

## Q3 2014 Earnings Call

### Company Participants

- Deepak Ahuja
- Elon R. Musk
- Jeffrey B. Straubel
- Jeffrey K. Evanson
- Jerome Guillen

### Other Participants

- Adam Jonas, Morgan Stanley & Co. LLC
- Andrea Susan James, Dougherty & Co. LLC
- Andrew L. Fung, CLSA Americas LLC
- Ben J. Kallo, Robert W. Baird & Co., Inc. (Broker)
- Brian Arthur Johnson, Barclays Capital, Inc.
- Carter William Driscoll, MLV & Co. LLC
- Colin Michael Langan, UBS Securities LLC
- Colin W. Rusch, Northland Securities, Inc.
- Daniel V. Galves, Credit Suisse Securities (USA) LLC (Broker)
- George A. Galliers, International Strategy & Investment (UK) Ltd.
- James Albertine, Stifel Nicolaus
- John D. Lovallo, Bank of America Merrill Lynch
- Patrick K. Archambault, Goldman Sachs & Co.
- Rod A. Lache, Deutsche Bank Securities, Inc.
- Ryan J. Brinkman, J.P. Morgan Securities LLC

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day, ladies and gentlemen, and welcome to the Tesla Motors Third Quarter 2014 Financial Results Call. At this time, all participants are in a listen-only mode. .

I would now like to turn the call over to your host, Mr. Jeff Evanson. Please go ahead.

### Jeffrey K. Evanson {BIO 1535168 <GO>}

Thanks, Patrick, and welcome everybody to Tesla's third quarter financial results Q&A webcast. I'm joined today by Elon Musk, Tesla's Chairman and CEO; JB Straubel, our

CTO; and Deepak Ahuja, Tesla's CFO.

We announced our third quarter results today in our quarterly Shareholder Letter, which is available at the same link as this webcast and a replay of the webcast will be available later today at the same link.

Please note certain financial measures used on this call, such as revenue and income, are expressed on a non-GAAP basis and have been adjusted to exclude non-cash stock based compensation and interest expense and lease accounting for cars sold with a resale value guarantee. The GAAP results and reconciliations to non-GAAP measures can be found in that Shareholder Letter.

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

So, with that Patrick, we'd like to turn it over to Q&A please?

## Q&A

### Operator

The first question comes from John Murphy with Bank of America Merrill Lynch. Your line is open. Mr. Murphy, your line is open, please check your mute button.

**A - Jeffrey K. Evanson** {BIO 1535168 <GO>}

John, are you there?

### Operator

John Murphy, Bank of America. Your line is open. Please check your mute button.

**A - Jeffrey K. Evanson** {BIO 1535168 <GO>}

John, why don't you hop back in the queue, we'll get back to you. And, Patrick, let's take the next call.

### Operator

Thank you. Our next question comes from Dan Galves with Credit Suisse. Your line is open.

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

Hey, good afternoon, thanks. Just, I'm wondering if you can give us any additional color on how you've gotten confident in 50,000 Model S deliveries in 2015.

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

Actually, I don't think 50,000 is going to be super hard, because if you look at sort of how we're exiting the year in production and demand, it's - I mean, I think, 50,000 is a - seems like a pretty solid number. We don't want to sort of overreach, but I think 50,000 is pretty achievable number. It's not this - that's more just a modest extrapolation of where it will be at the end of this quarter, . (3:13).

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

Okay. Can you give us any kind of hard numbers on what you've seen in terms of order flow either geographically or just it sounds like since the product announcements, there's been an uptick. Is there any kind of numbers that you can provide on that in terms of percentage increase quarter-over-quarter or something like that?

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

Well, I mean, I think what we've seen is I mean it's difficult to extrapolate too much based on the announcement of the Dual Motor and Autopilot, because there's some amount of people that were waiting for an all-wheel drive car, and that kind of thing. So, that's why we're being sort of conservative. If you sort of just extrapolated the demand since the announcement, it would be like 70,000 cars a year, but that's not the - in terms of - that's in terms of demand, but I think that would probably be unwise to state that as a steady state prediction, so we were like more conservative around 50,000, and - but it's 50,000 with high confidence, and it's - I mean, it's just over half of those in North America, so - and Europe and Asia are the remaining half.

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

Okay. Great. And just a follow-up, the leasing program with your partners, is it too early to get any sense of kind of how that's being received by the consumers and/or any estimates on kind of how much you see a leasing program like that increasing the addressable market for the car?

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

Well, I mean, I really tried to make the point in this shareholder letter that it's not a question of demand, that letters are for those articles and reports out there questioning demand. Now in the last quarter call, I really tried to emphasize it is not a question of demand. So, because that sort of 70,000 order number, that's net orders, net of cancellations, that's with no advertising, no endorsements, so we don't pay anyone to pretend that they like our product. If you see our car in a movie, it's - we didn't pay for it to be there, it's just there. And we have a fairly small number of stores. In lot of places, we don't even have service centers.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

And our dual motor cars are not there in any of the stores, so there's no dual motor cards for test drives.

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

Right, there's no dual motor cars for test drives.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Yeah.

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

So obviously there's a whole bunch of things that we could do to stimulate demand if that were our problem. It is not our problem, but people don't quite appreciate how hard it is to manufacture something. It is really hard, okay. I've great respect for people who manufacture large numbers of complex objects because there's like several thousand unique parts in a car and Model S is quite a complicated car, and you got to need all of them that whole supply chain and the whole internal production process marching at the same cadence in order to produce those cars.

And we're growing our production by like 50% a year - year-over-year is part of future as we can reasonably project. That's quite a big percentage growth for manufacturing a large complex object. We'd like to grow faster, of course, but it's also worth bearing in mind, we have got one factory, so as we - in some cases, when we upgrade the factory it's like trying to changing the wheels on the bus, while it's going down the freeway, okay. It's challenging. And so that there are things where like we need to ideally do better which is like manufacturing growth, and maybe not being too perfectionist about future products and things like that.

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

Okay. That's very clear. Thank you.

## Operator

Our next question comes from John Murphy with Bank of America Merrill Lynch. Your line is open.

**Q - John D. Lovallo** {BIO 16511598 <GO>}

Hey, guys.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Is it fine in the ether there, John?

**Q - John D. Lovallo** {BIO 16511598 <GO>}

It's John Lovallo, guys, I apologize for the screw up over here.

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

Go ahead.

**Q - John D. Lovallo** {BIO 16511598 <GO>}

Okay. First question, and I missed Dan's question, so I apologize, if any of this is repetitive, but the first question is you guys have done a very good job open sourcing your patents and kind of showing all your cards to your competitors. With that in mind I guess the question is I mean would you consider providing more information to the analysts and investor community in the form of monthly sales data for one, maybe showing the backlog again for two and also maybe reinstating, you know, there was a regional mix that you guys used to give us on a quarterly basis?

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

No, sorry. The last question was sort of demand-related question as well. And I mean, it really took pains to emphasize demand is not our issue. Production is our issue and being too perfectionist about future products, those are legitimate things we're concerned about, but not demand. We have more demand than we can really address. And there's lot of things, levers we could pull to increase that demand, which we're not pulling. So, it's really not an issue, but part of the reason why we don't release the monthly deliveries number is just because like it varies quite a lot by region and then the media tends to read all sorts of nonsense into deliveries, and so like we'll have like a thousand cars reach a country one month and none the next month, and then people order like 100 the next month trickle in or something, because those were the numbers that were registered in one month versus the next, and people say oh, wow, Tesla's sales dropped by a factor 10. It's like the boat arrived in January, okay, and there was - and not all the cars got registered in January and some got registered in February and then in March it's back up again and so that people read in all these things which are they assumed deliveries are proxy for demand which is not the case.

It is the case for other car companies. But in our case, it really needs to parse into orders and deliveries. And then bear in mind, there are lots of things we can do to amplify orders. So, it's not - orders is not a true measure of demand. It is just a measure of - that's the amount of stuff we need to do to meet our production and delivery number.

So, then so if we released orders, people will try to read the tea leaves and say, oh, demand for Tesla is growing or dropping. It's like no, we're just not pulling the levers that we could pull because there is no point in trying to amply demand substantially beyond our ability to produce it and deliver it, that would just make people upset.

**Q - John D. Lovallo** {BIO 16511598 <GO>}

Okay. The next question is you guys have been able to negotiate around using kind of the dealer network and state franchise laws in the U.S. and I think your point is well taken, non-Tesla sales people might not be qualified to properly promote the brand and so forth. So, the question is, with that in mind how do you get comfortable

with selling vehicles to resellers in China that presumably don't have your best interest in mind while promoting the brand?

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

We're not really selling to resellers anywhere in the world. So, it may be possible that someone is claiming that they're a reseller of Tesla, those are false claims.

**Q - John D. Lovallo** {BIO 16511598 <GO>}

Okay. Yeah. I'm just saying because when I looked on Key Mall, for instance, the first two lines of cars or first two rows of cars were actually all resellers or listed as resellers at least.

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

Okay. Well, thanks for telling us that. We will make sure that that is removed.

**Q - John D. Lovallo** {BIO 16511598 <GO>}

Okay. Thanks, guys.

**Operator**

Our next question comes from Rod Lache with Deutsche Bank. Your line is open.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

A couple things. One, can you just first quantify the impact of the yen and euro for us going forward? The last time, I think, you discussed that you were not really hedging the yen exposure for cell purchases for example.

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

Yeah.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Yeah. I think maybe there are two aspects to the answer here. On the euro side, we are net long given our deliveries in Europe. And as the euro weakens, the effect on our revenue is immediate, as soon as we deliver cars, we have that impact. On the yen side, clearly, as the yen weakens, it helps us on the cell cost, but there is a fairly long lead time on cell procurement. And so, the benefit of yen weakness has a lag effect for us. It comes further down as we start to procure cells at that lower yen and then that goes into vehicles a few months later.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

Okay. So, there is no hedging at this point on either of those exposures.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

That is correct.

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

Correct. There is no - there's effectively product hedging in the sense that...

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Right.

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

We're delivering cars in Europe, North America, and Asia, and we obviously just started delivering cars to Japan. So, that does provide a natural hedge, I mean, most efficient hedge really for currency. But, there are occasionally adjustments we need to make in the purchase price and at some point in the near future, we're probably going to have to adjust the price of our car in euros upwards because of the - there's been a 7% change in the exchange rates of the euro versus the dollar. So, so we will periodically have to make pricing adjustments if the exchange rate band gets too wide. So I just want to encourage anyone in Europe to purchase their car soon because we probably will have to make an adjustment there.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

Okay. And can you also please maybe just quantify or put some bookends around the, what you expect to be able to deliver on Model X in 2015, just given the later launch? And I also had a question on battery costs. There are some new manufacturing processes for cathode material, for example, being developed by Umicore and Toda and a few others that they claim is that you're going to see some pretty significant declines in some of the core components of lithium cells. Is that something that's been factored into your expectations of a 30% cost reduction for these batteries over time?

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

Sure. So, with the X production, it's difficult for us to give a - I mean, I'd have to give something with very, very big bounding numbers for X production next year because it really depends on how well that production ramp goes. And if we encounter any issues that require correction then we absolutely want to slow that production ramp down. If things go really well, we'll ramp it up.

I mean we do have the advantage with the X that we have the dual-motor powertrain and the chassis, so the bottom end of the car is kind of sorted out with Model S. So that takes that part of the risk out of it, but with the Falcon Wing door and the second row seats and sort of a few other things we're adding some very new stuff to - that's really not out there that never really has existed in a way that was useful, and so it's hard to say whether that - what those numbers will be except I am confident that the demand for the X will be very high once we are in production and again we'll be production limited. So it is really a phenomenal car and I think it really addresses a different market segment that some people want an SUV and some people want a sedan, and they are about 50/50 in the market. So that's why we feel confident in

predicting a 50% growth in orders and deliveries that - fairly comfortable next year and then at least a 50% growth in 2016 again and in subsequent years too, so it's...

**Q - Rod A. Lache** {BIO 1528384 <GO>}

The 50% was just Model S though, is that right?

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

That's correct. Yeah. So it would be number of - yeah, fair enough, it will be some number greater than 50% if you include X and I'm just reluctant to - I mean, I can't communicate a greater level of certainty than I actually know. So that's why I'm reluctant to give a number, it's not because I secretly know it and I'm not telling you.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

Okay.

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

And then with respect to the cathode materials, I think there's a lot of technology improvements that we'll be able to apply to the battery pack and the cathode, anode, separator, electrolyte, can production of our works. And some of these improvements are independent of the others. But whatever we have has to work - whatever we build out for the Gigafactory has to work at least at the lab level, let's say, this year because we're making monster investments in equipment, and if there is a certain amount of time, a year or two years at least, from working at the lab level to working in small scale production. And, then, at least a year or two years after that before you can go from small production to mass production.

And this is why we're not worried about like being blindsided by some technology with the Gigafactory. It's because if it doesn't work in the lab right now, no worry. There is no point in worrying about it, because you can't scale in that timeframe. And everyone and their mom is approaching us about technology improvements, I think, literally, and their mom in some cases.

So, yeah, JB, do you want to add to a few things?

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

Sure. I mean, we are definitely talking to many, many different companies doing cathode technology development, anode and some of the other components. So including some of those you mentioned, and I'd be pretty shocked if there were any major improvements that were close enough to commercialization that we haven't been aware of or found out about. So a lot of those improvements are rolled into our thinking, and there is great potential there.

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

Yeah. And, but my top advice really for anyone who says they've got some breakthrough battery technology is please send us a sample cell, okay. This - don't



send us PowerPoint, okay, just send us one cell that works with all appropriate caveats, that would be great. That's sorts out the nonsense and the claims that aren't actually true.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

Yeah, absolutely; talk is a little bit cheap.

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

Talk is super cheap. Yeah, the battery industry has to have more BS than any industry I've ever encountered. It's insane.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

Yeah, I think, this was more related to the manufacturing process for the material as opposed to some material innovation.

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

Great.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

But anyway, I'd be surprised if there is anything out there that you guys aren't already well aware of. I was just asking whether that might be incremental to your - to your forecast. But it sounded like most of your projection was related to logistics and location and the scale of the cell and things along those lines?

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

Yeah, I mean, to be precise about our sort of prediction was that, we felt comfortable with at least a 30% improvement in cost, reduction in cost, just based on the location and economies of scale. That's without taking any technology improvement into account and we will certainly do technology improvements. And I mean if we can't get to 30% without technology improvements, I mean somebody should shoot us because that would be in complete defiance of economies of scale and obvious cost savings.

**Q - Rod A. Lache** {BIO 1528384 <GO>}

Great. Thank you.

**Operator**

Our next question comes from Brian Johnson with Barclays. Your line is open.

**Q - Brian Arthur Johnson** {BIO 21263539 <GO>}

On some of the just detailed numbers in accounting. Reservation - sort of the customer deposits, the inventory and then the lease accounting. So I'll just give all three. So for the customer deposit, it looks like they were roughly flat, in fact down \$1

million quarter-over-quarter; that seems to be the first time they haven't increased in quite a while if ever. What's going on there?

Question two, inventory was up from about \$600 million to \$750 million. How does that relate to the production ramp and some of the issues you talked about in the factory? And then number three, on the lease, you say you're going to continue the GAAP versus non-GAAP adjustments, which would seem to imply that you must have some backend risk for that lease with the third-party not to be treated as a true sale and could you maybe describe the type of lease support you've worked out with your bank partners?

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

Deepak, do you want to...

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Sure, Brian. So on the customer deposits, there is a bit of noise in those numbers that also includes final payments that our Model S customers made just for delivery. And if you exclude that noise our customer deposit reservations or customer deposits were actually up quarter-over-quarter, so we don't see any issue there.

On leasing with our banking partner we are taking lease accounting because the customers do have the option to return the car and we have the option to buy back those cars and so given that uncertainty at the backend, we feel it's conservative accounting to follow the lease accounting approach for GAAP. What was your second question in the middle, can you please repeat?

**Q - Brian Arthur Johnson** {BIO 21263539 <GO>}

The inventory and then the lease counting.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

And can you just clarify further on your inventory question.

**Q - Brian Arthur Johnson** {BIO 21263539 <GO>}

Yeah. No, your inventory was up somewhat substantially. Just trying to understand is that work-in-process, is that finished goods, kind of what drove that given if you just looked at vis-à-vis deliveries, you wouldn't expect that increase to the inventory?

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Yeah. There were three factors that contributed to it at a higher level, one was raw material inventory, second was work in process, and third was service. Raw material inventory was high because we were expecting to produce higher volume in Q3 that we did not achieve and that's part of our inventory. Work in process is just normal increase given that our production run rate on a weekly basis is increasing. We have more inventory in the pipeline in the manufacturing process itself. And finally, for our service centers, we are sending out more parts and stocking these service centers so

that we can provide more timely and immediate service to our customer, not have them wait, not incur additional freight costs. So, it's a sensible and the right customer thing to do. And those sort of explain pretty much the increase in inventory.

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

Right.

**Q - Brian Arthur Johnson** {BIO 21263539 <GO>}

And what was the third quarter production just to kind of gauge the working capital with that?

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Well, our third quarter production was about 7,200 units, which was as we said about 2,000 units less than our plan for the third quarter.

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

Yeah. I mean, essentially, in the third quarter, we sold every car, that was including cars in like showrooms, and everything we basically had.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Yeah.

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

So, like there was just like nothing left to sell.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Yeah.

**Q - Brian Arthur Johnson** {BIO 21263539 <GO>}

Okay. Thanks.

**Operator**

Our next question comes from Patrick Archambault with Goldman Sachs. Your line is open.

**Q - Patrick K. Archambault** {BIO 4638109 <GO>}

Great. Yeah. Thank you for taking my question. Just a couple from me. First on let's talk about the Model X being pushed back a little, you said I think based on more testing and validation, is there any kind of specific engineering challenges that you've encountered here or is this more of a precautionary approach and I guess kind of second to that, how confident are you in the new launch date. I understand

that the ramp is sort of a separate issue. But being able to get it at least the first one off the line in this new timeframe?

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

Yeah, I mean, it's worth saying that getting - making one of something is quite easy, making lots of something consistently that's going to last long time is extremely hard. In fact, it is way harder to make the machine that makes the machine than it is to make the machine in the first place like the production of the car is way harder than actually I would say the design of the car.

And, so we have Model X help us done with - we were done - almost done with the beta, it's like basically being pulled right now. And we could certainly, it would be quite easy for us to make one, a handful of production units that are salable and (26:51) and all that sort of stuff.

But that doesn't really move the needle. So, what really matters is at what point can we get to scaled production of a really high quality car and that's really in the third quarter. And we've also learnt the lesson in manufacturing that. You have issues that are sometimes one out of a hundred, but until - unless you make a hundred of something, you don't see it, like you - then you think the car is all good, but actually there's - one out of - randomly one out of a hundred is wrong.

But you don't witness really which one out of the hundred. So, then you got to go look at all 100 cars. So that just - once you get into volume manufacturing, it's that there're just these statistically rare issues, but you really need to make a bunch of something in order to know that it's there. And we want to make sure we do that with the X. That's just really just a lesson which we've learned. Financially, but of course it's only going to matter when we're at volume production. I mean, as you think the X is going to be something quite special, but it's hard to get there, and so, it's hard to engineer and it's hard to produce.

**Q - Patrick K. Archambault** {BIO 4638109 <GO>}

Okay, yeah. No, I don't think anybody obviously would fault you for making sure that it's up to your standard before putting it out there. But I guess is there something just in the design of these alphas and are the testing of these alphas that has come up that has just made you push it back or is it more just an abundance of caution?

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

It's - there is no big thing, I mean, they're a whole bunch of little things, it's really about getting the details right. I think you'll appreciate that we've got the details right, but it's really about getting the details right. Yeah, it's - if you get all the details right, it's like the difference between a diamond with a flaw and a diamond without a flaw. And but it's damn hard to do that that's what we're going to do.

**Q - Patrick K. Archambault** {BIO 4638109 <GO>}

Understood. And just my second one if I may the getting back to the Gigafactory comment, the idea that you will be able to produce your first jointly developed cell with Panasonic in 2016, obviously, that's a shorter timeframe than a lot of us expected. Might it be possible just at a high level, just to take us through the steps that you think need to happen to be able to achieve that line. Clearly, that's positive if that happens obviously given the importance for the Gen III program.

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

JB, do you want to...

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

Sure. I can comment on that a little bit. It is a slight pull ahead and we're a bit ahead of schedule on the Gigafactory than what we previously communicated. And some of the main reasons that are - that is so important or what you alluded to, retiring risks and being ready to ramp up very quickly with Model 3. We felt, it was important to go as fast as we possibly could and start some production operations in 2016, and there is a lot of steps that have to happen there. But, generally getting the factory itself ready, getting the staff, and the team that needs to operate the factory ready. It's a huge exercise.

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

Yeah. I mean, basically, the pilot plant at the Gigafactory is as big as I think the next biggest or pretty close at least to the next biggest - to any other modern factory out there. I'm not sure which one would be bigger, and this is the pilot plant.

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

Yeah. The scope and scale is huge. And, we wanted to be prudent to make sure that we were planning far enough ahead that we could stabilize quality and stabilize sort of the infrastructure of the plant well ahead of needing to ramp to very high volume for Model 3.

**Q - Patrick K. Archambault** {BIO 4638109 <GO>}

Okay.

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

I would also like to compliment Panasonic on being an awesome partner here, that they've really been great, I mean, they're going all out.

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

Absolutely.

**Q - Patrick K. Archambault** {BIO 4638109 <GO>}

All right. Thanks a lot, guys.

## Operator

Our next question comes from George Galliers with Evercore ISI. Your line is open.

### **Q - George A. Galliers** {BIO 21095133 <GO>}

Hi, yes, I had a quick strategic question with respect to China back at Q1, I think you mentioned that you would like to do local production in China at some point in the future. And I just wanted to know what would be the catalyst for that decision, will it be based on unit volume growth or is it based on the timeline that you have in mind? Perhaps if you could elaborate a bit on that particularly in the context of the recent announcements by the NBLC with respect to support for electric vehicles?

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

Sure, essentially it's not going to make sense in the long-term to be transporting vast number of cars, particularly sort of Model 3 for more affordable cars across the Pacific to China, it's going to make a lot more sense to do local production there. So it would be really driven by running out of factory space in California and then we've got a choice, build a factory in somewhere other than China for Chinese consumption, which doesn't make a ton of sense like we've been talking about 1.5 ton to 2 ton vehicle product, it makes sense to build that where it's going to get used. And - but I would - so I would expect over time for that would be factory - actual factories in China as well as in Europe as well as more factories in North America. Our goal is to accelerate the advent of electric vehicles. In order to do that, we need to make a lot of cars. And then, we're also sort of happy over time to support other manufacturers in making electric vehicles, but we're in a pursuit of that objective and have been screening the company.

### **Q - George A. Galliers** {BIO 21095133 <GO>}

Okay, great. And out of interest, I mean the Chinese government clearly also are very interested in supporting the development of electric vehicles, particularly the development of electric vehicles domestically. Has the government approached you too with respect to how you might be able to help some of the domestic players with their electric vehicle development particularly in light of the fact that you've opened up your patents file list?

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

We've had a lot of conversations with the Chinese government, they've actually been quite supportive. One of the things we're working through right now is just getting on the electric vehicle list, which is a bunch of requirements on it that we're working with the Chinese government to try to get on that list. And so, but yeah - they've not made any sort of demands with Tesla or anything like that. And, they know that we're quite keen on electric vehicles and helping companies wherever they may be in the world, China or otherwise, I think that's been well received.

### **Q - George A. Galliers** {BIO 21095133 <GO>}

Great, thank you.

## Operator

Our next question comes from Colin Langan with UBS. Your line is open.

### Q - Colin Michael Langan {BIO 15908877 <GO>}

...questions. Any color on the warranty accrual of \$14 million, how many vehicles is that across? I think it's coming across like something like \$300 per vehicle. And is that based on the production of Model S? And should we consider that as a higher accrual going forward or is this a one-off type catch-up accrual?

### A - Deepak Ahuja {BIO 15935173 <GO>}

Yes. Colin, Deepak here. So, we're about 30,000, I'm giving you round numbers here, of cars delivered prior to Q3. And the going-forward run rate for warranty accrual is slightly lower than what we did as a one-time, because there were some legacy design issues that we have fixed already. We are in this continuous mode of improvement on reliability overall.

### Q - Colin Michael Langan {BIO 15908877 <GO>}

Okay. Very helpful. And any color on, you mentioned upfront that North America deliveries were higher, which I was a little surprised by because I thought you're still trying to get product out to Europe and China. So why was North America so strong if you're still trying to fill the pipeline in the other regions?

### A - Deepak Ahuja {BIO 15935173 <GO>}

For Q3 delivery, our production overall was also higher than – so you're talking about September here or – either way, whether you look at Q3 or September, our production in Q3 this year was higher than prior year. So we were just selling those other cars in Asia and Europe. So, I'm not exactly sure if...

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

I'm not sure we understand your question. Could you repeat...

### Q - Colin Michael Langan {BIO 15908877 <GO>}

Yes. Q3 deliveries, the majority of them are in North America, but I would have thought that since your China build-up, inventory in Europe and in Asia that you would have more going to those regions. Shouldn't most of your demand be going into where you're trying to fill up the inventory?

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

I think there is an assumption here that we tried to fill up inventory. That doesn't make sense. We don't have inventory.

### Q - Colin Michael Langan {BIO 15908877 <GO>}

I guess my point is that you have orders and you're starting in Europe. So, shouldn't there be a lot of more pent-up demand and more orders in those regions where you haven't been selling before? I guess that's what I'm trying to get at.

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

We've been selling in Europe for a while. China is new and we're only just getting going in China. We only had our first deliveries like six months or seven months ago, six months ago. And we only have two stores and small number of service centers, and we don't have Supercharger infrastructure built out there.

So it doesn't make sense to put a ton of cars in China in areas where we don't, for example, have a service center in reasonable proximity or any Superchargers. In fact, in China, what actually has made customers most upset is that we won't deliver their car unless it can reasonably be serviced or charged. And then some of them are like, well, they still want their car, but then we don't want them to have a bad experience. So we can certainly expect that the growth in China deliveries over time as we build out the infrastructure in China.

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

Okay. And then just one last question; is there any update on the Panasonic, how much they're planning to put into the Gigafactory? Because in the last update I saw I think there wasn't a number that they're planning to invest.

**A - Operator**

There's speculation about a number, but...

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Yes. We haven't communicated a specific number from their point of view; we've only talked about a project estimate total. And I think Panasonic, as Elon said earlier, has been very forward leaning to make the commitments and investments at the time as they need to, to keep their project moving ahead and there have been a few announcements from them recently in the past few months about that.

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

Yes. It's probably - it's on the order of \$1.5 billion to \$2 billion from now through full production of the Gigafactory, maybe more than that. And, yes, actually, sort of maybe while we are on the Gigafactory, it's like - I was a little bothered about some of the reports on the Gigafactory, sort of, not a question that you've asked, but I just want to make a comment on this, which is the - there was like a lot of press about \$1.2 billion tax incentive package from Nevada that Tesla got. And is this like really a good idea for Nevada?

It is like a super good idea for Nevada. And that's why every member of the Nevada Legislature, Democrat or Republican, even if they were at the farthest corner of the state, voted in favor of the package, and it's over like 20 years. So it's not a - sorry, I realize you didn't ask this question, but it kind of bugs me that like I thought we got



an okay incentive package given the scale of things, but not a super huge one. And when you consider that we're talking about in terms of the output of this factory, something on the order of several billion dollars per year for 20 years and growing, the Nevada tax incentive over the period of time that it applies is maybe a few percent of that and pales in comparison to incentives that, say, Boeing got for keeping one model of the 777 in Washington State. So anyway, sorry to go on that sidetrack there a bit.

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

Okay. Thank you. Thank you for the clarification.

## Operator

Our next question comes from Andrew Fung with CLSA. Your line is open.

**Q - Andrew L. Fung** {BIO 22380654 <GO>}

Thank you for taking my question. Just following up on China, could you provide perhaps a bit of a timeline on the build out of your infrastructure and how much does China drive your expectations for next year's volume growth? And then also back to the Model X, how confident are you in delivering the current Model X orders in 2015, the ones that are already placed?

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

So I wouldn't say we're strongly dependent on China for deliveries next year. In fact, I believe even if China was not – even if we did not sell in China next year, we could probably still meet our targets. So even if there were zero China sales. We'd like to exceed the targets, but even if we had no sales in China, we could still achieve the targets we mentioned in the quarterly earnings letter.

With respect to Model X, I think realistically if somebody is ordering the Model X right now, we just changed the website to this fact, the car is going to get delivered in early 2016. So we're essentially sold out of 2015.

**Q - Andrew L. Fung** {BIO 22380654 <GO>}

Okay. Thanks. And I guess just following upon on your answer on China. We're certainly positive on your demand globally, but just trying to get a sense of perhaps how demand is trending in China and whether you choose to allocate cars there as opposed to different regions is obviously your decision. Just trying to get a sense of where we can expect volumes to trend over the next couple of years?

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

Well, like I said, we feel pretty confident of at least a 30% increase next year and a 50% increase the year after, and probably even if you go out probably several years with at least a 50% over time on average increase. But in order for us to have that, like we need to lay the groundwork in a particular region well in advance of when we need those deliveries to occur because we need to have service centers and

Superchargers and logistics and all that. So you can't sort of just go into a country and suddenly instantly have service centers everywhere and chargers everywhere and that kind of stuff. So it takes time to build these things out and to understand the nuances of the local market. And so it's like work we're doing in China right now is really laying the foundation for future growth.

**Q - Andrew L. Fung** {BIO 22380654 <GO>}

Okay. Thank you.

**A - Jeffrey K. Evanson** {BIO 1535168 <GO>}

Patrick, I need to break in here for a second. I just want to point out to everybody we have about 15 minutes to go and quite a few people in the queue yet. So we are going to end this call on the half hour. So let's kind of go into the speed round here of Q&A. Okay?

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

It might go slightly longer.

**A - Jeffrey K. Evanson** {BIO 1535168 <GO>}

Elon says slightly longer.

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

We'll go slightly longer.

**Operator**

Our next question comes from Andrea James with Dougherty & Co. Your line is open.

**Q - Andrea Susan James** {BIO 20758120 <GO>}

...for taking my questions. First, I guess, what's your maximum capacity on the new final assembly line? Have you guys talked about that yet?

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

We haven't talked about it.

**Q - Andrea Susan James** {BIO 20758120 <GO>}

How do we think about it?

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

Well, first of all, the final assembly line is just one element of the factory. So we did oversize the final assembly line because if we're going to make a new final assembly line, then we want to have that to have significant growth potential. So I think we feel

safe in saying it's not going to be a growth constraint in the next few years on the final assembly line.

Look, the big thing on the first half of next year is going to be the new body line creating the skeleton of the car and the exterior body panels and all that, which is intended to be a step-change technology improvement from our current body line and allow for a much greater volume, as well as exceptional precision in the way the car is made. And we're aiming with the new body line for a level of precision that no car in the world has and you can practically - you should be able to practically use our car as a yardstick with the new body line that's getting made. And so...

**Q - Andrea Susan James** {BIO 20758120 <GO>}

Okay. Cool. And then I guess a philosophical one on the Model X, I guess, so forgive me if this is sacrilege, but it's not clear to me that the Model X is really necessary, but just hear me out, so your long-term vision has always been bigger than the Model X platform with these higher-cost vehicles being a bridge to coming down market.

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

Yes.

**Q - Andrea Susan James** {BIO 20758120 <GO>}

And so, in my view, you've conceived of and promised the X before you really realize that the S has served as that bride in some ways with the capital raises. And so I guess my question, just to put it in the form of a question, how important is the Model X to where you want to be in like 2020, and how do you think about what the Model X brings to the product portfolio?

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

Sure. That's a great question. And you're right. The Model X isn't necessary to get to the Model 3, which has been the goal of the company all along. The Gigafactory is certainly needed for the Model 3 and the Gigafactory is going to take us like about 2.5 years to 3 years to build and get to serious production. So, we're kind of making the Model X in the meantime. But it will serve a purpose of generating great cash flow to support the Model 3, and obviously would reduce the dilution and the amount of capital that we need to raise for investors for the Model 3 because it should generate lot of positive cash flow, and I think the Model X is going to be something special. It's sort of admittedly an expensive car, but it is really going to be something special.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

I think the Model S platform gives us an opportunity to bring an amazing car to market that isn't there at all.

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

It's something that should exist.

**Q - Andrea Susan James** {BIO 20758120 <GO>}

Okay, thank you.

**A - Jeffrey K. Evanson** {BIO 1535168 <GO>}

Okay. Patrick, next question?

**Operator**

Our next question comes from Ryan Brinkman with JPMorgan. Your line is open.

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

Hi. Thanks for taking my question. It's really on direct leases as it relates to cash flow. Looks like you invested about \$35 million there to direct lease 347 vehicles in 3Q. What you're doing now is, of course, very small in relation to your \$2.4 billion of cash, but I guess what I am wondering is if we should be potentially modeling a lot more going forward. You refer in the letter to I think 3,000 to 3,500 leased cars in 4Q, but also that a large portion of them will be through the bank partner lease program. So can you help with what large portion means? And how should we think about modeling direct leases going forward? Could this growth become material or will it be phased out with a bank partner program?

**A - Deepak Ahuja** {BIO 15935173 <GO>}

I think we will continue doing some degree of direct leasing. That gives us flexibility and allows us to be in states where our banking partners cannot be. There I suspect we will probably double from Q3 going into Q4 our direct leasing. So it's still not going to be a big part of the capital required in relation to the cash we have. We always have the option to go and get some bank warehouse lines to fund, but we don't want to do it, while...

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

Right.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

There is no need. And why pay interest expense...

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

Exactly.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

...on that when there is no need to, at this time.

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

Yes. Got it.

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

Yes, exactly.

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

And then last question, just curious on what extent the Model X and Model 3 are being developed in parallel or is there some more work on the Model 3 that maybe accelerates once you can take resources, shift them from the X after it launches. I guess what I am trying to figure out is if the timing on the launch of Model X reads through in any way at all to the timing of the launch of your more mass market vehicle? Thanks.

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

Well, the development of the small motor, actually we've got a big and a small motor, big and a small drive unit. And for like the Performance 85, the dual-motor car, there's the standard sort of sports big motor in the rear and the smaller motor drive unit in the front. And that's smaller drive unit in a lot of ways is a precursor for the Model 3 because it represents a significant improvement in cost and steady-state power and number of other factors. It's basically just like a second-generation motor essentially. And that's a good path to finding a flow through on the powertrain side.

And then obviously the Gigafactory, the Gigafactory is pretty much being geared towards the Model 3 pack needs. And then for the rest of the Model 3, it really depends on - one of the few things to do would be to just make slightly - sort of 20% smaller Model S. And then that will be easy thing to do, but I think we might be able to do a few more interesting things than just that.

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

Great. Thanks for the color.

**Operator**

Our next question comes from Adam Jonas with Morgan Stanley. Your line is open.

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

Hey, thanks. Just two quick questions here. Elon, in a world of completely automated driving, going a bit out on the future here, what do you think will define a successful automobile company? Why would people buy a Tesla, if their hands are never actually touching a steering wheel, or if their feet never actually make contact with an accelerator pedal?

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

Well, that's pretty far in the future.

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

Even for you?

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

Well, our definition of far is other people's definition of not that far. But, yes, it seems like in the long term that people won't be driving cars or maybe there will be like some auxiliary steering thing that pops out only in an emergency that looks more like a Nintendo controller or a PlayStation controller or something like that. But we're still pretty far from that in Tesla terms. And it has to be approved by regulators and everything. So, before such things are really mainstream and approved by regulators, it's probably no sooner than seven years from now, and could be up to 10 I think. Because you have to have that car that's capable of doing that and the regulators need to sort of see that's really working as a promise for a few years before they approve it. But I think - I assume it's quite likely that Tesla will be a leader in making cars like that. David (54:24), do you have anything you want to add?

**A - Operator**

I think people will still care about many of the same things that they care about today, value and performance of the platform, range, efficiency.

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

Yes.

**A - Operator**

The detail and fit and finish of the interior, maybe even more so than previously since they can really focus on those things.

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

I think there will be some out of car sharing for sure. But, I think there's like a limit to the whole sharing thing. So there's an important role for sharing, but most things don't get shared, like, people could easily share their house or their clothes or their bicycle or something like that. And they'd do a little bit with like Airbnb or something like that but mostly not.

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

Thank you.

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

Or houses, you could hot bunk it and all houses - you could triple housing inventory.

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

Right. Thanks, Elon. Just as a follow-up, a couple months ago I believe you said something like our share price is kind of high right now. Obviously, the stock's pulled back a bit, but given the very high ambitions of the company which would require, I think to use your words, monster CapEx to carry out. Could you update us on your

latest posture for potentially seeking additional funding from the capital markets to help seize the growth opportunities that you have or you're more in kind of 'we're in a self-funded status' mode for now? Thanks very much.

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

So we don't see any near-term need to raise money, but we're spending a lot to increase production capability of the Model S, like, to maybe be able to make more of them and make them more efficiently obviously to build the Model X and to get the Gigafactory and some of the long-lead stuff on the Model 3 going. But so far it doesn't look like we're going to need to raise capital. And, yes, maybe not at all until the Model 3, but I should say, if there was something we could think of to spend money without being wasteful, which is quite hard, then we would do so. But, right now, we're spending money about as fast as we can think of intelligent ways to spend money. And not always being intelligent about it, of course, yes.

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

Thanks, guys.

**Operator**

Our next question comes from Ben Kallo with Robert Baird. Your line is open.

**Q - Ben J. Kallo** {BIO 16897436 <GO>}

Thanks. I have a quick one and then a longer one. The quick one is, on your production run rate at this point per week, where are you guys at kind of on a steady-state basis if that makes sense?

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

I guess we're sort of - I don't know if we should answer this question...

**A - Deepak Ahuja** {BIO 15935173 <GO>}

No, I think we have complexities of production with the dual-motor ramp.

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

Yes.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

So, trying to give a number which is sort of indicative of anything on average probably doesn't make - is not relevant.

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

Well, yes, let's just say that achieving 50,000 units of the Model S next year is going to be no problem.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

That's a better longer-term approach.

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

Yes. And things do vary a little bit from week-to-week and obviously if there are like holiday weeks and that kind of things, then there are fewer cars made, but let's say, we feel like no problem to do 50,000 Model S next year.

**Q - Ben J. Kallo** {BIO 16897436 <GO>}

Got it. And then, my bigger question is, Elon, over the past few calls, and I hate to bring up demand again, but just to get this out here, you estimate by region how big markets were. Could you give us an update, as I guess you guys' assessment evolves over time as well, with China, North America, Europe. And then specifically in China, we hear a lot of different types of rumors about your delivery issues in that market. So just maybe give us an update on how big you think the market is for the Model S right now in each of those regions?

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

Well, the right now is not - as I was saying earlier, like, in China we need to have more service centers, we need to have more Superchargers, there are some local charging nuances that need to be sorted out as the delivery experience hasn't been always as good as we'd like it. And so before one tries to scale up and put a ton of cars into the market, the infrastructure needs to be there - the Tesla infrastructure needs to be there to support it.

So we're building that infrastructure very quickly, and in fact, I've seen that our China team is building it out faster than any region that Tesla has gone into before. I think our China teams are executing quite well in that regard. But still there's a rate, there's a limit, you can only do it at a certain rate and do it right.

**Q - Ben J. Kallo** {BIO 16897436 <GO>}

But how big do you think the market could be?

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

Well, like I said, I feel very confident of 50,000 Model S - around 50,000 Model S vehicles a year. It's probably more than that. But that's the number we're confident of. And there are obviously also macroeconomic factors of how is any given economy doing, but that we don't control. So it's difficult to make these predictions without also knowing what the macroeconomic climate is going to be in each of these countries. But except to say we think 50,000 units next year is a pretty good number even if the economy isn't great in certain parts of the world.

**Q - Ben J. Kallo** {BIO 16897436 <GO>}

Great. Thanks, guys.



## Operator

Our next question comes from Carter Driscoll with MLV. Your line is open.

### Q - Carter William Driscoll {BIO 5746510 <GO>}

Thank you for taking my questions. Couple of just very quick ones. In terms of the feature sets and the updates outside of the dual-motor drive that you recently introduced, has there been anything that you've gotten really positive customer feedback, say, over the past 12 months that maybe you decided to incorporate it in the Model X, anything that surprised either negatively or positively? And then just a quick follow-up.

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

So, I'm sorry, are you asking - sorry, could you say that again?

### Q - Carter William Driscoll {BIO 5746510 <GO>}

Any of the incremental improvements you've made to the Model S over, say, the past 12 months that have really gotten positive customer feedback that you maybe were or were not going to incorporate in the Model X that has surprised?

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

Well, there are few things that are important, like, we've made a pretty big improvement to the seat comfort; that's important, particularly the next-generation seats that they can order with the PA 5 dealers; those are a future improvement. The sun visor, I mean there is like all these silly things that that have been fixed. The sun visor, by the way, will be offered to all existing Model S owners as well because I think the sun visor we came out with in the beginning was not great. But this one is actually bigger and properly blocks the sun. It's got a great mirror. And importantly, the strident sticker that is normally on sun visors has been minimized and moved to the left and no longer also includes the warning in French. That sticker drives me crazy. So it's a way better sun visor. But there is a sort of steady stream of improvements. I mean, Jerome, is there anything you want to - think maybe...

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

Wipers.

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

Yes, wipers, yes. We've also improved the wipers. I mean, a car is just such a complex system; all these things have to be improved.

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

Charge ports door.

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

Yes. So, the charge port door is now actuated. So on the cars going out, it will actuate open and closed. So you don't forget to close your charge port door and then drive off with the charge port door open.

**Q - Carter William Driscoll** {BIO 5746510 <GO>}

So it just sounds like a steady-state incremental improvements, nothing that really stands out. In terms of what you're talking about in terms of reducing the number of options on the Model S to ramp production, is that because you're pulling things in that are not going to be in the base price? Are there certain options you're just no longer going to offer, and does that have any effect on the blend of the ASP going forward for 2015?

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

I think it's probably not going to have a big effect on the average sales price. But we have had to make some tough decisions on essentially having fewer versions of the Model S in order to streamline manufacturing and thus be able to ramp production better and have better control on logistics and not have like a million variations on the Model S. So the dual motors, we're not going to produce the dual motors at 60-kWh car at all. And then we're not taking additional orders for the Performance 85. We're only doing the Performance 85 dual motor. And then we're canceling green and brown as colors. These are a few examples, but this helps us streamline the manufacturing and supply chain logistics and enables us to better ramp production.

**Q - Carter William Driscoll** {BIO 5746510 <GO>}

Okay. I realize there are a lot of people in queue. I'll get back in line.

**Operator**

The next question comes from Colin Rusch with Northland Capital Markets. Your line is open.

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

Thanks so much for squeezing me in. Can you talk a little bit about expectations for OpEx spending and how we should think about incremental margins as we go forward with this 50% annual unit growth?

**A - Deepak Ahuja** {BIO 15935173 <GO>}

I think you're referring more to 2015 here. I think it will be best if we wait 'til the next quarter's earnings call and provide better guidance on how 2015 outlook is on those elements.

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

Yes. Actually one thing I forgot to - we should probably add as a bullet point at the top of the shareholder letter, though, is in terms of GAAP gross margin, taking sort of - so our GAAP gross margin in Q4 was about 29.6%.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Q3, right.

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

Yes, sorry, Q3, 29.6%. If you exclude all positive and negative one-time items, it's about 27%; that's probably the more relevant number.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

And that's also excluding ZEV credits, the way we report it normally, the 27%.

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

Yes. To be precise, the 27% GAAP gross margin would be excluding all one-time stuff, including ZEV credits. So, no ZEV credits included in the 27%.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

To make it apples-to-apples from our prior reporting...

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

Right, so...

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

Great. And then just a quick follow-up on the stationary energy storage, looking at the potential need for grid-tied storage and your expertise with batteries, we're looking at something that could be 5% to 10% of total grid capacity globally as well as looking at emerging markets needing micro-grid solutions. As you guys are looking at spending money, obviously, you're involved here, how big of an initiative is this for the company at this point?

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

Well, stationary storage is pretty significant in the long-term. It's a vital element for going to sustainable power generation. So we're currently assuming that somewhere around 30% or so of the Gigafactory output would be aimed at stationary storage. That's a rough guess, but one way or another stationary storage is going to be a really huge thing that needs to be done.

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

Yes. It's definitely a very serious effort for us, but a lot of the work and a lot of the resources are complementary to what we're trying to do on the vehicle side, reducing the cost of cells, increasing capacity of cells, improved power electronics, these things benefit all different products that we're building right now. So we have to be mindful of priorities, but there is a lot of synergy which is part of why we're so aggressive.

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

And are you guys seeing any changes on the horizon in terms of grid rules, in terms of frequency regulation, monetization? Are you doing that kind of nitty-gritty market research in certain geographies at this point?

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

We definitely are tracking a lot of different regions and it's very fragmented, but we don't really have a detailed proactive lobbying effort on this. We're talking to most of the grid operators and independent system operators and utilities. Right now, we're really focused on building products that meet needs that are here and now, and there is plenty of opportunity there before anything actually changes.

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

Great. Thanks a lot, guys.

**Operator**

Our next question comes from James Albertine with Stifel. Your line is open.

**Q - James Albertine** {BIO 17420845 <GO>}

Great. Thanks for squeezing me in here in injury time and for extending the call a little bit. Really quickly, I'm sorry if I missed it; I dialed in a little bit late. But I wanted to talk about average transaction prices and also wait times. On the ATP side, we can look at the deliveries and divide by the revenues and kind of get to a number, but wanted to see how that progression was tracking intra-quarter, and if there was any decision to bring all-wheel drive, dual motors, more autonomous features forward versus prior expectations given the spec that a lot of your customers were demanding at higher price points. So maybe that's another way to look at the demand question, I guess, is my theory. And then separately just very quickly, where are the wait times for the Model S today versus where we were sort of three months ago just as a proxy? Thanks.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

And on the average transaction prices, we're not seeing any significant changes from a content perspective as we look at Q3 versus prior quarters. Clearly, as we go forward and the addition of dual motor is going to improve our average transaction price. However, when we look at international markets, as we talked earlier, the significant weakening of the European currencies is having an impact on our international average transaction price and it's lowering in total our average transaction price slightly.

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

Yes, because the euro dropped like 7% or something like that.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Correct and then same thing with the Norwegian kroner and the Swiss franc, they all were in the 7% to 8% that had a significant impact.

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

Right.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

But not from a content perspective. The underlying fundamentals are good.

**Q - James Albertine** {BIO 17420845 <GO>}

Okay. And just the wait times.

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

Well, it depends on which version of the car that you get, so if the wait time - and it depends on which version of the car you get and where you are in the world because obviously if you're not in the West Coast of the U.S., there's going to be a longer wait time to transport the car to wherever you are. So, the wait times right now I think are anywhere from maybe six weeks or seven weeks in the best case to four months.

**Q - James Albertine** {BIO 17420845 <GO>}

It sounds like that's been pretty static.

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

Yes. Yes. No significant change there.

**Q - James Albertine** {BIO 17420845 <GO>}

Very good. Thank you, gentlemen, again and good luck for the next quarter.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

Yes, I just wanted to add that our \$0.02 EPS in the quarter was clean. It includes all the one-time good news and bad news. So, it's...

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

There's no asterisk.

**A - Deepak Ahuja** {BIO 15935173 <GO>}

No, asterisks to that, right. Thanks.

**Q - James Albertine** {BIO 17420845 <GO>}

Very good. Thanks.

## Operator

This ends the Q&A session for today. I'll turn it back to Jeff Evanson for closing remarks.

## A - Jeffrey K. Evanson {BIO 1535168 <GO>}

Okay. Thanks a lot, Patrick. Thank you everybody for joining us, and Elon and the team, thank you for being so generous with your time. Have a great day, everybody.

## Operator

Ladies and gentlemen, thanks for participating in today's program. This concludes the program. You may all disconnect.

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