First Quarter Results 2023

Wednesday 3rd May 2023

Q1 Results 2023

Doug Lafferty

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Opening remarks

Good morning, everyone. Thank you for joining us for Aston Martin Lagonda's Q1 2023 Results Call. I hope you've had a chance to read the results that we released this morning. The release, along with the accompanying slides, are on the IR section of our website, as usual. Before I take your questions, I'll make a few introductory comments about our first quarter results, which are in line with expectations and the guidance we gave at our full year results call, back in March. Consistent with my comments then, we continue to expect the profile of 2023 to be shaped by the timing of new product launches in both core and specials, with a significant acceleration in our financial performance in the second half. As you will have seen in this morning's results release, we remain on track to commence deliveries of the first of the next generation sports cars in Q3. Production in Gaydon started in early Q2 and we look forward to sharing more on this later in May.

Financial Results

Coming back to Q1 in some more detail. Aligned with our strategy, retails outpaced wholesales as we continued to see strong demand across the portfolio. The current range of sports cars are essentially sold out for the year, with DBX orders now to the end of Q3. Wholesales increased by 9% year on year to 1,269, primarily driven by strong DBX deliveries. Overall DBX volumes increased by 59%, led by the DBX707, which represented more than 70% of DBX volumes in the quarter. As expected, GT/Sports volumes were lower due to the ongoing transition of sports car sales ahead of the imminent launch of our first next generation sports car. Revenue of £296 million increased by 27% year on year, benefiting from favourable mix towards the DBX707 and V12 Vantage, higher volumes and strong pricing dynamics in the core portfolio. This was reflected in our core ASP of £180,000 in the quarter, an increase of 19% compared to Q1 2022. In addition, we delivered 18 Valkyries in Q1, up from 14 in Q1 2022, which drove total ASP to £213,000, an increase of 18% year over year.

Gross margin

Gross margin of 34.4% increased by 300 basis points sequentially, but was lower year on year. This was primarily due to higher manufacturing and logistics costs as well as mix effect within specials, which more than offset higher year over year core gross margin. Adjusted EBITDA of £30 million increased by 24% year over year, primarily driven by higher revenue and gross profit partially offset by higher operating expenses, including reinvestments into brand and marketing activities, as well as inflationary impacts on our general costs. Adjusted EBITDA margin of 10% was consistent with the prior year period. The adjusted operating loss of £48 million reflects D&A increasing year on year, as guided, driven by higher Aston Martin Valkyrie deliveries and the continuing accelerated amortisation and capitalised development costs ahead of next generation of sports cars starting this year.

Free cashflow

Free cash outflow of £118 million was also aligned with our outlook, and included £86 million of capital expenditure in the period. Working capital was an outflow in Q1, largely driven by higher inventory levels of ordered vehicles at the end of the quarter, as well as initiatives to improve production and supply chain resilience ahead of upcoming vehicle launches.

Cash & debt

Finally, we finished the quarter with a cash position of £408 million, which included a £50 million repayment of our revolving credit facility during the quarter. In terms of our outlook for the year, our guidance remains unchanged and alongside Amedeo and the team, I'm focused on ensuring we execute our plans which should provide us with strong momentum as we head into 2024. With that, I'd be happy to take your questions.

Q&A

Operator: Thank you. As a reminder, to ask a question please press star, one, one on your telephone and wait for your name to be announced. To withdraw your question, please press star, one and one again. Please stand by while we compile a Q&A roster. We will now take the first question, it comes from the line of José Asumendi from JP Morgan, please go ahead, your line is open.

José Asumendi (JP Morgan): Okay, thanks. José from JP Morgan. Just two questions please, first one, could you comment with regards to the pricing momentum and original opportunity you have to continue to improve pricing on a quarterly basis and into 2024, and how does this relate to the product launches?

And second, could you comment please on CapEx for 2023, how – you know, where do you stand on the CapEx guidance and the confidence to hit the CAPEX target as well as the sequential decline in 2024? Thank you.

Doug Lafferty: Thanks José, good morning. Yes, look I think with pricing we're happy with the momentum that we've got; it's solid. We expect pricing to support our gross margin growth going forward, and as you know we've stated several times, all of the next generation sports cars carry that 40% target on gross margin, and with that will come – will come price increases. I think as we look to this year, we've got the remainder of the V12 Vantage to deliver, we've also got the DBS770 Ultimate, and of course we've talked about the specials in the range being the DBR22, obviously the Valkyrie, and then the 110th year anniversary special that we expect to start delivering in the back end of the year. So, I think we've got good momentum on pricing in 2023, which should see us running into 2024; and as I said you know, with the next generation sports car launches imminent, you know, we expect that to be accretive.

Your question on CapEx, look we're not changing our guidance on CapEx for 2023, or the statements that we made at our full year results, so CapEx expectations are in line with what we said at that stage, so around £370 million for 2023, which again we expect to be the peak, and then from sort of 2024 onwards, you know, we know what we've go to deliver, so this year is about bringing the next generation sports cars to the market, finalising really our CapEx investment on the majority of the ICE vehicles going forward, and then you know, we'll really commence the transition. And that's how we see CapEx evolving over the next few years. And I think we'll be – you know, we'll be able to provide some more detail on that in due course.

José Asumendi: Thank you.

Operator: Thank you. We will now take the next question, it comes from the line of Christoph Laskawi from Deutsche Bank. Please go ahead, your line is open.

Christoph Laskawi (Deutsche Bank): Okay. Good morning and thank you for taking my questions. The first one, also on pricing, just to comment on the ASP sequential development compared to Q4, if you could comment on the geomix impact and product mix impact, that would be helpful.

And then the next block on the volumes of the sport and GT models, you said essentially the rest of the old ones are sold out, how should we think about the ramp down of those volumes; is it reasonable to assume a decline roughly in the same magnitude as seen with Q1? And how long will the phase out last in the end, for the model that is then launched next quarter, and being delivered in Q3? And is there a specific target order book that you would have for those models, in the sense that you would like to see six to nine months, or twelve months, even, that you are trying to build? Or any comment on that again would be helpful. Thanks.

Doug Lafferty: Okay, thank you Christoph. On the pricing, yes, I think the question was sequentially Q4 last year versus Q1 this year; we're marginally down sequentially, so I think it was 184 in Q4 and 180 in Q1. The impact there is FX, essentially, so there's no real mix impact or regional impact within the sequential numbers there on our ASP.

With regard to phasing and the sports cars, so yes look, we're all really excited, we're literally on the verge of launching the first car. As is clear with Q1 and as we've sort of stated previously, we're managing that transition of old sports cars out and new sports cars in. There'll be a – there'll be a sort of regular cadence of launches over the course of the next 12 months that will see the entire range of sports cars refreshed, and I'd remind you that is, you know, six models, so a coupe and a volante of each model.

And yes, I think your point on, you know should we expect Q2 to look a little bit like Q1, with the GT/Sports performance looking similar? I suspect that's probably a reasonable assumption and then we would expect, you know, strong growth in the second half, driven by, you know, those – those next generation sports car launches. So you know, everyone here is – is really excited about the prospect of getting the cars launched, you know, we've been working on them for the last couple of years, we expect demand to be – to be very strong, once the cars are released.

Your question on order bank, you know, do we have something in – in target, something in mind? I guess the first thing is to make sure you know that we sell out of the car for this year, as quickly as we can, which we expect will be the case, and then to build the order book thereafter with what we expect to be a very, very strong offering across – across the three models. So, I think watch this space, but hopefully by the time we get to talk to each other later in the year, you know, we'll have more news on how the vehicles are being received, not only by the media but also by the first customers. So, it's – you know, it's an exciting moment for the company and one that's been building for the last couple of years, so we're nearly there.

Christoph Laskawi: Thank you, and just one follow up question, as production has already been starting and prototyping was done, I think early in the year as well, any signs that we should expect a quality-led ramp up as you had for the DBX as well, or is it running a bit smoother this time around? Thank you.

Doug Lafferty: Look, what I would say is you know, last year we obviously suffered some issues with supply chain and logistics disruption, predominantly around the ramp up of the DBX707. And I think we've said previously there's been a lot of focus here internally on improving some of our processes, and in working closer with our supply chain partners. So, from a proactive company perspective, we're certainly trying to manage that ramp up in a, say a more orderly process. And at this point, and I'm sat round a wooden table, you know, I'll touch wood, you know, so far things are coming together and we would expect to be – you know, being able to meet our ramp up curve for the first of the next generation sports cars with a – with a high degree of quality and a high degree of certainty on the product that we're delivering for the customers, so hopefully learnt lessons from last year. We hope that the supply chain continues to prove to be more robust to enable us to meet the ramp up. But as I said before, this year is all about executing our plans, and predominantly in the second half of the year, so you know we've got to get it right, and the organisation is fully focused on doing so.

Christoph Laskawi: Very clear. Thank you.

Operator: Thank you. We will now take the last question; it comes from the line of Philippe Houchois from Jefferies. Please go ahead your line is open.

Philippe Houchois (Jefferies): Yes, good morning, thank you for taking the question. I've got a couple; one is the – I was looking at your OpEx line in the P&L. It's quite volatile from quarter to the next. I know the volatility and depreciation is unusual but it's specific to Aston linked to the production of specials, etc., so I can understand that. But, if I look at the other OpEx, you know one year ago it's 60 million, this is 71 million. It was 54 million in the last quarter. I'm just trying to understand what drives that quarter to quarter, to explain the volatility.

Doug Lafferty: Yes, sure, so look in OpEx as we've said previously, you know obviously it sits in there, our marketing expenses and so on. This year we are increasing and continuing to invest behind the brand, so you'll see OpEx increasing in line with our profile, and also we've obviously experienced quite a lot of inflation over the last year which is – which is meaning that OpEx is on the rise.

And then with regards to the D&A, obviously as our CapEx increases year over year, we'll incur some more depreciation and amortisation charges. And as we've previously explained as well, you know we're currently in this phase of accelerating out some of the prior investment on – on the current range of sports cars, as we bring the new sports cars to the market.

Philippe Houchois: Right. And is there any volatility caused by the payments you make for the F1 team? And on that front, I was just wondering, I know the two are separate, but how can you monetise your success in F1 for the Aston Martin brand? How do you see that opportunity?

Doug Lafferty: So no, there's no volatility with regards to OpEx in relation to the partnership agreement between ourselves and the Formula 1 team, that's stable. Monetising it, look, I think you know, with – everybody here again is thrilled with the start that the team has made to the season; it's incredibly impressive and that can only be – only be good for us, as any sponsor or any partner to a Formula 1 team would want success on the track, and clearly, we're starting to see that. How do we monetise it? Well, I think it's all about amplifying the brand, and by amplifying the brand in a sport which is growing and booming, in particular in some of the markets where you know, we expect to see strong growth as well, that can only be to our benefit.

I think we referenced last year, in relation to the F1 edition of the Vantage, just how many of the customers who were acquiring that car were new to the brand, and we believe, you know, a lot of that resonates through the association with Formula 1. We're also, you know, we're continuing the relationship with the safety car, and the medical car, and the DBX707 is now the medical car on track, at various Formula 1 events through the season. So, the association is growing. I think the Formula 1 team having strong results on the track is only going to be good for us from a – from a PLC point of view.

Philippe Houchois: Okay. Thank you very much.

Operator: Thank you, we will now take the next question. It comes from the line of George Galliers from Goldman Sachs. Please go ahead, your line is open.

George Galliers (Goldman Sachs): Yes, good morning and thank you for taking my questions. Just a couple from me. The first one was just on the DBX. It looks like the volumes were around obviously 670 units during the quarter. If I look back, this is obviously below Q3 and Q4 last year, but it's kind of consistent with Q2 last year. I mean, is this kind of more indicative of the run rate, the quarterly run rate you expect for the DBX going forward, given I believe the second half of last year did have some catch up from the vehicles in transit that hadn't been delivered in the first half of the year? And if it is, does that therefore mean there's kind of a full year run rate of the DBX of something in the region of you know, 2,750 units is the right way to think about the volume on the DBX, on a forward-looking basis.

The second question I had was just with respect to the new models, and I know you're being quite cautious in terms of what you're revealing at the moment, but is the right way to think about this as one model to be unveiled every quarter starting this quarter, with that product going into production roughly eight weeks later? Is that kind of the right thought process with regards to the timing?

The third question I had was just on the other gross margin improvement in the bridge; if you could just give us any insight into – into what was in there, that would be – that would be great.

And then finally, just with respect to financing, can you just remind us of what percentage of your cars are purchased on finance, where – where you actually have visibility on that? Thank you.

Doug Lafferty: Okay George, a couple turned into four. That's good. Good morning. Okay, so let me try and deal with the one on new launches first, so yes, look I appreciate everyone's patience on this, but I think we tried to explain previously why we're perhaps not sort of giving everybody you know the running road on what exactly is going to unfold, but I think that's been to our benefit, and we've got to think about this from a commercial perspective as well. And obviously the order book remains very strong on the current range of sports cars, and I think that's testament to the way that we're approaching the new launches.

So look, I think what I will say George is, the first launch will happen at the end of this month, then there'll be a regular cadence from there. Obviously as we stated earlier on, you know, we started production in – earlier in the year ahead of that launch, and we expect the first customer deliveries of that car to commence in – in Q3. So, if you think about the fact that we've got to bring six models to the market, effectively, you know, in the course of the next 12 months or so, then you'll get an idea of cadence. But I'm not going to go into more specifics or confirm exactly sort of launch timings or – or more specific cadence than that, but I hope that – I hope that helps.

Second question on the DBX. No, we'll expect to see growth versus you know the – the Q1 numbers, so we expect the DBX to continue to grow during the course of this year. I think, you know, above the numbers that you quote certainly, and what I would also say on the DBX is you know, we're seeing very strong mix demand on the 707. So, 70% or over 70% of the volumes that we delivered in the first quarter were 707, and more than 70% of the order bank that we currently have on the DBX relates to the 707. So, strong mix within – within a growing volume.

Your third question I think was on gross margin, and what sits within other on the gross margin walk. So, I think you've got parts and – and a bit of FX in there, but it's not too material George. So, I think other non-vehicle sales, spare part sales, and a bit of FX, which is driving that slight sort of deviation from the rest of the core gross margin. But there's not a lot moving; there's not really anything specific to call out. It's bits and pieces rounding to that sort of 1%. Remind me of the final question, sorry.

George Galliers: Yes, sorry, the final one was just to the extent you have visibility, what percentage of your customers do you believe are buying cars on finance at this point?

Doug Lafferty: Yes, no problem, so yes, on financing, I think there's – you know, there's some variance across the regions, as you'd expect, and I think the US is normally – has the highest penetration of customers buying cars through financing. But I think on average, we're around about just over a third. We do however tend to see that when we launch new models, that attracts cash buyers. I don't think we'll deviate too far from that sort of ratio of just over a third, but obviously over the course of the next 12 months or so, we're bringing a lot of new cars to the market, new product launches, and historically we've seen those attract higher cash buyers.

George Galliers: Great, thank you.

Operator: Thank you. There are no further questions at this time. I would like to hand back over to Doug Lafferty for closing remarks.

Doug Lafferty: Okay. Thank you everybody. I hope that was a useful Q&A and please keep posted, there'll be – there'll be news coming out shortly, obviously with regard to the next generation sports car launch, and with regards to the capital markets day that we discussed back at our full year results in March. So, look forward to connecting again shortly. And if there's any follow up questions, then please do feel free to reach out.

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