Aston Martin Lagonda Q1 2021 Results

Thursday, 6th May 2021

Welcome

Tobias Moers

Chief Executive Officer, Aston Martin Lagonda

Tobias Moers: Welcome everyone and thank you for joining us this morning for Aston Martin Lagonda's Q1 results call. I am Tobias Moers, CEO, and I am joined this morning by Ken Gregor our CFO.

I hope you have had the chance to read our results release that went out this morning. The release along with accompanying slides are on the IR section of our website as usual. Before we open up the line for Q&A, Ken and I will make a few introductory comments. First Ken on the numbers

Ken Gregor

Chief Financial Officer, Aston Martin Lagonda

Q1 2021 – substantial improvement year-on-year

Thanks Tobias and good morning everyone

Q1 significantly improved year-on-year. This was largely due to volume, with units more than doubling to 1,353 wholesales in the quarter.

- Revenues of £224m, had the added benefit of stronger pricing dynamics with core ASP up to £149k reflecting positive geographic mix, in particular from strong China wholesales, and also lower customer and retail financing support as we completed the GT/Sport de-stocking process
- Adjusted EBITDA of £21m, with 9% margin, reflected improved trading and some initial cost efficiency benefits realised through our reduced headcount
- The operating loss of £(15)m reflects D&A increasing year-on-year, as guided, due to the expanded core range
- Positive free cashflow of £24m includes a working capital inflow of £49m as we continue to receive the benefit from our build-to-order strategy on trade receivables, which will continue throughout the year but at a lower amount.
- This was offset by a capital expenditure of £48m – below the quarterly run rate for the rest of the year – as we invest in our future product pipeline. Please remember that our cash interest payments are made in Q2 and Q4, so there is a timing benefit for Q1 and Q3 cashflows
- We finished the quarter with a cash position of £575m, including £77m gross proceeds from new notes issued in February

Outlook unchanged; Q1 trading as expected

And in terms of outlook for the full year we have guided that our expectations remain unchanged. We have updated the net interest guidance to reflect foreign exchange rates but other than that we are still talking about 6,000 units and mid-teens EBITDA margin for full-year with capex in the range £250-£275 million. Now back to Tobias.

Strategic Update

Tobias Moers

Chief Executive Officer, Aston Martin Lagonda

Thanks Ken.

We are pleased with our performance. Trading was in-line with expectations and marked a substantial improvement year-on-year. We have also continued to make good progress executing our business transformation through Project Horizon. Notably;

- We have completed the planned destock of our dealer inventory, rebalancing supply to demand for our GT/Sport segment – and slightly earlier than we had originally planned.
- We are encouraged with the continuing growth in orders and the visibility that gives us for both GT/Sport and DBX.

In March, aligned to the start of the F1 season – where you can see the Vantage as the safety car and DBX as the medical car – we launched the first of the new vehicles we have planned for the next couple of years - Vantage F1TM edition. This offers improved horsepower and performance with unique badging and styling. We're very pleased with the initial reviews and interest from customers.

Under the operational excellence pillar of our plan, we have taken action to improve the performance of our manufacturing operations.

- For example, moving Gaydon to a single-line operation and optimising our St Athan paint-shop for all standard colours for both Sport and DBX.
- Actions such as these are driving efficiencies and improving plant performance. This is all underscored by our commitment to quality, which is now embedded in our company reward scheme.

Under the go-to-market segment of our strategy we have made changes to our team, including bringing in a seasoned luxury/auto expert to lead dealer operations as we expand and strengthen our dealer network. For example, recently making new dealer appointments in Europe – where we certainly have opportunity.

And finally, within portfolio strategy and cycle planning we have re-located the assembly of Aston Martin Valkyrie and V12 Speedster to Gaydon – consolidating all sports manufacturing in one location. With these Specials programmes on track for delivery this year, as planned.

As we said in the statement this morning Today's results underpin our confidence in delivering our exciting growth plans to transform Aston Martin and create a world-class, self-sustaining luxury automaker.

With that we would now be very happy to take your questions. Over to you operator

Q&A

Charles Coldicott (Redburn): Good morning and thanks for taking my questions. I have two questions. First, the core ASP is now back up to £149,000. Given the destocking is now complete and that the DBX made up 55% of wholesales in Q1, which I guess is probably fairly typical of future periods, should we assume that the core ASP now stabilises at this level, or at least until perhaps you reach the refresh of the front engine cars in a couple of years' time?

And then my second question, I appreciate you've stopped reporting retail sales figures but given the importance of the model, can you just give us an idea on how many retail sales of the DBX you had in Q1 in comparison to the 600 in Q4? Or maybe just, you know, whether the retail sales totalled more or less than the 746 wholesales? Thank you.

Ken Gregor: Let me talk about the ASP.We were really pleased with the ASP in Q1. It definitely reflects a couple of the factors you described with DBX delivering, and not having any incentives. It also reflects that year-on-year the level of retail incentives on sports cars is about half the level it was last year. So both those factors help. There's also some help from foreign exchange. Mainly, the euro was favourable in the first quarter along with a couple of other factors. I don't expect to see £149,000 per unit every quarter because I think the movements in foreign exchange and some movement in market mix may soften that a bit. But overall, we're pleased with the number and we're confident that the ASP will continue to show a year-on-year improvement versus last year.

Tobias Moers: Volume – you know, retail numbers and wholesale numbers are aligned now. This is part of the journey as we finished our destock processes. So, wholesales and retails are aligned for both DBX and sports cars. As Ken said earlier, we're keeping our full year volume projection at c. 6,000, which is almost 50% DBX and 50% GT/sport. We remain committed to aligning retails with wholesales – that's the strategy of the company.

[Note: DBX retails outpaced wholesales in the quarter]

Charles Coldicott: Okay. Thank you.

George Galliers (Goldman Sachs): Good morning everyone and thanks for taking my questions. The first question I had was on the working capital. Obviously, a good result there and good for free cash flow and it looks like the quality was good as well with lower inventories and lower receivables. Is there still scope to bring these down from today's level or do you think relative to sales volumes this is the kind of level we should think about going forward? The second question I had was just again on the ASPs. I am interested to know, are you seeing an increase in option uptake by your customers and is that helping with your ASPs? One of your competitors gives a mid-to-high teen revenue contribution from what they describe as personalisation. Are you able to give us any insight into what kind of percentage of the ASP comes from customer selected variable options? Thank you.

Ken Gregor: Let me take the working capital question. Yes, we're really pleased with the working capital improvement we saw in Q1 which is on the back of the working capital improvements we saw in the back end of last year. The improvements came a little bit quicker this year, but itis part of our plan. I think it reflects on the receivables side some of the benefits of having a stronger inventory position. As Tobias was just saying, with retails in line with wholesales and dealers not having cars in stock for so long they end up paying for cars quicker. Additionally, we have a new receivables financing arrangement for the dealers which came into effect in the quarter. So that will continue to support keeping those receivables under control through the year.

On the inventory side there's always a bit more you can do on inventory and we'll always have cars in transit to markets which will ebb and flow a bit depending on the volume. Additionally, we've been doing work internally to reduce fleet inventory and there's reduction in inventory and work in progress in the factories which we still expect to see some benefit from in Q2. I think the big bit of the working capital improvements have probably happened now, but going forward we will definitely look to optimise and keep it under control. Recognising that it will always ebb and flow a bit because of volume and production timing.

Tobias Moers: On the operational side, we have streamlined the production process at Gaydon. There's still a path to go because our stock inventory and our warehouse is still transitioning from two production lines to one, so it's not at the optimal point yet. There's more optimisation to do with Project Horizon. But at Gaydon and St Athan that journey starts now, so we will see further improvement on that regarding our operations side throughout the year.

Ken Gregor: And although we don't give specific figures on options uptake and the proportion, it is an important part of the revenue stream for us. It was slightly positive year-on-year in the quarter so that's a positive development and definitely something we want to build on going forward.

Tobias Moers: With retails leading wholesales, it is given. If you're more retail-oriented you have a higher option take rate. That's normal. That's standard. The company was always more focused on wholesales, which is not good. Having a retail led model allows more of a natural uplift on options.

George Galliers: Understood. That's very helpful colour. Thank you very much.

Tobias Moers: Thanks.

Angus Tweedie (Citi): Hi, good morning, it's Angus from Citi. My first question is back on the high ASP numbers. You clearly called out lower incentive figures. Are you perhaps a little disappointed with the EBITDA drop-through on that? I mean, are there any costs in the first quarter, such as opex costs going through, that perhaps weighed on the operating leverage that you could call out? And then secondly, could you provide an update on where we stand on specials? Particularly, how we're getting on with the Valkyrie and any renegotiation of deposits on the Valhalla please. Thank you.

Ken Gregor: The short answer is no, we aren't disappointed in the first quarter. The EBITDA performance was in line, in fact slightly ahead, of our internal expectations on the back of volume that was in line with our expectations. So we were pleased with the performance. If you look at the year-on-year bridge on slide five of our presentation, our EBITDA in the quarter compared to Q1 of last year illustrates the benefit of the increased volume. You can also see the benefit of lower incentives and slightly higher option uptake in the net pricing. You can also see the benefits of lower net operating expenses, about £8 million lower in the quarter verse the same quarter a year ago. So overall we were pleased with how it went.

Tobias Moers: As you know this year is very loaded in the second half of the year regarding our Specials. Aston Martin Valkyrie is doing good. It's still a challenging journey but there is no signal that we're not going to achieve our target of deliveries in H2 of this year. Nothing at all. I just drove it from Gaydon to Silverstone and it works. It works really well. For Valhalla deposits, there is no significant move back and forth so we're going to present the new Valhalla for our customer in the next two months– I'm very optimistic that we'll gain traction back on that programme.

Angus Tweedie: That's brilliant. Thank you very much for the comments.

Thomas Besson (Kepler Cheuvreux): It's Thomas Besson at Kepler Cheuvreux. I have three questions please. First could you give us a bit more colour on the order bank by model in terms of months of sales or units, and by region? The second question: is it possible to have some comment on the evolution of ASPs for sportscars. I mean, you mentioned low incentives, but I'd like you to comment on the ability to price up these products versus the incentive period that took place over 18 months and that's done now. And then lastly I think there was a comment about the first battery electric vehicle from Aston in 2025. If it's possible, could you comment on that to confirm the timing and confirm if the technology comes from Mercedes-Benz or whether it requires some specific investments and where it's going to be produced, please? Thank you very much.

Tobias Moers: Okay, hopefully I kept everything in mind. Order bank, we're comfortable with., It extends to Q3 for all car lines which we're comfortable with.

For ASP, we see a recovery in sportscars and that's just due to the reason that we cleared out the stock. And now it's a demand-driven order situation And we're seeing an increased share of retail orders in our order book per week. For instance, the Formula 1 edition is very surprising in regard to retail in a positive way, absolutely. All of these things are helpful for recovery of ASP and I think we're going to see a more robust ASP year-on-year. This is the future for the company: price improvement on sportscars and the Formula One® edition, which has a higher price, is a good example. You always have to consider that we are facing an aged generation of sportscars, but what we see as order intake from the customer side is more than promising and that's more than we thought.

For Vantage, DB11 and DBS there is still room for improvement. We're bringing our new configurator to market which is an exceptional customer journey that gives us an opportunity to get to a higher option take rate and engagement. But it's still a bit too early to discuss that in detail.

And the last question was electrification. We have a better focus on electrification and electric drive. It is given that all mid-engine programmes, Valhalla and Vanquish, are going to be plug-in hybrid. We're going to have the first SUV as a plug-in hybrid in 2023. Additionally, the first derivative of DBX this year, which starts production in September, will be a mild hybrid. But for plug-in hybrid, the whole hybridisation electrification journey starts in 2023. After 2023 there's no car launch anymore without electrification. The purely electric driven cars we have to achieve and that's clear for us. We're in discussion with Mercedes about what we're going to do there, but there is more than one platform to consider. It's a clear journey and I think it's mandatory for us to have that electric drive next generation sportscar. It's going to be fully electric driven. That's mandatory and it's a must for us – then it's a flight path into 2030. The ambition is to increase the electric drive cars in the portfolio and decrease your standard ICE driven cars. Hopefully I answered your question.

Thomas Besson: Thank you.

Horst Schneider (Bank of America Merrill Lynch): Good morning and thanks for taking my question. I remembered at the last call on the full-year 2020 you said that you were steering away volumes from the UK a little bit. I think you were referring to the DBX just because some dealers were still closed. I'm interested to know how this is developing now, since the dealers have opened up in the UK. So how do you expect your sales in the UK going forward, not just DBX but in general? Should we expect a major uplift in Q2 already? And then the last question is related to EVs. I want to know what is the feedback that you are getting from some countries on the high emissions that your cars still produce? When we look for example at a country like China where BEV is getting more and more important. What's the feedback from the customers that you are getting there? I mean, is that holding people back from buying the DBX or do you think with PHEVs that sales could be much stronger? Some colour on that would be appreciated. Thank you.

Tobias Moers: We did right when we shifted orders into other strong regions. It was absolutely the right thing to do. Now, the UK is in recovery mode andwe see good improvement at the moment, which I hope is going to last for everyone. It's similar for us. Hopefully we can catch up with the whole year projection for this year in UK, but other regions are stronger than we expected so it's helped. We've got a lot of plans for DBX. We are in the middle of performing three weeks of test drives in Millbrook on the proving ground.

Regarding emissions, it's almost linked to fuel consumption. The situation is you have still many customers in China buying cars like the DBX. It's an increasing segment. It's a growing segment, the luxury segment– especially the SUV luxury segment. Yes, you can expect to have to have an electric drive SUV in the marketplace at the latest 2025-2026. That's crucial and that's important. Feedback from customers is positive because they have already bought the car. Do we have rejectors for DBX regarding emissions? It's hard to answer honestly. But it's a huge segment and the segment is still growing. So yeah, you still have to consider that there is an increasing high wealth pocket in China still. I don't know how long that's going to last but we have a similar situation to many other car makers as well. Importantly, we have a clear strategic path to electric.

Horst Schneider: A last follow-up. If I want to order a DBX now how long would I have to wait for that? It's still this 5-6 months that you are booked out on the DBX?

Tobias Moers: Yeah, so probably November.

Horst Schneider: Alright, okay. Thank you.

Christoph Laskawi (Deutsche Bank): Good morning and thank you for taking my question. It's a bit of a follow-up really on the questions on the order book. The current visibility into Q3 is obviously encouraging. My question would be is that essentially where you plan to be in terms of order book and order waiting time for the customers? Or do you plan to push it out or increase it even a bit further? And in that regard, where would you see the sweet spot for the order book and waiting times when it comes to pricing models across regions? Thank you.

Tobias Moers: We are very comfortable with the orderbook at the moment. Does it really added value if you have to wait two years for a car? I'm not so sure about that. Customers, especially in the luxury segment, want to buy a car and have a reasonable waiting time. Sometimes if they have to wait too long they move on. It is hard to judge, it's a balance. Yes, we need a proper order book and we are comfortable with the order book as it is. We are flexible now on the manufacturing side. We can easily increase line production or change our rate by three, four, or five vehicles per day without any impact to efficiency. It's always a similar efficiency in how we're going to run our lines in future. This marks a difference to the past.

Back to orderbook, a waiting time of six months, seven, eight, nine months depends on the segment. For Valkyrie, our customers have waited for two years. In a mid-engine programme, if you have really engaging, sophisticated product, people are going to wait 12 months, 15, 16, 18 months. On the DBX, what we drive is personalisation which is very important for us. Our new configurator is going to be the benchmark in the segment. But I think six -nine months order bank is quite comfortable and we're going to have the next variant with us which I think will add to a longer wait time beginning next year. I'm sure about that.

Christoph Laskawi: Thank you. On the derivative, do you already take orders for that or when you launch it in Q3 that's the point where you take orders

Tobias Moers: No, we're going to take orders by, I think September.

Christoph Laskawi: Alright, thanks a lot.

José Asumendi (J.P. Morgan): Good morning Tobias, Ken. A couple of questions please. Again the first one is, do you see an opportunity to create a bit more of a structural change in the geographical mix and use the post Covid transition phase to reduce the dependence on the UK market and sell more into Europe, US and China going forward? My second question, can you speak a little bit more about this conceptual path to free cash generation in the company over a one or two-year view? Can you talk about the buckets of, unit sales, EBITDA and then, whether from a manufacturing perspective there are more efficiency gains you can generate which could improve the free cash flow of the company? Thank you.

Tobias Moers: I'll start with the first and third questions and the second one I'll hand over to Ken. Structurally, we have many changes happening in our various regions. I can't speak in detail on all of them as some are still sensitive, but know you're going to see serious change in most regions. Just recently we appointed a new Head of Europe, who will lead our restructure of the region. In the UK, we have brought in our previous head of Europe, who is very strong and really connected in the region. There is still a lot of room for improvement and we're taking action to continue to strengthen our regions.

Efficiency in the company is key for us. It's absolutely key. When I started at the company, there were 400 cars in production at Gaydon to build 12-15 cars a day. Now we have 100 cars in the process. We had 70 assembly line stations. Now we have 23. We're going to have all cars in one paint shop at St Athan, which is the most efficient way to paint the cars because the paint shop has to run at full throttle. We will bring all the special paint jobs, which is crucial for us as a brand, to Gaydon. Further, Gaydon will be the hub of sportscars in the future. We've brought in the Aston Martin Valkyrie programme, which was at a bespoke building before into the main plant in Gaydon. We brought all the special manufacturing sites into one location at Gaydon so everything is under one roof now. And there's more to come. We have an optimisation programme for St Athan as well that started four weeks ago. If you had visited the plant before, you would notice a huge, huge difference. We are looking to optimise transportation, logistics, inbound, outbound. Nothing is untouched. We're talking about an efficiency gain of roughly 30%, in some areas even higher. We even touched base on material costs as well, which is not as simple because we have long-lasting contracts with our suppliers. But we're beginning to see improvement there as well. Even in the development of our front-engine facelift we see improvements through servicing new parts which is a lot of money.

Ken Gregor: For the medium-term vision, as we've talked about before c. £0.5 billion of EBITDA, c. £2 billion of revenue and c. 10,000 units or so of volume. The journey towards that has a number of pieces. In terms of volume that's clear. Supported by refreshed sportscars and more derivatives on the SUV platform giving us the opportunity to get towards that volume level, which obviously brings operating leverage with it to help improve the EBITDA margin as we move through time. So that's point number one.

Point number two, clearly in terms of net revenue position we've made some big steps forward this year compared to last year with the lower incentive spending on the sportscars. I think if we look through time there's more opportunity on that side. Refreshed sportscars allow us to move forward on the net revenue side and a mix of derivatives from the SUV platform also allows opportunity for improvement. Tobias talked about the cost side where we've made some really big improvements this year, especially on the manufacturing side, controlling what we can in the factory which will help through this year. As we go through time, material costs, which takes a bit longer but we plan and need to make improvements on the material cost side as we go through time.

And those things together, are the key drivers to get £0.5 billion of EBITDA, £2 billion on revenue and an EBITDA margin 25%. Having that sort of EBITDA margin requires us to have a gross margin of circa 40%. Right now, in this quarter the gross margin is around 30%. First quarter last year the gross margin was 16% so we're clearly on a journey towards that but the building blocks I just talked about in terms of volume and operating leverage, further improvement in net revenue with lower incentives and better mix of fresh products, and continued work on the cost side, are the building blocks we need to improve to achieve that gross margin. We'll keep the fixed costs of the business under very close control and those are the building blocks towards that medium-term target that we've given and are standing by.

José Asumendi: Thank you. Thank you very much, very interesting.

Tobias Moers: Thank you very much everyone for joining us this morning and for your interest. We are looking forward to keeping you updated on our progress regarding Project Horizon, our turnaround and our growth strategy. As a reminder, our first half results are 28th July.

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