

# BETWEEN THE LINES

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## Musk's Behavior is as Volatile as Tesla's Stock

### Introduction

Elon Musk's instantly infamous "bonehead" comments during Tesla's Q1 2018 Earnings Call created quite a stir on Wall Street, helping to drive the company's stock price down 5.5% the following day. Mr. Musk's behavior on the call has been characterized in the media as "odd," "bizarre" and "strange." To us, Mr. Musk's behaviors are revealing. At BIA, we apply our proprietary Tactical Behavioral Assessment® (TBA™) methodology to analyze management teams' statements and provide insight into the completeness, transparency and confidence surrounding all types of business issues. Below, we examine Mr. Musk's statements and unravel the behavioral strategy he employed during the earnings call to avoid providing information and fend off investors' inquiries into Tesla's performance and outlook.

### Not Cool, but Not Boring

The recent Tesla earnings conference call offers a number of behavioral examples that provide additional insight into the issues that Tesla is trying to address. However, this call was unique because, while many of the specific behaviors are frequently observed in earnings calls, we don't often see them exhibited so explicitly.

In general, when information is positive or at worst neutral, people typically do not respond the way that Mr. Musk does in this particular call. They will simply answer the question and provide information to the extent they can (e.g. if it is not proprietary, confidential or restricted for regulatory reasons).

When the information is less favorable, people will try various approaches to give the appearance of being responsive. They may focus on positive aspects of the issue and leave out the negative things. They may imply an answer using an anecdote. They may give an answer, but give themselves some leeway. All of these approaches are behaviorally significant and can lead to further insights into the issue itself.

These are the typical approaches and ones that we see frequently because people usually want to maintain good relationships and appear cooperative. However, when these approaches are exhausted and/or ineffective, people may take a more aggressive approach toward the person raising the issue or the question itself. It can be subtle, such as questioning someone's knowledge of the issue, or it can be more forceful, such as name calling. When someone resorts to this approach, they are trying to get the person to back off and move on to another topic. From a behavioral standpoint, it is significant. It suggests that the information is sufficiently negative or threatening that the respondent is willing to accept the potential downside of being perceived as uncooperative rather than provide the information requested.

Regarding this earnings call, there are a few notable instances where Musk becomes more confrontational. At the start of the call Musk says that he wants "to try to answer as many questions as possible," but immediately adds the caveat "as long as there are good questions to answer." So from the outset, he is likely anticipating that there will be "bad" questions (i.e. ones regarding topics on which he doesn't want to engage with analysts, presumably because the information is unfavorable). Accordingly, he is preemptively reserving the right to skip what he deems to be "bad" questions.

The most talked about exchange is one with Toni Sacconaghi from Sanford Bernstein. Sacconaghi wants to know what is really driving the change in timing of the gross margin ramp and what has changed in management's thinking since their update on the Q4 call. CFO Ahuja reiterates the reasons given earlier for the change in gross margin guidance, but does not specify their

relative importance. In itself, this response would be less concerning, but Musk adds that “we’re only talking about a 3% to 5% difference ... don’t make a federal case out of it.” From a behavioral perspective, this unprovoked reaction is a significant marker of Musk’s concern about the issue and/or the analyst asking it. In other words, this is a “bad” question as Musk defines it. Musk’s dismissive attitude is likely an attempt to minimize the validity of the question and/or Sacconaghi and get him to move on to another topic. In context, management’s response suggests that some of the reasons for the slower ramp are more significant than others.

When Sacconaghi asks about the impact of the reduced capex spending on Model 3 production capacity, Ahuja sidesteps the question and instead implies that there is no impact because the company is “just being much more smarter in many cases” with capex spending. By itself, the response signals that there is likely to be some impact on capacity because if this was not going to be the case, it would have been easier to simply say so.

As Sacconaghi attempts to ask a follow up question, Musk cuts in and abruptly ends the exchange with the now famous “boring, boneheaded questions are not cool” explanation. This is obviously a much more extreme approach to avoiding an issue than is usually seen from management. However, whether subtle or blatant, the intent is the same. While Musk did not know the exact question that was going to be asked, he knew it was going to be related to capex or capital, so his decision to end the exchange at that particular moment indicates that there is something about capex and/or capital that he really does not want to get into.

Musk does the same thing with the next analyst from RBC, who is asking about changes in Model 3 reservations. Management doesn’t even attempt to answer. Musk implies that the question is unimportant because it is “so dry.” Again, if the information was neutral or favorable, management would likely be more willing to answer the question.

It is important to note that these questions are presented in a professional manner, so the behavior of the analysts is an unlikely explanation for management’s reaction, suggesting that it is the issue that is triggering the disproportionate response.

Not only is Musk’s decision to “go to Youtube” an indication of his discomfort with the focus of the question, but it also allows him to move to someone who is more likely to offer “good” (i.e. easier to answer) questions. It also serves as a warning to others in the queue about what “good” means. Galileo Russell, the Youtube analyst, asks questions that reflect knowledge of Tesla, but are focused on different issues than Model 3 production, capex and capital. Musk likely finds these questions “interesting” in part because the information needed to answer them is not likely to be perceived negatively. He even encourages Russell to “keep going ... while they’re interesting,” which consumes more time and reduces the possibility of returning to “boring” questions.

Finally, near the end of the call, management is asked whether the Company would be willing to provide an update when Model 3 production reaches 3,000 or 4,000 per week to give investors some assurance that the Company is making progress. Musk does not explicitly commit to this and instead implies the Street will know because “the news will leak pretty quickly.” More importantly, Musk criticizes investors that “get too focused on like what’s happening in the space of a few weeks or a few months.” He escalates his criticism further, saying that “if people are concerned about volatility, they should definitely not buy our stock.”

Given Musk’s knowledge of the issues that Tesla is dealing with and the progress they are making in resolving the issues, this comment is particularly revealing because it offers some insight into Musk’s perspective. By telling those investors concerned about volatility to “not to buy our stock,” he is tacitly acknowledging that the stock is likely to continue to be volatile.

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