H1 2023 Results

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Lawrence Stroll

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Introduction

H1 2023 Highlights

Good morning and thank you for joining us for this Q&A on our first half results for 2023. I hope you have had the chance to read the release and also listened to the presentation of the results from Amedeo and Doug that are on the IR section of our corporate website. Before we take your questions, I'd like to share my perspective on the progress we have continued to make in our vision to become the world's most desirable ultra-luxury British performance brand, and why I am so confident in our future.

Since I became Executive Chairman, we have focused on fixing the core fundamentals of this company and rebuilding the necessary foundations to deliver on our vision. What was required was a major industrial and commercial turnaround, which typically takes five to seven years. I'm very pleased to say that we have completed this turnaround in a little over three. With the heavy lifting largely behind us, we can now look forward to the future with confidence to deliver on our vision and to the potential of Aston Martin that I have always believed in.

As we demonstrated at our recent Capital Markets Day, the pace of strategic delivery is accelerating across the company as we are now positioned to grow and share brand and shareholder value. Not only are we on track to deliver on the mid-term financial targets I set back in 2020, but we also set new and ambitious mid-term targets that will see us quadruple our EBITDA from the levels we achieved just last year.

Transformation of our sports car line-up

2023 has seen us begin to see the fruits of all the hard work that has been done by the team. In May, we launched the first of our next generation of sports cars, the DB12 Super Tourer, which marked the beginning of a completely new line-up of front engine sports cars that will reposition us as a true ultra-luxury, high-performance brand and, importantly, with higher levels of profitability.

We have seen a fantastic initial response from customers and the media, highlighting the significant improvements in performance and vehicle dynamics as well as the transformation of the interior and our new bespoke infotainment system. This has translated into incredible early demand, and we are now sold out for the rest of the year, with orders already building into 2024.

We will also launch new sports car models over the next several quarters, which will all deliver similar step changes in performance and luxury as well as improved profitability. High margin specials are an important part of our strategy, and to celebrate our 110th year anniversary, we recently unveiled a spectacular ultra-exclusive V12 engine manual transmission special edition model which is named the Valour. The Valour is celebrating our passion for driving and rich heritage of incredible front engine sports cars. Inspired by the iconic muscle cars of the past, the Valour combines the very latest technology, methods and materials with a timeless analogue experience. We have seen unprecedented demand, and within two weeks all 110 models have been sold with a growing waiting list.

It is a great source of pride for me to see how the Aston Martin Aramco Cognizant Formula One team has become a front contender this season, consistently challenging for podium finishes at the pinnacle of motorsport. As I have said in the past, a relationship with Formula One is truly transformational. In addition to having a halo effect on the whole brand, it provides us with tremendous access to an entirely new generation of Aston Martin customers all over the world. More than 70% of Vantage Formula One Edition owners have never previously bought an Aston Martin, while more than 20% of our customers that we hosted in our Paddock Club purchased a new car just last year. This demonstrates the enormous sales potential of this rapidly growing global platform.

Q New York Flagship Opening

We are also continuing to invest in our brand and go-to-market strategy. We recently opened Q New York, our first ultra-luxury flagship in the heart of New York City, which will provide the most sophisticated luxury specification experience available anywhere in the world. We will also be bringing flagship stores like this to selected locations around the world, including London and key cities in Asia, Europe and North America.

Technology Partnerships

At the end of June, we updated our EV strategy to support the creation of the industry's leading ultra-luxury high performance electric vehicles, and our target is to be launching our first BEV in 2025. This included a new strategic supply agreement with Lucid, along with an amendment to our strategic cooperation agreement with Mercedes-Benz, all underpinned by our modular BEV platform that will be utilised across our future electrified product portfolio all the way from hypercars to sports cars to SUVs. The agreements will not only allow us to leverage the significant investments Lucid and Mercedes-Benz have made, but through the work of our teams, are already developing. We will further differentiate what it means to drive an Aston Martin, providing unique and thrilling performance levels, combined with our intense driving experience, we know that our customers love and expect.

Ahead of this, we will start our electrification journey with our first PHEV model, the Valhalla, followed by an extended PHEV range in our core vehicles. We will bridge the customer's journey from ICE to full BEV through our plug-in hybrid PHEVs.

H1 Performance

Briefly turning to our H1 performance, which was ahead of expectations, we continue to see strong demand across the portfolios, with retails outpacing all sales in the first half of the year, aligned with our strategy. Our current range of sports cars are sold out ahead of new launches, and we saw heightened retail demand for DBX707.

And finally, we have reaffirmed our outlook for the year and are substantially on track to achieve our 24/25 financial targets in '24, and with continued good momentum, are likely to exceed them in 2025. Over the last three years, we have demonstrated that this business is no longer only about volume growth, it's about increasing value per vehicle, aligned with the characteristics of a true luxury company. This will drive revenues, margins and cash flow, and ultimately shareholder value.

And with that, we are now happy to take your questions.

Q&A

Jose Asumendi (JP Morgan): Thank you very much. Two questions, please. Can you comment a little bit more around the gross margin trajectory you're looking forward to delivering on a quarterly basis and into 2024, and what are the key levers to improve the gross margin from the current levels?

And then second, when I look at your pipeline of specials is running at a very healthy and elevated level. Do you think that as we go into 2024, you can also increase the overall level of special vehicles on a 12-month basis, and how can this contribute also to your profitability targets in the medium term? Thank you.

Doug Lafferty: Morning, Jose. So, on the gross margin, I think we also talked about this at the Capital Markets Day. So, I think we expect to continue to see gross margin improving, particularly at the end of this year, as we bring the ramp up of the DB12. And obviously, we expect the gross margin from that vehicle to be particularly accretive. And then as we launch the various range of the next generation of sports cars, they all target that 40% plus margin. So, as they come to market and as they bed in, and as the order bank grows, then we expect the margin to sequentially improve.

So, I think we said a few weeks ago that we expect to hit 40% for 2024, and then positively move forward from there. So, that's the expectation. I think, so far this year, we know we're in transition with the sports car range, but as the new cars come to the market, that gross margin should certainly continue to move forward.

And linked to your second question, obviously specials will be of great assistance to the gross margin profile as well. So, we've got a various range of specials coming to the market at the end of this year or launch the DBR22 and the Valour, all with very high margins, which will continue to be accretive. And I think going forward, and I think Lawrence will talk about the pipeline a little bit on specials and the plans, but obviously that underpins the margin improvement as we move forward into the mid-term.

Lawrence Stroll: I think just to carry on from what Doug just mentioned, you know we have a long-standing history of these specials. And since taking over the business, I've accelerated that history. And as you see this year with Valour, with DBR22, we will continue on a similar trajectory to have those levels of specials each year.

Daniel Roeska (Bernstein): Gentlemen, good morning. Two, maybe longer-term strategic questions.

One, could you talk about the seasonality in the second half, which is kind of in Q4, very strong, but then also longer-term, if you're thinking about flattening out the seasonality throughout the year, how are you going to do that, what's the timescale, what measures are you putting in place, if you think about the next two, three years in a more evenly spread volume throughout the year?

And then, secondly, maybe competitors are using tactical production sequencing quite successfully to manage quarterly results by moving specials between quarters and deciding what to do when as the order book builds. Now, as you are building your order book to a longer lead time, how are you thinking about that opportunity? And again, what's the time frame for you to get into that? So, it's around kind of the strategic thinking behind the sequencing of volumes throughout the year and kind of how you think about that going forward as you achieve your mid-decade ambitions.

Doug Lafferty: Daniel, morning. On the first question with regards to seasonality, I think if I look at this year and last year, so we talked about this previously, and I know you and I have had a conversation about getting some flattening of the profile, but last year was very Q4-heavy sort of by accident because of the challenges that we experienced in the supply chain that were well documented as we moved through last year. This year, given the transition, it's kind of more of a shape that we knew was coming from the plan, and we've tried to be helpful with our guidance of that for you in terms of what to expect for the first year. And now a little bit on the shape of what we expect to see in the second half of the year.

Over the course of the next, let's say, nine months, we're still going to be in transition, but I would really like to see us start to flatten the profile and certainly start to see an end of Q4 being the sort of end of the hockey stick. So this year is all about executing the plan. So far, we've done that. We need to repeat that in the second half of the year, and we know what we need to do, and that's been the case. Next year, hopefully, we can start to flatten the profile to a certain extent. But then, as we get into what we expect to see from an order book profile point of view, as the new cars are launched into the market, as we continue to attract demand, I'd like to think that we can get a little bit more steady profile into our quarters as we move forward into the mid-term.

Lawrence, do you want to take the second one?

Lawrence Stroll: Good morning. The second question, you know, our life kind of restarted with the launch of DB12, as far as the sports car side of the business goes. It was always intended that we would have the high ramp up in the fourth quarter because when we were launching DB12 in May we knew when we were starting production. So, it was planned. There's no surprise, let me put it that way. With the following two cars that are going to follow with total of six models between Coupe and Volante's, we are launching basically a whole new portfolio over the next 18 months.

As far as the order book goes, based on the amount of production we're capable of, and based on our strategy to only align demand with supply, realistically, as I mentioned, we're already sold out on DB12 today for this year, and I'm quite confident that getting closer to the end of the year, even third quarter, will be sold out on DB12 for next year. So, as a long-winded way of answering your question, I think as we launch each new model for the first few years of their lives, you could expect a one-year waitlist.

George Galliers (Goldman Sachs): Thank you. Three questions from me, if I may. The first one is just on the DB12 order book and the mix. Could you just comment on how the mix compares to your expectations? And as we think about options as a percentage of base retail price, where is the DB12 trending versus what you historically saw on the DB11?

The second question was on the Valour. I understand this car is now sold out. Can you give us some indication of what percentage of the customers are existing Aston Martin customers versus what percentage are new customers to Aston Martin that meet your eligibility criteria for this car?

And finally, retail outpaced wholesale in H1. How do you feel about inventory? And would you consider running longer waitlists in the future? Are there any major disadvantages to this? Thank you.

Lawrence Stroll: As far as options on DB12, they are significantly, significantly would mean at least more than 50%, higher than we ever experienced, certainly with DB11, and it's probably even a much higher number now, that I believe would be conservative. But since really I came in, and since we're aligning sales to demand and manufacturing cars to order, we're seeing options being much higher historically than they've ever been by a significant, significant amount.

Options even go significantly higher than that. When we get to things like specials, we're seeing people put huge numbers on each car. So, again, with the opening of Q New York for personalisation, with the capital markets that you saw here, where we've devoted now two special rooms for personalisation, it's clearly a key component of us growing a) our profitability; and b) our true standings as a true luxury brand. So, it's something the company is very focused on.

As far as the Valour customer profile, we've had both a lot of existing Aston Martin customers, which, you know, we have a legacy and a great history and loyalty from Aston Martin customers. We also saw a lot of customers from Ferrari and Bugatti, particularly at Goodwood last weekend or the weekend before. So, a nice equal balance of new and loyal customers.

And the third question, which was retails,are ahead of wholesales. As I mentioned earlier, we will, as we launch each new car, continue in that process. We're only able to build so many, which we demonstrated to be sold out with a seven-year-old product until the launch of DB12. You can imagine what we expect the waitlist to be with launch of DB12, as I mentioned, sold out for this year. I think in the third quarter, we'll be able to mention sold out for all of '24. So with each launch new replacement for Vantage, replacement for DBS, we expect to see order books of at least 12 months.

Anthony Dick (ODDO BHF): Yes, thank you for taking my question. I'm sorry, but did I note correctly that you expected the order book for the DB12 to be around the 12-month level?

Lawrence Stroll: Yes.

Anthony Dick: Okay, perfect. And then, in terms of when you expect to reach the full production ramp up on that model, and also the upcoming new models of the next generation sports cars? Thank you.

Amedeo Felisa: Towards the end of the ramp up curve, after the summer shutdown, DB12 goes to the speed rate that we have previewed now for the third quarter, and then the final quarter will be the right rate for production.

Thomas Besson (Kepler Cheuvreux): Thank you very much. I'd like just to come back kind of politically to the H1 earnings more than project myself into '24, '25 or '27. You had a very big increase in your SUV sales, a big increase in specials, but still the gross margin only increased by 20 bps versus the first half of last year, and the EBIT margin is still massively negative. Can you just get back to what makes you so confident that you're on track, reaching the 40% level in '24 rather than '25? Because for the time being, we haven't really seen any traction on what has been launched.

Doug Lafferty: Yeah, I think I've answered that question previously. But just to reconfirm, as you know, every car that we're bringing to the market targets a 40% minimum margin. We've just brought to the market the first of those. As Lawrence said, there's six of those to come in short order, all of the next generation of sports cars. So by the middle of next year, all of those cars will be in the market. All of them will be in the market with a 40% plus gross margin, underpinned by a continuing line of specials that come with high margin. So from that regard, very confident that we'll be able to achieve our gross margin targets in the short-term and in the mid-term.

Thomas Besson: Yeah, but DBX was already supposed to do that. And the specials are also supposed to lease profitability in H1, and they don't seem to be. So, that's why I'm asking the question.

Doug Lafferty: DBX707 was the first car to target a 40% margin. And as we disclosed last year, it didn't quite get there last year for the reasons that we've documented. It has achieved 40% margin at times in certain markets, and the target is still very much for the 707 to get there. All of the others, as they come on track, will be and, as you know, we fully expect the sports cars to make up a significant proportion of our sales. So, in combination, we're confident that we'll get there.

Lawrence Stroll: Thank you all for joining us today. And please stay tuned to what will be a continuation of a tremendously exciting journey. I don't think there's any other brand that truly has the magic and flair and sparkle to it that Aston Martin has today. Through a combination of all the wonderful new product we're bringing to market, it significantly enhanced profitability, with each one of those launches and a very strong halo effect from our phenomenal Formula One team. So we're really clicking, as they say in automotive, on all cylinders. So please stay tuned. Stay with us for the journey. It's only beginning. Have a great day.

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