question and one follow-up. (Operator Instructions) But before we jump into Q&A, Elon has some opening remarks. Elon?

**Elon R. Musk** {BIO 1954518 <GO>}

Thanks, Martin. On Monday, we hosted our first-ever Autonomy Investor Day, showcasing our new in-house designed full self-driving computer and our AI-based software trained by more than 400,000 Tesla vehicles. All Tesla cars being built today have all hardware necessary for full self-driving and over-the-air updates will enable our customers to use the Tesla ride-hailing network fleet and generate income, which, as we said on Autonomy Day a few days ago, we think it's somewhere between \$10,000 and \$30,000 a year. In some cases, perhaps more.

We are the only Company in the world producing our own vehicles and batteries, as well as our own in-house chip for full self-driving. We're in a position unlike anyone else in the industry. And in 2020, we expect to have 1 million robotaxis on the road with the hardware necessary for full self-driving. We believe we'll have the most profitable autonomous taxi on the market and perhaps the -- yeah. Last quarter, we experienced a massive increase in delivery volume in Europe, similar to what North America experienced last year, as well as the massive increase in delivery volume to China. As far as challenges go, this was a good one to have, because we booked vehicles and consumers support them. This rapid increase in overseas volume strained our logistics operation and resulted in over half of our global deliveries occurring in the final 10 days of Q1. This was the most difficult logistics problem I've ever seen and I've seen some tough ones. So, I'll say it again, like we initially delivered the half of all vehicles produced -- half of all deliveries occurred in literally in the final 10 days of Q1.

As a result, a large number of vehicles -- the vehicle deliveries shifted into Q2, which, of course, net -- Q1 net income to be negatively impacted. As we said, we could not get the vehicles to customers physically in time. In response to this, we are in the process of regionally balancing our vehicle booked throughout the quarter. This will make the -- this will put much less strain on Tesla, results in a much better delivery experience for customers and have a very positive effect on our working capital in the middle of the quarter.

In Q1, Model 3 was yet again the best-selling premium car in the US, outselling the runner-up by almost 60%. It's worth just dwelling on that for a moment, just how absurd this is compared to predictions that were made several years ago. There are literally -- to the best of my knowledge zero predictions that this would happen, if you go back just even five or six years ago, an electric car would be the best-selling premium car in the US. And we believe overtime we will be the best-selling premium car throughout the world. And, in fact, in Norway, in March, we set a record for the highest sales of any car period ever. And that would be something similar in Switzerland as well. So, this is really an incredible achievement by the Tesla team.

Since the introduction of standard range, a standard range class, only 70% of previous Model 3 have actually been non-premium vehicles, where people actually pay more for a car than they have ever paid for a car. They never anticipated paying this much for a car, but because they want the Model 3 more than they ever wanted a vehicle, they are willing to pay more to get a Model 3. So -- and keep in mind, global expansion for the Model 3 has just begun and this segment is vastly larger internationally than it is in the US. We are continuing to make significant improvements to our vehicle lineup, including updating the Model S and X production line to accommodate the next generation of powertrains. So, we announced this yesterday and we are now in production with the significantly more balanced powertrains for the Model S and X, as well as an upgrade to the suspension system to have active adaptive damping in the suspension system and to enable charging at 200 kilowatts, which is -- and there are number of other small changes. If anyone is thinking about upgrading their Model S or X, this is a great time to do it. And we also introduced a loyalty program, where if somebody has an -- is an existing Tesla owner and they buy a performance Model S or X, they get the ludicrous upgrade for free. So this is -- yeah, as a thank you and an appreciation to existing Tesla customers.

So, they have a longer range. The Model S now has a range of 370 miles. This is actually be a range of 370 miles and Motor Trend test drove the car a few days ago and drove nonstop all the way from San Francisco to Los Angeles at normal highway speeds, and they said they could have even gone faster, and they were any headwind as well. So, this is a pretty remarkable that an electric car could go nonstop between the two biggest cities in California. I mean, I have never -- back when I was driving gasoline cars, I always have to stop at the gas station. This is literally better than a gasoline car with rare exception. And there is also an increase in power, accelerates faster, just better in every way. And we are able to do this without increasing the size of the battery pack, which is a testament to the powertrain team, and for -- being able to improve the efficiency of the powertrain by such a significant margin.

So, with the recently announced product improvements on Model S and X, as well as continued expansion of Model 3 globally, we expect the order rate to increase significantly throughout the year and in commensurate with our production levels.

And in terms of other [ph] production, very excited about the future for other products, especially for full self-driving, which will fundamentally transform transport

as we know it. The Tesla Semi truck Model Y, improvements to Powerwall, Powerpack, the Solar Roof Version 3 on the energy side. And no question in my mind that Tesla has the most exciting product roadmap of any consumer product company in the world. And finally, I want to thank our employees for their incredible work and our customers for their continued support.

**Martin Viecha** {BIO 17153377 <GO>}

Thank you very much, Elon. And I think Zachary would like to have some remarks as well.

**Zachary Kirkhorn** {BIO 20940148 <GO>}

Yeah. Thank you, Martin, and thank you, Elon as well. Overall, as we reflect on the progress of Q1, this was one of the most complicated quarters that I can think of in the history of the Company, and it was ambitious even by Tesla's own standards. The global expansion of Model 3 was a huge theme within the quarter. We launched the standard range lineup for Model 3, product retooling for Model S and Model X, which Elon just talk about with the range enhancements and suspension upgrades, and then we implemented various pricing adjustments and work to do the corresponding impact that had on our order mix in deliverable cars.

So there is two key themes that I would like to discuss briefly and then we'll open it up to Q&A, around cash and profitability for the quarter. First, on the cash front, we exited Q1 with \$2.2 billion in cash and cash equivalents on hand. This was a \$1.5 billion reduction from our 2018 ending cash balance. But this reduction is attributed to two factors: the first is that, we paid off \$920 million convertible note on March 1. Note for those of you looking to the cash flow statement, \$188 million of this is flowing through our operating cash flows. The balance to the \$1.5 billion reduction is more than explained by the working capital impact of expanding Model 3 operations overseas. And the two components to this which we have discussed is that, an international operation naturally commands additional working capital because of transit times, but then also the stress on our delivery operations meant that not all of our cars will be delivered, both of these factors which occurred in Q1. We do not expect to repeat in Q2, and we expect our quarter ending cash balance to continue to increase going forward. I'll also note that we are tracking in April to the largest month of deliveries from month one in the history of the Company.

On the working capital point, as Elon noted, 50% of our deliveries in Q1 occurred in the final 10 days of the quarter. This is because we prioritized international builds for the first half of the quarter and then US local builds in the second half. This led to a binary inflow of Model 3 cars to EMEA and China, and significantly stressed the delivery operations. We also faced important issues in Shanghai and Beijing and worked through those, but that also skewed deliveries towards the final couple of days and weeks of the quarter. So, we are addressing this by regionally on balance -- by building regionally balanced, and we have already executed on this for Model 3 and S and X will be implemented in the next week or two. The secondary benefit of this is that, it enables us to run stable operations throughout the quarter. So we don't

have to staff many of our delivery areas and logistic operations to the peak. We expect significant cost savings to come from this.

On the P&L side, we incurred \$188 million of one-time adjustment that flowed through to net income. A \$120 million of this was related to S and X pricing adjustments that we announced on February 28. This included a reserve for potential increased return rate for our residual value guarantee and buyback guaranteed vehicles and also an adjustment for the inventory value of our used Tesla inventory and service loaners. There is an additional \$67 million related to Q1 restructuring and other charges that flowed through.

Within the automotive business, one thing that I want to note here is that, automotive revenue was negatively impacted by \$501 million attributed to the reserve increase for S and X that I just noted. If you adjust for this, the decline from Q4 to Q1 in revenue is roughly in line with the decline in deliveries. Within automotive gross margin, Model 3 gross margin declined slightly to approximately to 20%. This is due to two factors. One is, the pricing adjustments that we made on February 28, as well as the mix shift towards the standard range lineup which we launched. We also successfully executed on a number of cost reductions, which offset this impact. Labor content, warehousing and scrap are the examples of a double-digit improvements from Q4 to Q1.

In spite of launching the standard range variance, we want to note that North American ASPs are close to \$50,000, with the majority of our orders being for long-range variants of Model 3. In S and X the impact on margin was more significant. Two major pieces here, the volume reduction led to a reduction in fixed cost absorption, so that impacted our margin, as well as the pricing actions that we took on February 28. Even though S and X have been in production for a while, we still continued to make operational improvements there, the labor content as an example, which improved quarter-over-quarter.

As we look to the future here, I agree with Elon's sentiments about the excitement of our product lineup. From a financial standpoint, what we've effectively done here is, built an incredible base of knowledge and assets that we can quickly scale and replicate into different products around the world. So Gigafactory Shanghai is a terrific example of this. As we noted in the letter, CapEx per unit of capacity is 50% per Giga Shanghai as compared to Model 3 in US, and that 50% are internal forecast that we're executing against is actually better than that. In Model Y, as we've noted, is built on the Model 3 platform. So we're able to leverage the knowledge there for capital efficient expansion.

In energy as well, as we've noted previously, 2019 is a big year for storage. So a lot of exciting improvements coming there, and the expansion will help improve margin as we can better utilize some of the assets that we've made investments in that.

So just to conclude the opening remarks here, personally I never felt more excited about the future of the Company, so looking forward to discussion.

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## Questions And Answers

### **A - Martin Viecha** {BIO 17153377 <GO>}

Thank you very much, Zachary. Let's take some first questions from retail shareholders who have been submitting their questions on say.com. The first question is, will Tesla be able to complete their purchase of Maxwell Technologies? What is holding that back?

### **A - Elon R. Musk** {BIO 1954518 <GO>}

Jonathan, do you want to...

### **A - Jonathan Chang** {BIO 20961201 <GO>}

Yeah. Hi, it's Jonathan Chang, General Counsel here. Right now, it is going through approvals with the SEC. There is not a whole lot of things holding it back. We're on schedule, we're on track. Right now we're looking to close in mid-May.

### **A - Elon R. Musk** {BIO 1954518 <GO>}

Great. Thanks.

### **A - Martin Viecha** {BIO 17153377 <GO>}

Thank you. The second question is, is Tesla considering and creating an insurance program in order to further simplify the ownership experience and to more accurately take into account safety of driving an autopilot? The insurance market is very unreliable for Tesla owners right now.

### **A - Elon R. Musk** {BIO 1954518 <GO>}

The answer is, yes, we are creating a Tesla insurance product and we hope to launch that in about a month.

### **A - Martin Viecha** {BIO 17153377 <GO>}

Okay.

### **A - Elon R. Musk** {BIO 1954518 <GO>}

It will be much more compelling than anything else out there.

### **A - Martin Viecha** {BIO 17153377 <GO>}

Great. Thank you very much. The next question is, Elon, most people when they think of Tesla only see it as an automotive company. Can you speak to the energy side of the Company, specifically the roadmap for when you see the energy side of things really taking off and generating major revenue for the Company?

### **A - Elon R. Musk** {BIO 1954518 <GO>}

Sure. The challenge really is battery cells scarcity. As far as the stationary storage is concerned, we basically need an upsell to support the vehicle production, as well as to both Powerwall and Powerpack. Last year in order to have enough sales for Model 3, we actually had to convert all of the lines of the Gigafactory to produce cells just for the Model 3 as opposed to Powerwall and Powerpack. And so, we're essentially scrounging cells from all around the world to at least continue some level of production on the Powerwall and Powerpack. This year, we think we'll allocate at least maybe 5% to 10% of cell output, like, JB, like what do you guys think?

**A - Jeffrey B. Straubel** {BIO 16619298 <GO>}

Yeah.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. Something like that.

**A - Jeffrey B. Straubel** {BIO 16619298 <GO>}

Between 5% and 10%. Exactly right.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. So there are far fewer cells in a Powerwall than a car, so that translates to -- it just, look, quite a decent number of our Powerwalls. And then we will continue to use cells from a variety of suppliers around the world. The Powerwall and Powerpack, because they don't have to go through vehicle homologation are much more adaptable to using a variety of cells from other cell providers. So I would expect that Powerwall and Powerpack to see a very significant percentage growth this year. Maybe on the order of 300% or some quite high number. Sorry? Sorry? Yeah, 300%. I guess, he's just confirming it, 300%. So this is a very big percentage growth rate, that's much faster than automotive. So over time, we will expect that to -- that sort of growth rate we -- hope we'll be able to continue and then battery storage will become a bigger and bigger percentage of Tesla's business over time.

We also have -- we are also planning a significant increase in retrofit solar this year because we've -- we believe we finally refined the product offering to be something that's extremely compelling and much more cost efficient to deliver and install. So radically streamlined process from what has been done before. And we'll have more to say on that possibly next week.

And then the Solar Roof tile, we're on Version 3 of the design. That necessarily takes a while to scale up, because we have to be confident that the Solar Roof is going to last for -- on the order of 30 years. And because of the warranties of 20, 25 years, and so the rate at which you can iterate on Solar Roof is necessarily slowed down by the (inaudible), which you can do accelerated aging on the roof. And we want the installation process to be simple and easy. So -- which is actually the Buffalo -- Tesla Buffalo factory a few weeks ago. And I was pretty impressed with the team and we're looking forward to scaling that up significantly through the balance of this year and next.

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**A - Martin Viecha** {BIO 17153377 <GO>}

Thank you very much. The next question comes from Jeffrey. When and where will the Tesla Semi production begin?

**A - Jerome Guillen** {BIO 17525057 <GO>}

This is Jerome. Next year we will start production. We're very happy. We're driving the trucks extensively with, I think, so far quite amazing success. Yeah.

**A - Elon R. Musk** {BIO 1954518 <GO>}

The prototype type is working amazingly well.

**A - Jerome Guillen** {BIO 17525057 <GO>}

Yeah, very well. We just use them all the time, we load them to the maximum weight and continue to make improvements. So...

**A - Elon R. Musk** {BIO 1954518 <GO>}

We even use them to deliver some Model 3s.

**A - Jonathan Chang** {BIO 20961201 <GO>}

Yeah. That was fun. So, yeah, we'll start production next year. The location is not yet set, but it's pretty clear that we make all the batteries and drive units in Reno.

**A - Martin Viecha** {BIO 17153377 <GO>}

Great. Thank you very much.

**A - Elon R. Musk** {BIO 1954518 <GO>}

That was Sparks technically.

**A - Jerome Guillen** {BIO 17525057 <GO>}

Yeah. It's Sparks. Yeah. Northern Nevada.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. Northern Nevada.

**A - Martin Viecha** {BIO 17153377 <GO>}

And perhaps the last question from retail. How soon should current owners that purchase FSD get the new FSD computer?

**A - Elon R. Musk** {BIO 1954518 <GO>}

I think the -- from features and functionality standpoint, I think there's no point getting the FSD upgrade, if you don't really have it in the car for probably about two



or three months, that's when we'll start releasing features that are materially different from the feature set available on the Version 2 hardware. So no need to rush to the -- to get your computer replaced, it's like two to three months before it becomes relevant. And then it will, obviously, increase rapidly from then.

One other comment I made -- I'll make in case, since somebody asked this explicitly. For Model Y production, we are right now trying to decide whether Model Y vehicle production should be in California or Nevada. And we expect to make a final decision on that very soon. But in the meantime, we've ordered all of the tooling and equipment required for Model Y. So, we do not expect this to in anyway delay production of Model Y. But it's currently a very close call between Nevada and California as to whether we do the Model Y at Giga or at Fremont, but those are the two options. And we'll hope we got to make a decision in the next few weeks.

**A - Martin Viecha** {BIO 17153377 <GO>}

Thank you very much. Sherry, we can go to analyst questions in the question queue.

## Operator

Thank you. Our first question comes from Ryan Brinkman with J.P. Morgan.

**Q - Ryan Brinkman** {BIO 16417954 <GO>}

Hi. Thanks for taking my question. Your guidance for 90,000 to 100,000 2Q deliveries when combined with the full-year outlook. It suggests somewhere between 35% and 45% sequential growth from the first half to the second. Can you talk about what is giving you the confidence to project that growth? And in particular, what the order book or reservation list may be telling you?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. The -- we do see strong demand for vehicles, the -- both S, X and 3. The standard range plus Model 3 with autopilot included at \$39,500 is just an incredibly compelling vehicle and affordable to probably something on the order like the top 40% income earners in the US and Europe. So, it's -- I think we'll see a lot of interest and demand in that. We are. And then with the upgraded S and X, I think a lot of people were kind of anticipating that there would be an S, X upgrade and this really is kind of a game changer of an upgrade. So I think we are seeing an uptick in demand and we expect to see that be quite significant. So -- and we're also out of the seasonality of Q1 with few people just generally don't like buying cars in winter and we're getting past the overhang of the tax credit cliff, which for us ended in the US on December 31. So these are all very positive factors.

We also have just a lot of markets where there is a -- where we haven't yet tapped into demand, especially for Model 3. So we will be releasing the right-hand drive Model 3 and expect to see significant demand in right-hand drive countries. Overall, I feel really good about where things are headed.

**Q - Ryan Brinkman** {BIO 16417954 <GO>}

Okay, thanks. And then my follow-up. I'm sorry. This concern on previous call you indicated that the Y would not be built in Fremont because it was -- I think you said, packed to the gills. I heard today that it is now a close call between California and Nevada. Is anticipated demand for Fremont built vehicles less than was previously thought or have you managed to maybe find more capacity in Fremont, for example, with the tent or some other production method?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Well, first of all, obviously, on account of tents, like I mean, real like hardcore tents, so I am not like Cub Scout tents, which are fine. But this is actually -- credit goes to a number of Tesla team because they actually looked at how could we do this in Fremont if we had to. And we feel like we can actually append building space to the -- basically to the west side of the building and use a lot of internal space that's currently used for warehousing in the Fremont factory. And so, we believe it actually can be done with minimal disruption to add Model Y to Fremont.

**Q - Ryan Brinkman** {BIO 16417954 <GO>}

Thank you.

**Operator**

Thank you. Our next question comes from Pierre Ferragu with New Street Research.

**Q - Pierre Ferragu** {BIO 15753665 <GO>}

Hey, thanks for the call. My first question is really on the Model S and Model X. And Elon, you said, you're comfortable with them. You see -- based on what you saw in April, do you think that the 25,000 units per quarter is the level of demand that is where you see the market coming back already or are we not there yet? And more specifically, in the US, the pull forward in Q4 probably hurt a lot of demand for S and X. Is it that something that we still see in the numbers today in recent weeks or is that behind us? And I'll have a follow-up on Q2.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. I mean, I think something like the -- returning to the 100,000 a year annualized demand for S and X is what we anticipate. That's to the best to my knowledge. We don't have a crystal ball, but that's probably our best guess. And sorry, what was the other point?

**Q - Pierre Ferragu** {BIO 15753665 <GO>}

Yeah. My question was about like the run rate of demand you see at the moment, do you still feel like weak demand in the US because of the pull forward in Q4, or do you think demand returned to normal already?

**A - Elon R. Musk** {BIO 1954518 <GO>}

I think we expect demand to -- we are seeing demand returning to normal in Q2. And it might be a little better than normal. It's -- I don't have a crystal ball, it's hard

for me to say, but my impression right now is that demand is quite solid, quite strong, yeah.

**Q - Pierre Ferragu** {BIO 15753665 <GO>}

Okay. And then my second question was briefly on the...

**A - Elon R. Musk** {BIO 1954518 <GO>}

Sorry, Zach, would like to...

**A - Zachary Kirkhorn** {BIO 20940148 <GO>}

Yeah. Well, just one thing I wanted to add to that, just on the production side of S and X. We did reduce production in Q1 as was noted. That was part of the retooling that we put in place to get the longer range vehicle out with the improved suspension, and we are in the process of increasing production backup over the course of Q2. So, just for the pervasive expectations, we will exit Q2 at a higher production rate than we did in Q1 on S and X and then return back to a more normal volume in Q3. It's already increasing.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. Okay. That's right. (Multiple speakers) Part of the S, X. Yeah. S, X, yeah. Or by an S, X. Yeah.

**Q - Pierre Ferragu** {BIO 15753665 <GO>}

And my follow-up was really on Q2 like with 90,000 to 100,000 units you are getting back to fairly nice volumes and I am surprised you don't -- you just still expect a loss. So maybe if you could take us through where we will see in Q2 pain points compared to Q4 and Q3 where you had a profit for similar volumes? How much of the loss in 2Q will be one-off cost, how much is the price points coming down in the mix and how much is related to pricing and other things?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Sure. So quite a bit -- we think if we didn't unwind or pulled the wave where we -- yeah, we made cars in the first half of the quarter almost exclusively for Asia and Europe and in the second half almost exclusively for North America. And then actually even that is subdivided depending upon whether it's West Coast or East Coast, then we could deliver more cars. But we think it is important to unwind this wave, because it ends up being sort of optimizing for one quarter, but really adding a lot of cost and difficulty and not just -- not being a good expense for customers and pretty aggressive Tesla team. So, if we have to fully optimize for profitability in Q2, I think we can do it, but then we would be unable to unwind this crazy wave of deliveries, and it also helps our working capital within the quarter to not have the wave.

And then, Zach, do you want to talk about some of the other items?

**A - Zachary Kirkhorn** {BIO 20940148 <GO>}

Yeah. No, I think you summarized it well, Elon. Two other things that I would add. One is that, we did make pricing adjustments to our products in Q1, which puts pressure on margin. And so, that's part of what we will see in Q2. The teams are working extremely hard and making terrific progress on improving the cost efficiency of the business without sacrificing growth, and that in combination with the efficiencies from unwinding the wave is where we feel we will be comfortable returning to a place of profitability in Q3 once all of those pieces are in place.

**Q - Pierre Ferragu** {BIO 15753665 <GO>}

Thank you.

**A - Martin Viecha** {BIO 17153377 <GO>}

Thank you very much. Let's go to the next question.

**Operator**

Our next question is from Adam Jonas with Morgan Stanley.

**Q - Adam Jonas** {BIO 3339456 <GO>}

Thanks. First question, Elon, a couple of days ago, I asked you how safe is the autopilot technology and you said something like twice as safe as normal driving. But you seem to be in a really unique position to really collect exabytes of data, you could potentially be externally validated much more rigorously provided to a regulatory body or insurance institute to just show how much safer autopilot is. When could we expect to see Tesla do that, that type of validation that investors could also get a sense of? It seems really, really important for adoption. Thanks. And I have a follow-up.

**A - Elon R. Musk** {BIO 1954518 <GO>}

I think we are just going to continue to report the absolute numbers. But I think reporting the detail just gives those who are opposed to Tesla, they sort of like data mine the situation and then try to turn it positive into negative. So we are just going to keep reporting what we report. We do give some more detailed information to insurance companies and to help with rates. And, obviously, as we launch our own insurance product next month, we will certainly incorporate that information into the insurance rates. So, we essentially have a substantial price and sort of arbitrage -- or information arbitrage opportunity where we have direct knowledge of the risk profile of customers and based on the car and then if they want to buy a Tesla insurance, they would have to agree to not drive the car in a crazy way. Or they can, but then their insurance rates are higher. So, we are just going to keep reporting the numbers at a broad brush stroke level, which I think is really what matters. Autopilot...

**Q - Adam Jonas** {BIO 3339456 <GO>}

Okay. I understand it.

**A - Elon R. Musk** {BIO 1954518 <GO>}

That's the safety. Yeah.

**Q - Adam Jonas** {BIO 3339456 <GO>}

Okay. And just as a follow-up, Elon, and you kind of alluded a little bit, there is just so much drama around Tesla's share price and quarterly results. From the outside, at least, it just looks like a huge distraction. And at the same time, there is so much alternative capital and large amounts of strategic capital that is incrementally deployed in domains where Tesla has real leadership. So, how important is it for Tesla to be a publicly traded company, Elon?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Well, mate, I don't want to surprise you, but I would prefer we were private, but unfortunately, I think that ship has sailed, so...

**Q - Adam Jonas** {BIO 3339456 <GO>}

But is it important? I mean, do you think the Company's value is maximized being public? Is there just only so much you can do and you just got to play the hand you're dealt?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Well, I mean, being public, does feel like the sort of price of the stock is being set in kind of a manic-depressive way. And I think Warren Buffett's analogy is just like perhaps being a publicly traded company is like having someone stand at the edge of your home and just randomly yell different prices for your house every day. It's still the same house.

**Q - Adam Jonas** {BIO 3339456 <GO>}

Yeah.

**A - Elon R. Musk** {BIO 1954518 <GO>}

So, it's a bit of a distraction at times, but I'm not sure what to do about it.

**Q - Adam Jonas** {BIO 3339456 <GO>}

Okay. Understand. Thanks.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Thank you.

**Operator**

Thank you. Our next question comes from Maynard Um with Macquarie.

**Q - Maynard Um** {BIO 1972683 <GO>}

Hi, thanks. In your update letter, you talked about supplier limitations impacting production. Can you just talk about what that was and how long you think that might continue to impact you? And then I have a follow-up.

**A - Elon R. Musk** {BIO 1954518 <GO>}

In Q2, we don't -- we think we have two supplier interruptions, at least there aren't any significant ones that we're aware of.

**Q - Maynard Um** {BIO 1972683 <GO>}

Okay. And, I guess, there was some concern out there that Model 3 was cannibalizing S and X, despite them being all different vehicle classes, and it doesn't sound like you're saying that at all, but I was just wondering if you had any evidence that proves, or disproves this? Any thoughts there would be helpful. Thanks

**A - Elon R. Musk** {BIO 1954518 <GO>}

No, they really do seem to be different market segments. Yeah.

**A - Zachary Kirkhorn** {BIO 20940148 <GO>}

And also, not only 3.5% of our trade-ins for Model 3 are coming from Model S. So, it's from all the Model 3 trade-ins, Model S accounts for a super, super tiny portion.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah, for sure. We feel that Model S just want to trade it in for another Model S or maybe an X.

**A - Martin Viecha** {BIO 17153377 <GO>}

Okay. Let's go to the next question, please.

**Operator**

Thank you. Our next question comes from Dan Galves with Wolfe Research.

**Q - Daniel V. Galves** {BIO 16540648 <GO>}

Hey, thanks everybody. A couple of questions. One, you mentioned a \$50,000 ASP for North America Model 3s. Can you give us a little bit more detail on kind of is that a number like since the February 28 price adjustments? Is that what you're kind of seeing as order flow? I'm sorry, ASP is in kind of the current order flow since those price adjustments?

**A - Zachary Kirkhorn** {BIO 20940148 <GO>}

Yeah, this is Zach. I mean, what we saw on February 28 when we launched the standard range, the standard range plus variances is that, there is pent-up demand

for those products that released very quickly after it was announced. And then, as more time has passed and order rates have stabilized, it's starting -- the average ASP has actually been increasing each week ever since as the order rates stabilizes. And just under \$50,000 ASP represents the most recent one, and we think it's starting to stabilize there. And we'll see where things trend in EMEA and China as well, but what we're seeing in North America is that, over 50% of our orders of the long-range variance in ASPs are far good enough.

**Q - Daniel V. Galves** {BIO 16540648 <GO>}

That's really helpful. And the follow-up is, I know order questions have been asked before, but let me put it this way. So, the -- I imagine that S and X orders need to have a couple of days to pick up after the upgrades. But on Model 3, whatever your assumption is within the 90,000 to 100,000 Q2 deliveries, whatever that assumption is for Model 3, does your current order flow support that, or do you need something kind of positive to happen over the course of the quarter to get there?

**A - Elon R. Musk** {BIO 1954518 <GO>}

I think we'll be fine. Yeah. I don't think there is any major thing required.

**Q - Daniel V. Galves** {BIO 16540648 <GO>}

Okay. Thanks a lot guys.

**Operator**

Thank you. Our next question comes from Toni Sacconaghi with Bernstein.

**Q - Toni Sacconaghi** {BIO 3056875 <GO>}

Yes, thank you. Elon, I was wondering if you could talk about this whole notion of raising capital for about the last year, you sort of shooed it as almost an evil thing, and I think a lot of investors believe that the Company might be better served and its growth aspirations if it did raise capital or had a stronger cash base. And given that you used up about \$2 billion worth of cash in the quarter, aren't you potentially trying to go through a very thin space while trying to grow quickly and be self-funding, which, quite frankly, may be unrealistic. So, why not raise capital? And why do you view that as something that Tesla shouldn't do, or wouldn't do? And I have a follow-up, please.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. I mean, I don't think raising capital should be substitute for making the Company operate more effectively. So that -- in that sense, I think it's just -- it's important to have strong financial discipline of the Company and just to make sure we don't have extraneous expenses and that we're just being frugal with capital. If we keep raising capital every time, then it just take -- if we now have the forcing function for improving the fundamental operation of the business. So, I think it is healthy to be on a Spartan diet for a while. At this point, I do think there are -- it is

similar to raising capital. That's a -- but this is sort of probably about the right timing, but yeah.

**Q - Toni Sacconaghi** {BIO 3056875 <GO>}

So, does that mean that investors should expect the capital raise in the near- to medium-term? And I hear you on the force and constraint, but I mean, growth does eat cash, especially in a capital-intensive business, and if you really do believe you have a first mover advantage, why wouldn't you want to push it as quickly as possible even if it meant raising capital in the short- term?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. First of all, I'll just say that I don't think that capital has been constraint on our growth thus far. And if I thought there was a final constraint on growth, we would have raised capital before now. But I think it is very important as the Company scales to make sure we are on a solid foundation and that we're -- we have the appropriate financial discipline throughout the Company and are spending money very efficiently. At this point, I think we are doing that, but there is more work to do. And Tesla today is far more efficiently operating organization than it was a year ago. We've made dramatic improvements across the board. And so, I think there is merit to the idea of raising capital at this point.

**A - Zachary Kirkhorn** {BIO 20940148 <GO>}

Just to add to that, the journey we've been on for the last 12 months to 18 months on being more efficient and how we spend money has really changed the culture inside the Company. It enabled us to accelerate a number of cost reductions on the COGS side of our products and then make improvements in operating expenses as well. And then as we look forward to capital investments for Giga Shanghai and Model Y and ultimately our European facility, our CapEx per unit of capacity has come down significantly through the work of the team here. So, I think it has been a very productive journey for us.

**A - Elon R. Musk** {BIO 1954518 <GO>}

And technically, we did raise some big capital in China for the Shanghai Giga on the order of \$500 million. So, that -- we want to make sure that we don't have to grow upon global capitals fund under the Shanghai factory.

**A - Martin Viecha** {BIO 17153377 <GO>}

Thank you. So let's go to the next question, please.

**Operator**

Thank you. Our next question comes from Alex Potter with Piper Jaffray.

**Q - Alexander Potter** {BIO 16150582 <GO>}

Hi, guys. I was wondering when you say, obviously, the logistical challenges were a headwind in the quarter. When you talk about trying to regionally balance your



deliveries going forward. Is that basically saying that people in Europe and China are just going to need to wait longer to take their deliveries and you're going to try to emphasize more North America in order to, I guess, boost your working capital and your profitability in every quarter going forward?

**A - Elon R. Musk** {BIO 1954518 <GO>}

No, they would actually receive their cars sooner. It just means that instead of building cars in batches, where, say, the first half of the quarter is just dedicated to China, Europe cars, and the second half is dedicated to North American cars that we blend vehicle production for customers throughout the world, throughout the quarter and this put so much strain. We don't want a situation again like we had in Q1, where essentially all the cars were arriving at customers worldwide at the same time. We literally delivered half of the entire quarter's deliveries were in the final 10 days of Q1. That's insane. So, I think we need to unwind that. I suppose it's not a great customer experience because we're shorthanded and then we have to redeploy like people from -- like that are working in sales, HR, legal, engineering, everyone just to deliver cars. And then we -- then they can't do their regular jobs. So, it just makes sense to just plan the production according to demand throughout the quarter.

**Q - Alexander Potter** {BIO 16150582 <GO>}

Okay. That makes sense. Then the second question, I guess, on go-to-market, there were some period of time there where the Company was focused on closing storefronts. A fair amount of noise made around that. And then it looks like some of the commentary was hedging that strategy. I was just wondering if there is any update there. If you have on that, that would be helpful. Thanks.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Sure. I think Tesla just sort of -- specifically, I didn't handle messaging of that well. The -- I mean, that's amplified by statement -- we're making statement as sort of taking to an extreme where there was a misunderstanding. We certainly will continue to have stores, and we will continue to add stores provided they are in locations where there is high foot traffic and that are in our target market. So, we actually will continue to add stores in locations that are no-brainers. We will close stores in locations where they are incredibly hard to find and the foot traffic of potential buyers is very low, such that it does not support the cost of the store and the people in it. So, I think it's just common sense.

And then all sales online just means that, even if you go into a store, you -- we would guide you to order the car on your phone. So, the store is essentially like -- they are like information centers, a place you can get a test drive and buy some Tesla merchandise, that kind of thing. But all sales online, doesn't mean all stores are closed. It just means that when you buy a car, you always do it on your phone in the store or at home or anywhere. You also -- orders online doesn't meant all stores are closing. This is -- that's not what it's meant.

**Q - Alexander Potter** {BIO 16150582 <GO>}

Okay. Very good. Thanks.

## Operator

Thank you. Our next question comes from Philippe Houchois with Jefferies.

### Q - Philippe Houchois {BIO 6464462 <GO>}

Yes, thank you for taking the questions. I'm just wondering if you can comment on the agreement you seem to have reached with FCA on the possibility of selling your CO2 credits to them in Europe and what that means to your potential cash inflow. When that might start occurring? And if there is, by any chance, any of those things already in the Q1 cash position?

### A - Elon R. Musk {BIO 1954518 <GO>}

I think it's a confidential deal with FCA, so we -- and we agreed with FCA not to comment on it publicly, so we must abide by that.

### Q - Philippe Houchois {BIO 6464462 <GO>}

All right. And can I ask you a question of coming back to what Adam was saying about the drama that surrounds your stock, unfortunately. Why don't you reduce some of it by disclosing on a monthly basis your deliveries and also maybe disclosing early your greenhouse revenue instead of just reserves, so we get right away a better view on some of these details that kind of move the stock?

### A - Elon R. Musk {BIO 1954518 <GO>}

I think that would actually be counterproductive because people read too much into what occurred in a month. I mean, even at a quarterly basis, things can be lumpy. And so, the more granularity that's provided, say, at a monthly level, the few would reach all sorts of conclusions that don't make sense. It's like literally like sales to a particular country, say, overseas are affected by when the ship arrives. And so, if the ship arrives on the 31st of the month or the first of the next month, this will make it look like something dramatic has happened. But actually, the ship was just a day late. So, people read -- that would increase the drama, not decrease it.

### A - Zachary Kirkhorn {BIO 20940148 <GO>}

And we're filling the ship 100%...

### A - Elon R. Musk {BIO 1954518 <GO>}

Filling the ship 100%. So it's like -- it just ends up being lumpy. Yeah. So, like if you managed -- if you've calculated like GDP of a country to offset the US, GDP on Sunday is extremely low, but GDP on Monday is extremely high. It does not mean nothing has really changed.

### A - Martin Viecha {BIO 17153377 <GO>}

Thank you. Let's go to the next question.

## Operator

Thank you. Our next question comes from David Tamberrino with Goldman Sachs.

### Q - David Tamberrino {BIO 18631663 <GO>}

Great. Thanks for taking our questions. First one, on customer deposits, it looks like it's essentially flat to maybe slightly down. I understand it's probably some timing with deliveries that could have helped it towards the end of the quarter. But we would have thought it would have increased given the Model Y in there. So, our question is what was the initial order intake for the Model Y? And just coming through some of your comment earlier, what daily order rate are you seeing right now for the rest of your products?

### A - Elon R. Musk {BIO 1954518 <GO>}

I think we don't want to comment on the granularity of deposits. Again, people read too much into this. We're not playing up the Model Y because we're not -- it's not in production. So you can't really read anything into Model Y orders at this point.

### Q - David Tamberrino {BIO 18631663 <GO>}

Okay. Well, then my second question would just be, if you anticipate a further price adjustment with the next level US credit phasing out July 1?

### A - Elon R. Musk {BIO 1954518 <GO>}

We don't comment on future price changes unless you see it publicly.

### A - Martin Viecha {BIO 17153377 <GO>}

Okay. Let's go to the next question, please.

## Operator

Thank you. Our next question comes from Colin Rusch with Oppenheimer.

### Q - Colin Rusch {BIO 15823117 <GO>}

Thanks so much. Yeah. Could you comment on whether you'll be better constrained at 100,000 vehicles a quarter in 2Q?

### A - Elon R. Musk {BIO 1954518 <GO>}

Self-constrained you mean? We don't anticipate being self-constrained at 400,000.

### Q - Colin Rusch {BIO 15823117 <GO>}

Okay. And then as you look at the Maxwell Technology integration, post close, how quickly do you think you'll be able to integrate that technology into the battery production? And could you comment on potential for chemistry and form factor changes as that gets integrated?

**A - Elon R. Musk** {BIO 1954518 <GO>}

I mean, you're really asking some super secret sauce questions here. Yeah. I think, we'll have -- I think we'll probably have an Investor Day like we have an Autonomy Day maybe later this year or early next just to go over the cell and battery technology and future strategy. And I think that will be very informative, but we do recognize the criticality of this.

**Q - Colin Rusch** {BIO 15823117 <GO>}

Okay. Thanks so much, guys.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Thanks.

**Operator**

Thank you. Our next question comes from Joseph Spak with RBC Capital Markets.

**Q - Joseph Spak** {BIO 17457170 <GO>}

Thanks. First question is really just a clarification on -- in the outlook of 25% non-GAAP gross margin that you're targeting. Is that over the mid-term or is that something you expect to hit by the end of this year? And if so, what gets S and X back higher given the price cuts?

**A - Zachary Kirkhorn** {BIO 20940148 <GO>}

Yeah. This is Zach here. That's what we're targeting for the end of the year, although internally, we are working towards S and X non-GAAP gross margin achieving that sooner. The biggest lever there is actually two components. One is, as we increase volume back on our S and X production line, there is just a natural benefit there from the fixed cost absorption which will help us. But we also have a number of cost reduction projects in place that we're executing on over the course of the year.

And then the third piece which applies to S and X, but also Model 3, we're seeing an increased take rate on our full self-driving offering. And there are revenue deferrals associated with that given that the full suite of functionality is not there. And as that option becomes -- approaches feature complete, then we roll out more, and we will be able to have more revenue on that. And so, all of these things together within our internal plans gives us confidence.

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. I should mention that the upgraded powertrain for S and X was actually launched in a significant cost down because we essentially took the high volume rear-drive units of the Model 3, which is extremely efficient but (inaudible) magnet motor and power electronics and we made a version for that -- of that for the front-drive unit of the -- of S and X. And so, we're actually able to get a cost reduction while improving range and performance of the car. That's just one example.

**Q - Joseph Spak** {BIO 17457170 <GO>}

Okay. And the second question is just looking at the 10-K, you've noticed \$4.9 billion purchase obligation, which I think is primarily related to Panasonic Giga 1. And then Elon, in some of your communication, you've indicated production constraints. So, I guess, the question is, does that \$4.9 billion correlate to reaching that 35 gigawatt hour rate? And if you can't hit that because of production constraints, does that adjust?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Go ahead.

**A - Vaibhav Taneja** {BIO 20985733 <GO>}

Yeah. So, this is Vaibhav. So, the purchase obligation in the 10-K is basically for the entire contract, which we have for Panasonic. It's not something that we need to hit. I mean, make the purchases tomorrow. So this is going to take a couple of years.

**Q - Joseph Spak** {BIO 17457170 <GO>}

Okay.

**Operator**

Thank you. Our next question comes from Colin Langan with UBS.

**Q - Colin Langan** {BIO 15908877 <GO>}

Oh, great. Thanks for taking my question. I mean, it sounds like from the tone of the call that you don't see that there is a demand issue for some of the products. But margins seem to be under pressure and typically automakers stop pricing when there is a demand issue. So, what is the logic of the price cuts during the quarter?

**A - Elon R. Musk** {BIO 1954518 <GO>}

I mean, our goal, as we've been very clear about from the beginning of the Company is to make our cars as affordable as possible. And we thought it was important to offer the \$35,000 Model 3 and then to create a sort of bundled package for the Model 3 with the increased range because we think actually that difference between 220 and 240 is quite important, the more people realize in range and having posher premium interior and then bundling autopilot. So, we thought this -- like we weren't -- like a product that's really just nails the sweet spot, which I think the \$39,500 Model 3 is just really nail the sweet spot and we're seeing consumer response accordingly.

You can still buy the \$35,000 Version of the Model 3 that, of course, didn't have autopilot and has a software range restriction, that kind of thing. It's like slightly more inconvenient to buy, you just have to make a phone call or visit a store. So, it's just not like you have to complete the obstacle course or something. But we see very few people actually take us up on that \$35,000 offer, but it is there and will remain there.

**Q - Colin Langan** {BIO 15908877 <GO>}

As a follow-up, you're still targeting the China facility ramp by the end of the year. Are you still confident in the 3,000 per week? And do you have a battery supplier yet that's getting pretty close to the point?

**A - Elon R. Musk** {BIO 1954518 <GO>}

Yeah. The Shanghai Gigafactory progress is going incredibly well. A testament to the outstanding execution of our team on the ground there. I get daily e-mails with dozen pictures from one day to the next from Tom Zhu, who leads the Gigafactory program. And so, we're obviously discussing it or getting updates seven days a week. So, I mean, I'm in that Gigafactory e-mail.

So, in terms of execution, it's outstanding, but of course, the production goes as fast as the slowest item. That's very important to bear in mind. So, we have 99% of things in good shape, but 1% is missing you still can make a car. So, with respect to -- that said, it looks like we'll reach volume production at the end of this year with, let's say, more than 1,000 cars a week, maybe 2,000 from Shanghai Giga at the end of this year. That's what it looks like to be the case right now. If it's not at the end, it will be shortly thereafter. And then, we expect to have multiple sales flyers for Shanghai Giga.

**A - Martin Viecha** {BIO 17153377 <GO>}

Great. Thank you very much, everyone. Unfortunately, this is all the time we have for our Q&A today. Appreciate all of your questions, and we look forward to talking to you in the next quarter.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may all disconnect, and have a wonderful day.

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