Aramis Group Q1 2022 Revenues

Friday, 28th January 2022

Introduction

Guillaume Paoli

Co-Founder & Co-CEO, Aramis Group

Welcome

Good morning, everyone. Thank you for joining our Q1 2022 Revenues Conference Call. I am here today with Alexandre, our Head of Investor Relations, to drive you through the main business highlights and the performance of the period. I will just start by reminding that Aramis Group has a non-calendar fiscal year. Today, we are talking about the Q1 fiscal 2022 activity, which is actually the calendar Q4 2021.

Aramis Group key investment highlights

Now moving to slide two. Just before commenting our performance, I would like shortly to remind some very critical points about the Group.

First, we are operating on the used car market, which is an absolutely massive fragmented market that is undergoing online disruption. This market is here to stay, and we are going to catch a fair share of this market.

Second, we have a very strong customer value proposition around our geographies, resulting in market leadership positions. I will come back in a few seconds on our model. We are able to generate a combination of very strong profitable and sustainable growth, thanks to 20 years of experience and the permanent optimisation of our model.

Talking about sustainability, another point to have in mind is the resilience of this market and this model. We are at the very heart of the circular economy. We refurbish cars and we sell dozens of thousands of these cars every year.

Our 3-pillar growth strategy

Now moving on slide three. Here is also a short high-level reminder of the three pillars of our growth strategy. First, it is about organically capturing the huge potential of this market, more marketing, more purchases, more refurbishing and working on improving our customer conversion.

Two, continue to expand our Group footprint to other European countries. We operate in four countries today, including markets number one and three in Europe.

Finally, it is about building up additional sources of revenues by further developing our service ecosystem.

And all that, of course, leveraging on our technology, our people commitment and expertise.

We deliver the best products & customer experience, thanks to a unique business model

Now moving to slide five, a word on the model. We offer a second-to-none customer value proposition, enabled by a unique business model. A second-to-none customer value proposition, it is a best-in-class, digitally enhanced customer experience, great products, very reliable, purchasing journeys as well as trade-ins are fully digitalised, which together with the best warranties of the market, generate a high level of client satisfaction and a very low market-leading 2% return rate.

Second, it is vertically integrated end-to-end from sourcing to delivery. There is no other player in Europe that has a sourcing network as diversified as we have, with the technology and in-house refurbishing capacity allowing us to refurbish on an industrial scale, cars with this level of quality. I remind that quality is absolutely fundamental in our business. We are able to have refurbishing lead times as low as three days.

Finally, we are a 20-year-old founder-led Group with very committed and experienced multi local teams, showing a very strong local know-how in each of our geographies. They have powerful links with their local ecosystem and a perfect understanding of the local customer needs, which vary from country to country.

Quarterly revenues boosted by a solid execution

Now moving on slide number six. Again, our business model has showed its efficiency. We have generated a great performance, successfully delivering on each of the three dimensions I just listed, which has resulted in a very high level of revenues growth.

Our sales reached €396 million in Q1 2022, representing a 47% year-on-year increase on a pro forma basis.

What did we do? First, we further strengthened our industrial assets, developing more refurbishing capacities. To fuel the growth and remain the leader in an offer-driven market, we need to be able to offer customers always more cars in shorter times and with high standards of quality. In Q1 2022, we kept on improving the productivity in our historic centres, and we opened a new centre in Antwerp in Belgium. The Goole refurbishing centre located in the UK also benefited from the implementation of Aramis Group's best practices to gain in productivity.

We kept on improving our client value proposition, launching very long warranties in Belgium, home pickup of cars and also we launched the car subscription offer in France, Aramis Flex. We were able to convince always more prospects to buy a car from us. We reached an NPS of 67 at the end of December 2021.

Finally, and this is very important, it would not be possible without our teams, our people. We kept investing in our teams. For instance, we set up a new long-term incentive plan, and in return of course they worked hard to propose new products and services. Mobilising efficiently human capital is definitely a very high value enhancer.

Refurbishing capacities expansion

Now moving on to slide number seven. Let me give you maybe some more details on our refurbishing capacities, which is a very, of course, important part of the equation, I mean our internal refurbishing capacities.

As I said, we inaugurated a new refurbishing centre in Belgium in Antwerp. This is the very first centre located in the country. Of course, it would help us to fuel locally the growth of refurbished car sales. We already have 50 people working up to ramp up the facility. As shown on the right-hand side of this slide, the refurbishing capacities of Aramis Group stood at 63,000 cars at the end of 2021, and we expect this capacity to more than double by the end of 2023.

By the way, two other refurbishing centres will be inaugurated in 2022, one in France in the south of the Paris region and another one in the UK in Hull in the Yorkshire area.

Automotive market environment: new vehicle production still slow

Now, if we move on to slide number nine. Before going into more details on our quarterly performance, let me give you a quick overview of the current automotive market environment, which is very specific.

New cars production remained very low across the board, given worldwide semiconductor shortage. On the left-hand side, we give you some colour on the new passenger car registrations on the geographies Aramis is exposed to.

This sharp slowdown is, of course, driven by lack of offer. There is a limited number of new cars available for sale. The consequence for us at Aramis is that it is difficult to source pre-registered cars, and this has significant impact on our pre-registered car business. We mainly sell pre-registered cars in France and Belgium. These are the two geographies that are affected.

With that, I leave the floor to Alexandre who is going to enter in more details into our Q1 2022 revenues performance.

Financial Performance

Alexandre Leroy

Head of Investor Relations, Aramis Group

All business segments performing strongly, except B2C pre-registered reflecting the decline of new car manufacturing

Thank you very much, Guillaume. Good morning, everyone. We are now on slide 10. The very peculiar environment Guillaume just depicted reflects into our quarterly activity.

Aramis Group generated €396 million of revenues in Q1 2022. All our business segments performed very strongly, except, no surprise, the B2C pre-registered car one, given the lack of products actually to sell.

If we quickly dive into each segment, B2C refurbished revenues are up an impressive plus 76% year-on-year on a pro forma basis to €251 million. Volumes are up a massive plus 48%. This performance has been made possible, thanks to, first of all, our level of inventories. I recall you that we proactively started increasing our inventories from last summer accelerating in particular our sourcing from private individuals to be able to face the increase in demand. Second, we extended our refurbishing capacities. Selling price also increased meaningfully, posting plus 20% on average year-on-year.

If we go to B2C pre-registered cars revenues, they are down minus 5% to €87 million. They are impacted by two opposite effects linked to the market environment, of course, and rather logical. A strong decrease in volumes, minus 27%, and a strong increase in selling prices, plus 31%.

B2B revenues posted a healthy plus 74% to €38 million. They are mechanically up, I would say, first, on the back of the overall car price increase that also benefits this segment.

Second, due to the rise in vehicle sourcing from private individuals, a part of which is resold to professionals, in particular, the oldest models and the highest mileages.

Services finally. The revenues increased plus 46% to €21 million. Services benefited from the increase in the number of cars sold, as well as an improvement in the penetration rate, in particular, financing and insurance solutions.

B2C volume growth driven by refurbished cars, our strategic segment

If we move to slide 11. On the back of Aramis Group's strategic choices, and of course market dynamics, growth in B2C volumes is driven by B2C refurbished cars. As a reminder, capturing more of the considerable growth potential of the online market for refurbished used cars is the first pillar of the Group's three-pillar growth strategy Guillaume recalled earlier.

Sourcing of refurbished cars now evenly distributed between B2B2C and C2B2C

Slide 12 now. The Group's strategic choices also reflect on the sourcing. Virtually half of the refurbished cars sold to private customers in Q1 2022 were previously bought from private customers. The clear evolution versus last year shows our flexible is our multi-channel sourcing approach. This makes our model very powerful, and, to some extent, pretty hedged against market fluctuations.

All geographies growing sustainably

Finally, slide 13. A few words on the performance by country.

Let's start with France. Revenues are up plus 27% at €174 million. Quarterly performance is strongly driven by the refurbished segment. I remind you, as Guillaume said, that the geography is meaningfully exposed to the pre-reg business, which is, at Aramis, historical one in France. Car prices are up double digits. There is a bit of positive base effect also, given the sanitarian restrictions imposed in France in the last calendar months of 2020. Finally, sourcing was overall good with the number of cars sourced from private customers that nearly doubled in Q1 2022 compared with Q1 2021.

A few words on Belgium now. Revenues are up plus 56% at €51 million. Volumes increased here also meaningfully with the same kind of pattern I just described for France. Volumes of refurbished cars sold nearly tripled year-on-year. The Antwerp new refurbishing centre ramp-up is filling this growth. Volume of pre-registered cars are down, this geography being also meaningfully exposed to that segment, like Guillaume said once again. Prices were also up roughly double digits year-on-year. The positive base effect is stronger than in France. The month of November 2020 in Belgium has been pretty weakish due to the same COVID-19 linked health restrictions.

Spain, revenues are up 117% to €80 million. The increase in volumes remained very strong. I remind you that the geography is not exposed to the pre-registered cars segment, meaning that all these volumes are from refurbished cars. In terms of sourcing, to feed this growth the geographically accelerated cars sourcing from individuals that were multiplied by close to four over the period, and of course the expansion of our local refurbishing capacities near Madrid in 2021 allows to handle this growth.

UK to finish. Revenues are up plus 46% at €91 million. The geography is not exposed to the pre-registered cars segment; hence the performance is driving by refurbished car sales. Volumes are up year-on-year on the back of both the progressive deployment of our model locally, and here also a favourable base effect. Prices level remain high in the country and their dynamic positively oriented, given the meaningful shortage of cars in the country.

With that, I give back the floor to Guillaume for the outlook.

Outlook & Conclusion

Guillaume Paoli

Co-Founder & Co-CEO, Aramis Group

FY2022 guidance reiterated

Thank you, Alexandre. Now we move on to slide 15. Today we discussed the current market environment, the shortage of new vehicles fuelling a general increase in prices on all the market segments, both for purchases and sales.

The outlook for pre-registered vehicle remains quite dull, given there is a limited number of cars to buy and to sell. Fortunately, this is more than offset by a buoyant refurbished vehicles business that is growing very fast, as you have seen.

We do not anticipate any significant change in the market situation between now and the end of our financial year 2022. Still, thanks to our flexible business model, and sourcing in particular, we do not expect this to have a meaningful impact on our yearly performance and we reiterate today our FY2022 guidance set.

Our strong value proposition for customers, the agility provided by our multi-channel sourcing, our control of our own industrial tool and the development of our services will enable us to remain at satisfactory levels of gross profit per unit.

Closing remarks

Now to conclude and just before taking your questions, on slide 16.

In a nutshell, our 2022 fiscal year starts very well with very strong performance on the refurbished used car segment.

All of our geographies are well-oriented and growing.

We keep focusing our efforts on creating more value for our clients through better products, better services, ramping up our capacities and finding the right car for them to sell at the right price.

Finally, we are very confident in our capacity to deliver our yearly objectives.

Thank you very much for your attention. Now we can open the Q&A session.

Operator, maybe we can start with the questions over the phone.

Q&A

Mourad Lahmidi (Exane BNP Paribas): I know it is not an earnings call. It is more a sales call. Can we have some comments, maybe quality comments on the trend in terms of gross profit per unit? Prices are up on the buy side and on the sell side, you have been able to increase sharply your sourcing from private individual, which I think is accretive to your GPU.

Maybe you can elaborate on that? Then in terms of your marketing investment, where are you compared to your plans for the current year?

Guillaume Paoli: Okay. Thank you, Mourad. You said the last question compared to our peers, that is right?

Mourad Lahmidi: No, compared to your plans. Because, I mean, this year you expect EBITDA margin to be down on the back of higher marketing expenses. Are you on track, behind, ahead? Just to have in mind if you could elaborate on that as well.

Guillaume Paoli: Thank you for your questions. I will start with the number one on GPU. First, I would like to restate that for us the GPU is the reflection of the strength of the model. As you know, we are in a competitive market. There is limited headroom when you buy a car in terms of price and limited headroom when you sell a car. We operate on that market, and we have a lot of competition. I am not speaking of the more recent competition. We have had competition from all set of actors for a very long time.

Our buying prices have increased. Our selling prices have increased. In the middle, the transformation costs have maintained a normal stance. We are confident in maintaining the GPU level that we guided to when we did the IPO, which are very satisfactory level. This is regarding your GPU question.

Again, this is due to the strength of the vertically integrated model and the data and the tech and all the know-how we have built along the years. This is the first point on the GPU.

The second point on the marketing investment. Well, it is going along to plans. As we have said, we want to invest in our branding in the different geographies. We wanted also to generate traffic and we have been increasing traffic again this quarter. It is going along to plans.

I do not know, Mourad, if I answered your question in full or you want to follow up on one of these two points?

Mourad Lahmidi: Yes. Let me follow up on the GPU. I think that last year it was really strong in the first half, so you are probably facing high comparison basis. I mean, just to have in mind the mechanics of your business. When you buy from a private individual, given that you have a higher bargaining power, you basically get a lower purchase price than if you buy from a professional. It should be accretive to your GPU. Am I right to say that or is not that correct?

Guillaume Paoli: What we have always said is that there are levels of GPUs that are more or less consistent between sourcing channels, between geographies, between refurb and pre-reg. There can be some variations, but they are not very significant. We have bought more cars from private individuals because there is a shortage of recent used cars, and we know that there is like almost indefinite pool of cars we can buy into and now we are almost half-half.

We have launched the dry trade-in business, buying cars from customers that do not necessarily want to buy a car from us. We have launched it in Spain and in Belgium. We have further developed it in the UK and in France. This will not have a significant impact on the GPU. I am not giving you more colour on the GPU at this stage. What I am just saying is that the GPU levels we expect are along the lines of what we have guided since the IPO.

Christophe Cherblanc (Société Générale): First on selling price. They were sharply up year-on-year. They are continuing to increase quarter-on-quarter. What do you see in Q1 of this calendar year? Do you see a plateau?

A related second question is about the pre-reg. We all know that there is a shortage of cars. What do you believe is the trough? What will be the absolute bottom for that market? I know you are not going to give us the drivers of your guidance, but the reason I am asking is if I multiply the number of units in refurbished cars by the price we had in Q1 this year, if I look at B2B, services, and if you look at the average price of pre-reg in Q1, the implied collapse for the pre-reg is very substantial. Have you been very conservative on this side? Any other indication would be super helpful.

The last question was on the performance by market. Maybe I missed that. What was the increase in refurbished car units in France? I could not see the slide, so maybe it was on the slide. What is behind the performance of Spain? Spain had a fantastic year last year and it is continuing. Do they have a magic recipe that you could export to other markets? What is explaining the outstanding performance of Spain relative to other markets?

Guillaume Paoli: Okay. I would just like to state again that this is a very specific market environment. We are very confident on the used car market because it is very, very resilient for a number of reasons I would not elaborate. If you want, I can. We are very confident on the market and our prospects. It is true that we have never seen this situation. 25% reduction of new car production two years in a row is something that has never been seen since, I do not know, I cannot even tell you, probably in the last 50 years.

This has implications, and there are a lot of moving parts, so it is a bit difficult to be totally adamant. What we see is that in terms of price, there are some countries where there is a plateau, particularly in the UK, where we are roughly right now, if I believe the data of INDICATA, which is a data company. They are saying that right now the price level is around index 130 versus January 2021. It has been more or less flat for a few months. There is one point where the customers will stop buying the cars. We believe that there will be a plateau during the year, but exactly when, in which country, it is a bit difficult.

On the pre-reg topic, yes, we anticipate a significant reduction in volumes. We have given the figure. It is minus 27% in terms of volume [year-on-year in Q1 2022]. This concerns mostly France and Belgium, the two other geographies are not exposed quasi at all. That has an impact on the business. Where is the bottom? I am not sure. We will still continue to sell these types of cars. But it is true that the faster the production levels recover, the faster we can add up these volumes on top of what we are doing with the refurbished used car business, because you do have these customers that are looking for these kinds of cars. We are doing everything that we can to propose a different type of cars. But the customer that truly wants this type of cars [i.e. pre-registered], that would not change, and of course this one is passing through.

Then on the different markets. France has been very much impacted by the pre-reg business, as I have just stated, because it is the historical business that we have launched in France 20 years ago now. They have done a great job to even accelerate our refurbished used car business. They have experienced a significant growth. As you know, we do not really guide at the segment level per country.

In Spain, is there a magic recipe? I mean, we have a combination of interesting factors. First, we have a country that is less mature in terms of digital sales, in terms of used car offers. Second, we have a setup that is very, very favourable with one big site in the very outskirts of Madrid. We combine HQ, sales point, logistic point, this is a huge advantage to grow. And the other reason is that we have expanded the refurbishing capacities. Now we are building up the volumes very aggressively. As we said during the IPO, we want to reach a critical mass and there we accepted slightly lower profitability policy terms to be able to build this position that we are building now. Now we are reaching levels where we have the critical mass.

These are a few insights to your questions, Christophe.

Christophe Cherblanc: Okay. Can I just add a follow up on the sites? I was looking at the sites this morning. On Aramis sites this morning, you have 3,500 cars. I was looking at the Clicars site in Spain and it is 3,100. It is related to the size of the market. It is not that different. Does it mean that if you are a Spanish consumer, you can access a pool of cars, which are not physically in Spain or is it just the pool is deeper in Spain?

Guillaume Paoli: First, in France, you have the pre-registered business. When you see the number of cars that are published, actually it is the number of refurbished used cars plus the number of pre-reg offers. Sometimes you have one, two, 10 cars behind each offer. I do not have the exact figure right now, but I would say that probably the number of cars available on the French website is around four-thousand-and-a-few-hundred. This is the first point.

Second point, in Spain, they keep a lot of cars. Some cars that have been sold are still online. Also they pre-publish cars; some cars are published before they are refurbished to draw traffic, and this is not something we are doing in France for different reasons. You are right, there is comparatively more cars in Spain, plus there is all these kinds of technical effects that blur the picture.

Christophe Cherblanc: Can I squeeze a very last one?

Guillaume Paoli: Sure. Go ahead.

Christophe Cherblanc: Given the demand for cars, does it mean that the days to sell a car are simply shorter and you are going to see a positive working capital effect or is it going to be offset by the need to secure supply?

Guillaume Paoli: There is a seasonal pattern regarding working capital. To make it a bit caricatural, we build up stock at the end of the calendar year and we sell the stock during the spring and the summer. There is a conjunctural point that is right now, where we are more in a position to build stock, to secure stock, to hit the high season.

Then there is a very, very shifting and moving environment, which has led us to increase the stock levels, as we have explained during the last conference calls, because we have a very specific sourcing environment.

This increases the level of the working capital, to be frank, but there is no reason to be concerned. It is actually a good situation to be in and it allows us to satisfy our customers.

Alexandre Leroy: Thank you very much. I see a couple of questions from Catherine O'Neill online. I believe they have been answered, given Catherine you asked about the working capital for year 2022 and the dynamics. I guess what Guillaume said is okay. On the overall market situation, I think it is also answered. Just tell me if you want more colour, to which extend or how, if this is not okay. Otherwise, we do not have any further question online right now.

Christophe Cherblanc: Hello again. I am taking the opportunity. I know you are not going to give guidance for 2023. What is your view on what will happen post normalisation, meaning that if and when car production does normalise? We should see pre-reg going back up, we should see selling prices going hopefully a bit down. How do you see the moving part playing out in 2023? In 2023, is it fair to say that you could have a big jump coming from pre-reg sales, possibly €100 million or €150 million, plus secular growth of refurbished cars, which would mean that you have a year, which is way above trend? Is it too optimistic or what is your view? I appreciate it is not a guidance.

Guillaume Paoli: I will answer that. It is really difficult to see very clearly because even when you look and discuss with OEMs and you look at the different press articles, I mean, basically what they are saying is that we are out of worst part. The hardest part is behind us. However, they are still not very confident and very elaborate on when the production levels will pick up. We do not have a very good view on that.

Then they have a backlog. They have a backlog of orders to fulfil. Even after the situation normalises, and personally I do not see it before the end of this calendar year, it will probably take again six months or something, I do not know exactly, to recover to a normal situation. This is not a guidance, because to do it, we would need really more information on the new car market. But I would not expect a bump on the pre-reg business at least for early 2023. That is about sure.

Alexandre Leroy: We have a new question online from Catherine O'Neill from Citi. Catherine is asking, do you see any risk to demand for used cars from rising inflation and potentially interest rates?

Guillaume Paoli: It is a fair question because there is a question of where will the used car price inflation stop? As I said, we have seen some plateau and I do not believe there is much more room for price inflation. Anyway, I think the situation will normalise.

We are doing everything that we can to propose alternatives to customers with new financing solutions, with cheaper cars, older cars. We believe that refurbished car is an excellent alternative because the market is there to stay. It is very resilient. I would not bore you with all the figures I said a lot of times, like two Europeans out of three go to work every morning with a car, which is something we do not always appreciate when we live in big cities. The market is here to stay. The demand is here to stay.

Regarding interest rates, well, even if there is a moderate spike of interest rates, it does not have a huge impact on monthly reimbursement by customers. Except if it is really major, I do not see that as an issue regarding the market at this stage.

Alexandre Leroy: No more question online.

Guillaume Paoli: Okay. Thank you very much for your attention. We will speak again maybe in the meantime. Then the next step is we will be publishing our H1 results on 16th May aftermarket. Thank you very much and have a nice day. Bye-bye.

Alexandre Leroy: Bye.

[END OF TRANSCRIPT]