Q3 2022 Results

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Business Update

Amedeo Felisa

CEO, Aston Martin

YTD and Q3 2022 Highlights

Good morning to everyone joining us on the call today to discuss Aston Martin Q3 2022 results. I am Amedeo Felisa, CEO. I am joined by Doug Lafferty, our CFO. We plan to provide a brief overview of our year-to-date and Q3 performances, and then we will be happy to take your questions. A short presentation to accompany our comment can be found on the results page of our investor relationship website.

Our year-to-date performance has seen us continue to build the foundation for our long-term growth, aligned with our vision to become the world's most desirable luxury British performance brand. We have continued to see very impressive demand across our product range and the underlying fundamentals of Aston Martin are very strong; for example, retail continues to outpace wholesales, front-engine sports car are now sold out into the second quarter of 2023, and we have seen an acceleration in orders for our DBX707 the premier ultra-luxury performance SUV on the market as we increase its availability to dealers. We have also seen healthy revenues growth driven by a record selling price and continued excitement around our iconic brand.

To further enhance our ultra-luxury positioning, we have launched a number of breathtaking new products over the course of 2022, which all have tremendous consumer desirability. In addition to the DBX707 and V12 Vantage Coupe that were announced earlier this year, during Q3, we have unveiled the ultra-exclusive DBR22 as well as the stunning V12 Vantage Roadster, both of which are fully sold out, at Pebble Beach. Deliveries of the DBR22, which is limited to 22 units at the price of £1.75 million, are expected to start in 2023. We also showcased development upgrades to our hybrid supercar Valhalla, including a spectacular driver-focused interior and unique seating position.

At the same time we, like many other automotive companies, are managing the effect of global supply chain and logistic disruption as well as inflationary pressure. In this context, we have experienced our own specific supply chain challenges over the last two quarters which have delayed our ability to fulfil customer demand. Whilst we move quickly to resolve the shortage that affected our Q2 performance, our Q3 deliveries were hindered by new and separate supply chain challenges impacting more than 400 vehicles that were planned to be delivered in the quarter. I have been personally involved in the steps we are taking to address this. These actions will not only support the acceleration of delivery in Q4, but also enhance our supplier relationship to support our long-term growth. I am pleased to say that the overall situation is already improving in Q4, and I am confident that with the action we are taking, we will exit the year in a stronger position to deliver on our goal for 2023 and beyond.

I will now pass the call over to Doug, to review our financial performance and our outlook. Doug.

Financial Update

Doug Lafferty

CFO, Aston Martin

YTD 2022 Financial Results

Thanks, Amedeo. Good morning, everybody. I will run through a quick summary of the financial position before we welcome your questions.

As Amedeo described, we continue to enjoy strong demand for our products in Q3, although, frustratingly, new supply chain challenges once again limited our ability to meet this demand and have impacted our overall performance. Pleasingly, though, we have been able to demonstrate one of the strong fundamentals of the business by delivering substantial revenue growth. This has been driven by excellent pricing dynamics, including pure pricing, options, and incentives management, and supported by FX tailwinds. As a result, our core ASP is up 28% year-on-year to new record levels. This is a meaningful trend and is underpinned by the change in approach to being demand-led. On a year-to-date basis, we have seen more than 300 basis points of gross margin expansion, as we continue on our journey towards our medium-term target of +40%.

However, to some extent, our margin expansion trajectory has been temporarily checked by some transient dynamics; first, in terms of incremental manufacturing and logistics costs; and second, by a negative mix effect from specials in Q3 this year. The supply chain and logistics disruptions that we are currently experiencing are impacting many companies within the automotive industry. Set against that backdrop and similar to the operating challenges I have described at the time of our first-half results, our Q3 performance was disrupted by both circumstances.

As you will recall from our half-year results presentation, I referenced more than 350 ordered cars that were awaiting final parts at the end of June, with a corresponding impact on profitability, working capital, and cash in the period. Those vehicles were delivered in Q3, the associated working capital unwound, and the impact of that specific supply chain shortage were essentially mitigated.

Moving further into Q3, we were continuing to manage volatility and uncertainty in the supply chain, albeit, largely unrelated to the disruption I just mentioned. That uncertainty ultimately resulted in disruption to our planned Q3 production, particularly in September, by delaying final assembly and therefore forcing the re-phasing of deliveries towards the end and beyond the end of the quarter. This was then compounded by delays to logistics to North America, due to hurricane Ian. Overall, the combination of these new factors impacted more than 400 vehicles that we had planned to deliver in Q3. These cars will now be finished where required and delivered in Q4.

Coming back to the impact this is having on our overall financial performance, inflationary pressures have understandably been a point of discussion over the course of the year, and we've generally been able to mitigate rising costs through pricing actions, and more recently with the benefit of FX tailwinds.

During the course of Q3, we incurred incremental costs over and above general inflationary pressures and specifically associated with mitigating and resolving supply the chain issues I have just mentioned. This included additional manufacturing costs, co-locating members of our team with suppliers, and incurring premium inbound and outbound logistics costs to minimise disruption to our production schedules. Together, these, as I refer to them, supply chain recovery costs totalled approximately £10 million in Q3. These costs essentially offset the benefits of the FX tailwinds we would otherwise see in our numbers.

The good news is that this specific supply chain issue has since improved. As Amedeo referenced, we are confident that we will deliver a strong Q4, in terms of volumes, profitability, and cash flows.

With regards to the full-year outlook, as a direct result of the new supply chain issues we have experienced in the second half, our outlook for 2022 is modestly updated to reflect a more significant, albeit, short-term impact than previously expected. On volumes, we now expect total wholesales to be more in line with current consensus expectations and in the range of 6,200-6,600. On Valkyrie, there is no change to the 75-90 range we previously provided, with a strong ramp-up in delivery expected in Q4. Combined with the incremental supply chain recovery costs, which we expect to continue at a similar level into Q4, we are now targeting year-on-year adjusted EBITDA margin expansion of between 100 and 300 basis points.

Breaking down the change of EBITDA margin range a little, the revised full-year outlook now includes approximately £20 million of short-term incremental supply chain recovery cost that I described. The balance of the change is primarily a function of the volume range.

With regards to cash flow and related to the same supply chain issues that impacted Q3, we now expect cash inflows from a more normalised working capital dynamic to only become visible towards the end of the year and into early 2023. Combined with our Q3 cash flow performance, our target to be free cash flow positive in the second half of the year is certainly now more challenging. However, our target is clearly to be free cash flow positive in Q4, and we will continue to work on optimising cash flow with overall H2 performance in mind.

With that, we would be happy to take your questions.

Q&A

George Galliers (Goldman Sachs): Yes. Thank you for taking my question. I had a couple of questions just around the fourth quarter and the implications for 2023. Clearly, you have had significant challenges, but it sounds like operationally that is improving due to the measures you have taken. If I take the midpoint of the new wholesale guide, it would imply 2,300 units in Q4, which I believe would be a record for Aston Martin.

The first question I had was given your order book, how close to this type of run-rate do you think you can also be in the first half of 2023? And then also with respect to your updated EBITDA margin guidance, what EBITDA margin are you expecting in the fourth quarter? And again, what do you think the EBITDA margin will look like in the first half of 2023, should we expect further expansion? Thank you.

Doug Lafferty: Morning. Thanks for your questions. On the first question with regards to the volumes, I think historically, Q4 has been a strong quarter for the company and I think, obviously, we are expecting a strong Q4 in 2022. There is a head start to the numbers that we need to deliver given the fact that we have a lot of cars awaiting final assembly parts at the end of September. And also, as I referenced, we had a number of cars which were impacted from a logistics point of view going into the USA, right at the end of September. Those sales will fall into October. Thus, we have a bit of a head start. Last Q4, the company delivered wholesales of around 1,900 cars in the fourth quarter. Thus, there is confidence that we can achieve what we need to achieve in the fourth quarter.

I think moving into 2023, we will give some guidance on that at the appropriate time. However, we are very happy with the level of demand that Amedeo referenced that I talked to, and we hope that that sets us up well for 2023.

I am going to give you a similar answer on the EBITDA margin. As I referenced, we expect Q4 to be strong from a volume, profitability, and cash flow point of view. Thus, in and amongst that, we would expect EBITDA margin to be significantly improved from Q3. And again, as we move into next year, we have not changed our medium-term outlook, and you know that means we are targeting approximately £500 million of EBITDA in the 2024-25 range and a margin of 25%, and we are on our journey to achieving that.

George Galliers: Great. Thank you.

Charles Coldicott (Redburn): Good morning. Thank you for taking my questions, I have got two, please. Firstly, on the gross margin, so that was down in Q3, despite the addition of the 707 and the V12 Vantage. Can you confirm, firstly, that those two models are at the 40% gross margin target? And in light of the inflationary pressures you mentioned, are you still confident that future launches, including next year's front-engine models, will have a 40% gross margin?

And my second question is on working capital. What do you see as a normalised level for inventory and receivables and when do you expect to get back to that? Obviously, you have got the model launches next year as well. Should we expect inventories to remain high until late next year? Thank you.

Doug Lafferty: Thanks, Charles. I will take those questions. With regards to the gross margin, the target remains 40%+. And I think we have demonstrated through the course of this year that with pricing actions, the way that we are managing incentives and the move to really being a demand-led business, we have been able to offset general inflationary pressures – that, I do not expect not to continue as we move forward. The thing that is impacting our margin really at the moment is these incremental costs of the short-term supply chain issues that we have been experiencing. That is having a negative impact on our margin, as you quite rightly point out. However, we expect that to be transient. Therefore, as we move into the first part of next year, we expect margins to improve.

With regard to the Vantage V12, yes, absolutely, 40%+ margin. With regards to the DBX707, given the fact that that is a vehicle that has been predominantly impacted by some of these supply chain issues this year, again, temporarily, margin is not quite at that level. However, as things return to normal, DBX707 certainly targets that 40%+ margin going forward.

With regards to your question on working capital, yes, we have obviously faced some headwinds this year. I think as I referenced in my speech at the start of the call, I now expect working capital to unwind over a slightly longer period than we anticipated at the end of the first half. I think targeting that unwind by the end of Q1 next year.

And then specifically with your question on new products coming, I think – and Amedeo may be able to talk to this slightly better than me – in planning next year, we are really looking at how do we ramp up the delivery of those new vehicles that are coming; how do we manage the supply chain; and how do we manage things internally. From a working capital perspective, I am certainly hoping that we do not see some of the same impacts that we have had this year, as we move into next year.

Amedeo Felisa: Again, as I was saying, looking to the new models that will reach the market next year, if you understood what we have done and what we have to increase to strengthen our position versus the supply chain, we have a better relationship with them. We have taken the story of the disruption, I think we have increased our capability to manage them and to instil in them the understanding of our business. I think at the moment, I have to say that we have a good or better relationship with them. And then having put our people in their organisation, I think we have better control there.

Combining the two, I think the next launch of the new product will probably be for sure less risky; and then, of course, this will be reflected on the margin of the cars.

Charles Coldicott: Okay, thanks. Can I just ask a quick follow-up? What is the timing of the model launches next year?

Amedeo Felisa: I think you have to wait. As usual, we do not say in advance which will be the plan of the release of the new product, especially, when we speak of one year later.

Charles Coldicott: Fair enough. Thanks.

Daniel Roeska (Bernstein): Gents, good morning. Thanks for taking the questions. There is clearly some distance between where you are right now and the free cash flow breakeven in 2024. And you have talked about, I think, the aspiration in broad terms but do you have a plan, a milestone plan what would you like to achieve in the following quarter? Could you give us the major proof points between now and then, that you are also gearing your organisation to?

And then just a small question. You mention a negative mix effect in Q3. Just maybe some colour around that, please?

Doug Lafferty: Morning, Daniel. With regards to our sort of mid-term ambition and aspirations, as I said, we have not changed our outlook and our guidance in that regard. Free cash flow positive in 2024 certainly remains our aspiration, ambition. Specifically with regards to cash flow, and as I mentioned in answering Charles's question, we expect that working capital unwind to happen over the course of the next couple of quarters. That should improve our cash flow position as we move into next year. And to Amedeo's point, we hope and believe that the work we are doing with the supply chain will stand us in better stead in that regard. So from a cash flow and working capital point of view, we have line-of-sight on improvement.

And similarly, as I answered earlier on gross margin and EBITDA margin, we are expecting improvement along the lines of the guidance that we have given in order to get us to the mid-term. The trajectory that we have seen earlier in the course of the year, as I said, has been impacted and checked slightly by some of the transient impacts, particularly with reference to the impact of recovery and cost related to these supply chain issues. So a temporary interruption in trajectory is what we think is happening. And as we move forward, we should see that strengthen.

On your second question with regard to mix, I think a couple of things. One, just from a trend point of view this year, obviously, it has been quite lumpy in terms of deliveries of core vehicles to various different parts of the world with boat and shipment timing. I think there was a timing issue at the end of Q2 with China, and obviously, a timing issue at the end of Q3 with the US. So it is a little bit lumpy, difficult to see a trend through that.

With regard to specials, I mentioned there was a mix impact from specials in Q3 vis-a-vis Q3 last year, and that is predominantly Valkyrie deliveries, last year was Speedsters. And also, with that, there is a customer mix dynamic where we are delivering certain cars at certain times of the year, and that impacts the margin structure as we move through those delivery profiles.

Daniel Roeska: Great. Maybe, I will try to tease out some more detail on that first question. You adjusted for your guidance. You have got quite an order book. Let us assume we meet again in Q4 results and the quarter transpired as regarding to today. However, going ahead, what needs to happen in the business in Q1 and Q2 for you to be on the right path for cash flow breakeven in 2024?

Doug Lafferty: Look, Daniel, I think it is delivering to our plan. I am not about to go into any more detail on 2023, and certainly not breaking it down by quarter. Sorry to perhaps disappoint you in terms of the answer. However, the trajectory is certainly that. I think what would please us, moving into next year, and Amedeo and I talk about this quite regularly, is smoothening the profile. Q4 has historically been a strong quarter for the business. And as the dynamics worked out this year, that needs to be the same. What we would like to see, as we move into next year, for all sorts of different reasons, including some of those that I have already illustrated on the call with regards to working capital, we would like to see a smoother profile as we move through the course of next year.

I expect you will still see a little bit of similarity in the profile of the business that we might have seen over the last couple of years. However, our objective is to try and smooth that and make sure we can meet the strong demand on a more routine basis and not have to manage the interruptions that we have seen over the last six months of the business.

Daniel Roeska: All right, thanks.

Christoph Laskawi (Deutsche Bank): Good morning. Thank you for taking my questions as well. The first one will be on pricing. Obviously, ASP in Q3 has been quite strong and better than expected. Considering that you are continuously facing headwinds – inflationary pressure, and now on the supply chain side – should we expect further price increases into Q4 and early next year, ahead of the repricing of the new model lineup, or are essentially all price measures done as of now, and we will probably see a bit of an uptick also into Q4, but not necessarily transitioning into 2023, again, before the new launches?

And then the second question will be on the DBX and the 707. I think you are stating that order intake is around 40%, it is around the same number you gave with H1. Could you provide detail on the length of the order book? Is it also into Q2 next year as for the sports cars or is it significantly different?

And considering that there is a recession next year, and you could argue that the DBX is somewhat less prestigious than other models that you are running, would you fear a negative demand impact more towards the second half of next year, in case we are moving into a recession in Europe or the US? Thank you.

Doug Lafferty: Okay. Thank you for the questions. Let me try and trot through them. And Amedeo, if you would like to add anything then, please do.

With regard to pricing, I think we are very happy with the pricing dynamics that we have got in the business. I think we have established pricing power. As you referenced, we have taken various different pricing actions over the course of the last 12 months. I think some of those have recently filtered through. And obviously, some of the pricing actions that we have taken do protect customers who previously ordered cars. As we move into Q4, we will keep pricing under review. I do not anticipate any new price increases during the course of the rest of this year. As we move into 2023, we are currently in planning mode and will see what actions we may or may not need to take on pricing, taking into account any ongoing inflationary pressures, new product launches and so on. That is work-in-progress.

On the third question – I will come back to DBX in regard to recessionary pressures – I think the only thing we can point to at the moment in that regard is the order book, and the order book remains strong. And we are not seeing any significant disruption at all in terms of order intake from ongoing speculation or the ongoing impact of the macroeconomic position. So, nothing to talk about in that regard at the moment.

With regard to DBX specifically, I think what I would say is the DBX707 launch has, obviously, been impacted by short-term supply chain issues that we have seen this year. In some regards, we are just getting some of the first cars into dealers. The dealers are all getting their demos, they are getting their showroom cars, the first customers are getting their cars. We expect and have seen recently an acceleration in DBX orders. And the order book runs into the first half of next year. We expect to see that strengthen as cars continue to be delivered into dealers and the dealers have the opportunity to showcase those with customers.

Amedeo Felisa: If you see what happens in the US, we have completed in October the demo cars to all the dealers. We are increasing our request of new cars, and then the requests are always over our proposal. Since then, the car is going well.

Christoph Laskawi: Understood. Thank you.

Jose Asumendi (JP Morgan): Thank you. Thank you very much, it is Jose, JP Morgan – just a couple of questions. Amedeo, can you comment please on any gaps you see, either manufacturing processes as to how Aston Martin launches new vehicles that you think from your perspective need to be addressed? And the second question, I would love to get your perspective. When you compare versus your previous employer, the dependence Aston Martin has on the UK market is, obviously, something that your previous competitor did not have, but a large reliance on one of the regions only. How do you see that structurally for Aston Martin and can you reduce the dependence that you have on the UK market to essentially also improve the ASP of the company going forward? Thank you.

Amedeo Felisa: Okay. Going to your first question, I think the processes in Aston related to what is connected to the supply chain are strong enough to face what is happening there. Of course, we continue to increase. And then during my speech, I explained we have increased our relationship with the customer, of course, trying to ask them to become not a supplier but the supporter of our work, so they become partners of us. I think this is what has obtained the latest quarter. I think we have obtained a good result on that.

The processes inside the company are strengthening continuously. The situation that we have faced was not expected, but I think we have done what was needed in order to face the situation and then we are going out of this kind of disruption.

Again, on the second question, mainly, anyway, taking in mind that our major market is US, if we compare US with the other European market, US is always the larger one. However, anyway, the success we are having in UK is important and then you feel that especially with the customer we are having for the special version. All the special versions we have presented were sold out in a short period of time. Thus, that means the brand is very strong and we have a lot of loyal customers that continue to follow us.

Jose Asumendi: Thank you.

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