First Quarter Results 2024

Wednesday 1st May 2024

First Quarter Results Introduction

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Good morning everyone and thank you very much for joining the Aston Martin Lagonda first quarter 2024 results Q&A call.

Only a few weeks ago at our 2023 Full Year Results, we laid out a clear and exciting plan to transition from our previous range of core models to an entirely new and reinvigorated range by the end of 2024. Building on our 111-year history, this new core range alongside our programme of Specials uniquely positions Aston Martin, transcending the ultra-luxury and high-performance markets and supports the delivery of our demand-led growth strategy into 2025 and beyond.

Performance in the first quarter of 2024 was in line with our expectations and reflects the planned period of transition. Our portfolio transformation remains on track as we ceased production and delivery of outgoing core models ahead of the ramp up in production of three new core vehicles this year, in addition to our next ultra-exclusive Special. Given we remain on track, we are reiterating our 2024 guidance and medium-term targets, which importantly includes achieving our targeted inflection point for positive free cash flow generation in the second half of this year.

Following the exceptionally strong reception received for DB12 with orders now extending into the fourth quarter of the year, enthusiasm is building for the new Vantage, upgraded DBX707 and our upcoming V12 flagship sports car, which we also confirmed today.

Underpinning our confidence in the new model range is the feedback we are gathering from the extensive media test driving of the new Vantage which is currently taking place in Seville. This significantly enhanced front-engine V8 sports car has achieved positive acclaim for performance, dynamics, exterior styling and of course the completely new interior design and infotainment system – our own bespoke technology that will be imbedded across our entire core range by the end of the year. Driving impressions will be published from 13th May, and we are expecting similarly positive reviews to those received for the DB12, which is now a multi award-winning car.

As a result of this portfolio transition, and as we guided at the start of the year, we expect the timing of the model launches to drive significant growth in volumes and financial performance in the second half of the year, with the second quarter volumes and financials expected to be broadly similar to Q1. To support the second half production plans at Gaydon and St Athan, we are preparing the organisations accordingly with recruitment for additional agency manufacturing roles progressing well.

We were pleased to make two important announcements during the first quarter. We successfully completed our planned refinancing, securing improved terms on new five-year senior secured notes, following upgrades from leading credit agencies. This, along with our existing lenders demonstrating their continued support through a new increased RCF, marked a significant step in strengthening our balance sheet and liquidity position.

And finally, we were also delighted to announce that Adrian Hallmark will become our new Chief Executive Officer later in the year. I'm personally looking forward to working with Adrian, who will bring to Aston Martin unrivalled experience in both the ultra-luxury and British automotive sectors to further progress our strategy.

With that I'd like to hand over to the operator so we can take questions.

Thank you.

Q&A

George Galliers (Goldman Sachs): The first question I had was just with respect to how we should expect to see the free cash flow evolving in the second quarter. Obviously you've given very helpful commentary around how we should see the P&L evolving relative to Q1. But any color on the free cash flow and how confident you are in the liquidity position would be much appreciated.

Then the second question I had was whether you could give us any insights into the personalization levels you're seeing on the DB12. I don't know if you have any figures around the percentage uplift versus the base price, which you're seeing and how that compares with the prior product, also whether you have any ambitions or targets with respect to personalization on the new Vantage.

Then finally, just with regards to DBX. Look, great to see you've updated the interior there. I think this is something that has been very closely followed by the investment community. But interested to know what actions you're taking to relaunch the DBX with consumers and ensure that consumers who maybe have turned down the car in the past due to the interior and/or potential new buyers are going to get into showrooms to evaluate and test drive this product.

Doug Lafferty: So on the first question, I think operationally Q1 from a free cash flow point of view was in line with our expectations. Obviously we also, as a result of getting the refinancing concluded in March, paid what we would normally pay in Q2, the interest early. So that had animpact on the free cash outflow in Q1. Obviously we're not going to see a repeat of the interest payment in Q2. We still expect Q2 to be a free cash outflow, but likely not to the extent that we saw in Q1. And then obviously we're very much still targeting the inflection point from a free cash flow generation perspective in the second half of the year and we're comfortable with the liquidity.

So as I said in my opening about the refi, we strengthened our liquidity position. The liquidity in the business is pretty much as it was at the end of last year. We're confident, as I said, in hitting that inflection point. So from a liquidity perspective, we're quite comfortable.

Your second question on personalization, I think we spoke a little bit about this at the full year results. So from a core range point of view and you can assume that the DB12 was the predominant contributor to this at the back end of last year. We saw the revenue contribution from options break through that sort of 15% barrier and we will expect to continue to see that move forward and that was probably a shade over 200 basis points improvement from its predecessor.

So as we bring the new range to market, we announced this morning obviously the launch of the V12 later in the year, with the V12, with the Vantage, continuing with the DB12 and obviously with the DBX707; we would expect to continue to see an improvement in revenue from options uptake. And it's also why we continue to focus on enhancing the customer experience.

So we've talked about the flagship store in New York. We've recently opened another store in Tokyo in order to demonstrate the full range of personalized options available to our customers. So it's something that we're focused on, we're targeting and we're happy that we're seeing good improvement.

With regards to the DBX; we're delighted to finally get the new car launched. We think that the upgrade to the interior and the infotainment is a response to a lot of the customer feedback that we've had on the car. And obviously it would have been difficult to have the DBX707 alongside the DB12, the new Vantage and the new V12 in showrooms with the interior not being updated to the quality of those cars. So we're delighted that that's now in flight and will be hitting the market soon.

And with regards to following up with potential customers, look, there's a whole suite of activations planned and there'll be a media program during the course of this month. So we expect to have reviews of the new DBX707 out in the not too distant future. And those follow-ups I think from the dealer network will largely focus on customers who've shown an interest in the DBX707, but perhaps not followed through.

But also I would expect us to really start being able to attract customers from elsewhere, which is encouragingly what we're seeing on the DB12. So in the DB12 order book, we're seeing a lot of conquest customers from other brands. And I think now that we've got this whole new portfolio, which is going to be sparkling new in all the dealerships by the end of this year; that positions us very, very well from a competitive perspective.

Henning Cosman (Barclays): Doug, it's good to hear you so constructive this morning. I think the market looks a little bit worried here, arguably in the context of the Q1 earnings and free cash flow level so I wanted to ask you to perhaps help us reconcile the two. First question is maybe to talk about arguably the risks here a little bit or indeed to help us alleviate these concerns. Execution going from around 1,000 units a quarter or so now to 2,500 run rate in the second half. How safe is that? How similar are the new cars to the predecessors? How similar are production processes? How established are the supply chains? If you could talk to that a little bit. Do you see any risk there at all or shouldn't we be worried?

Second question. You talked about the exceptionally strong reception of the DB12. I think we had previously hoped that the car would be sold out for all of 2024 and indeed a bit earlier yet the orders at this point reach into Q4. Could you remind us how you think about the ideal level of length of order book and do you expect a similar pattern here for the other new cars in terms of how soon will the order book be, how long including for the upgraded DBX707 or Vantage? And then finally related to that, do you expect the new Special to be sold out at launch and can you give a little bit more details in terms of type of car or price or units at all?

Doug Lafferty: On your first question, Henning, what I would say is it's the plan and it's kind of always been the plan and as we've talked about this year, it's the plan by design and we've always had this cadence of model launches coming.

So we've known for quite some time and we've guided you all I think to expect in the market a significant uplift in the second half of the year. So we're planning on that basis. We're getting ourselves prepared on that basis, supply chain prepared on that basis. And of course the 945 wholesales that we did in Q1 isn't typical and you know that's not what we can deliver in a normal cadence.

In the first quarter, we only really delivered DB12s and the sort of last in the model year '24 of DBX707. So we've always known this ramp-up is coming and we're well prepared for it. You're right, execution is key, but we're confident in our ramp-up capabilities.

Obviously with the DB12, we experienced a slight hiccup in Q3 last year. The ramp-up on the Vantage and the new DBX707 is currently going to plan. First wholesales on those cars will happen imminently. So we're in a good position. We haven't seen or encountered any of the issues such as the sort of integration of the software that we had with the DB12 last year by virtue of the fact that the Vantage, the DBX707 and indeed the V12 when we come to launch it later in the year; all rely on the same platform.

So the learning that we've done and gone through in the second half of last year applies to what we're bringing out for the remainder of this year. So we've got confidence. Production processes, I think you mentioned, they're very, very similar. So with the DBX707, it's an interior upgrade, but the ramp-up will be a little bit quicker than it will be on the sort of all-new Vantage, if you like. But those ramp-up plans are in line with our expectations currently and take us ramping up through the second quarter of this year and then into full rate in the second half of last year.

And then similarly I sort of outlined in my opening, we've been preparing for this, expecting for this, recruiting for this and we're making very good progress in terms of being ready for what we know is going to be a big second half.

And then with regards to our precedent of delivery, I think you just need to look at the last couple of years in terms of Q4, we've needed to deliver and we have the execution capability to do that and we've demonstrated that across both plants with St Athan being very busy in Q4 2022 and Gaydon being very busy in Q4 2023. So we have the execution capability, it's been the plan, continues to be the plan, and we're confident in delivering on it.

And then your second question on order book. We're pleased with where the order book's got to. Obviously as I said, we had a little bit of disruption with the DB12 in Q3 that I think just had a slight hiccup in progressing that order book as quickly as we'd originally anticipated. We're confident that with the new cars, we're going to get the order book up to where we'd like it to be in the not too distant future. I think as soon as we see the output from the media drives both on the Vantage which, as I said, is happening now and then the new DBX707, which will happen in May; that will provide a real catalyst to the order book on those two cars.

So look, I think we're confident in the products that we're bringing to market. We're confident that they will create an awful lot of demand on order book. We don't really have a set idea of how long we'd like the order book to be. But I think I've said before from my point of view getting it to 12 months across the core range would be fantastic but not a hard target, just something that I think would be good for us.

On the Special, we can't give you any further details at this stage. And with regards to your question of whether it will be sold out on launch or not, I think precedent tells us that we have a strong record in that department. So based on precedence, we're confident that we'll be in that position when we come to provide you the details and launch that Special in the not too distant future.

Henning Cosman: Thanks Doug, sounds reassuring, appreciate it.

Horst Schneider (Bank of America): Again coming back to DB12 and also ASP so we see in Q1 that your ASP has slightly declined. We know that with new models, you basically try to raise prices by something like 10%. So therefore it would be great if you could give some color on how the customers basically react to these price increases. Is it necessary in that context maybe to increase the rebate as well or is there no pricing concern?

And also with regard to the DB12 feedback, maybe you can tell us what's the regional demand where you see maybe some strength, some weakness. We hear from Porsche for example that Asia is weakening. Is that the situation for you as well?

And the last one that I have, maybe difficult for you to answer. But when the new CEO arrives, is there a kind of agenda, special topics he needs to work on from a strategic perspective?

Doug Lafferty: Morning Horst. So on ASP, so, look, we're pleased with the way that ASP is progressing both on core and across the entire range, but I would say that I don't quite know which quarter you're referring to. If we take Q1'24 versus Q1'23, we would have grown on a constant currency basis. So there was a bit of a FX headwind in there and we're also lapping deliveries of cars like the V12 Vantage that happened in the first half of last year. So from an ASP perspective, no concerns from our point of view. I think pricing has been received well to-date on the new models. And as I think it was George who asked the questions about options and personalization, we're seeing an increase in that as well on top of obviously the pricing that we're asking for the car based on the fact that the cars are significantly enhanced versus their predecessors. So no material concerns on ASP.

We expect to see growth on the core ASP for the full year and the same for the entire range so we're good as far as pricing is concerned. And then on your question on the order book and the sort of regions, I think the only thing I would say is the order book is fairly consistent with our geographical split so there's no material difference. We still haven't made any DB12 deliveries into China so that will come later in the year and then we'll see how things settle from a regional point of view. But there's nothing material, Horst, that I could talk about from a regional perspective. China we talked about a little bit last year and the reasons why the volumes were soft there. As we bring in the new range, I think we'll start to see how the regions settle, however nothing material from a ratio point of view versus what we would expect.

And then the third question, I think you're right, it's a little tricky for me to answer. My focus as you would expect it to be and as you've heard from me quite consistently is on ensuring this business executes its plan and as I just said in reply to Henning, we've had this plan formulated for quite some time. That is fully where my focus and the focus of the rest of the leadership team is for the time being. I don't expect there to be a significant deviation when Adrian comes in. In fact I think we'll double down and execution will remain the absolute priority. We know the priorities in the short term are get the product portfolio launched, build that demand, hit the free cash flow inflection point in the second half of this year and take that momentum into 2025. So that's the short-term focus and I can't see that changing. As I said, look, we're looking forward to having Adrian here. He's very well experienced. But we know what we're focused on delivering here.

Horst Schneider: On this free cash flow execution again, the inflection point in H2 is that more Q3 or Q4. Can you say that already now or too early?

Doug Lafferty: We expect the second half to be free cash flow positive.

Akshat Kacker (JP Morgan): Three from my side as well please. The first one on the gross profit development in the quarter. Is it possible to quantify the fixed cost under absorption or the operating deleverage that you've seen specifically in Q1 as it looks like operating costs for the business right now are running far ahead of deliveries that you expect in the second half?

The second question is on the DBX. Could you please talk about the sharp drop in sales? Sales are down 63% in Q1. I do understand a refresh is coming out in Q3, but the new car was launched only 10 days ago. So some more flavor on that would be helpful.

And the last one is again on core ASP, I think you've clearly laid out all the reasons why it's down in Q1. But when we think about core ASP on a full year basis, do you still expect it to be up year-on-year excluding FX?

Doug Lafferty: It was a little tricky to hear you, but I'll answer the questions that I think you asked and if I haven't answered your questions, then feel free to have another go. So I think the first question was on gross margin and the absorption of some of the cost base in the first quarter. If that was your question, I think you're right. Obviously for example the DB12 carried a lot of the costs of Gaydon in the first quarter. So given that was the only sports car that was really in production or certainly being produced for wholesale in the first quarter, the DB12 carried a lot of the fixed and semi variable costs of Gaydon through its margin.

I would reiterate that we fully expect all of the core sports cars and the DBX707 to hit that targeted 40% gross margin when they're running at rate. So obviously whilst we're not running at rate, there is a little bit of margin dilution from the absorption of some of that cost base. And then talking about OpEx, we actually saw SG&A broadly flat in Q1 this year versus Q1 last year. We saw an increase in our non-capitalized engineering spend, but I think that's just phasing and I don't expect that to be something that we'll see running for the remainder of the year. So I think costs are pretty well under control and, as I said, I think as we ramp up production on the other core vehicles that are coming to the market as we move through the year, you'll start to see that absorption of cost disappear from a margin point of view.

On the DBX, look, I think it's quite simple. We're aiming to ensure a smooth transition between all of the outgoing models with all of the incoming models so not only for the DBX707, but also for the Vantage. So we're sort of carefully managing the flow of cars into the network. I'm sure you understand this and appreciate it, but remember that our sales reflect wholesales into the dealer network and then there's the retail sales which are the dealer sales from them to the final customers. And obviously in Q1, retails would have comfortably outpaced wholesales. So from a sort of rhythm basis of cars reaching customers, that would have been much more consistent than you've seen in our wholesale numbers. So it's all about a smooth transition between the old and the new and managing the flow of cars responsibly into the network.

And then your final question on core ASP, the answer is yes. So we continue to expect to see the core ASP grow year-over-year driven by the things that we talked about earlier.

Christoph Laskawi: Two, please. One, again a follow-up on the ASPs. Sorry to come back to that, should be a quick one though.

If we look at Q1 versus Q4, is the change really like basically only mix or is there also some end of cycle discounting that we see in part reflected? And then just the second question on the working capital phasing, obviously quite a sizable outflow in Q1. You already said Q2 cash flow is still negative. Should we expect roughly similar-sized outflows or that even to be close to neutral in Q2 in case you can comment?

Doug Lafferty: Morning Christoph, thanks. So Q4 '23 versus Q1 '23 on the ASP, you're right, largely mix. So for example there were quite a number of DBS 770 deliveries in Q4 obviously. They didn't repeat in Q1 obviously with the lower DBX707 volumes as well versus Q4, that impacts a little bit the ASP.

So I've hopefully sort of confirmed there's nothing to worry about from an ASP point of view from our perspective at this stage and we're still expecting that growth across the full year and obviously that supports the achievement of the 40% plus gross margin. So that was really the nature of the difference between the end of last year and the beginning of this year.

With regards to working capital and free cash flow, yes. So look, we expect free cash flow still to be an outflow in Q2, but to be improved versus Q1. I think from a working capital perspective, you're probably likely to see a continuing increase in inventory as we ramp up production of the new vehicles and you'll continue to see an outflow in terms of deposits held as we continue to deliver the remaining Valour and Valkyrie deliveries through the rest of this year.

Philippe Houchois: My question is more on the evolution of the gross margin. If I'm looking at what you produced today, 25% of your volume was DBX, which I think is below the 40% threshold. The Special should be above, most of the front engine should be above as well. And so why aren't we above 40% already and how do we get to 40%? What timing?

Keeping in mind because you give the gross margin before depreciation, your gross margin is not that volume sensitive. So I'm just trying to understand how the mix progresses and when we get about 40% in gross margin, please?

Douglas Lafferty: So look, as I said, gross margin for the full year we still expect it to be at 40% across the entire business. So that's still our expectation for the full year. Q1 was impacted, as I said, by the absorption of costs across the core range. The Specials has obviously helped and contributed to gross margin achievement in the first quarter. But as I said, that sort of transition nature of the core portfolio means that we're not hitting 40% on the cars that we're selling in Q1, but 1we will do when they're running at rate.

And all of the core range will hit 40% when they're running at rate. And as we've alluded to, we expect that to be in the second half of this year. But I think importantly, we talked about achieving that 40% gross margin across the entire year for 2024 a few weeks back, that hasn't changed. That is still our expectation.

Philippe Houchois: And then on the DBX, I think many of us kind of wonder why DBX did not succeed. I think looking back probably initially under-powered and you've addressed that and then the human interface wasn't very modern so you've addressed that. To what extent -- the 250 cars you shipped in Q1 of the prior version on DBX that might force some discounting of the old one as the new one comes in and is the right power and the right HMI?

Doug Lafferty: First of all, I don't think it's fair to say that DBX hasn't been a success. We've seen it take considerable market share in the ultra-luxury high performance SUV space in a number of markets. So we're pretty happy with how the DBX has performed. It's added roughly 3,000 units to what this business delivers and is a significantly important part of the portfolio going forward. So we're very happy with the DBX.

We believe that with the upgrade, we're addressing the key element of customer feedback, which is upgrading the interior and the infotainment. So we're confident in the future for the

DBX. As you know we're focusing solely on the DBX707 now going forward and, with a link to your first question, that should support the margin generation.

So look, we're good with the DBX. We believe it represents a strong part of our portfolio and our offering going forward and is an important part of the overall mix.

Philippe Houchois: And one last question, if I may. I was hoping that Mr. Stroll will be on the call but he's not. I'm just wondering -- I think in the U.K., the position of Executive Chairman is always a bit ambiguous. And I'm just wondering so now you're hiring a high profile CEO, Adrian Hallmark. We know him, we respect the work he's done at Bentley. I guess my indirect question to Lawrence Stroll is whether he's willing to give up the Executive Chairman position so that he gives Adrian the whole reign of running the business the way it should be run?

Doug Lafferty: I think we can leave that question on the transcript, Philippe. I'm not going to attempt to answer that.

Philippe Houchois: I don't expect you to. It's just I'm sure Lawrence would have a view.

Doug Lafferty: Look, Philippe, as I've said, I'm looking forward to working with Adrian. He's got a lot of strong credentials in the automotive space. I think you guys all know him well and I think his appointment was received positively. And that said, working with Lawrence, I think that's a strong combination.

Obviously Lawrence is a hugely important piece of the story here. He's brought an incredibly strong roster of shareholders into this business and he's incredibly passionate. So I enjoy working with Lawrence as well.

I'm looking forward to working with Adrian and I'm looking forward to seeing what the new leadership team can deliver. As I said, we're focused on delivering the plan that we've laid out before us. I don't think that's going to change. And I think the future is exciting and full of opportunity so that's what we're focused on.

Okay. So thank you very much for your questions. Thank you for listening. And I'm sure that if there's any follow-ups, the team will be happy to discuss with you. Many thanks.