Aston Martin Lagonda H1 2022 Results

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H1 2022 Overview & Financial Review

Doug Lafferty

CFO, Aston Martin Lagonda

Welcome

Hello, everyone, and welcome to Aston Martin's First Half 2022 Results Presentation. I'm Doug Lafferty, CFO, and I'm joined by Amedeo Felisa, our CEO.

Agenda

In terms of our prepared remarks, I'll start with some key highlights from H1 and our recent announcements before reviewing the numbers in more detail. I would then like to share some perspective on two elements that are important to our mid-term objectives. Firstly, the evolution of our gross margin, and secondly, how we see our capex evolving as we move through the next phases of our product cycle. I'll then turn the call over to Amedeo, who will share some of his early thoughts on the strategic progress we are making.

H1 2022 Highlights

As reflected in today's RNS, the first half of the year has seen us continue to make good progress in the execution of our strategy. We have strong demand across our product lines and although supply chain challenges impacted our first half performance, particularly in Q2, we are confident these are temporary and have therefore reaffirmed our full year outlook.

On the slide you can find some of the key highlights. We delivered 9% revenue growth despite lower wholesale volumes. Particularly pleasing was the ASP development, a record level for Aston Martin. Gross margin increased an impressive 600 basis points year-on-year to 35%, driven by improved pricing and mix dynamics. And adjusted EBITDA increased by 20% to £59 million, delivering a 100 basis point year-on-year margin expansion.

Consistent with our ultra-luxury strategy, we continue to apply a demand-led approach with retails outpacing wholesales in H1. Combined with the strength of our brand, we have continued to see robust orders across the portfolio, with our front-engine sports cars fully sold out in 2023 and DBX order intake more than 40% higher year-over-year.

While supply chain disruptions clearly impacted our financial performance in the first half, particularly relating to working capital, we do expect these headwinds to ease in the second half of the year, which will support our H2 performance and the positive free cash flow we are now targeting. I'll come back to this in more detail as we move through the presentation.

As you know, earlier this month, we announced a major new investment in the company by one of the world's leading global investment funds, PIF, as part of a transformational capital raise. The £653 million raise includes further investment from the Yew Tree Consortium and a cash investment from Mercedes-Benz. Alongside the actions we are already taking, this will significantly strengthen our financial position. In addition, it will accelerate our long-term growth, support delivery of our financial targets, which include becoming sustainably free cash flow positive, and ultimately drive shareholder value.

We continue to enjoy a long-term strategic relationship with Mercedes-Benz evidenced by their proposed investment and our planned deployment of their technologies accessed via the Strategic Cooperation Agreement, or SCA, which was announced in October 2020.

Through the SCA, we're able to access a full range of world-class technologies, including powertrain architecture and future-oriented electric and electronic architectures, removing the costs and risks associated with developing these technologies ourselves, and enabling us to focus our investments in other areas and to expand our portfolio.

As a reminder, the first tranche covers all our vehicles planned for delivery in our mid-term plan, including our next generation sports cars, DBX and DBX variants, as well as plug-in hybrid vehicles, such as Valhalla.

Today, we are pleased to announce a mutually agreed amendment to the SCA, which extends the timeframe for the tranche 2 share issuance related to the second basket of Mercedes technologies, including BEVs, into 2024. Importantly, the amendment does not impact our access to the technologies or change the timeline for our first BEV, which we continue to target for launch in 2025.

H1 2022 Financial Results

Now, turning to our H1 financials in more detail, starting on the next slide. As you can see, despite lower wholesales, we delivered solid revenue growth and strong adjusted EBITDA growth. Revenue growth was driven by strong pricing dynamics across the portfolio, positive mix, including Valkyrie deliveries, and FX tailwinds.

The increase in operating loss essentially reflects higher depreciation and amortisation, whilst free cash flow was materially impacted by short-term working capital headwinds, and a pre-planned acceleration in capex. This all feeds through to the increase in net debt, which for the period end was exaggerated by significant non-cash related FX impact on our US dollar-denominated debt.

H1 2022 Wholesales

The next slide provides some more detail on our wholesale volumes for the period. The pie chart on the top left of the slide gives you a sense of how the supply chain challenges we experienced limited our ability to meet strong demand for the DBX.

DBX represented around 40% of our wholesales, with the DBX707 particularly constrained by short-term supply chain issues in Q2. In addition, DBX was impacted by lower volumes of the V8 model as we transitioned production towards the new DBX707. Pleasingly, overall sports and GTs saw more than 20% year-on-year growth. Looking ahead, we expect wholesale deliveries to increase materially in the second half of the year, predominantly driven by DBX.

On the bottom left is wholesale average selling price. Core was £164,000 in H1, which is both a record and a strong step up from last year, as we put through price increases, executed a reduction in retail and customer financing support and saw improved residual values. FX movements also had a relatively small benefit to ASP in the first half.

Our geographical wholesale split, to the right, highlights the impact of the lower DBX volumes, particularly relevant for the Americas, where we sell a higher mix of SUVs.

Wholesales in China recovered strongly in Q2 following the transportation delays mentioned on our Q1 call, which affected first quarter volumes. This was partially offset by the effect of the COVID-19 lockdowns in Q2.

H1 2022 Adjusted EBITDA

On slide eight, you can see the details of our adjusted EBITDA, which increased to £59 million versus the same period last year with a 10.8% margin. Comparing to the first half of last year, the biggest driver was strong pricing dynamics, as I have already mentioned. Mix was also a further positive, including a higher number of specials and the initial deliveries of the V12 Vantage, which more than offset lower overall wholesale volumes.

Net operating expenses increased by £38 million, driven by brand and marketing initiatives, some inflationary impacts, as well as higher overall G&A to support our future growth. In addition, we continue to enjoy FX tailwinds to profitability, mainly due to GBP weakness versus the US dollar.

On the right-hand side of the chart looking below EBITDA, D&A increased as guided due to Aston Martin Valkyrie programme deliveries and accelerated D&A ahead of our new front-engine vehicles next year. Net adjusted financing expense increased significantly, driven by the £156 million year-on-year non-cash FX revaluation of our US dollar-denominated debt.

Finally, non-cash adjusting items consist of a £24 million adjusting financing credit relating to the outstanding warrants on the second lien, partially offset by a £13 million charge related to the pension scheme closure accrual as disclosed in our full year 2021 results.

H1 2022 Free Cashflow

Moving on to cash flow. The starting point was, of course, the increased loss before tax driven by the elements I have just run through. Adding back D&A and other non-cash items resulted in a positive post-tax cash profit of £34 million. Working capital though, was a £67 million outflow, primarily driven by temporary supply chain shortages that firstly pushed deliveries towards the end of the half, and secondly, resulted in elevated receivables and inventories.

This included more than 350 near-finished and ordered DBX707s still awaiting final parts at the end of June. The positive is that this significant working capital build is expected to unwind through the balance of the year, as we collect the cash from the late June deliveries, supply chain issues are resolved, and we start to clear the work in progress inventory and return to a more normalised working capital situation.

Moving to the right-hand of the slide, capex of £138 million was focused on the next-generation front-engine vehicles, as well as development of the mid-engine PHEV programme.

Finally, net interest paid was £63 million.

H1 2022 Cash & Debt

With regards to cash and net debt, at a high level, our H1 closing cash balance was impacted by a combination of more than £125 million of short-term factors. This relates to the £46 million repayment of the revolving credit facility, and more than £80 million from the elevated receivables and a number of vehicles awaiting final assembly parts, as described in the previous slide.

We have now started to deliver these vehicles in July and expect further improvements in the supply chain as we move through the second half, supporting the delivery of our full year targets.

As a result of the working capital dynamics in H1 and our expected second half performance, we now expect free cash flow to be positive in H2, resulting in a significantly higher cash balance at the end of the year, prior to the net impact of the proposed capital raise.

Outlined on the right is our debt table showing the breakdown of our net debt. In addition to the cash flow dynamics I've described, year-on-year net debt was inflated by the impact of a £156 million non-cash FX revaluation of our US dollar bonds, given the weakening of the pound versus the US dollar.

2022 and Medium-Term Outlook Re-Affirmed

Looking ahead into the second half, our guidance for the year remains unchanged. For the second half of 2022, we expect strong year-on-year wholesale volumes and EBITDA growth, supported by easing supply chain dynamics, robust demand, as well as the production ramp up of the DBX707 and the V12 Vantage. Both of these bring improved profitability compared with our prior models, aligned to our 40%-plus contribution margin target.

In addition, price adjustments have been made across the portfolio with three price increases since the end of last year, most recently in June, reflecting the strong pricing power of the Aston Martin brand and our ability to offset cost inflationary pressures.

Aston Martin Valkyrie production continues to pick up pace. We continue to expect 75 to 90 Aston Martin Valkyrie programme vehicles to be shipped in 2022 with 38 vehicles already assembled in the first half of the year.

And as mentioned, we expect free cash flow to be positive in the second half of 2022 as the higher profitability and cash inflows from more normalised working capital dynamics are expected to offset the remaining cash interest payments and planned capital expenditures. This is expected to support a year end cash balance in excess of £200 million, before the net proceeds from the proposed capital raise of £653 million.

Before I turn the call over to Amedeo, and as mentioned when I started my comments, I wanted to cover a couple of key topics related to our medium-term targets and our journey to becoming sustainably free cash flow positive: gross margin and capex.

Strong progress on journey to 40%+ contribution margin

Starting with gross margin, which is a significant building block of our future deliverables and a key benchmark for any luxury business. The slide demonstrates the strong progress we have made since 2020, during which we have almost doubled our gross margin reaching 35% in the first half of 2022.

The pathway to getting to 40% and beyond is clear, as we bring new and improved products to market all with this goal in mind. Since 2020, the business has completely reset its strategy, destocking excess inventory, and repositioning the company towards ultra-luxury norms.

Moving into 2021, the journey continued as we moved to becoming demand-led, reducing dealer incentives and driving new levels of manufacturing efficiency, which took our gross margin into the high 20s and low 30s.

We are now at the start of the next stage as we introduce the first range of vehicles that all target a 40% plus contribution margin.

This starts with the DBX707 and the V12 Vantage in 2022, followed by a full range of six new sports cars from 2023 and our high-margin specials starting with Valhalla in 2024. Clearly, we will maintain a focus on continuing to drive further efficiencies, something I know Amedeo has both industry expertise in and strong views on, which will also support our overall gross margin evolution.

CapEx expected to be c. £300m per year through 2025

Finally, on capex, a topic that I know many of you have questions on. Over the coming years, we expect capex to average at around £300 million per year with a significant transition in spend from ICE to electrified vehicles. Underpinning this, is the tranche 1 basket of technologies from Mercedes-Benz, which covers all of the vehicles we are targeting to deliver in our medium-term plan.

In addition, the agreement with Mercedes provides two key benefits. First, access to world-class technologies allowing us to leverage the significant investments that have been made by them. Second, it removes the costs and risks associated with developing these technologies ourselves, allowing us to focus the investments captured in our £300 million envelope on other areas to support our growth and further differentiate our products.

Our capex in 2022 is predominantly geared towards the next generation of front engine sports cars with a growing share for our upcoming hybrid vehicles.

Moving into 2023 and 2024, we'll see a shift in capex, which will spearhead our electrified portfolio, focusing on technologies that will truly differentiate the driver experience.

It is only towards 2024 that we expect to require technologies covered in tranche 2, which aligns with the amendment to the SCA to support our BEV portfolio, taking us into 2026 and beyond.

That brings us to the end of this section of the presentation.

From a business perspective, the first half of the year has not been without its challenges but we are fully focused on delivering as per our guidance for 2022 and beyond. This execution, alongside the proposed capital raise, will provide a platform for the business to go ahead and meet its midterm targets and, ultimately, deliver shareholder value.

On a personal level, it's been a very exciting first few months for the business. They've been exceptionally busy, but I remain confident that working alongside Amedeo and the rest of the team, we will continue to drive the business forward.

I'll now turn the call over to Amedeo.

Strategic Priorities

Amedeo Felisa

CEO, Aston Margin Lagonda

Significant progress under current ownership

Thank you, Doug. It is a pleasure to speak to you today, my first opportunity since becoming the CEO of Aston Martin. It come almost exactly one year after I joined the company as a Non-Executive Director. I would like to start by reminding you of the journey the company has been on. I will then highlight how we are aligning the whole company to enhance our capability and optimise ways of working in order to deliver on our targets.

Slide 14 details the three phases of our transformation. Whilst I don't plan to take you through every point, I think this does provide important context. As you can see, on the left-hand side of this slide, Phase One began with the investment by Yew Tree Consortium in 2020 and ended with the foundations of the company rebuilt, which sets us up to deliver on our growth plans going forward.

We launched Project Horizon, which has set up the company to work in a different way. We have announced the strategic partnership with Mercedes, and we have a very strong relationship with them supported by their new investment in the proposed capital raise. We have also repositioned the company to become an ultra-luxury business, aligning supply with demand and then destocking more than 1,800 vehicles.

We successfully launched the DBX, which expanded our addressable market. And we re-entered into Formula One, which is bringing new customers to the brand and is important way for us to take technology and ideas into our sports cars.

Today, we are in Phase Two, where we are focused on renewing our product portfolio and increasing profitability.

The launches this year of DBX707 and V12 Vantage mark the start of this renewal followed by the full range of new sportscar starting in 2023. Do not underestimate how different these cars will be, with a significantly greater specification, commanding higher prices.

We have also, of course, announced that we are restoring the health of our balance sheet with the proposed equity capital raise, which Doug has already discussed.

Finally, Phase Three will take us into 2024 and beyond, as we move towards a full portfolio of electrified vehicles, continuing with our line of specials and supercars and becoming sustainably cash flow positive.

CEO Strategic Progress & Priorities

But before we look too far ahead, I wanted to come back to the near term, and the opportunities and priorities I have shared with the team.

I had already observed through my previous roles as a Non-Executive Director and Chairman of the Product Strategy Committee that Aston Martin has some extraordinary assets on which we can build.

We have an iconic brand that is attracting growing demand from a new generation of buyers, with 60% of our customers already new to the brand. We now have a strong ultra-luxury proposition only selling cars to order, and a focus on customisation, a culture of innovation centred around unique drive experience and beautiful design, and a world-class team that is hungry to win.

Along my team, I am now focused on leading and supporting this great company to delivery on the objectives we have set to improve our execution and optimise our ways of working to fully capitalise on the opportunities ahead of us.

My philosophy is simple – making even the most extraordinary of cars is not difficult. It only requires the right organisation, processes and people. This is something I am very passionate about.

As we enter on Phase Two of our transformation, leveraging my experiences, I see great potential to build on the success of Project Horizon. These mean that we need to optimise our operational capabilities, reducing complexities and cost, which will drive sustained improvements in profitability and cash flow.

For example, our new CTO function, led by Roberto Fedeli, has a new organisational structure, changing from a functional organisation to multi-functional team. This should drive greater engagement of the people involved, capture synergies across our investments and expand our capabilities to develop and improve how we launch our future products.

While I'm pleased with the initial progress we have made, there is clearly more that we will do.

In practical terms, my immediate focus is on delivering our targets for this year and beyond. We are working with our key suppliers to mitigate the challenges which disrupted our first-time performance, becoming stronger partners to support our growth.

We are committed to accelerating deliveries of the DBX707, continuing at the higher build rate of Valkyrie production and smoothing the transition to our next generation of vehicles.

Finally, we were very proud to unveil our new creative identity last week, including a new version of the iconic wings logo. This is part of a strategic repositioning to accelerate the brand's growth and appeal to new audiences. You may also have seen the tremendous reaction on social media to our 'Handmade since 1913' wall, celebrating the contribution of over 5,000 Aston Martin colleagues past and present.

I would now like to share a short video, which brings to life our new 'Intensity.Driven.' brand expression celebrating the emotional intensity of driving an Aston Martin and the reinjection of its performance DNA.

Thank you again for your attention, and I look forward to updating you on our progress over the coming months.

[Video]

109 years of human life, muscle memory, and literal rocket science in two hands and in every stitch, every curve, every dimple of leather, molecule of air and decibel of your being

screaming not yet, not yet, not yet, not yet. Now. Four limbs and 4.5 times the force of gravity dancing with four wheels, biting downforce up to your teeth, retinas racing out of their sockets, scouting for the single millimetre of tarmac between euphoria and the grass. Thunder in the wheels, lightning in the synapses, says 120 decibels booming in your bone marrow, hold your nerve as 12 aluminium lungs custom wrought to spike the bloodstream with adrenaline. Take a deep breath in.

Introduction

Lawrence Stroll

Chairman, Aston Martin Lagonda

Good morning, and thank you for joining us for this Q&A on our first half results for 2022. I hope you've had the chance to read the release and also listen to the presentation of the results from Doug and Amedeo 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 performance brand.

Since I became Executive Chairman, we focused on fixing the core fundamentals of this company and rebuilding the necessary foundations to deliver on our vision. This has included a significant rebalancing of supply and demand, which today resulted in retails outpacing wholesales, a key foundation to building an ultra-luxury business.

Moreover, the underlying fundamentals of Aston Martin have never been stronger, with robust demand across our product range, sports cars are sold out into 2023 and DBX orders up by more than 40% over 2021. The first new models and extraordinary pipeline of products developed since I became Executive Chairman have also started to be delivered.

Our combination of new ultra-luxury high-performance models commenced with DBX707, the premier ultra-luxury performance SUV on the market, and the highly desirable Vantage V12. They will be followed by the long-awaited entirely new generation of our front-engine sports cars from 2023. Importantly, all our new vehicles are aligned with a minimum 40% contribution market target, a significant increase from the past and a key driver to our medium-term targets, which we are on track to deliver.

As we enter into the second phase of our transformation and with an emphasis on product renewal and increased profitability, we have also aligned the business under new leadership led by Amedeo Felisa, to fully realise our potential and deliver on the targets we have set. Amedeo brings an exceptional track record and skillset that are perfectly matched to our needs and we have already made progress in a number of areas that address both the short and longer-term priorities of the business.

In addition to appointing Amedeo as CEO, we have separated the CTO organisation from its previous structure. We have brought in four new leaders to supercharge our engineering capabilities and drive increased collaboration across our teams. Roberto Fedeli, arguably the best CTO in the industry, joined us in June and has quickly established a new structure to support our development of our next-generation of high-performance and EV vehicles.

This included the addition of some of the best talent in the industry, including new leadership in the area of chassis, electronics and infotainment and the full range of EV technologies.

However, the first half of the year was not without its challenges. Isolated but impactful supply chain shortages, particularly in Q2, resulted in lower wholesales and significant working capital headwinds. Specifically, we ended June with more than 350 DBX707s that we had planned to deliver in Q2, still awaiting some final parts.

Combined with elevated receivables, this had a more than £80 million short-term impact on our cash and temporarily limited our ability to meet the strong demand we have. We have now started to deliver these vehicles in July and expect further improvements in the supply chain as we move through H2, supporting the delivery of our full year targets, which we have reaffirmed today.

As a result of the working capital build in H1 and our expected second half performance, we now expect to generate positive free cashflow in H2, resulting in a significantly higher cash balance at year end.

Earlier this month, we announced a £653 million equity capital raise, which would also see the arrival of Public Investment Fund, PIF, as a new anchor shareholder with a 16.7% stake. This will transform our balance sheet, significantly improve our liquidity and cashflow profile, provide greater clarity on our pathway to become sustainably free cashflow positive from 2024, as well as creating significant shareholder value.

Having spoken to a number of our largest shareholders over the last two weeks, it is clear there is extremely strong support for the raise. We continue to enjoy a long-term strategic relationship with Mercedes-Benz, evidenced by their proposed investment and our planned deployment of their technologies, accessed via tranche 1 of the Strategic Cooperation Agreement or SCA.

As a reminder, this first tranche covers all of the vehicles we are targeting to deliver in our medium-term plan, including all ICE, hybrid and PHEV models. In addition, the agreement with Mercedes provides two key benefits.

First, access to world-class technologies and software, allowing us to leverage the significant investments that have been made by them. Second, it removes the costs and risks associated with developing these technologies ourselves, allowing us to focus the investments captured in our yearly £300 million capex envelope on other areas to support our growth and further differentiate our products.

Today, we are pleased to announce a mutually-agreed amendment to the SCA, which extends the timeframe for tranche 2 shares issuance related to the second basket of Mercedes technologies to be accessed under this agreement, which includes everything related to BEV, and we're pushing this out to 2024. Importantly, the amendment does not impact our access to the menu of technologies we can choose, nor does it change the timeline for our first BEV, which we will be continuing to target for a launch in 2025.

At this point, I – before opening the floor to questions, I just want to state, again the strong fundamentals of the business, the strong demand for the brand by our consumers, by our dealerships. And once again, my Yew Tree Consortium responding to the capital requirement.

And believe me, if I did not believe full heartedly in the strength and the success of the business, I certainly wouldn't be putting in any more money.

So having the biggest insight into this, I tell you with full confidence that the work over the last two-and-a-half years, which has not been easy by any stretch of the imagination, has now paved the road for our journey, starting with the 707 coming this year with the full range of our new generation sports cars onto our mid-engine, onto our PHEVs and on to our BEVs. So it was really laying the stones over the last two years on the pathway for this journey to building the ultra-luxury high-performance brand.

So please take confidence in what I'm saying. It means a great deal. And on that note, I will open the floor to any questions.

Q&A

Operator: Thank you. As a reminder, to ask a question, you need to press star one on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A queue. Thank you. We'll now take our first question. Please stand by. First question is from the line of Charles Coldicott from Redburn. Please go ahead. Your line is open.

Charles Coldicott (Redburn): Hi. Good morning. Thanks for taking my questions. I've got three, please. So the first on the DBX. The previous CEO said that there would be six variants of the DBX by 2024. Obviously, the 707 is the third variant we've had so far. Is the plan still to have six in 2024? And if it is in the plan, how do you expect to reach the medium-term guidance, given the derivatives strategy, obviously, was part of how you bridge from 3,000 to 4,500 or 5,000 units?

My second question, on the 2022 guidance. Obviously, demand is not a problem because you're sold out of GT and sports cars this year, but production hasn't been able to keep up. Wholesale, I think, 2,700 units in H1. Your guidance implies at least 4,000 units in H2. What are the main bottlenecks that you've been able to resolve that are going to help you achieve that acceleration?

And my third question was just on the Valhalla. Can we just get an update on the customer orders for the Valhalla? Is it – are you sold out of all 1,000 units? And if you're not, I guess, traditionally Specials usually sell out quite quickly. So do you think that's because people are kind of waiting to see what happens with the Valkyrie? Or is there any sort of softness in that segment? Thank you.

Lawrence Stroll: As far as the DBX models are concerned, I quite honestly do not remember how many previous management mentioned we would have. We always knew we were going to have the car we initially launched with. And we added the hybrid, I6, Straight-Six that we sell in China. We always knew our third car, which we started working on from the day I came in was going to be the 707.

We do know there will be a PHEV version of our DBX in the future years to come. We also were starting to do a Special on a DBX as we used to do historically like a Zagato model. And at one point, we were considering maybe that's how we got to six, which we no longer are. I stopped after I came – after I came in, which was a long wheelbase DBX.

So the other four or five are still in the plan. The long wheelbase isn't.

The production that you described, we had experienced. It primarily started mostly in June with one particular supplier, having an issue mostly with the rear bumpers. Those quantities have now started to come back in according to plan, and we're extremely confident, otherwise we wouldn't be reaffirming our full year guidance if we were not confident on that delivery.

And as far as the Valhalla is concerned, we have approximately 500 orders. Usually, when we make specials, we make about 100 or 200 cars. The Valhalla, we've said that we're going to make approximately 1,000. So of that amount of order book versus the quantity we're making is right on track in our business plan, where we thought we'd be.

Charles Coldicott: Okay, great. Thank you.

Operator: Thank you. We'll now take our next question. This is from the line of Christoph Laskawi from Deutsche Bank. Please go ahead.

Christoph Laskawi (Deutsche Bank): Good morning and thank you for taking my questions. The first one will be on ASP and what you can do going forward. You already had a couple of price hikes in the last six months. And I was just wondering, do you plan further hikes in the coming quarters? And when it comes to the ageing sports car line up, is there still much that you could do on price for that? And related to that, when will be the time where you actually stop taking orders for the current line up versus the models which will be renewed?

And a follow-up on the DBX that is in semi-finished inventories currently. You already said that you are starting to finalise them and going to ship them. If I understood it correctly, a lot of those will be for the US. So should we start to see them moving out of the inventory already in Q3? Or given the transit time and time on the ship could that slip into Q4 just in terms of working capital reversal? Thank you.

Doug Lafferty: Okay. Good morning. It's Doug speaking. So with regards to your question on ASP, we're obviously happy with how ASP has been evolving. You're quite right, we've taken pricing quite consistently over the last 12 months or so, three price increases.

We will continue to monitor the situation, I think, as we move forward. Demand remains strong. Pricing is strong, and mix is only going to improve in that regard. So in the second half of the year, we've got the ramp-up of the DBX707 and the V12 Vantage. So we expect ASP to remain strong.

With regards to order intake on the sports cars, as Lawrence has said, and as I think we've repeated a few times so far this year, the order book for those cars remains very strong, ordered and well into Q1 2023. So we'll roll the new cars in, but we'll continue to take orders on the current range.

Your second question with regards to the DBX, with the inventory held back waiting final assembly parts at the end of the quarter. The simple answer to your question is, yes, those cars are starting to be completely finished and shipped as we speak. Quite a large proportion of those were down for the US, and we expect to see those wholesale in Q3.

Christoph Laskawi: Thank you. And just one follow-up, if I may, on the Mercedes agreement that you have and now the ability to essentially choose technology that you would like until mid-24. You keep the launch rate for the BEV in '25. I was just wondering when would it be too late to choose the technology from Mercedes to go into that first BEV? Could it be implemented fairly shortly ahead of the launch of the car, say, six months ahead, or do you need a year or two for that?

Amedeo Felisa: Good morning. Thank you for the question. I think that we are working with Mercedes and the content of their proposal at the Strategic Cooperation we have [inaudible]. And we are evaluating in details what they are offering us. And if you want to be, we are not looking only on Mercedes, because at the end of the day the best idea is to have a comparison with other proposals.

So we are looking very carefully what they have beside the two pack that they are offering to us going to EV. And I think we have already defined some solution, having their proposal in the future architecture of our standard BEV. But I think we are continuing to understand better and better their proposal, and of course, creating every time more understanding by our people.

I think the transition to EV will be a tough point. So we have to do it when we know everything in the proper way. So I don't think we are late because with the new CTO, we have already launched the two teams working on architecture for future EVs. We are working, if you want, understanding the technology and finding what should be the solution.

Christoph Laskawi: Understood. Thank you.

Operator: Thank you. We'll now take our next question. Please stand by. This is from the line of Philipp Koenig from Goldman Sachs. Please go ahead.

Philipp Koenig (Goldman Sachs): Yeah. Thank you very much, Lawrence, for my first questions. My first question is just on the contribution margins that you are targeting, 40% plus for both GT and Sports next year. I was just wondering what are the main drivers behind that? Obviously, is it mostly that you're just hoping for higher ASPs, or is it more of a cost improvement? And then within the cost improvement, is it the results that you've already done with Project Horizon? Or are there further levers on the cost side to improve the margins that you are still sort of aiming for, for 2023?

And then the second question is just on the free cashflow and working capital. I can imagine that the main driver here is clearly the inventory improvement as you ship the DBX. I was just wondering on the receivables side, are you also expecting a major improvement as you sort of start cashing in on those shipments? Any colour there for the second half would be appreciated. Thank you.

Doug Lafferty: Sure. So with regards to your first question, hopefully, you've had a chance to look at the presentation that we've put up on the website and talking about gross margin and our evolution, where we're pretty happy with how that's evolving to roughly 35% in the first half of this year.

As you point out, all of the vehicles that we're bringing to market from the 707 onwards target that 40% contribution margin. And that will be delivered with a blend of pricing as the products that we're bringing to market are, quite frankly, a step on from what we have today and can command higher pricing. So we'll be looking very, very closely at the BOM and looking at what cost we can optimise as we bring those cars to market.

So a combination of the two helps us achieve the 40% as it will be on the DBX707 and the refreshes that we're bringing to market next year.

The second question on free cashflow. Yes, you're right. So we expect that, as we said, to unwind in the second half of the year. The majority of that inventory is starting to move, so we should see that unwinding in Q3.

And then with regards to receivables, I mean, it's really the same issue. We were shipping cars late in the period. So I'd like to think that we can return to a more sort of neutral to normal working capital cycle, where we don't have the receivables building at the end of the period. So on those two points, yes, we expect them to unwind and help deliver that free cashflow positivity in the second half.

Philipp Koenig: Thank you very much.

Operator: Thank you. We'll now take our next question. Please stand by. The question is from the line of Daniel Röska from Bernstein.

Daniel Röska (Bernstein): Good morning. And thanks for taking my questions. Amedeo, could you talk a bit about how you think about the development of the Aston brand? And specifically, how you can achieve kind of meaningful differentiation from the competitors above your positioning, like Ferrari, or moving up from below like the Mercedes brand or Maserati? And what the key measures you want to put in place for that?

And then on the transition to BEVs, maybe could I ask you, Lawrence, on your broader view on the wider luxury car segment, kind of how you view the opportunities and the risks for luxury car OEMs like yourself moving into full BEV?

Lawrence Stroll: I could answer the – I'll let Amedeo answer first and then I'll answer the BEV segment.

Amedeo Felisa: About the characterisation of the future of the Aston Martin product. I think let the first example be DBX707, which is slightly different with the actual [current] Aston Martin product. And this was, if you want, a good test because we understood that the Aston Martin customers are not only the one that likes the style, super luxury and elegance, but they like also performance. So – and in the future, we want to continue in that direction.

We will continue to have product that, as expected, very well placed inside the Aston Martin brand. But with some evolution and direction of feeling of driving. And this will be something that we will, in a proper way, preparing what will be the characteristic of the BEV, that has to be in some way maintain the characteristic of the Aston Martin product.

So I think Aston is very well placed. We have a very good brand strategy that the customers are well accepting. So I think I do not compare too much Aston with Ferrari. They are two luxury brands, but one in very well-defined position, which is Ferrari. I think Aston is covering his own position again on luxury and performance but with some specific characteristic that Ferrari could not have.

Lawrence Stroll: And as far as the BEV is concerned, we are going to continue and have continuity to what drives an Aston Martin purchaser today. And those are several attributes. One is the beauty of our cars. And I don't think whether it's in an electric vehicle or a combustion engine. One is always attracted visually to how a car looks. I think that's the first impulse we get as consumers.

Secondly, we are very well-known for our vehicle driving dynamics. Everyone knows or talks of how well an Aston Martin handles. It's been an attribute of Aston Martin for, I don't know, 20, 30 years. And in addition, what Aston Martin is very much known for is the luxury, bespoke, Savile Row tailor-made interiors craftsmanship, what have you, which we're turning the notch up on that. We're bringing more of what we're calling our tailoring programme to the cars.

So it still needs to look like an Aston Martin to differentiate us, drive and feel like an Aston Martin, sound and smell like at Aston Martin, whether it's the radio, whether we do our own e-motors to make it feel more special, whatever it might be, there'll be some personalisation to our Aston Martin BEV programme that will be unique to Aston Martin in addition to bringing forward our legacy attributes that I just mentioned.

Daniel Röska: Thank you. Very clear. Maybe if I could follow up on technology. You just mentioned the tranche 2 for Mercedes. But have you had discussions with potential other partners, possibly also thinking through the PIF angle to evaluate possibly also other routes on electrification for you?

Lawrence Stroll: Yes. We've – in the last two years, visiting most companies, including the ones you mentioned. We have an extremely close, tight and incredible partnership with Mercedes-Benz. So in tranche 2, it seems like our direction is to take their overall riding architecture, electronic architecture that they spend billions and billions of dollars developing that, that we have access to.

So – but if you look at the EV, it's not one thing called EV. I look at it like a menu. There's everything from e-motors to cells, to battery packs, to electronic architecture to, etc., etc., etc. So there'll be a menu. We clearly need the overriding electronic architecture. And then as I just said to answer your last question, we will be looking to personalise our Aston Martin EV and differentiate us from the competitors to buy a few things we manufacture in-house and have our own in-house competencies to manufacture. But the overriding basket two delivers us the core of what we require.

Daniel Röska: Okay. So you wouldn't be opposed to getting the inverter from Lucid, doing parts of the motor in-house and kind of taking the wider system architecture from Mercedes?

Lawrence Stroll: At this moment, we're very open-minded. We're not at the point of making that decision. But what you said is a distinct possibility.

Daniel Röska: Thanks, Lawrence.

Operator: Thank you. We'll now take our next question. Please stand by. And this is from the line of Horst Schneider from Bank of America. Please go ahead.

Horst Schneider (Bank of America): Yeah. Thank you for taking my question. I only have got one left that's maybe for Lawrence. So when we look at the recent EU CO_2 regulation, and by surprise, basically the opened window of opportunity that the combustion engine could stay alive if the cars were using synthetic fuels. So as you outlined, you want to electrify the fleet a lot more completely by 2030. Isn't there now a window of opportunity also for the combustion engine cars? And is there a need to accommodate that also to a stronger extent in your strategy? Thank you.

Lawrence Stroll: Yes, we will continue. We believe in and will manufacture combustion engine cars as long as there is a consumer demand. We think there will be a consumer demand for a longer duration with a company like Aston Martin because we deal with much more of a car enthusiast. In most cases, it's not their only car. It's their sports car, could be their second car, it could be the third car.

So we believe – whether it be independently ICE or whether it be ICE PHEV or a combination of – we believe that that will carry further in our business plan than most. We also, to your point, potentially, we're starting to look at e-fuels. As you know, we're bringing e-fuels into Formula One in 2026 – I'm not sure if you're aware – we're also looking at the feasibility and practicality of how to bring that into road cars. So also a study, very early days, that we're looking into. But yes, the plan would be to carry forward a combustion engine in a few vehicles for as long as the demand remains, which I think will be longer, as a small volume manufacturer, a specialist manufacturer, than most.

Horst Schneider: But that means that in the end that when you say you can use them for longer, you don't have to do additional development for that, right? You can just use the existing technology and then you just – I mean the customers they use a different fuel, but that does not affect your R&D. That's correct, right?

Lawrence Stroll: That is correct. As far as the rulings, I don't believe we're clear. I think Amedeo could probably answer it better than myself.

Amedeo Felisa: If you want, as all the other manufacturers, we are keeping under control what should be the way to continue with the internal combustion engine. So we – if you want today, we are concentrated in the transition of the hybrid product versus BEV and then EV, but especially because for the small volume will be, for sure, a special regulation and timing.

I think we are looking also at alternative solutions. I think as you know, this is anyway asking for more changes on the actual [current] engine. So it's not exactly electrification as it is. So we are looking with some partnership in understanding what should be the opportunities.

Frankly speaking, in that moment, we are more concentrated on making the evolution of the actual [current], and then look into the electrification. But it's – as you know, it's always better to take the ICE on every solution and then understanding, comparing the two different alternatives, which should be the best one.

As Lawrence was saying, for sure, our customer are not so keen to have EV cars, so we have to take – undergo through the situation in order to, if you want, utilise every solution that makes the continuation of the actual [current] engine. But I think it needs to be discussed in the future looking especially what will be the regulation.

Horst Schneider: Okay. Thank you.

Operator: Thank you. We'll now take our next question. Please stand by. This is from the line of Thomas Besson from Kepler Cheuvreux. Please go ahead.

Thomas Besson (Kepler Cheuvreux): Thank you very much. It's Thomas. I have two kind of helicopter questions, and I apologise in advance if this is not necessarily a topic you want to cover.

First, I'd like to come back to questions that have been made earlier on the competition. So I think when we look at the profitability of some of the luxury companies that have reported earnings for H1, and we anticipate what Ferrari will show. We've seen very, very, very substantial progress, whether it's [inaudible] luxury within the Volkswagen Group, Italian luxury or we are going to see probably record earnings from Ferrari. Can you just come back to explaining the magnitude of the gap in terms of returns between Aston with the progress that have been achieved in these companies? And given the challenges ahead from a macro and electrification perspective, explain how you intend to close the gap. I know it's a very wide question, but it's still – I'm still a bit puzzled by the gap.

The second question is also, and I apologise, not necessarily one that you would expect on this call, but I still ask it. Could you explain what fundamentally for Aston was negative in the alternative solution to the one you choose with the proposed rights issue, namely the project that was supposedly bringing the net debt of Aston close to zero for the first time because basically, for me, the main issue Aston has been facing for a very, very long time, is an excessive level of debt, which is not solved by the proposed rights issue. Thank you.

Lawrence Stroll: Let me start with the second question first. The proposed rights issue completely addresses Aston Martin's current financial needs. As I have said previously, and I continue to say, Aston Martin did not need money to see our business plan through of getting to 10,000 cars. Let me reconfirm that.

The purpose that we did this capital raise was threefold. One, me and my Board getting very frustrated with the share price and the share price is clearly where it is, not because of the fundamentals of business, because fundamentals of the business have never been stronger. We went from 3,000 cars to 4,000 cars to 5,000 cars. This year we'll do close to 7,000 cars. So the fundamentals on the consumer demand, most importantly, most important of any fact at all, is that we are retailing more cars than we're wholesaling. That really shows the power of the brand Aston Martin today. That is the first sign of a luxury company when you retail more than you wholesale.

So having said that, we did not require cash to see our business plan through. What we did require cash for was threefold. One, to give comfort to the investment world that the company was never going to run out of money. And this extra money that we're putting on the balance sheet of approximately half of the capital raise will go into the company, will always give the company a cushion and be in a position that will always have between £400 million and £500 million on the balance sheet, point one.

The second thing it does, which was also an overhang on the share price was the debt level. Clearly, we inherited this debt from the previous shareholders. And I think we've done a pretty good job in trying to deal with it in the two-and-a-half years and realise it's time to raise equity to repay, hopefully, more of the expensive than less expensive debt, but regardless of whatever piece it is, significantly reduce interest rates by £30 million, £40 million a year. So it gave the money that the company required and it gives – takes away the overhang and hopefully gives the confidence in the investment community, analyst community should have of what I said on the cushion that it puts on the balance sheet.

As far as the other offer, the Board and its bankers studied it and unanimously completely rejected it. It was a camouflaged backdoor offer disguised as a rights issue. It was really a disguised takeover offer, heavily diluting all shareholders massively for no reason and no need, in order to buy the company very cheaply rather than coming in the front door and making a proper takeover offer, which, of course, would require a premium to the share price.

So the banks actually laughed. They thought it was quite astonishing. One said, I'd never seen anything like this my whole banking life. So the Board and the banks unanimously rejected it on the grounds of what I just described.

And I want to answer your third question. Comparing to the other, whether it's Ferrari or the other British brands, let's be very clear. We've been at this for two-and-a-half years. The others have been at it for five, 10, 15, 20. We've been at this for two-and-a-half years. I took over a company that was a wholesale manufacture-driven company, that made cars without orders or less than 10% had orders. We transformed this business and in two-and-a-half years from the day I took over, I said we will not make a car without an order. And since I took over two-and-a-half years ago, we haven't. That's why you see the retails outpacing the wholesales.

In addition, we've gone to almost 60% of our order book is what's called retail tagged. 65% of our customers go in and spec their car. That was less than 10% when we took over. That's an incredible statistic.

And thirdly, most importantly, in duration, I think you must know a lot about the automotive business, this business moves, it's like watching paint dry. To bring a new model to life, takes two, in most cases, three years. So we started on DBX707 when I came. We started on all our next-generation sports cars when I arrived. And when I say next-generation sports cars, they are new cars. They're new power units, new interiors, new technology, everyone [inaudible].

So that was true. That's no longer will be taken to next generation sports cars. There's nothing in the car that looks or feels or touches like a Mercedes. It's typically designed with Aston Martin spaces and sounds and visuals and wrapping a little leather button with white stitching. So no plastic. So [inaudible] process that has taken two-and-a-half years.

And quite honestly, two-and-a-half years is quite astonishing to accomplish what we've done in the period we will do it. In a couple of years, we'll be at 10,000 cars for the full portfolio [inaudible] next generation front-engine sports car [inaudible] models of full mid-engine programme, including Valhalla and continue with our heritage.

Every year, we do 100 or 200 or 300 specials. We have the perfect product for building [inaudible]. So I think it's pretty much quite remarkable what we've been able to accomplish in a time of this current [inaudible] period.

Operator: Thank you. And as a reminder, if you would like to ask a question, please press star one on your telephone keypad. We'll now take your next question. Please stand by. This is from the line of Charles Coldicott from Redburn. Please go ahead.

Charles Coldicott: Yeah. I just actually wanted to clarify one thing on the cash interest charge after you’ve repaid the debt with part of the proceeds from the rights issue. I know it's not certain yet, obviously, which notes you'll pay off and at what price. But I guess I was thinking that whether you pay off the £300 million of the second lien debt, that's got a cash coupon of 9%, or B, you trigger the call on the first lien debt at the premium that is required.

I was thinking the reduction in cash interest charge should be about £27 million rather than not sort of up to £40m. Is that correct? Or am I missing something?

Doug Lafferty: So I think – yes, Charles, it's Doug. Yes, I think that is a minimum of around £30 million in terms of cash interest that we'd save year-on-year.

Charles Coldicott: Okay. Great. Thank you.

Operator: Thank you. And at the moment, we have no further questions. So I'll hand back to the speakers.

Lawrence Stroll: I'd like to thank everybody for joining the call today, and please follow the company with all the exciting new products that we have coming in the very near future.

[END OF TRANSCRIPT]