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# Tesla, Inc. NasdaqGS:TSLA

## FQ2 2015 Earnings Call Transcripts

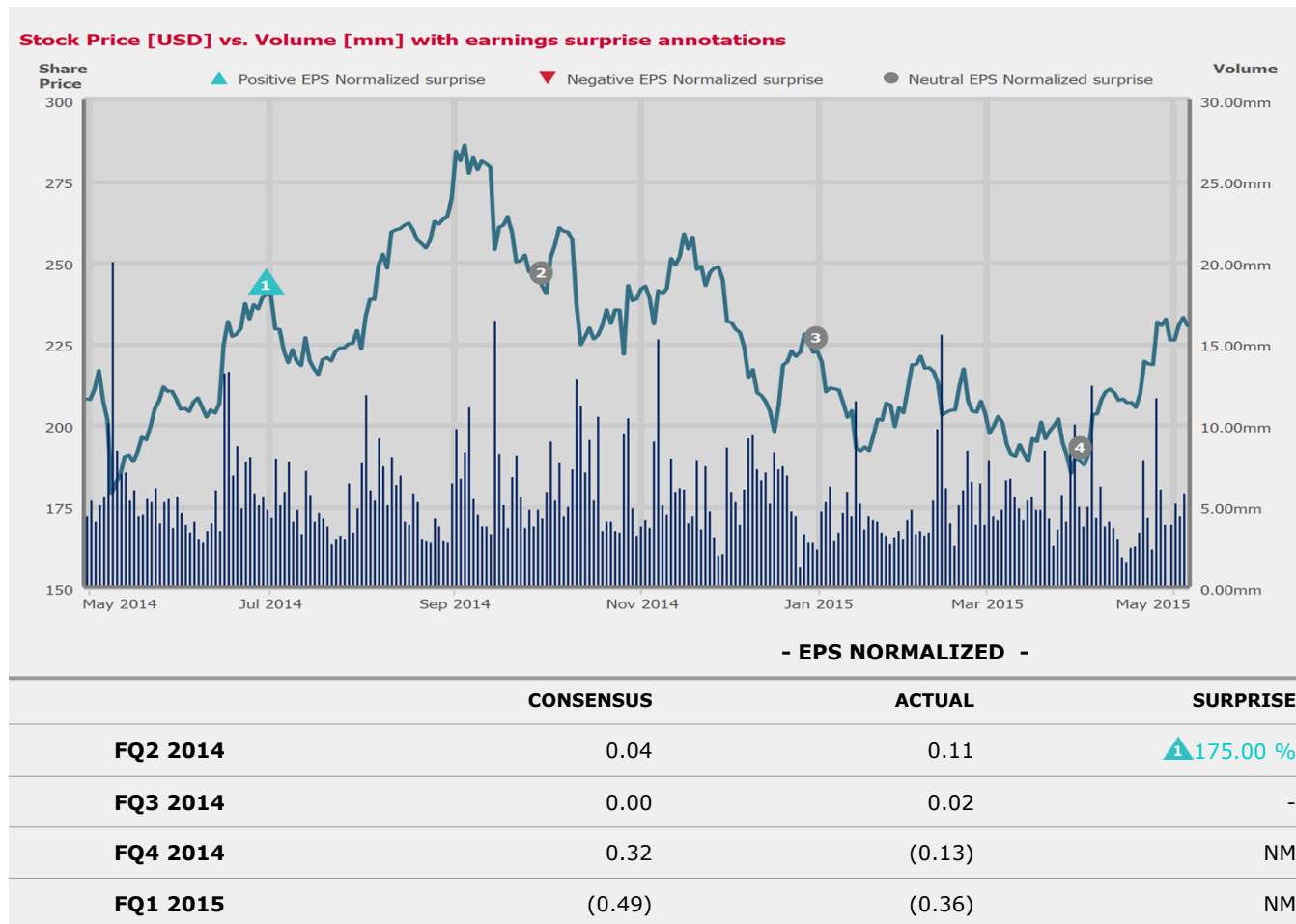
Wednesday, August 05, 2015 9:30 PM GMT

## S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	(0.62)	(0.48)	NM	0.00	0.00	3.11
<b>Revenue (mm)</b>	1188.46	1197.12	▲0.73	1452.95	5803.49	8976.58

Currency: USD

Consensus as of Aug-05-2015 9:05 PM GMT



# Call Participants

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## EXECUTIVES

**Deepak Ahuja**

Chief Financial Officer

**Elon R. Musk**

Co-Founder, Chairman, Chief Executive Officer and Product Architect

**Jeff Evanson**

Vice President of Investor Relations

**Jeffrey B. Straubel**

Chief Technology Officer

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## Presentation

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### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Tesla Motors, Inc. Second Quarter 2015 Financial Results Q&A Conference Call. [Operator Instructions] As a reminder, this conference may be recorded. It's now my pleasure to turn the floor over to Jeff Evanson. Sir, the floor is yours.

### Jeff Evanson

*Vice President of Investor Relations*

Thank you, Huey, and good afternoon, everyone. Welcome to Tesla's second quarter Q&A webcast. I'm joined today by Elon Musk, Tesla Chairman and CEO; J.B. Straubel, our CTO; and Deepak Ahuja, Tesla's CFO.

Our Q2 results are announced in the shareholder letter at the same link as this webcast. As usual, the letter includes GAAP and non-GAAP financial information and a reconciliation between the 2.

During our call, we will discuss our business outlook and will make forward-looking statements, which 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 Form 10-Q filed with the SEC.

And now Huey, let's go to the first question, please.

## Question and Answer

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### Operator

[Operator Instructions] Our first question will come from the line of John Murphy with Bank of America Merrill Lynch.

### John Joseph Murphy

*BofA Merrill Lynch, Research Division*

Just a first question on the pre-owned program. It seems like there's a fair level of success there with \$20 million in revenue. I'm just curious if you could mention how many vehicles were sold through that program, how many units remain in inventory there. And if we think about how that inventory is restocked, sort of what percentage of new unit Model Ss that are purchased are accompanied by a Model S trade-in?

### Elon R. Musk

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

All right, one second.

### Deepak Ahuja

*Chief Financial Officer*

John, Deepak here. Firstly, we just kicked off the program in April, so it's actually been pretty heartening to see how it's done so far. And to keep it at a high level, we're actually selling these cars at a faster rate than we are getting these trade-ins to come in. So as this program picks up, it's going to really be a successful program, and it's creating good demand for us on the pre-owned side.

### Elon R. Musk

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, I'd hesitate to make predictions based on such early history. But I mean, I think there's room for optimism in the future here because these are obviously very low -- we're not going to have to make the cars. So we're essentially getting a commission on selling the car, and it's very capital efficient. So I think there's some upside potential there, but nothing we want to sort of really make predictions on until we have more history.

### John Joseph Murphy

*BofA Merrill Lynch, Research Division*

Okay. Maybe to think about it sort of in terms of -- I mean, every vehicle that's going into this pre-owned program, I would imagine, is accompanied with a new Model S sale. I'm just trying to understand how the acquisition process is working.

### Deepak Ahuja

*Chief Financial Officer*

Absolutely, yes. Yes, we accept a trade-in only when that customer is buying a new Model S, if that's what you're trying to suggest.

### John Joseph Murphy

*BofA Merrill Lynch, Research Division*

Yes, that was sort of what I was trying to get at and understand the percentages, but I guess it's too small right now to be too material.

### Deepak Ahuja

*Chief Financial Officer*

Yes.

**John Joseph Murphy**

*BofA Merrill Lynch, Research Division*

The second question, as we think about the referral program, an interesting marketing angle here. Just wondering if you can sort of juxtapose what you think the ultimate cost was. It looks like it's about \$2,000 all-in versus your acquisition cost per customer. I'm just trying to understand where you're going to save money and how this makes the sort of the customer acquisition process more cost effective.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Well, it's not necessarily making it more cost effective. It's intended to be somewhat of a wash so that if we achieve a \$2,000 savings, we essentially pass that on to the end customer. And we don't know what that's really going to look like until the program is complete, which is sort of almost 90 days from now. Our early indications are quite positive, but obviously, for this 90-day period, there's going to be some overlap where we essentially incur dual expense for -- because we're not -- we still have all of our stores and we're -- have the referral costs. So I don't think it's going to have a big impact on our numbers, but it's -- there will be some dual expense because there's no way -- you have to kind of run these experiments in parallel, so there's really no way to do it otherwise.

**John Joseph Murphy**

*BofA Merrill Lynch, Research Division*

And how did you build up the \$2,000 acquisition cost? Because as you mentioned, it seems like there's lot of fixed costs that wouldn't get taken out that quickly in the test phase. I'm just trying to understand how you think about that \$2,000 number and how you come up with that.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, it's not taken out in the test phase. It's to inform our long-term decision in terms of how many stores should we open. The store [indiscernible] demand generation item. And in order to understand should we do a lot of stores, a small number of stores, somewhere in between, we kind of need to know how this referral program -- how effective our program is. If you can think of some other way to do this that we're not aware of, we'd love to hear about it.

**John Joseph Murphy**

*BofA Merrill Lynch, Research Division*

Sure, we'll brainstorm on that. Then just lastly, as we think about the cash burn in the quarter, but also the setup of the credit lines, it seems like you guys are recognizing that at some point down the line, there might be a need for a capital raise. Would you consider an equity raise in the market? Or do you think these credit lines are enough to lean on for now before you ultimately have to make a decision on raising capital in the next 12 to 18 months?

**Deepak Ahuja**

*Chief Financial Officer*

Yes, we only drew down \$15 million on our credit lines, so we have sufficient lines available. And that's expandable, too, to \$750 million, which gives us some comfort that we can be close to \$1 billion as we go through the year. And clearly, as X ramps up and gets to a steady state, it enables us to generate free cash flow. So we feel pretty comfortable overall on that front, and we'll just take it as opportunities come in the future.

**John Joseph Murphy**

*BofA Merrill Lynch, Research Division*

So Deepak, do you think as you go through the launch of the Model X and ultimately the Model 3, that you'll turn cash flow positive at the right point where you might not need to do a capital raise going forward? Is that kind of how you're thinking about this with the credit lines on top?

**Deepak Ahuja**

*Chief Financial Officer*

Yes. I mean, we are comfortable with the cash levels, I'll put it that way.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

I don't think that -- there's not a need to raise equity capital. There may be some value in doing so as a risk reduction measure. But to be clear, what Deepak is saying is that even in the absence of any additional capital generation activity, we would have in order of \$1 billion through the year. Basically, that will be our minimum cash position.

**John Joseph Murphy**

*BofA Merrill Lynch, Research Division*

No, I think the risk reduction function you mentioned is probably the most valuable, and that's kind of why we're asking about that. When you look at the cash burn and how the capital markets sometimes shift very quickly, it just seems like an opportune time to take advantage of what you might need in the future. So that's why we're asking.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes. So I mean -- I think we're in sort of the same sort of mind frame as you are.

**Operator**

Our next phone question will come from the line of Rod Lache with Deutsche Bank.

**Rod Avraham Lache**

*Deutsche Bank AG, Research Division*

A couple of questions. First, maybe you can just elaborate a little bit on the drop in the forecast from 55,000 to 50,000 to 55,000. Is there some aspect of the Model X launch that isn't what you projected? It doesn't really sound like this is related at all to the backlog of orders from Model S.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Correct. I mean, we do think that it's going to be quite a challenging production ramp on the X. And if we are faced with a choice of -- to deliver a great -- we only want to deliver great cars. So we don't want to drive to a number that's greater than our ability to deliver high-quality vehicles. And the nature of the production ramp, which is basically an exponential ramp that then becomes an S-curve, is basically for every week, the longer it takes to climb up that exponential is about an 800-vehicle reduction of the X. But that's why we sort of we do want to emphasize the longer term, longer term really just meaning like Q1 next year type of thing for long term. I think one gets a better picture of the business just sort of thinking about that. And that's where we feel really highly confident of the 1,600 to 1,800 combined production of S and X, and both production and demand.

**Rod Avraham Lache**

*Deutsche Bank AG, Research Division*

Okay. Was there an adjustment from something like 2,000 units a week to that 1,600 to 1,800? And are we thinking about like a 48-week production year? Or are you thinking about this in terms of the full calendar year?

**Elon R. Musk**

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*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, so that's a good question. It's like -- they are -- yes, that's average over the year. So that means like in a given week, we might go as high as 2,000 to make up for holidays, factory retooling and that kind of thing.

**Rod Avraham Lache**

*Deutsche Bank AG, Research Division*

Okay. Your run rate of gross margin, obviously, it's being affected by a number of things, by launches, by mix, the deferral of Autopilot revenue. Can you just talk a little bit about what are some of the issues there? What is the issue with Autopilot? Would we -- would it be reasonable to expect the margins to rise again to the 25%-plus level once X is out and Gigafactory begins to ramp?

**Deepak Ahuja**

*Chief Financial Officer*

Yes, definitely. Most of the Autopilot deferral, we should be able to recover that later this year and maybe a small portion going to 2016, but difficult to say at this point. And the 2 big issues that have been affecting us, I'd say, is the dollar, the strong dollar, and then the mix, especially as we have started to build 70D and the [indiscernible] Cars recently. The dollar has had huge impact. Just from Q1 to Q2, it took 100 basis out for us roughly. So even after we consider all that and we look at 2016 to say that we'll be at 25% and better, but the mix combined, yes, we should be there.

**Rod Avraham Lache**

*Deutsche Bank AG, Research Division*

Okay. And just lastly, you've had a few more weeks here since the announcement of the stationary storage business. Do you have any additional thoughts on how that's expected to ramp?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes. I want to back this with some degree of uncertainty because this is quite new. And again, we got that challenge of exponential ramp. And then depending on how you move, depending on how the base over the next exponential ramp, the actual numbers within a given quarter could be quite different. But the demand has been really crazy, so it's well in excess -- I mean, if you just take the reservations that we made thus far, it's for well over \$1 billion worth of Powerpacks and Powerwalls. And that's with no marketing, no advertising, and no sales force to speak of really. We're not trying to sell it. It's basically a presentation and a webcast and 30 minutes of press Q&A. So there's probably room to improve. The -- so this is -- I mean, we're really, we're basically sold out of what we could make in 2016 at this point, and assuming these orders are real, which we assume to be. So we're looking at maybe -- again, tracked this with a point [ph] of uncertainty, 40 million to 50 million in stationary storage in Q4, and maybe as much as 10x that number in -- for next year. So it's 40 million to 50 million this year and 10x that next year. And I mean that growth rate is probably going to keep going at quite a level. It's probably at least a few billion dollars in 2017. But it's only speculative at this point, but I think that's likely. So it's sort of growing by half order of magnitude to an order of magnitude per year.

**Operator**

And our next question will come from Trip Chowdhry with Global Equities Research.

**Trip Chowdhry**

*Global Equities Research, LLC*

A couple of questions regarding the validation units. I was wondering regarding Model X, do we have a general ballpark number in terms of how many validation units we may have to produce before the robots become smart enough?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

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I'm not sure I totally understand your question.

**Trip Chowdhry**

*Global Equities Research, LLC*

Like when we had the Model S retooling, we created few a Model S validation units, I think probably around 40 or 50 units, which were used to train the robots. So before the product really goes into production, I do believe there are some validation units of the car that are produced so as to train the robots. I could be wrong, but that's my understanding.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

No, that's true. There are actually -- it's a little bit more complicated than that because there are parts of the factory that are much more automated than other parts. So in terms of the programming the robots, it varies quite a bit in terms of how much program there is, how difficult their programming is. But we actually have now produced several Model Xs off the Tesla production line. But this is a complex machine with several thousand unique components. So there are still a lot of low-volume parts from the suppliers on the Model X. But with each week, we keep building more and more Xs off the line with greater and greater product maturity. And then as [indiscernible], we expect to draw our first delivery of production Model Xs at the end of next month.

**Trip Chowdhry**

*Global Equities Research, LLC*

I had a question on the Autopilot. I was wondering, are you aware of this research paper from LX [ph]? I think they also call it LX [ph]. In 2 conferences we ran, they talked a lot about image classification, especially with Nvidia. And if you haven't heard about it, that's fine. But if you have heard about it, I was wondering, are we working with some similar technologies with Autopilot? Or are we doing everything in-house in terms of image recognition and auto sharing?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

The overall system is designed by Tesla, but then there's components from a number of other suppliers. The Autopilot that -- or the orders there -- Highway autopilot essentially is using a combination of the forward camera, forward radar, the side ultrasonics and then the GPS navigation system. So it integrates those 4 systems in order to autosteer on the highway. And yes, so that's sort of what we're working at the final details on. We're targeting release to early-access customers on August 15. And then depending upon how that is received and what issues we encounter in different parts of the world, we expect to go to wide release our Autopilot and autopark in 1 to 2 months after that.

**Trip Chowdhry**

*Global Equities Research, LLC*

Last question I have regarding the calendar year 2016 production. I was wondering, in 2015, this current year, we are having a few retooling and getting the assembly lines, or I should say the production lines of Model X and Model S a little up and coming. Do we see any similar disruption happening in 2016? Or are pretty much straight? And when we will put the Model 3 line in place, it will be completely isolated from Model X and Model S?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

There are periodic down periods in order to do equipment maintenance, where that can't be accomplished in, let's say, on a Saturday, Sunday. But we're not anticipating any significant downtime for S and X. It's just sort of like maybe it's 1 or 2 weeks out of the year, something like that. And because we do productivity improvements to reduce the production costs, and yes, just general equipment maintenance. For the Model 3, we really are doing our best to make sure that it does not affect S and X production. We don't currently anticipate it affecting S and X production in 2016, but there may be some effect in 2017.



**Trip Chowdhry***Global Equities Research, LLC*

If I may squeeze in one more. You did mention that Model X production is challenging. Like there's a difference between saying doable and undoable, and everything is challenged in the world. Like I was wondering like we have a control over this challenge because every problem is -- if it's not -- we'd never enjoy something not challenging. Are you saying it somewhat challenging like it is out of control, or challenging because you are enjoying doing it?

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Well, I think there's -- some things are definitely a lot more challenging than others. And the Model X is, I think, particularly challenging car to build, maybe the hardest car to build in the world. I'm not sure what would be harder. But it is an amazing vehicle, and I think it's going to blow people away.

**Operator**

Our next question in queue comes from Adam Jonas with Morgan Stanley.

**Adam Michael Jonas***Morgan Stanley, Research Division*

First question, Steve Jurvetson was recently quoted saying that Uber CEO Travis Kalanick told him that if by 2020, Tesla's cars are autonomous, then he'd want to buy all of them. Is this a real -- I mean, forget like the 2020 for a moment. But is this a real business opportunity for Tesla supplying cars to ridesharing firms? Or does Tesla just cut out the middleman and sell on-demand electric mobility services directly from the company on its own platform?

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

That's an insightful question.

**Adam Michael Jonas***Morgan Stanley, Research Division*

You don't have to answer it.

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

I think -- I don't think I should answer it.

**Adam Michael Jonas***Morgan Stanley, Research Division*

Okay, let's move on. Second question is, there's been -- sometimes you can tell more from a non-answer than from the answer. There's been a lot of excitement about mapping technology for autonomous and semiautonomous applications, with a German consortium bidding firm for here [ph] Nokia's business. So I'd love to hear your views, Elon, on how you view Tesla's mapping capabilities. Is this something you need to license -- continue licensing from outside vendors? Or can you use your own unique connected machine learning suite to build your own mapping capabilities and be self-sufficient? Or you'd rather not answer that one?

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Well, the fact of the matter is there is not publicly available data that is sufficiently accurate for Autopilot as far as navigation data, street data. It's too coarse. So it looks like we don't really have much choice but to create our own data set for driving in order to -- in the long term in order to provide a high quality Autopilot experience. But yes, I mean, that's just the only way we can think of to do it good.

**Operator**

Our next question in queue will come from Ryan Brinkman with JPMorgan.

**Ryan J. Brinkman**

*JP Morgan Chase & Co, Research Division*

First question is, I'm just curious what the new guidance for a range of deliveries, 50k to 55k versus 55k prior. What does that mean, if anything, for the earlier target of free cash flow breakeven in 4Q? Is that something we should think about maybe more in 1Q '16 then?

**Deepak Ahuja**

*Chief Financial Officer*

Certainly in 1Q, we will be free cash flow positive. Q4, it's hard to predict given that range. Certainly towards the end as Model X deliveries are ramping up, we will be. But then, if you look at the full quarter, it's somewhat a close call.

**Ryan J. Brinkman**

*JP Morgan Chase & Co, Research Division*

Okay, okay. That's helpful. And then last question, it seems like we've seen a number of announcements in the third quarter now by utilities and other companies about using your Powerpack, companies like Amazon, et cetera. I'm curious how much of the Tesla energy business do you now expect to generate from corporate or institutional demand versus more retail customers? I'd be interested too if this mix and expectation, if it's changed over time at all since you first debuted the product.

**Jeffrey B. Straubel**

*Chief Technology Officer*

Sure. This is J.B. We're getting a little bit better sense of it, but it's still early days. And I think initially, we thought that the majority of the business would be the Powerpack and the commercial or institutional business. And we've actually been a bit surprised at how strong Powerwall, the retail demand is and the interest is. So again, it's hard to guess at numbers, but I would say that we're perhaps in the -- -- maybe not quite close to 50-50, but I think 70% perhaps Powerpack.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, it's really early days. Because a big dependency here is when someone orders the Powerpack, how many Powerpacks do they order? And so Powerpacks sort of 100 kilowatt hours, and industrial and utility customers may order as many as 100 or 200. I'm not sure how our biggest order went so far. Is it like 200?

**Jeffrey B. Straubel**

*Chief Technology Officer*

It's [indiscernible] that, yes, on that order of magnitude.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, yes. So I think our biggest one is around 250 or so. So the -- yes, it could be quite a large, in terms of kilowatt hours, quite a large amount going in the direction of Powerpack. In terms of unit volume, the Powerwall would be the greatest. But the likely thing for Powerwall is somebody is going to order maybe 1 to 3, maybe it's an average of 1.5 or something like that, whereas Powerpack could be an average of 5 to 10.

**Jeffrey B. Straubel**

*Chief Technology Officer*

Yes, and I think as the market grows and as we go further into the future, we're going to see more and more total energy demand coming from Powerpack. That's still our expectation.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, exactly. I mean, one thing to understand. [indiscernible] drawing this a little bit that for stationary storage, the fundamental economics of cost are always true, meaning that there's always a cost advantage to someone -- to a systemwide implementation of stationary storage because of the high peak to trough electricity usage. So if you have buffering, which is what a stationary storage allows for, then you only need your power plants to operate at the average energy usage, which means that you can basically, in principle, shut down half of the world's power plants if you have stationary storage. This is independent of renewable energy. It does not matter whether you have solar panels or wind. This is just being able to shut down half of your power plants if you have buffering. Because you can then have your power plant output at the average of what is needed by the consumers. It seems like sometimes people link this too much to renewable energy. Of course, we're huge believers in renewable energy, but that is not the gating function of demand for stationary storage, stationary storage is really as compared to existing power plants. And depending on the country, that may be represented at -- as a price to the user of the electricity. So for example in Germany and Australia, there is time-based cost of electricity. It's going to cost more sometimes today than others. Whereas in most of the U.S., you just have a meter that's taking over. So it doesn't differentiate between, say, day use of energy or night use of energy. So in places where the price represents the cost, the Powerwall makes economic sense. But the Powerpack makes sense everywhere.

**Operator**

Our next phone question will come from Patrick Archambault with Goldman Sachs.

**Patrick Kenehan Archambault**

*Goldman Sachs Group Inc., Research Division*

I just wanted to follow up on the Autopilot, and I'm sorry if you guys have said this. But can we talk a little bit more about the capability that that's going to bring? Is that kind of a hands-off feet-off kind of product that would be somewhere close to like NHTSA Level 3? Or are we just talking about kind of more lane keep assist and forward collision warning, that sort of stuff that, that would still be kind of 1 to 2? Let me just start off with that question.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, I'm not sure I'm familiar with what the various NHTSA levels mean, but I'll tell you what it will translate to in initial Autopilot. But we don't want to set the expectation that it's -- that you can just basically pay no attention to what the car is doing. We do want to set the expectation that it's much like the autopilot in a plane, where you turn the autopilot on in a plane but there's still the expectation that the pilot will pay attention to what the plane is doing and won't sort of go to sleep or disappear from the cockpit. So we don't want to set that expectation with the consumers. That said, in terms of what the capability of the system is, I think its capability in steering and control of acceleration and braking is excellent when it has a tracking vehicle in front. And you can basically have high confidence in steering, braking and acceleration basically when you're in some kind of traffic situation, where there's a car in the road in front of you. I think it's pretty good in the absence of that. So if there's just lanes, it's pretty good, and then it will get better over time as we refine the software. So we certainly don't take the initial version of Autopilot as the final version. It will just get better and better over time. Just with software updates, just with software updates, to be clear.

**Patrick Kenehan Archambault**

*Goldman Sachs Group Inc., Research Division*

And then I take that there's some kind of human-machine interface thing that keeps you focused and beeps if you try and use your BlackBerry or something.

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

That's still something that we're debating. And I think we want to see how well the access program goes. That's basically our public data. And based on that, we'll set the warning levels, yes.

**Patrick Kenehan Archambault***Goldman Sachs Group Inc., Research Division*

Got it. More of a guidance question. It was touched on earlier that the 1,600 to 1,800 is down from I think what was being floated around as 2,000 for next year's production level. I get that the production overall might be lower based on a slower ramp. But is there something structural that's keeping you from hitting that 2,000 on a run-rate basis, understanding that you can kind of surge to that at certain points? Is there something that you've kind of been preparing for the launch, you've realized that you're just not going to have the capacity that you thought you would have?

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Frankly, the main thing is we don't want to set high expectations. And then -- the only way for us to feel good about the future is that if we exceed really high expectations. So it's sort of like winning needs to feel like winning, if that makes any sense. So that's really what why we're sort of setting these numbers, all right. Could we do 2,000? Aspirationally, yes. Do we want to commit to that? Ideally not.

**Patrick Kenehan Archambault***Goldman Sachs Group Inc., Research Division*

Got it. I understood. Just setting the bar at achievable levels is something that makes sense. And then just last one for me, like an accounting issue. I think there was like a \$0.10 gain or a \$0.13 gain on like FX revaluation, like -- I don't know, Deepak, I didn't know what that was exactly.

**Deepak Ahuja***Chief Financial Officer*

Yes, that's driven by our balance sheet currency and receivables revaluations that happened at the quarter end exchange rates. It's not really -- it's not representative of what happens during the quarter, during the middle of the months. And based on where the exchange rates were, we had good news this time from that revaluation. Clearly, as you are aware, Q1, we had significant bad news. And if you really net it throughout on a full year basis, it's a small number.

**Patrick Kenehan Archambault***Goldman Sachs Group Inc., Research Division*

Okay, I got it. So it's just the impact of transactional stuff sequentially?

**Deepak Ahuja***Chief Financial Officer*

Yes. Okay. Just to clarify, there's translational and transactional in the sense that we have foreign currencies on hand, which we are translating to dollars at quarter end, and that impact has to flow through income.

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

But we haven't actually done the exchange.

**Deepak Ahuja***Chief Financial Officer*

Yes, yes. It's unrealized. There is some realized portion that happened during the quarter. Most of it is unrealized.

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes.

**Operator**

Next question comes from the line of Emmanuel Rosner with CLSA.

**Emmanuel Rosner***CLSA Limited, Research Division*

I wanted to start just with a quick math question. So your comment suggested that the -- if there's any sort of delay towards the end of Q4, this would have an impact of about 800 Model X units per week. And then you're also guiding to about 1,600 to 1,800 combined volumes of production per week next year. Does that just simplistically mean that you're targeting the mix to be roughly 50-50 between X and S right from the get-go in 2016?

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

It does. Although it's -- I wouldn't put too much precision on that because what we're going to try to do is to push the production slightly more in the direction of X because people have been waiting for a long time for their cars. And then in any given month, it could be 60-40 one way or the other. If you look at worldwide demand for SUVs and sedans, it's almost dead even at 50-50. And in some regions, sedan's a favorite; some regions, SUV is a favorite. But generally it's, on a worldwide basis, 50-50. But it is difficult for us to say exactly what the S, X demand ratio will be until the car is out there and people are experiencing it and we see what the relative order volume is. But we have so many advanced orders on the X that that's something -- are not going to be an issue in the early days and we are going to try to get people their car as fast as we can.

**Emmanuel Rosner***CLSA Limited, Research Division*

Okay. So I understand the demand aspect but I guess from a production capacity point of view, you think that as of early 2016, you could theoretically have as many X as Model S that's being produced?

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes. I mean to sort of put our cards on the table here, we're setting factory capacity to be 1,000 Ss and 1,000 Xs per week. This is capacity -- what -- actual production and capacity are not exactly the same thing. So there's always some percentage lower than the capacity that is -- or like occasionally, you may hit capacity, but it's hard to maintain capacity. But our goal is -- what our internal plan is, I can tell you, is that we want the factory to be able make up to 1,000 Xs, up to 1,000 Ss per week next year and -- in terms of capacity. And then actual production, it is affected by real world issues, so there will be maybe some weeks where there is 2,000 produced and some weeks where there's very few produced because we've got factory tooling situations, hence, the 1,600 to 1,800 average over the year that we're predicting.

**Jeffrey B. Straubel***Chief Technology Officer*

It would be fair to say the goal of the factory is to not just produce cars, but it's to produce cars with the right cost and the right quality.

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, yes. But particularly, I mean once we hit steady state, we can certainly do that. But it's just difficult during the ramp phase, yes.

**Emmanuel Rosner***CLSA Limited, Research Division*

Okay, that's very clear. And then one question on China. So very happy to see that your revised strategy is getting some traction. So what exactly are you doing differently there, I guess, besides offering a home charger for the buyers of Model S? Are there any other things you're doing differently in China? And any lessons that you can learn from there in terms of applying that through to other regions?

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Well, China is -- does have a unique set of challenges. For example, there's the whole license plate question. To get a license plate to drive a car in a lot of the major Chinese cities is quite difficult. So whether you have the electric vehicle exemption in a given city or not makes a big difference because if you don't, then people can buy the car but they can't drive it. So we've been -- it's taken us a while but we've been successful in getting EV plate exemptions in -- everywhere except Beijing. And we're optimistic about Beijing. We're seeing Beijing exemption in the future, hopefully, near future. So that's important for China, but not something that one can extend to other parts of the world. The -- I think the -- yes, I mean it's -- I think it's really just that in China, and in most countries, that there is a bit of a slow boat of awareness and confidence in Tesla. And depending upon when we went to market in a particular country, that feeling is going to be at a low or a high stage of maturity. In say, in the U.S., say particularly California, it's a high stage of maturity. The awareness and comfort with Tesla in California is very high. And -- but that's sort of a kind of moderate stage of maturity in, say, the northeast of the United States and still at the low stage in most of Asia. And the same has been true in Europe. Basically, it seems like with every country, you've got to build confidence in the brand over time. And it's -- it just takes time. You can't have it be immediate. And just because people love it in California does not mean they automatically love it in other places. You've got to build confidence over time, yes.

**Deepak Ahuja***Chief Financial Officer*

We have been in China only slightly over a year.

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, just a year.

**Emmanuel Rosner***CLSA Limited, Research Division*

Understood. And then final one just on the Gigafactory. Can you just give us an update on how things are going there in terms of the preparation? And then there was also -- I think you've been mentioning a bunch of hints throughout the months on potentially wanting to add some space there, adding some capacity. Can you talk I guess more precisely in terms of where would we see capacity go beyond sort of the initial stages.

**Elon R. Musk***Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, I'll say a few words and maybe J.B. can weigh in. I mean whenever engaging in speculative comments like this. I think it is important just to remember they are speculative and not a prediction that we would have, say, with very high confidence. But what we have found is -- with the Gigafactory, is that as we spent more and more time on it, we found we've been able to improve the space efficiency of the production and the overall efficiency by more than our initial expectations. So the net result is that we think in the same volume, we can do potentially significantly more output. J.B., do you want to dive around that?

**Jeffrey B. Straubel***Chief Technology Officer*



Yes, I think our plans are still on track and unchanged for the first phases of production to support Model 3 and to support the Tesla energy business. But the ultimate production capability of the site is what we believe can go much higher than we may be initially thought it could. And we do remain on track for construction at the site. We'll have first equipments being installed at end of this year and planning to start production on Tesla Energy products in Q1 2016.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

And in -- for Gigafactory, we're already in production...

**Jeffrey B. Straubel**

*Chief Technology Officer*

Yes, Fremont.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, we're already in production with Tesla Energy products in Fremont, but that production will transfer to the Gigafactory next year.

**Jeffrey B. Straubel**

*Chief Technology Officer*

And expand and ramp significantly.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes.

**Operator**

Our next phone question will come from the line of Brian Johnson with Barclays.

**Brian Arthur Johnson**

*Barclays PLC, Research Division*

I've got two questions, one on the Powerwall -- excuse me, Powerpack opportunity, and another relating back to Model S, Model X. On the Powerpack, I want to get sort of a deeper understanding of where you see your competitive advantage. As I think about simplicity 4 levels of a stack in terms of the utility Powerpack solution with the upper level being sort of the grids. Software to interface with the grid kind of tie in when it's needed, when it's not needed. Second layer is the battery management software and then at the hardware, the inverter and other power electronics followed by the battery itself. Where do you see your advantage at each of those levels? How is it important to play at all of those levels? And how do you interface with some of the existing middle people, you might call them, or consultants in the industry or other software providers who might be providing elements of the stack already?

**Jeffrey B. Straubel**

*Chief Technology Officer*

Look, it's a pretty detailed question. I think one of the -- maybe the high level, one of the biggest benefits that we offer and where we have a competitive strength is having a system that solves pretty much all of those problems together. I think a lot of other people aspiring to be in this market sell one piece among that entire stack, as you're calling it, and then you'd have to go to different companies to find the other pieces. In Tesla, we're integrating all those pieces together for a very turnkey solution that a utility or a commercial customer can just install. I think...

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, basically, plug and play matters even if you're at the megawatt scale.

**Jeffrey B. Straubel**  
Chief Technology Officer

Yes, exactly. And I think, of course, the pricing fundamentals, starting with the battery itself are really the foundation of that. But -- we have a lot of expertise and a lot of know-how in power electronics and software as well that we've built on the car side of the business for many years.

**Brian Arthur Johnson**  
Barclays PLC, Research Division

And how about the software to interface with the grid and determine when to charge, when to discharge?

**Jeffrey B. Straubel**  
Chief Technology Officer

Yes, that's something we're working on now. And we're also working in partnership with many different utilities on this. There's not a -- perhaps a universal point of view on exactly where that control and sort of dispatch should live. A lot of utilities want to be very involved in that themselves. So we're basically setting up the tools and the infrastructure so that they can control in a way that's familiar and the most convenient for them.

**Elon R. Musk**  
Co-Founder, Chairman, Chief Executive Officer and Product Architect

And especially like an API -- it's especially like the API so that their utility system can essentially call -- can put or call power to the pack. And then they can query the pack for information about its status. But as J.B. was saying, like, it does have to interface with quite a heterogeneous set of systems around the world. So that's why you have to have basically an API interface to the pack saying sort of that the utility system can request power or put power to the pack.

**Jeffrey B. Straubel**  
Chief Technology Officer

Yes, and maybe just one more comment. At the commercial level, that is something that Tesla is engaged in much more directly for things like demand management and those type of applications. But it's a bit of a different answer depending on which market we're in here.

**Brian Arthur Johnson**  
Barclays PLC, Research Division

And so how are you giving the utilities comfort with the cycle -- number of cycles and the lifetime of this? Are they sort of taking your word for it? Or is that something they're seeking to explore through pilots and/or their own high-intensity testing of your battery packs?

**Jeffrey B. Straubel**  
Chief Technology Officer

Well, we have a lot of data, actually. It's not -- they don't just have to take our word for it. A lot of these tests have been running for a long time, and we can show them fairly hard cycle data and some lifetime data. So that's been very helpful. And also of course, there's all the sort of field experience from the automotive fleet. That is much bigger than what we're deploying in the stationary fleet and will remain so for a number of years. So having the confidence there and how those batteries have aged and done quite well is extremely helpful in building out our confidence.

**Brian Arthur Johnson**  
Barclays PLC, Research Division



Got it. And just final quick question. Model S, you noted some risk to 4Q depending on what happens with the X ramp-up. Earlier in the year, you talked about a 30% gross margin for the Model S prior to 4Q, of course that was not for 4Q overall. Where do you stand on that 30% internal goal now?

**Deepak Ahuja**

*Chief Financial Officer*

Yes, that 30% goal was before the dollar began to really strengthen at this level. So clearly, that has had a fairly large impact on it. And also, the mix had some impact. Our focus also in the last few quarters has been much more so on Model X. There are various other cost reduction opportunities that we have that we are hoping to get in Q4 but they could potentially get delayed into Q1. We want to make sure they happen right. And we are, at the same time, focusing on X. so I would say, broadly, if we put aside exchange, we see a trend of improving gross margin despite mix over time.

**Brian Arthur Johnson**

*Barclays PLC, Research Division*

Okay. But no longer a hard 30% in 4Q?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

It -- no, not in -- not next quarter basically. But next year, contingent on macroeconomic conditions not going wacky, that seems like a -- potentially an attainable number.

**Operator**

Next question comes from the line of Colin Langan with UBS.

**Colin Langan**

*UBS Investment Bank, Research Division*

Can I just follow-up on some of the numbers you threw out on stationary storage? The \$1 billion, is that orders or reservations? I just want to get a sense of how firm that was. And did you imply that -- it sounds like 400 -- \$400 million to \$500 million for next year? And is it a few billion for 2017 at the storage market? Is that what you said?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes. These are reservations, so you can -- reservation may be an order or maybe not, but that's certainly what people said that they want. The -- yes, so that's over 100,000 reservations have been placed for Powerwall and Powerpack. And of that, there's -- you can suspect that is what the -- how many Powerwalls and how many Powerpacks per reservation. It's likely to be more than 1, so -- particularly on the Powerpack case. So yes, that's what leads us to think \$40 million to \$50 million Q4, maybe 10x that number next year, and then 5x to 10x that number in 2017. But as I said earlier, as we get further away in time, the numbers are more speculative.

**Colin Langan**

*UBS Investment Bank, Research Division*

And where would that put you in terms of market share in storage at that point? Would that have the -- most of the market in stationary storage in 2017?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

We don't really know.

**Jeffrey B. Straubel**

*Chief Technology Officer*

Well, I mean the market is definitely growing very quickly. So it's a bit hard...

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes.

**Jeffrey B. Straubel**

*Chief Technology Officer*

I'd say we're speculating on what the actual entire market is going to do and how that's going to grow. So that's...

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

I don't think you can draw a lot of conclusions from like what is the market -- how many -- how much of the stationary storage was sold last year. Just as the beginning of electric car production for Tesla, people were trying to say, "Well, how many electric cars have been sold -- were sold last year? Almost none. Therefore, Tesla will sell almost none." That's to summarize what the vast majority of predictions were about the Model S.

**Jeffrey B. Straubel**

*Chief Technology Officer*

Yes, the prices that stationary storage was selling at last year, for instance, are so much higher than where they would be -- they will be in 2017 that you can't extrapolate those 2.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, and that amount for stationary storage increases at a sort of quite an extreme exponential as the cost of -- the cost similarity decreases. The mutual issues in things -- like things in terms of levelized cost of energy. And that depending upon where you are in the world, that number, in some places, is very high; in some places, it's quite low. But as you start to approach the average value, the demand basically scales into tera -- multi-terawatt-hour range. So...

**Jeffrey B. Straubel**

*Chief Technology Officer*

Yes, I mean grid parity is kind of the wrong concept here, but it's maybe a somewhat of an analogy to think about.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

And grid parity, the market is staggeringly gigantic.

**Colin Langan**

*UBS Investment Bank, Research Division*

And what is your all-in cost? I know it's \$250 for the Powerpack. I mean, with installation or anything, do you have any estimate of what it actually cost like a commercial utility, all-in?

**Jeffrey B. Straubel**

*Chief Technology Officer*

Well it depends a lot on the scope and scale and how many other pieces that installation are bundled together. So we haven't quoted or listed those numbers since they vary so much from one installation to the next. The battery cost is really what matters most in the economics, so that's where we've listed those prices.

**Colin Langan**

*UBS Investment Bank, Research Division*

I mean any sense of the high-end, low-end range for an installation?

**Jeffrey B. Straubel**

*Chief Technology Officer*

Nothing that we'd be ready to share quite yet.

**Colin Langan**

*UBS Investment Bank, Research Division*

Okay. And then last question. How should we think about the margin profile over the next few years as this ramps? I believe you said Q4 is pretty low. Should that meaningfully improve? And when can you kind of get parity with your gross margin in the auto side?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

We are getting quite speculative about the battery business, but -- Yes, I mean in the early days, the battery gross margins sort of on the order of 15% but over time, that could rise to 25% or maybe 30%. But we just don't know that quite yet. We'd have to look at what the price elasticity of demand is to understand to where should we be pricing and what's the right gross margin to aim for.

**Operator**

Our next question on queue comes from Ben Kallo with Robert W. Baird.

**Benjamin Joseph Kallo**

*Robert W. Baird & Co. Incorporated, Research Division*

As far as the Model X goes, last time, Elon, you talked about configuration in July, and I understand with the slippage. But when can we start thinking about configuring cars if we have orders out there, customers have orders? And then with about a month away from deliveries, when do you expect to show it to people?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

We're probably into upper configuration in 2 or 3 weeks of the X. So that should go live on the website before the end of the month. In terms of the initial deliveries of the X, that's consistent with what we've predicted on the last call, which is end of September.

**Benjamin Joseph Kallo**

*Robert W. Baird & Co. Incorporated, Research Division*

Okay. And then as we look out to the target of 500,000 cars in 2020 and you have some of the things that you've learned recently, do you still stand behind that number? And what gives you confidence in looking ahead to that number and ramping up production?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Sure. I do remain confident about 0.5 million cars in 2020 and maybe being able to exceed that. It's worth noting that -- so 2020, that's 5 years from now. If you go 5 years in the past for Tesla, we were producing 600 cars per year. Now we can produce 600 cars in 3 days. So I think going from here to -- from here to 500,000 cars a year is a much smaller leap than what we did over the past 5 years.

**Benjamin Joseph Kallo**

*Robert W. Baird & Co. Incorporated, Research Division*

Got it. And then when we think about your currency exposure, are you guys -- where are you guys at in thinking about moving kind of manufacturing outside of the U.S? Or any parts of manufacturing? Or additional manufacturing?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Well, it depends on what time frame. In the next few years, we expect to be focused on Fremont and the Gigafactory in Nevada. Long term -- again we're getting very speculative here. But in the 3- to 5-year time frame, it's going to make sense for us to think about localizing production in different markets, having a factory in Asia, a factory in Europe, other factories in North America. So in order to go beyond the 500,000 units a year, that's what we need to do. Our Tesla factory in Fremont and in Reno is -- that sort of size for the 500k level. Might be able to a little bit more than that, but let's say, 500k should be -- we're very achievable. The NUMMI factory -- when it was operating as NUMMI, it would do roughly 0.5 million vehicles a year. So for us to do a similar number is just quite reasonable, I think, without adding new factories. So the new factories would be for going past 0.5 million.

**Benjamin Joseph Kallo**

*Robert W. Baird & Co. Incorporated, Research Division*

And my final question, headline after this call might be Tesla is going to raise capital. Just from your comments, I think that some people are going to walk away thinking that. And I just want to make sure that you guys can set the record straight if that's in the cards in the near term, or if it's not?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

We can't comment on that specifically. So all right, next question.

**Operator**

Our next question comes from the line of Andrea James with Dougherty & Company.

**Andrea Susan James**

*Dougherty & Company LLC, Research Division*

What have you learned or discovered between the time when you set that 55,000-unit goal and I guess now, when you're saying it's better to have some more breathing room on the ramp? And also, I guess one more just along with that, is there any supplier in particular that's concerning you?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

I mean, I sort of -- I don't want to sort of name specific suppliers. But our biggest challenges are with the second row seat. It's an amazing seat, like a sculptural work of art, but a very tricky thing to get right. The falcon wing door actually seems to probably not be the -- not be a critical-path item. There are some interior components, interior trim that are -- possibly on a critical path. So it's very hard to say exactly what lies in the critical path because it tends -- these things tend to play a scheduled leapfrog. And it's kind of a set of constraints that one day, it's this constraint, then the next day, it's another constraint. And the pace of progress is really dependent on which supplier is the slowest and least lucky. So if a supplier has unexpected challenges, which can range from force majeure to somebody having to redo a design because the initial design was wrong. When you have a complex product like Model S with thousands of -- that's dependent on thousands of suppliers, you can say that the pace of progress is determined by the thousandth least lucky and slowest. But if we knew in advance which ones of those would be, we would take action. So the -- yes, it's...

**Andrea Susan James**

*Dougherty & Company LLC, Research Division*

No, that's helpful. I think everybody understands that your -- an investment in Tesla is a company that's learning as it goes along. So it's interesting to see what you're discovering as you attempt to build. The other thing, can you walk us through what you accomplished during the factory shutdown in the quarter? It looks like you really did a lot of work in 1 week. Can help us understand the significance, and then also maybe paint it in terms what you're doing in the factory this year that's going to actually be repurposed or can even be used toward Model 3 production.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes, so the retooling was both for the X as well as for improved efficiency of S production. And I think we got a lot accomplished there. For Model 3, the biggest single item is the paint shop. So the paint shop is sized to be able to do 10,000 cars a week. So we've laid the foundations for that rate in the paint shop. And I think there's also room for significant increases in our foundry in terms of casting. And we've also made a significant investment in stamping and some sort of advanced metal sheet forming technology that isn't stamping. Yes, and J.B., you want to add to that?

**Deepak Ahuja**

*Chief Financial Officer*

I think in plastics and paint, especially paint, we made modifications there on the existing paint shop as we're getting the new one ready. I think we essentially added capacity in many different shops ahead of Model X, which required some production interruption to do it right, including getting our production control and inventory management processes much better. And you just can't do that when production is running.

**Andrea Susan James**

*Dougherty & Company LLC, Research Division*

What about the drive unit, investments in the drive unit manufacturing? Is any of that small drive unit going to be used for Model 3? Or it seems like you're really scaling up there.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

We certainly learned a great deal going from the original Model S drive unit to the small drive unit, what's called the small drive unit. It's dramatically easier to mould. It's much more automated. That said, I think we would -- we will do a further revision for the Model 3 and essentially go to third generation production technology for the Model 3.

**Jeffrey B. Straubel**

*Chief Technology Officer*

Yes. Maybe one thing to keep in mind is the small drive unit, capacity is quite in excess, even of vehicles, because of all-wheel drive. And as that has ticked up, we've increased the capacity of the small drive unit in production that you see as well.

**Andrea Susan James**

*Dougherty & Company LLC, Research Division*

Because you need 2 of them?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Yes.

**Andrea Susan James**

*Dougherty & Company LLC, Research Division*

And then finally, I guess, Deepak, I'd love for you to stay for as long as possible, but I'll just ask this anyway. What's the status of your CFO search?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

We're interviewing candidates all the time. Deepak is part of the interview process. And yes, I think we're -- we're out talking to some interesting candidates. I'm not sure if there's anything more to say about that.

**Deepak Ahuja**

*Chief Financial Officer*

No, I mean, clearly, I'll stay around to ensure there's a smooth transition and we're continuing to talk to lots of candidates and make sure we find the right person to come in.

**Andrea Susan James**

*Dougherty & Company LLC, Research Division*

Okay. Actually, do you have any progress on regional heads of sales? And then that's my last one.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Well, we do have a regional head of sales for Asia. He came to us from EMV. And then there was some press about our head of North American sales who came from Burberry and then -- just because we have like one person from Burberry then people think we're copying Apple, which is ridiculous. He is great but just one guy. And then we're continuing to search for our head of Europe sales.

**Operator**

And we do have one additional question in the queue. It looks like our last question in the queue comes from the line of George Galliers with Evercore.

**George Galliers-Pratt**

*Evercore ISI, Research Division*

I have a strategic question for you. It looks like in the next 2 years, we'll see [indiscernible] new and improved electric vehicles from your peers ranging from mainstream models from Nissan and GM to more premium vehicles from Audi and Porsche. Strategically, how do you think about each electric vehicles from other OEMs? A, do you view them as a scratch and competition [indiscernible] EV market? B, do you view them as contributors to the common cause of raising awareness of EV's overall consumer EV adoption, enhance the EV market size? Or C, given certain [indiscernible] some of the competitor's assets to date, do you actually see them as the opposite, i.e. they form negative prejudice in the consumers' minds with respect to electric vehicles' cost, practicalities and performance?

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

I think it's the first multiple choice I've gotten as a question. I mean, I think if you just look at our comments in the past, what we've said is like we're really excited to see other car companies do electric vehicle programs. What's been done to date is not much. They have generally been fairly small programs and often just set to achieve a regulatory minimum. So that hasn't been great thus far, but I am encouraged by what I see about their future plans. They sound like they're headed in the right direction. And I would be super happy to see the whole industry go electric. And we have open-sourced our patent so those wouldn't be an impediment and but perhaps could be helpful. And yes, it'd be really great if the whole industry would just go electric as soon as possible. In fact -- I mean, our view is that the whole industry will go electric eventually, they really won't have much choice. But the sooner they go electric, the better.

**Jeff Evanson**

*Vice President of Investor Relations*

Okay. I think that was the last question in the queue. Thank you, everyone, for joining us, and we'll talk to you next quarter. Good-bye.

**Elon R. Musk**

*Co-Founder, Chairman, Chief Executive Officer and Product Architect*

Thank you.

**Operator**

Thank you, gentlemen. And thank you, ladies and gentlemen, for joining us today. We hope that you found today's event informative. This will conclude our call. You may now disconnect, and have a wonderful day.

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