S&P Capital IQ

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Tesla, Inc. NasdaqGS:TSLA

FQ4 2016 Earnings Call Transcripts

Wednesday, February 22, 2017 10:30 PM GMT

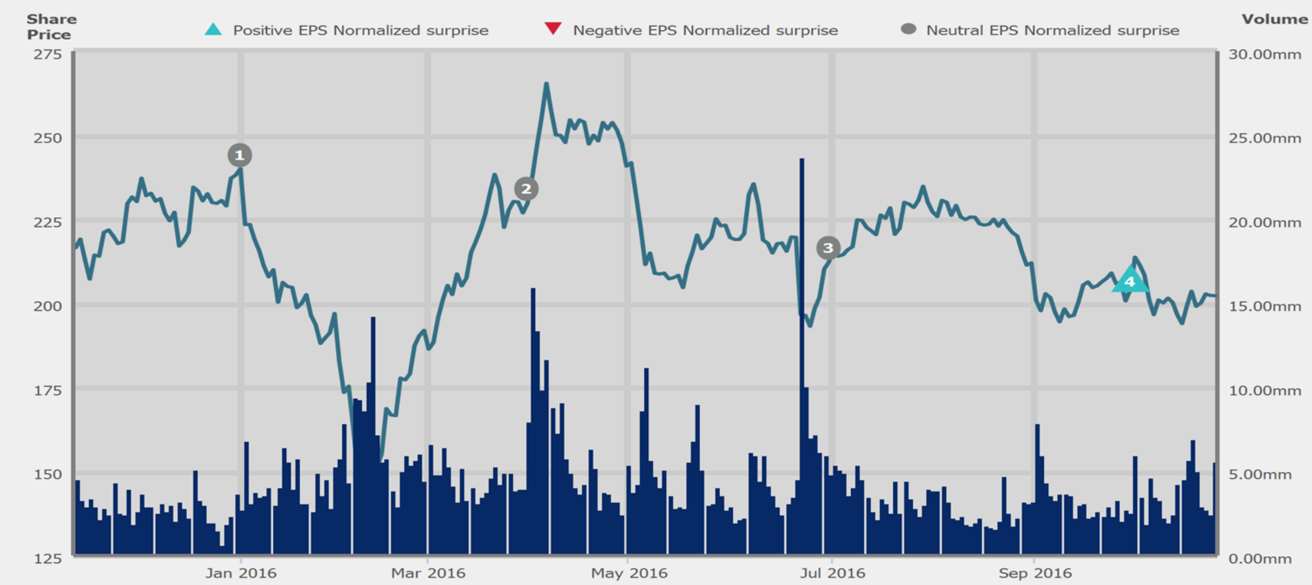
S&P Capital IQ Estimates

	-FQ4 2016-			-FQ1 2017-	-FY 2016-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(0.53)	(0.69)	NM	(0.73)	(2.43)	(2.87)
Revenue (mm)	2190.58	2284.63	▲4.29	2418.18	6900.91	7000.13

Currency: USD

Consensus as of Feb-22-2017 9:44 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2015	0.11	(0.87)	NM
FQ1 2016	(0.67)	(0.57)	NM
FQ2 2016	(0.62)	(1.06)	NM
FQ3 2016	0.02	0.71	▲1 3450.00 %

Call Participants

EXECUTIVES

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Jason S. Wheeler
Former Chief Financial Officer

Jeff Evanson
Vice President of Investor Relations

Jeffrey B. Straubel
Chief Technology Officer

Jonathan McNeill
President of Global Sales & Service

ANALYSTS

Adam Michael Jonas
Morgan Stanley, Research Division

Aileen Smith

Brian Arthur Johnson
Barclays PLC, Research Division

Charles Lowell Anderson
Dougherty & Company LLC, Research Division

Colin Langan
UBS Investment Bank, Research Division

Colin William Rusch
Oppenheimer & Co. Inc., Research Division

David J. Tamberrino
Goldman Sachs Group Inc., Research Division

James Joseph Albertine
Consumer Edge Research, LLC

Jeffrey David Osborne
Cowen and Company, LLC, Research Division

Joseph Robert Spak
RBC Capital Markets, LLC, Research Division

Robert George Cihra
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Deutsche Bank AG, Research Division

Ryan J. Brinkman
JP Morgan Chase & Co, Research Division

Tyler Charles Frank
Robert W. Baird & Co. Incorporated, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Tesla Q4 and Full Year 2016 Financial Results and Q&A Webcast. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Mr. Jeff Evanson of Investor Relations. You may begin.

Jeff Evanson
Vice President of Investor Relations

Thank you, Vicky, and good afternoon, everyone. Welcome to Tesla's fourth quarter and full year 2016 Q&A webcast. I'm joined today by Elon Musk, J.B. Straubel, Jason Wheeler and Jon McNeill. Our Q4 results are announced in the update letter at the same link as this webcast.

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

We will start today's call with some brief comments by Elon, followed by the Q&A session. [Operator Instructions] Okay, Elon, over to you.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Thank you. But first of all, I'd like to announce that our CFO, Jason Wheeler, has decided to leave Tesla in April -- so it's at end of next month, to pursue opportunities in public policy. Jason will be replaced by Deepak Ahuja, who was Tesla's first CFO and worked for the company for more than 7 years before stepping away in 2015. Deepak will formally take over as CFO in early March and with Jason remaining at Tesla through April to entrust a smooth transition. And let's see, Jason, would you like to say anything?

Jason S. Wheeler
Former Chief Financial Officer

Yes, sure. First, Elon, thanks for the opportunity.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Thank you.

Jason S. Wheeler
Former Chief Financial Officer

It's been a great ride, and I'm really going to miss working with all the wonderful people at Tesla. This is an A team. And when I walked in the door, I was very passionate about the mission of the company. And today, I'm even more passionate than I was than the day I walked in. And I think it's also important to say that I'm looking to scratch an itch that I've have had for many, many years now. I'm going to go do something in the public sector, but I wouldn't have felt comfortable about leaving if we didn't have a really good plug-and-play solution in place for the company. And I think with Deepak's history here on the verge of bankruptcy and everything he's gone through, he's well positioned...

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

It's been [ph] a long time ago.

Jason S. Wheeler
Former Chief Financial Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

All right. So thanks -- and Jason, thank you again for everything you've done.

Jason S. Wheeler
Former Chief Financial Officer

Absolutely, my pleasure.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

So let's see. I think the -- yes.

Jeff Evanson
Vice President of Investor Relations

Well, I think we're ready for the first question.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. That's just right. Do you have any question?

Jeff Evanson
Vice President of Investor Relations
All right. Vicky, first question, please.

Question and Answer

Operator

And our first question comes from the line of Adam Jonas with Morgan Stanley.

Adam Michael Jonas
Morgan Stanley, Research Division

First, good luck, Jason; and congrats, Deepak. Welcome back. So Elon, a question for you on Mars. Let's kick it off at Mars, okay?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Really?

Adam Michael Jonas
Morgan Stanley, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

I admire long-term thinking but impressive.

Adam Michael Jonas
Morgan Stanley, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Okay. Well, yes, but when you started out, I was a little curious as to how this would become relevant to Tesla. But as I said before, I expect to remain with Tesla essentially forever unless somebody kicks me out. So that remains my intention. And I've been pursuing the sort of Mars thing at SpaceX and the same energy at Tesla for a long time simultaneously. So I think it's going through a pretty good rhythm. And yes, I'm -- I don't think -- I certainly don't think I'm going to change my actions as a result of an initiative by the administration although I think a Mars initiative would be amazing and really energize the public domestically and would apply just as the Apollo mission to the moon that was half a century ago. So that's -- yes, that's I think probably the best I -- the most I can say at the -- yes [indiscernible] yes.

Adam Michael Jonas
Morgan Stanley, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Jon, do you want to take that?

Jonathan McNeill
President of Global Sales & Service

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. And this is not to the exclusion of insurance providers, but I mean, if we find that the insurance providers are not matching the insurance proportion of the risk of the car, then if we need to, we will in-source it. But I think we'll find that insurance providers do address the insurance cost proportionate to the risk of a Tesla.

Jonathan McNeill
President of Global Sales & Service

That's true. That's true. We're doing this with insurance partners today.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Right.

Operator

And our next question comes from the line of David Tamberrino with Goldman Sachs.

David J. Tamberrino
Goldman Sachs Group Inc., Research Division

Curious as to what has changed on your end. Obviously, you've got -- made an acquisition. You've hired the individual in manufacturing from last year. But really moving from the Model S and X to the Model 3 ramp that you're looking for in the back half of 2017 here into 2018, how have you gone about the Model 3 development differently versus the Model S and Model X that will really be able to unlock the key to driving production much higher than what your previous ramps have looked like for new products?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Right, the Model 3 is designed -- is really designed for manufacturing. It's considerably a simpler car than the S or the X. Some of these -- some modifications are obvious. For example, the Model 3 only has one screen, whereas the S and X have 2 screens and 2 separate computers powering each screen. The Model 3 has 1.5 kilometers of wiring. The Model S has 3 kilometers of wiring. So we simplified the wiring system considerably. The -- a lot of the bells and whistles that are present on an S and an X are not present on a Model 3. So we don't have self-presenting door handles, for example, or falcon wing doors. These reduce the risk substantially in a ramp and make it just easier to scale. And so I think it's going to be a very compelling car, but it's just -- it's a simpler design. And we also understand manufacturing a lot better than we did in the past. And we're also able to get usually the A team at the A supplier for Model 3. It's really that we're now able to get that, whereas for S and -- particularly for S and to some degree for X -- when we trying to get suppliers for Model S, a lot of the top-tier suppliers wouldn't even work with us, didn't believe the car, that the -- they thought we'd go bankrupt. And the -- IHS, I think it's called, but they're basically a predictor for -- volume of the Model S predicted -- an official prediction of 3,000 units lifetime for the Model S. And for a lot of the big supplier, particularly the large sort of conglomerate suppliers, they just plug that number into their predictions but they ignore what we say. And then basically, the volume is either too small to count or the car cost is enormous because these fixed costs must be allocated over such a small volume. Now in fact, we are building something in the order of 50,000 Model Ss per year. And so having shown the results of the S and the X, the interest from suppliers, you went from basically getting like the worst team on second-tier suppliers to getting the best team on first-tier suppliers, really a big difference.

David J. Tamberrino
Goldman Sachs Group Inc., Research Division

Yes, okay. And then just following up on that as I think about reduced complexity of the vehicle, understood. From an actual line speed manufacturing perspective for the Model 3, what are you doing differently with the manufacturing process that is going to allow you to drive that ramp in production? So think about 50,000 units, Model S, on an annual basis, it's good. It's great. You've been making that vehicle for the last 3, 4 years.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Right, as opposed to -- I mean, for -- yes, an annualized rate of 250,000. 5x that number for Model 3 is a reasonable question to ask. The -- there's just a lot more automation than there is for S and X. We have the Gigafactory, of course. That's a huge asset for factory, powertrain, power electronics, chargers and a few other things. So that's a huge asset and yes -- so -- but also we focused most of Tesla engineering, including design engineering, into designing the factory. The -- I think in the future, the factory will be a more important product than the car itself. I've said this before but we're -- our goal is to be the best manufacturer on earth. This is a real goal. I don't know if we'll succeed, but I think we're making good progress in that direction. And that's -- yes, it's really -- when you think of the factory, it's just an enormous product with at least [indiscernible] more complex than whatever it makes. J.B., anything you want to add?

Jeffrey B. Straubel
Chief Technology Officer

Yes, I might just add that we really learned a lot of lessons, especially from the difficult Model X ramp. That's something that's in our recent memory, and we fought through it and succeeded. But I think in the design of the Model 3 and the system and the lines that produce it, many of those learnings have been incorporated from the beginning. So the amount of complexity in the operations to assemble the car is dramatically reduced. The amount of operations involved some level of sort of assembly craft, where there's more judgment of the operator. It's dramatically reduced, almost eliminated. And a lot of these things that we could identify directly as the bottlenecks that hurt us on the X ramp, we've been able to target specifically and reduce or eliminate. So that has -- though painful, it was a very helpful experience for us to get ready for Model 3.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. Now I do want to emphasize with production ramps in general that -- they call it an S curve. So the rate of production is as fast as the slowest component in the vehicle. And when you have several thousand unique items, the -- it can be as fast as the least likely and worst executing part of Tesla or our suppliers, but that's just the way it goes. So it's -- you're going through a series of constraints. You try to anticipate as many as possible. There are new issues that pop up every week. And then we attack them and get them to solve for schedule. And then another issue will pop up in the following week. So it's schedule whack-a-mole. And if we knew what would be late now, we would obviously attack it, but some of these things only come to light late in the game. And when you have a global supply chain, you inherit a lot of force majeure risk from around the world. It's just one of the things that I think we want to do is minimize force majeure risk. This is -- if you inherit like every force majeure risk on the earth, then of course, things are going to go wrong because earth is big. So I think we're going to, increasingly over time, rationalize our supply chain to minimize the force majeure risk. It's very important, but yes, the -- it's always tricky being a public company and reporting on a quarterly basis. Even small differences in where that exponential part of the S curve is can make quite a big impact on the quarter because [indiscernible] imagine datelines moving around an exponential curve. Just small changes here and there have quite a big effect. And then things get more predictable as you get to the flat part of the S curve, the top of the S curve. That's why it's a lot easier to predict, to say what things would be next year or the end of this year as opposed to what they'd be month by month this year.

Operator

And our next question comes from the line of Ryan Brinkman with JPMorgan.

Ryan J. Brinkman
JP Morgan Chase & Co, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes, we had some challenges in the transition from Mobileye to Tesla software running on GPU. The -- our original plan was to have a migration strategy where we have Mobileye and our -- and Tesla vision operating at the same time to have some kind of a smooth process, but Mobileye did not -- refused to do that. So that forced us to reach in [ph] the board and caused unexpected delays, where we had to basically delete that chip from the board and just [indiscernible] on Tesla vision. Safety is always our primary concern. So we could have released Tesla vision [indiscernible] orders there at high speed. Probably 3 months ago -- I was driving at a high speed personally 3 months ago but -- so I think we want to just have an exhaustive testing process, a vetting [ph] process before enabling that throughout the fleet. So we've been edging our way up gradually now. Longitudinal control, [indiscernible] cruise control is at 80 miles an hour and [indiscernible] at 50 miles an hour. And I think we should be able to get both [indiscernible] Unless testing shows something different, we should able to get them both to around the -- maybe 85 miles an hour next month and be at parity with [indiscernible]. But that's -- and then obviously, things will only improve from there.

Ryan J. Brinkman
JP Morgan Chase & Co, Research Division

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

Jason S. Wheeler
Former Chief Financial Officer

Sure, yes. So this is Jason. So that commitment that we made when we closed the deal was on the Solar side. So that's what the $500 million really [indiscernible]. And that's going to come from a number of factors. One of the things we're already starting to see great traction on is a shift away from leasing systems to doing loans and cash sales of systems. We provided some information in the letter about that. That's going well. We've also done that on the vehicle side. It's worth noting. And then the other thing is as part of the acquisition, we committed to $150 million in synergies. And some of that cash generation is obviously going to come from going after those synergies, and we're on track to really hit that. We've got lots of opportunities on customer acquisition cost. Tesla has a very strong global brand. We've got a great retail footprint. So we've got good pieces in place to really drive customer acquisition cost down. And then obviously on the manufacturing side as well, we're really thinking through what that's going to do for us and how we can drive cost savings there as well.

Operator

And our next question comes from the line of Joseph Spak with RBC Capital Markets.

Joseph Robert Spak
RBC Capital Markets, LLC, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

All right.

Jason S. Wheeler
Former Chief Financial Officer

Yes, sure. I think the way we're thinking about that is there's going to be pretty higher bars on -- with the deliveries only for Model 3 in the second half of the year. And I think Elon described that well when he talked about the S curve. So we didn't want to muddy our guidance by doing some kind of a combined number for the year. And obviously, execution on X and S and execution on getting ready for Model 3 in the first half is what's important. And those are the things that we really want to point investors to and how we're measuring ourselves.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

It's sort of -- tackling the area under the curve is tricky when you're in an exponential. And it always starts out tiny and then it goes up -- well, it goes exponentially. So -- but generally, people have trouble wrapping their minds around an exponential. The natural tendency is to extrapolate on a straight line. And so the -- it's just [indiscernible] important to emphasize that this is -- this blow up is exponential. It does get into a linear zone, and then it goes into a log curve. So...

Joseph Robert Spak
RBC Capital Markets, LLC, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Sure. Well, there is obviously quite a strong effort by UAW to unionize Tesla. And actually, a lot of people at Tesla have been approached by UAW. They've expressed concerns about this. I -- and there were some number of claims made by someone who I think is de facto an employee of UAW but at Tesla. And there's a piece that's probably going to be published in the next day or two, because I wanted to make sure I fully investigated the claims before writing a thought piece. But that [indiscernible] matters over the last few months. Tesla's injury rate is less than half of the industry average contrary to the allegations made. And the compensation, if you look at -- if you started 4 years ago, the vesting period for Tesla stock is 4 years. So if you said, "What is the outcome for somebody who started 4 years ago?" It's by far the highest in the auto industry. The -- there was an allegation that a few are underpaid at Tesla, but in fact, they're the highest paid in the industry if you include the equity, which obviously you should include. So the -- there are really only disadvantages for someone to say that -- to want the UAW here. I mean, the track record is worse in every other company. I don't think this is likely to occur.

Operator

And our next question comes from the line of John Murphy with Bank of America.

Aileen Smith

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Sure. Well, it's only come up briefly. And my response is that I think it will be fine to get rid of incentives and subsidies, but that should be uniformly applied to all industries. It would obviously be wrong to -- or to get rid of any sort of government intervention in sustainable energy while retaining it in fossil fuels. That -- if the principle is to get rid of government intervention, that should be uniformly applied, not unfairly applied. But that's the only thing -- there was no -- that was my comment, but there's no response given. They listened to that and that's sort of -- that's how I feel. And as I mentioned on a prior call, the reality actually is that if electric vehicle incentives went away tomorrow, Tesla's competitive position would improve. It's probably why GM is able to sell the Volt at the price that they are able to do it while on paper, making a loss. It's that they -- their ZEV credits are worth only twice as much as they are for Tesla because they get the full retail value of their credits, which is worth about $10,000 more to them than it is to Tesla. We get basically 50 cents on the dollar when we can sell ZEV credits, which is not always. Last quarter, we were able to sell only a tiny amount of ZEV credits because that mandate is just already really weak. So the irony of getting rid of it would actually improve our competitive position. And ZEV credits only apply to 14 states in the U.S., every 14 -- they don't apply internationally. And yes, so -- and then things like the federal tax credit for electric vehicle caps out, I think, at 300,000 cars. We're not far from that point. So the ZEV, basically the credits either don't scale to high volume or they're disadvantageous to Tesla. Even in California, which is our home base, California legislature put an income cap on any one who could get the California tax credit for EVs, which then excluded a whole bunch of our customers, which I think is counterproductive to the biggest manufacturing player in California Why the hell the legislation? That, I do not know, but it was harmful to the state.

Aileen Smith

Okay, great. That's helpful. And then sort of a second question. You guys gave some helpful disclosure in terms of the vehicle order growth for the Model S and X in the quarter. Can you talk about the order growth for the Model 3? The last measurement that we received on the size of the wait list or the order book was 400,000 plus or minus. Can you talk about how that's grown over the past few quarters? I mean, if we look at the customer deposits on your balance sheet, it actually declined sequentially from 3Q to 4Q. So how much, if any, of that is related to the Model 3?

Jason S. Wheeler
Former Chief Financial Officer

Yes, sure. So it's not related to the Model -- this is Jason. It's not related to the Model 3. We still had a number of Signature Series Model X reservations, where there was just a higher deposit required for those cars, and we were able to deliver a number of those in Q4. So that's the primary driver behind the quarter-over-quarter decrease in the customer deposit decline.

Aileen Smith

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

Jason S. Wheeler
Former Chief Financial Officer

We're still in great shape.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. We don't put that number because people read too much into it -- yes, as Jason is saying, that is really not our concern. But yes, we anti-sell the Model 3.

Jason S. Wheeler
Former Chief Financial Officer

We don't want to make the line longer.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes, good point.

Operator

And our next question comes from the line of Colin Langan with UBS.

Colin Langan
UBS Investment Bank, Research Division

Can you -- in the press release, you gave comments on margins for the first half of the year. Any broad color on how we should think about margins in the second half, particularly as the Model 3 launches? I mean, will that be profitable day 1? Or is that going to take some time for that to ramp? Any color there?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Perhaps that will not be profitable on day 1 because of that exponential issue that I mentioned. The only Model 3s will be like horribly negative margin, particularly on day 1, literally -- as in literally on day 1 because just on the -- at a tiny, tiny rate as you go up this giant machine. So it's just -- like no company on earth could -- there's no point for Tesla. It is like physically impossible. So you have to get the production rate to some reasonable capacity percentage of the system. If the capacity of the production system is X, until you're at least like half X, your gross margin is going to be weak. And it's going to be terrible when you're like an order of magnitude below -- or if you're 10% of X, like or less, it's going to be terrible. So -- but then it will get really good as you start to approach nameplate capacity. I think it's great, but -- and then as we get to the initial phase of capacity of 5,000 a week, I would expect to see gross margins comparable to that of the S and X.

Colin Langan
UBS Investment Bank, Research Division

So -- and that's next year that you should get to the 5,000 per week. Is that right?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Well, I feel pretty confident that we should get there by the end of this year to 5,000 a week. The -- now I do want to separate this from parts orders. I know a number of our suppliers are listening. It would be impossible to keep this -- I mean, like nothing is a secret these days, it seems. Yes, it's like major intelligence organizations cannot keep a secret. It's like a really -- I mean, who can honestly? So when we place parts orders with our suppliers, we've told them 1,000 a week in July, 2,000 a week in August and 4,000 a week in September. These are parts orders and the parts need to arrive, then you can turn into a car and the car needs to be delivered to customers. None of these things occur instantaneously. So -- and we have what I call like maybe the term paper problem of, like -- I was a teaching assistant in college. And no matter what date we set the exam paper for, when the term paper was due, it's -- there's always like some order of people that are late. It's just the way it goes. People are sometimes -- well, and I'm guilty of this, too, like, too optimistic about the timing or they get unlucky or something like that. So we have to set these really strict dates. And some number of people are late, but it only has to be 1%. And then we'd either have to make those parts manually at great cost or slow down the production rate and ramp at great cost. If we make something manually as opposed to mass production, it can be 10x, 20x, 30x more than a product that's made -- handmade as opposed to made with high volume production equipment. So that's essentially -- I'm trying to give you what the problem space looks like in my head so that you can try to model it. You know what I know. And if I knew which 1% of suppliers it was right now, I would obviously take action. But I don't because I don't know who's going to be unlucky. I don't know who's being overly optimistic. But that's -- the 1,000, 2,000, 4,000, that -- those are the deadlines we set up for our suppliers for parts delivery. And parts get made into cars. Cars need to get delivered. And those are 3 separate steps.

Colin Langan
UBS Investment Bank, Research Division

One last -- I just have my last question, just any color on cash burn? And I think last time, you mentioned that you were confident you wouldn't need a capital raise. Do you still feel that way? I mean, I think it was close to $1 billion in the quarter, and it sounds like CapEx is going to rise next year. How should we think about cash burn cadence and the confidence [indiscernible] no capital raise going forward?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Well -- so this is really a question of what's the risk tolerance of the company or how close to the edge that we want to go. According to our financial plan, no capital needs to be raised for the Model 3, but we get very close to the edge. So then that's probably not the best thing for shareholders on a risk-adjusted basis. So we're considering a number of options, but I think it probably makes sense to raise capital to reduce risk.

Jason S. Wheeler
Former Chief Financial Officer

Colin, I just want to add a couple of points there, too. [indiscernible] on the cash receiving [ph] end, we see $1 billion in cash burn, but I don't think that's fully accurate. We had $522 million in CapEx. So we're investing at a very healthy rate ahead of what we need to do for Model 3. And then there were certainly some timing differences. We've talked about, in our deliveries press release, we had 2,750 cars that we missed delivering them by a couple of days. So I think there's a little cross-quarter timing going on there and it's not indicative of what cash flow from operations is going to look like in the future. Another -- to go -- circle back to your point and one of the questions from earlier about what's different about Model 3, I thought maybe I'll provide just a little bit more color on costing, and this will help you think a little about margins on a go-forward basis, too. From the very beginning of the Model 3 program, the costing of the car was front and center and it's always been a key part of the conversation and the decisions that have been made. And it goes all the way back to principles, as Elon likes to talk about. On a part-by-part basis, we've been looking at what is the value of the commodities in that part, what's a reasonable cost to fabricate the parts and what's a reasonable margin on top of it. And that's been the starting point for costing for everything that's gone into the Model 3. The other thing that's important -- and we talked about this a lot over the past several quarters, is just being more efficient with our capital spend. I mean, J.B. has done a fabulous job with this up at the Gigafactory. I don't know if you had a chance to attend the event or not, but the volumetric efficiency there is quite stunning. And if you can do more in a smaller footprint, the capital required is less. And the less capital is required to do things, the less depreciation load it's going to be on each unit produced once you get to volume production and deliveries. [indiscernible], it's going to be-- that's going to good to add additional color to your comments and your questions.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. That's sort of applying the rocket equation to manufacturing. And it's yes, volume -- essentially, the rocket equation technique, it's mass efficiency. But I think volumetric efficiency of the factory, as Jason is mentioning, and then -- and X velocity of product from the factory kind of just slow it down pretty much to those just -- those 2 things.

Operator

And our next question comes from the line of Brian Johnson with Barclays.

Brian Arthur Johnson
Barclays PLC, Research Division

Just a few questions about the cash flow and cash CapEx and cash needs. First, I recognize that you're now consolidating in SolarCity. But if you were just to very roughly give us what the old automotive adjusted cash flow was and try to kind of disentangle that from the cash flow coming out of the former SolarCity, what would that roughly look like directionally?

Jason S. Wheeler
Former Chief Financial Officer

Sure. So I think we put in the letter that cash generation was $70 million, about $70 million. So SolarCity was actually a cash generator for the 5-week stub period. Some of that was the cash and the tax equity deals closing. So the way to think about SolarCity on a go-forward basis is prioritizing cash generations through preservation over the near term for that business. So I don't anticipate any significant -- it's not going to have a significant impact on our cash position in future quarters.

Brian Arthur Johnson
Barclays PLC, Research Division

Okay. And secondly, the $2 billion to $2.5 billion CapEx guide, that spend, does that imply that that's not a full -- couple of questions. Does that imply that's not a full year 2017 number given that production cadence that you're planning?

Jason S. Wheeler
Former Chief Financial Officer

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

Brian Arthur Johnson
Barclays PLC, Research Division

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

Jason S. Wheeler
Former Chief Financial Officer

Yes, sure, absolutely. So I think this is one of the benefits of having a very successful run over the last couple of years. We have developed a lot of trust with our suppliers. So when I started, we asked, "Okay, what's our average days payables outstanding?" and it was lower than it should be. And we've been able to renegotiate the payment terms with just about everybody and stretch out those payables. And it's not a question of just not paying. It's actually we have trust and we're going -- renegotiating lease contracts with suppliers. And I believe we shared this data point last quarter on the call. But for the parts that have been sourced for Model 3 so far, the average payment terms is 59 days. So cash conversion cycle is something that we care deeply about and we're paying a lot of attention to. And obviously, as we head up this S curve that we've talked about, working capital is going to be very important. So we're going to have to keep a good eye on that. But to sum it up, we're making great progress in stretching out our payables, and we're doing that in a way that I think is productive and healthy with the relationships with our suppliers and members.

Brian Arthur Johnson
Barclays PLC, Research Division

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

Jason S. Wheeler
Former Chief Financial Officer

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

Operator

And our next question comes from the line of James Albertine with Consumer Edge.

James Joseph Albertine
Consumer Edge Research, LLC

I would just add my congratulations to Jason, and best of luck and then -- and welcome back to Deepak. If I may quickly, Elon, you mentioned in response to a ZEV question earlier, the 14 states, or I believe it was, that sort of share these standards and allow manufacturers to sort of earn credits, buy credits, allow you to sell credits and so forth, understanding that the extent that a competitor vehicle is sold in California, it counts toward their quota, if you will, in other states, and that the waiver that allows that might be expiring later this year. And I'm just wondering, number one, if that's correct, if I'm thinking about right way, and how that would theoretically impact your business. You've talked about how if sort of these $7,500 Federal -- I know I'm mixing ZEV and GHG and so forth. But you talked about how it could theoretically be a competitive advantage for Tesla, and I'm just wondering if you could sort of opine on that.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Well, it's just that in order to scale, just to [indiscernible] a week -- it's like 1%, less than 1% or some tiny number of vehicles made in that state or sold in that state because we're the only ones who currently make a car in California. And I do think California maybe should do a bit more to support its only remaining auto manufacturer to remain competitive. The -- yes, it's weird that they need to do more to support non-California companies than Tesla. But it's -- this mandate becomes irrelevant at scale. Tesla will have as many more ZEV credits than the rest of the U.S. industry combined. So the value of them just drops to a negligible number. And then they don't [indiscernible] major manufactures. They don't really need to sell them either because they make whatever the puny amount of electric vehicles are, 20,000 cars maybe. We're making 20x, 30x that number. So this is just -- they're just not as important at scale because the mandate are too weak.

James Joseph Albertine
Consumer Edge Research, LLC

Yes, understood. I was just sort of getting at the fact that maybe if the Volt sale in California doesn't count toward New York or something that it's actually -- it's weaker. It's tougher for your competitors than it even is today. So that's more what I was alluding to. And I agree with you that the mandate doesn't make a lot of sense.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. They're just very weak. So -- and yes, so they will have almost no impact on Model 3. Like maybe for a few quarters, that's about it.

James Joseph Albertine
Consumer Edge Research, LLC

Okay, great. And if I may on the Model 3 quickly and then I'll get back in queue. The vehicle we've seen, is that a preproduction version and -- or is that the fully -- the version you plan to fully produce? And if not, when could we maybe expect to see the fully sort of finished product? Just to get an idea -- you alluded to at the Gigafactory a couple of months ago, there is still some suppliers that you want to make sure you're lining up properly to get everything ready to go for July 1. And I'm wondering if the revealing of the final production-ready version could be between now and then sort of an additional catalyst?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. I'm not sure if it kind of makes sense for us to show the final version before starting production or after. The initial cars are sort of [indiscernible] actually go to company employees because I think it's important for us to have a good feedback with on the product that we're making and if there are any issues or valuable things that need to be addressed that we can address those before customers experience them. So I think in terms of showing a final version probably at least a few months away or maybe as far as July itself, it's going to be pretty close to what I showed at the Model 3 unveiling but with more polish and refinement and a few more details that are added. It will be better than what was unveiled. And I guess in some ways, it will be a lot better.

Operator

And our next question comes from the line of Colin Rusch with Oppenheimer.

Colin William Rusch
Oppenheimer & Co. Inc., Research Division

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

Jeffrey B. Straubel
Chief Technology Officer

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

Colin William Rusch
Oppenheimer & Co. Inc., Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

They're very big modules.

Jeffrey B. Straubel
Chief Technology Officer

Yes, they're pretty large increments, but those will be up and running at full capacity for the first instances within just a few months. We're already in the stages of -- or beginning the second instance of anode and cathodes, the electrode assembly. So I mean, these are needed for the ramp of Model 3. So that's

[Audio Gap]

Colin William Rusch
Oppenheimer & Co. Inc., Research Division

you have it done in the second quarter that is what I'm hearing you say, and then...

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

First module and then if you're not -- modules look confusing to me because we actually have a module. The battery pack is divided into cells, modules and packs.

Jeffrey B. Straubel
Chief Technology Officer

First [indiscernible]

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

First line, actually. Line 1, if you will -- it should be -- well, it's, yes, in the next few months, operating.

Jeffrey B. Straubel
Chief Technology Officer

And that first instance would be achieving full volume in the first -- in Q3.

Colin William Rusch
Oppenheimer & Co. Inc., Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Well, yes, Jason?

Jason S. Wheeler
Former Chief Financial Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. It's particularly asset line essentially. That's almost entirely finished product in transit to a customer and to a noncustomer. So it's not general corporate debt. It's just like we finished the car, and it's got to be transported to a customer overseas. And it may take 4 to 8 weeks to get there.

Jason S. Wheeler
Former Chief Financial Officer

That's right. And that cash has been largely realized [indiscernible]

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes, yes, yes, exactly..

Colin William Rusch
Oppenheimer & Co. Inc., Research Division

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

Jason S. Wheeler
Former Chief Financial Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

And that's separate from general borrowing capacity.

Jason S. Wheeler
Former Chief Financial Officer

Yes, nonrecourse debt.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes.

Colin Langan
UBS Investment Bank, Research Division

Okay. I'll take the rest of it offline.

Operator

And our next question comes from the line of Tyler Frank with Robert Baird.

Tyler Charles Frank
Robert W. Baird & Co. Incorporated, Research Division

Elon, I guess this is for you. Taking a step back, looking at the bigger picture, you previously talked about producing 1 million units per year by 2020, and that's 500,000 units in 2018. How confident are you now in both of those targets? And is there anything that need to be done from the battery perspective side in order to reach those targets? Would you need to build another Gigafactory prior to hitting 1 million units per year in 2020? Or do you think that the current Gigafactory will have enough capacity?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. So the -- depending on what you assume the average pack size is. But if you say it's somewhere around the 60 to 70 kilowatt hour level, then you need 70 gigawatt hours to get to 1 million. And we think -- at the cell level. And then we think the kind of Gigafactory should actually be able to do in excess of 100 gigawatt hours. So that leaves probably a big Gigafactory 1 can manage -- it can support around probably 1 million vehicles a year plus maybe something like 30 gigawatt hours or so of storage depending upon how fast the storage market grows. But we -- I think the storage market has probably grown maybe twice the rate of the automotive business, something like that.

Tyler Charles Frank
Robert W. Baird & Co. Incorporated, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

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

Tyler Charles Frank
Robert W. Baird & Co. Incorporated, Research Division

Okay. And then just a quick follow-up. Obviously with Jason leaving, it seems a little bit abrupt, but obviously, Deepak is welcome back. How -- should we think of this as a permanent situation? Or how should we be thinking about the CFO position going forward?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

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

Operator

And our next question comes from the line of Rob Cihra with Guggenheim Partners.

Robert George Cihra
Guggenheim Securities, LLC

I just wondered if I could ask little more about the CapEx. I know you're talking about sort of CapEx up until Model 3. But can you give us any kind of breakout for -- maybe for if you just did it in percentage terms looking throughout the year, how much CapEx you're thinking for Model 3 versus Gigafactory and versus Solar?

Jason S. Wheeler
Former Chief Financial Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

And solar glass, the solar glass tiles.

Robert George Cihra
Guggenheim Securities, LLC

Yes. So I just -- if I could just ask one more. So on that solar glass tiles, I mean, is that -- you are looking to start production, I guess whatever, later this year or ramp capacity? I mean, is that a meaningful amount of CapEx for that? Or relatively speaking, it is not?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Relatively speaking, it's not.

Jeffrey B. Straubel
Chief Technology Officer

It's pretty modest.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

[indiscernible] we're seeing sort of what are insane numbers for Model 3 and Gigafactory. It [indiscernible] by comparison.

Jeffrey B. Straubel
Chief Technology Officer

And we'll be scaling that in the Buffalo solar -- Tesla solar factory. So it's helpful that, that facility already exists so we don't have to invest in CapEx for a new factory or something like this. And also, frankly, a lot of the equipment already exists and is already purchased. So it's quite minor.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes.

Jeffrey B. Straubel
Chief Technology Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Think of it as a percentage of the Model 3 CapEx.

Robert George Cihra
Guggenheim Securities, LLC

All right, great. And then if I could just ask a quick follow-up. I think it -- someone started to ask it earlier but I don't think it was answered, which was just if you knew when or -- I'm sure you know but if we knew when you're going to start opening customer configurations for Model 3?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Probably going to be pretty close to production. We'll open it internally because sort of the first cars will go to Tesla employees and some investors as well that have been with Tesla so that -- so we can experience any challenges before customers do. So we'll obviously do it internally sooner than we would do it externally. So I think it's probably 3 or 4 months away.

Operator

And our next question is from the line of Jeff Osborne with Cowen and Company.

Jeffrey David Osborne
Cowen and Company, LLC, Research Division

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

Jason S. Wheeler
Former Chief Financial Officer

To answer, there is no solar securitization in Q4. There was one in Q1.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes. And I know we're busy building up the stamping facility right now. The other question is whether the time [indiscernible] that stamping line will be here, it's going to be here in advance of the Model 3. But it's like the question is really how long does it take to work out the bugs in the stamping line and how many iterations of this we'll have to go through to get it operating smoothly. But it will all be here and it will be a hive of activity. And I'll be personally down there, looking at the line, as I was when we put the Model S line and [indiscernible] that I don't think that's going to be an issue. There are some long lead stamping tools, the stamping dies, and there's a lot of them. And there is some sort of -- some fairly obscure sounding dyes, like the -- like one dye for, like, seat frame that -- it's currently a long lead item. But since we know about it, we're attacking it, and that's unlikely to be a scheduled driver. So things that are likely to be schedule issues are things that we actually just don't know about today. Things we know about, we're attacking vigorously.

Operator

And our next question comes from the line of Charlie Anderson with Dougherty.

Charles Lowell Anderson
Dougherty & Company LLC, Research Division

Just a quick one from me on Gigafactory. In the shareholder letter, you talked about Gigafactories 3, 4 and possibly 5. It sounds like you're pretty covered with Gigafactory 1 in terms of the 1 million vehicles, but I wondered if you could speak to the strategy and thinking and timing there. And then also, Panasonic would be your partner on those as well?

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

I think we'll reserve, keep some powder dry for those announcements later this year. There's probably more than enough news for today and I think -- but I think those announcements will be really quite exciting later this year.

Operator

And our next question comes from the line of Rod Lache with Deutsche Bank.

Rod Avraham Lache
Deutsche Bank AG, Research Division

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

Jason S. Wheeler
Former Chief Financial Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

I mean, there's obviously going to be a fair bit of incremental investment to go from 5,000 cars a week to 10,000 cars a week, but it's going to be a lot less than getting to 5,000 cars a week in the first place. We don't know exactly what that's going to be except I'm confident it will be less because the first thing we will try to increase our output is -- going back to rocket equation is to increase exit last year with the line, and we don't know exactly where the 2 points are going to be. We try to model it out as carefully as possible, but there'll be things that aren't captured in the model and -- but I think in a lot of cases, we'll simply be able to run the lines faster as opposed to duplicate the line and that's like, by far, the best CapEx maneuver, is just to make it go faster but -- I would say it's going from 5,000 to 10,000 is probably -- it's a total wild ass guess. So that's the way we think about it, but it's like 30%, 50% to 70% of the cost of the 5,000 line, something like that. [indiscernible] get lucky and smart, that's the -- that's only half again, which obviously is pretty awesome from a CapEx standpoint. I can't imagine it being more than about 70% as much as the original. And J.B., what do you think?

Jeffrey B. Straubel

Chief Technology Officer

Yes, that -- I think that's right. And it's really helpful to realize that a lot of the infrastructure investments to get all the way to 10,000 are already completed, Gigafactory, in particular. So it's not as if -- even as if we're starting from scratch. It's to go from 5,000 to 10,000.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

That's true. I mean, some things where it's like -- well, you can spend 10% more, like in a really good case. You spend 10% more and have twice as much capacity, and like okay, sure. It's not great in the short term but it's obviously a good thing in the long term.

Jeffrey B. Straubel
Chief Technology Officer

But where there were great efficiencies in the way to lay out a facility, for instance, that there were at Gigafactory. So -- and there, we don't anticipate needing to build much new square footage, for instance, to go all the way to 10k even though we would be expanding the internal production lines while we speed them up. And add new instance of the production, the Tesla CapEx would not be a 1:1 scale, not even close.

Rod Avraham Lache
Deutsche Bank AG, Research Division

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

Jason S. Wheeler
Former Chief Financial Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Well, in parking because we can't fit people in the building.

Jason S. Wheeler
Former Chief Financial Officer

Yes.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

It seems like that's the only concern but, like, we're -- it's really quite difficult.

Jason S. Wheeler
Former Chief Financial Officer

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

So parking is, like, one of my biggest nightmares, like where do we park everyone? And it's like -- yes, you can't fit everyone. So we have to make our OpEx better because there's nowhere for people to go.

Jason S. Wheeler
Former Chief Financial Officer

So we're right at the stage now where G&A will continue to scale sublinearly with revenue. And we'll continue to always push productivity, productivity, productivity. And then we'll obviously continue to make investments on the sales side. And even in my new adventures, I'll be calling Jon and asking him about his numbers.

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

Yes, it's [indiscernible] from a demand generation standpoint, like we don't actually need to make actually any investment for Model 3 in the year, probably for the next 12 months. So the -- it's actually, the delivery of the cars that -- where the investment is needed [indiscernible] deliver 3 or 4x as many cars, but we don't have 3x or 4x as many delivery centers. So how do we make that delivery process more streamlined, less paperwork, less bureaucracy, get people at a time, really well-produced instruction videos for how to use their car, although of course, the best instruction would be not having instructions. And you'll actually be able to like, play all of the instruction for your car on your car. So if you don't want to have [indiscernible] look at that. If you look at your email or get on the car but there's -- a sale is actually demand generation and then delivery of the car. It's -- that's also part of sales of [indiscernible] part and then service. We're deciding on [indiscernible] intervention, like we were -- we increased the design lifetime of the powertrain to -- from roughly 1/4 million miles to, aspirationally, 1 million miles. So that should really help with service and...

Rod Avraham Lache
Deutsche Bank AG, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

It depends on how quickly we want to ramp production to go from 5k a week to 10k a week of Model 3. There could be an argument that you don't want to go to cash flow breakeven or positive because you're essentially -- you're losing a lot of sales. And when you do -- when you calculate the present value of these cash flows, then it's like actually not smart to be, in that case, free cash flow positive. Or you maybe want to be a little negative at least and not give up a huge number of sales because we'd be talking -- the numbers get just so crazy. It's 0.25 million units a year. It's roughly $1 billion a month revenue. And so -- and you double that and there's $2 billion a month advanced. So maybe spending half -- incremental $0.5 billion or -- in CapEx would be a pretty smart move if it advances things by 2 or 3 months.

Rod Avraham Lache
Deutsche Bank AG, Research Division

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

Elon R. Musk
CEO, Product Architect, Chairman & Co-Founder

It's within our control. I mean, like, if we were to just level off, we could be cash flow positive right now. Obviously, we're in the sort of low to mid-20s on gross margin in the car. At a $10 billion a year run rate, that's $2 billion to $2.5 billion. So we could definitely be profitable and cash flow positive at that level, but then our growth rate would be way slower. So it's kind of just really like a series of overlapping [indiscernible] NPV streams, like that's obvious the obvious way to look at it. And by the way, guys, it would be great to get some feedback if you think we're not making a smart move. Please tell us, like we'd love to hear your feedback. We'll definitely not going to hit the bull’s-eye every time. We're going to make mistakes. And hearing feedback from you would be great.

Operator

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

Jeff Evanson
Vice President of Investor Relations

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

Operator
Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.