Third Quarter Results 2024

Wednesday 30th October 2024

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Introduction

Adrian Hallmark

Chief Executive Officer, Aston Martin Lagonda

Good morning, everybody, Adrian Hallmark here, with the team in Gaydon. And thank you for joining us today. It's great to be back with you.

It has been already 60 days of intense learning and lot of good experiences since I joined Aston Martin, and I'm really excited about the growth potential that we see before us for this iconic brand.

We continue to deliver against our commitments on product launches. And the latest of which is of course, Vanquish, which we launched in September, successfully completing the most diverse and dynamic portfolio of products in Aston Martin's history. And certainly we believe, the freshest and most dynamic in the world today in our segment.

We expect to make the first Vanquish deliveries before the end of the year. For context, this is the sixth, class-leading new product that Aston Martin has introduced to market within the last 16 months. That's a fully reinvigorated range of new models, which I feel demonstrates this team's unique talent and entrepreneurial spirit. It's an achievement that few companies have made in the past.

I'm also pleased to say that the first media reviews of our V12 flagship Vanquish have been published in the last 48 hours. And we've had overwhelming positive feedback from international automotive media, validating our claim that we've delivered segment-leading products that can beat the competition. In the words of one leading automotive magazine, Vanquish is "the best ever Aston Martin, full stop."

With our all-new core portfolio, we have finally aligned Aston Martin's immense brand power with world-class technology, and positioned ourselves firmly in the 'white space' that the company has successfully identified to be the ultra-luxury, high performance British brand. My priority going forward is on maximising the incredible commercial potential of the brand and these new models. Ensuring that they reach the market efficiently to further strengthen the order book and create the opportunity for customers to fully personalise our outstanding products.

As I've spoken about before, the reason for this is very simple. I don't see our midterm 40% gross margin aspiration as being the limit for Aston Martin. Neither is the 30% adjusted EBITDA margin. I believe in the midterm, we must go beyond this and perform like other luxury contemporaries in order we can truly achieve positive cash on a sustainable basis.

We will drive profitability through both an intense approach to cost management and business quality. Achieving a more balanced delivery profile in the future for our full range of new core models. This is something I look forward to discussing in more detail with you at the full year results in February.

Our order book now extends into Q1 2025 across all model lines. That's something I expect to further strengthen as our new models continue to reach dealers and customers begin to experience them through demonstrations and customer activations.

These new products are a true step up from their predecessors and experiencing them first hand is crucial to understanding what our brand stands for, and to engage with our target

customers. We are already seeing an uplift in regional sales activities and test drive activities, which will continue over the coming months.

In our September update, I highlighted two external risk factors that have impacted the company's performance in 2024: the continued volatility in global supply chains, and macroeconomic challenges particularly in China – something many other OEMs have also reported. I want to give a short update on our situation on those two factors:

First, as I continue my operational review of the business, I have placed a great emphasis on stabilising both our production output and future product plans. For example, the reduction in volume we announced last month is allowing us to drive operational efficiencies, deliver high quality launches, and maintain a more balanced supply and demand going into 2025. This is evident by retails year to date continuing to outpace wholesales.

We've experienced no further changes in our supply chain since we last spoke, with the supply of components into production consistent with our revised plans. The number of cars we are reworking is radically reducing, and by year end we should be in a great position from a work-in-progress standpoint. This revised plan will allow us to mitigate further risks in 2025.

Secondly, Doug and I, and other members of the Executive team have recently returned from visits to China and the US, where we had the opportunity to meet with local teams, local dealers, customers, and strategic partners, to get a full reappraisal of where we stand operationally and strategically in these two markets.

If we start with China, it's clear that there's been a significant downgrade in expectations in China over the past couple of years and we've suffered that too, especially with the DBX707 model. As we look forward with the stimulus packages that are being announced in China, we are expecting positive signs in the future. But in the meantime, we have a clear plan to develop the business operationally without over-investing and get ready for when the market evolves. We still have a strong business opportunity in China. But the acceleration we believe will be in the second half of 2025. And that's already baked into our plans for this year and our forecast for next.

Needless to say, our US market holds the biggest untapped growth opportunity and is not suffering the same downturn or restrictions as China. So we continue to grow. And we will continue to double down our efforts on demand creation and customer engagement in the US.

As you can see from the improved financial and operational performance in quarter three this year compared to the previous period, it's demonstrating our strategy's effectiveness. And we're on track also to hit our full year '24 revised guidance.

We also remain ruthlessly focused on achieving our previously communicated targets for 2025, including a more balanced delivery profile for the full year across all models. And we look forward to delivering a significant fourth quarter for Aston Martin in 2024.

On that note, I'll now hand over to Doug to talk through some of the financials before welcoming your questions. Thank you very much.

Doug Lafferty

Chief Financial Officer, Aston Martin Lagonda

Thank you, Adrian. Good Morning everyone. Thanks for joining us on what I know is a busy morning for all of us.

It was just over 4 weeks ago when we last spoke, providing an update to our full year guidance and expectations for 2024. Today's Q3 results are in line with our revised guidance and we remain on track to deliver the 2024 full year guidance.

Q3 represented the first of two significant quarters for us in 2024 as we start to benefit from the launch of the new Vantage and DBX707 models. Sales of these vehicles commenced towards the end of Q2 2024 and the ramp up in volumes has increased through Q3, hitting a high in September 2024.

It was running at this heightened production rate in September that triggered a need to adjust subsequent production plans as we were no longer able to mitigate component shortages from various suppliers. However, I'm pleased to confirm that since we made the necessary line rate adjustments production has been much smoother and both the end of September and October have been in line with our revised plans.

Despite the revised guidance, which mostly impacted our Q4 plans, our Q3 financial performance was largely improved compared with the same period in the prior year. This was driven by the continued roll out of our next generation vehicles with wholesale volumes up 14%, revenue up 8% and gross profits increased by 7%, with a broadly stable gross margin at 36.8%.

Partly as a result of the delays experienced in production and the associated operational inefficiencies, EBITDA for Q3 was flat vs the prior year while our adjusted operating loss and loss before tax both improved as D&A and net finance costs decreased compared with Q3 2023.

Cash and available facilities increased by £64m in Q3 to £311m reflecting the circa £135m private debt placing we completed in August 2024, partially offset by the Q3 free cash outflow of £81m, which was, as guided, materially lower than both Q1 and Q2.

YTD 2024 free cash outflow was £394m, broadly in line with our plans at the start of the year, and reflecting the portfolio transition as volume growth had been, and remains, weighed to the second half of the year. As a result, we've delivered a sequentially improving free cash flow trend, quarter on quarter, throughout the year.

Now benefiting from the full range of new models, this improving trend is expected to continue into Q4, despite the impact of the ongoing deposit balance unwind related to the timing of Specials deliveries and the half yearly interest payment of just under £80m.

Given the expected significant improvement in free cash outflow in Q4, we expect liquidity at the end of 2024 to remain around £300m.

It's worth pointing out that as at September 30th 2024 YTD deposit balance outflow was £123m, significantly higher than the £1m outflow for the comparative period last year. Neither the deposit unwind dynamic or interest payments will impact the business in Q1 2025 as we start to deliver a more balanced production profile to support our targeted free cash flow generation during 2025.

Finally, and to reiterate, we have the right strategy in place to realise the significant long-term growth and value creation potential of the business. Underpinned by our ability to design and deliver a class-leading portfolio of both core and limited-edition Specials, we remain fully focused on achieving our previously communicated targets for 2025. This will

coincide with our aim to smooth the cadence of wholesale volumes over the coming quarters and drive improved profitability through growth and revenue generation while also focusing on the cost and quality optimisation opportunities described by Adrian.

With that I'll hand over to the operator so we can take some questions in the time we have remaining.

Q&A

George Galliers (Goldman Sachs): Good morning and thank you for taking my questions. The first question I had was for you, Adrian, just given, obviously your extensive experience at Bentley. When I look at Bentley, last year, they sold twice the volume of Aston Martin with arguably a more condensed product line-up, which started at a higher price point. So the actual magnitude of the volume relative to Aston Martin looks very substantial. With that in mind, what do you think the fundamental reason for this is? Is it the product at Bentley versus Aston Martin? Is it the awareness of the Bentley brand relative to Aston Martin? Is it the awareness of the product line-up or is it to do with dealer and distribution? It would be very interesting to get your insights into why Bentley is able to achieve so much higher volume than Aston Martin, with seemingly a product line-up that addresses a smaller market.

The second question I had was with regards to the cash flow, for Doug. Given the 3Q cash flow, how comfortable are you with liquidity, given you're guiding for a further outflow in 4Q? Are we at the low point in liquidity as at the end of October? And are you expecting positive cash flow over the remainder of this quarter or is the sort of inflection point in terms of the cash flow and the liquidity at some point in November-December timeframe?

Adrian Hallmark: Thank you, George. I'll start with the comparative question. I won't go into too much detail about my old firm, because I'm with my new firm. But just to give a few basic facts and figures. I think the first thing I would say is, if you take the SUV, which is about half the business of most of the luxury brands or maybe more in some, the competitors have launched, well let's say that they launched in 2016. We launched in the depths of COVID in 2020.

Bentayga has been in the market more than eight years. We've been in the market less than four years. So the nameplate awareness of DBX is certainly behind Bentayga. And that's normal because it's been on the road less and been in the market less. So I think it's not a question of brand awareness as much as nameplate awareness.

Secondly, I think you're right that the Bentley product range is very focused on a few models. The Aston Martin Heritage has been - we've had Vantage, DB12 and DBS in the past, a very diverse and a much broader offer for customers with a much wider price band. So there's pros and cons to each strategy.

Clearly with Vanquish now we've got an iconic and segment leading 12 cylinder offer, right the way through to the sportiest Vantage that we've ever offered. So we offer three different characters of car to three quite different types of customer. And yes, we have more nameplates in order to hit similar volumes to what Bentley can achieve with a GT itself. But then don't forget, they also have a sedan saloon car, which we don't and that's a third of their volume.

So if you take out that third and compare the total volume, then, consider DBX half the age of the Bentayga or less than half the age, we are not so far behind on comparable products. And in fact, on average selling price, Vanquish is more than the GT. And that will be a significant proportion of our sales next year. So it's a different approach. And we see potential for Aston Martin for sure, especially in the DBX area.

Doug Lafferty: So I'll pick up the second question, George. I think I addressed most of this in my opening remarks, but just to answer your question specifically. So at the end of Q3, we had liquidity of over £300 million. As you know I have previously talked about, liquidity of between £200 million and £300 million pounds being okay for us. And as I said, we're expecting the Q4 outflow to be materially reduced again from what we saw in Q3. And therefore, liquidity remaining around £300 million by the time we get to the year-end. So still at the top end of that range that I've talked about.

I would also add that in Q4 that includes continued deposit unwind. So a headwind from a working capital point of view as we deliver the remaining Valkyrie’s and commence the deliveries of the Valiant. And also we have the interest payment early in November. So I won't comment specifically on when the inflection point is within Q4. But I think hopefully that starts to answer your question.

What I would say and perhaps is worth pointing out and I'm not wishing to create a new KPI, but obviously for Q4, excluding deposit unwind and excluding interest, the business is operating at a free cash flow positive point of view. So from a pure operating point of view, the business starts to generate cash. I hope that helps answer the question.

Harry Martin (Bernstein): So the first question that I had is on the 2025 ambitions. In the release today, you said that you were standing by those ambitions and namely that £500 million of EBITDA target. It'd be good to understand, what level of volume and pricing that requires, and perhaps any expectation about the profit contribution or lack thereof from the Valhalla.

The second question is on R&D and Capex. So Adrian, you are inheriting the £2 billion plan of circa £400 million a year. How much of this do you view as essential or committed? And is this part of the scope for looking at efficiencies in terms of cost and cash?

And then finally, as a follow-up to George's question really. From 6,000 units this year, it would be good to hear what you think the right size of this business is in the medium term in terms of demand. Is there, on the current model portfolio and the price points, is there ultimately demand for 8,000 units, 10,000 units? It would be good to just understand where you feel the awareness of the group and the model portfolio is on a global basis.

Adrian Hallmark: Thank you very much, Harry. We'll start with the 2025 ambition. First of all, the external commitment and expectation that we've set is around £500 million EBITDA. That is still focused on our commitment. In terms of how to get there, volume wise, we do expect to see a volume increase next year. And why is that the case? Well if we take this year, we consciously backed off production of DBX prior to the model year change and created a vacuum bubble for some markets for that product. This year we have the DBX fully launched. And we have a full year of production with a refresh model, so we'll get full potential there. Last year, we were running our Vantage and this year we don't have Vanquish until a few hundred units at the end of the year.

So if you add all these products up, I mentioned at the beginning, we have the full core product range at normal production levels without any major disruptive launches. Just to slightly amend that statement, we do have, of course, derivatives of Vantage and Vanquish

coming next year, but they're not as disruptive. They're not such big launches, as a full brand-new model. And those products will also give us incremental opportunity next year.

And then finally, you mentioned Valhalla. It is on target for launch in the first half of next year and deliveries in the second half. We'll also be this year, at the end of the year, getting final specs for the first batch of cars that have been ordered over the past couple of years. And we have more than a full year's production of that car pre-sold. So anything that we build next year will go straight through to customers.

So if you add all of that up, we have a stable production plan, which accounts for all of the models that I've just described, no major launch disturbances or run outs. And the launches that we do have are incremental rather than fundamental to our product range. So from that point of view, we will see growth. I won't put a number on it today. We'll give you more guidance when we talk in February in very specific terms. But if you add all of that together, that's why we're confident with commitments that we've made before for 2025. We have all the tools available to be able to do so.

And on that same basis, we won't define the company based purely on volume. The clear mission from my point of view, Doug's point of view and the whole team is to create a sustainable business model for Aston Martin. And sustainable means revenue growth, gross margin, quality, cash generation and bottom-line profit generation. And that means that the volume isn't secondary, but it's not the only objective that we have.

So what should the volume be for a product range like ours at our price point? Without a sedan in our range, I think 8,000 is probably a realistic level. That doesn't mean we couldn't go further. But in terms of a prudent approach on which we should base all of our decisions on Capex, on Opex, and on the way that we run our policy, that for me is a stable and manageable quantum. But the bottom line cash and profit are what we're going to be obsessively focused on, not volume first.

Doug Lafferty: Okay. And then, linked to the sort of cash and the Capex question that you asked, Harry. So look, we are not deviating in any way, shape, or form from the guidance that we've put out there previously as it relates to Capex. So the £2 billion of Capex over the five years is still the number that everybody should have in their mind.

What I would say is that from the average of £400 million across those five years will be probably up or down by £50 million or so in any given year. I wouldn't expect us to deviate much further from the average from that point of view. And then, that £2 billion is fully focused on delivering what we need within our sort of blended drivetrain approach within those five years.

So obviously it’s assisted and facilitated the completion of the launch of all of the next generation products as far as we've got today from an ICE point of view. It facilitates the introduction of the first part of Aston Martin's hybrid range, which starts with the Valhalla and will continue thereafter. And of course, as you know it also includes the initial sort of costs associated with the transition into BEVs including the technology access fees that we will pay to Lucid. So that Capex envelope covers everything that we needed to cover in that five-year period in terms of portfolio transition and evolution from this point forward.

I think you also mentioned something around the efficiency of cost and of the cost base and cash. And I think Adrian has pointed out earlier in his opening remarks that there'll be a focus on the cost base. We need to make sure this business delivers the operating leverage that we've expected that it would come 2025. And indeed I expect to see an acceleration in that. So we are focused on ensuring that we deliver within the Capex envelope that we've

set out, but also that we deliver operating leverage through the cost base to support the delivery of the margin growth and net profitability and free cash flow that Adrian has talked to.

Arya Ghassemieh (Barclays): Thank you for taking my questions. The first one is on the order book. I think as you mentioned, your new products are getting very strong reviews, but the order book currently only reaches into the first quarter of next year. So please could you discuss in your view what the impediments are at this point in time in preventing the order book to grow even further into next year. Also any color in the current shape of the order book by model would be very helpful.

And then second question would be on personalisation, very strong quarter in terms of personalisations at 19%. Could you please discuss what the strategy here is going forward? Do you have a certain target level in mind as a potential revenue? And how creative and how important will personalization be in achieving your mid-term margin ambitions?

Adrian Hallmark: I think first of all, in terms of the order book, it is clear that quarter one next year, so kind of five months order cover, we'd love to be stronger than that. I think in the luxury sector, six to eight months is realistic. Certainly there are certain models that will be way beyond that and there are with Aston Martin too, like Valhalla to name but one. It tends to be the rarer the car, the longer the order book.

But if I look at why we are not in the six to eight month range today, it all comes back to a lot of operational factors that we are already dealing with or have dealt with. To put it in context, the Vantage was launched earlier this year in the first half, but only at the end of August did the US dealers get their demonstrators. Some got them a little earlier in July, but the majority got them in August. I think China and Asia Pacific, for example, they won't get them until quarter four.

So the gap between our public launches and the date at which we actually are able to engage with customers is longer than I would like to see. And that doesn’t cause as much of a problem on the collectible or the most desirable cars in the range, the limited volumes. Customers tend not to need to have a demonstration drive. But if you've got a Vantage today and you want to try the new Vantage as an upgrade, it's a different proposition, same with DBX. So for our core models, it's true that every time we've launched. We've had too much of a gap between the first communication and the full availability of products and marketing activity in every given region. This we have to shorten.

We also have to re-orientate ourselves to much more localized demand creation activity, which is already happening as I mentioned in my opening comments, ie., move away from doing the big global launches, which we are now through and put the similar level of marketing effort into on the ground market activation.

So time lag between communication and arrival of core models and shifting emphasis from global communication launches through to more country level and local level emphasis of the two levers that we pull in that regard. And I'm confident, if you just hear the dealers' responses when they've driven the products that we've let them drive often before we let the press drive them, as a way of motivating them, and the press responses, this is not just shallow support for the vision and the effort that we put into the products. They genuinely believe our products are world class and world leaders and they can't wait to demonstrate them to the customers. So watch this space in 2025.

In terms of the options and the upsell, this is something I'm very passionate about and recognised when I joined the company, the huge potential that exists there. It's clear that in

the luxury sector, there's been a lot of price increasing over the past five years since COVID by all brands.

If I look at the Specials business of Aston Martin, it's a close second to only one other player in the luxury sector. That other player, I won't mention the name, but we all know who they are. So the Specials business is world class. And there's still potential, but it's incremental potential.

If I look at the core programmes, the number of options that we offer compared with competition is significantly lower. And it's therefore no surprise that our options uptake is lower than the competition. So that’s what you'll see and it has already been kicked off.

We've had a gap analysis review of every model line, what we offer, what the competition offers and then an innovation hopper to say, what else could we do that no one else does? Over the course of the next six to nine months, we will systematically launch more content for our customers. And I'm confident that that will yield incremental revenue per car and customer satisfaction.

And finally, not just the core options, but we also know and I do from personal experience, that the brand extension, in our case it's Q, in others, it's Ad Personam or Mulliner or others, this incremental area, where we can get even more bespoke rather than simply adding more content to core products. This is also an area where we significantly have an opportunity to increase our revenue. I don't want to give a commitment to a number today. But you'll know from your analysis what the competition achieve in both of these dimensions. And our mission over the next 6 to 18 months will be to go from the current level of performance in steps up towards normal competitive levels in the luxury sector.

And I think I've just been given the hand signals. We're out of time. Thank you for attending and for the insightful questions. I hope we've answered them adequately. We look forward to talking to you again in due course at our full year result in February. Thank you.

Doug Lafferty: Thanks, everyone.