Q3 2023 revenues presentation transcript

Tuesday, July 18, 2023

Presentation

Operator: Hello and welcome to Aramis Group, quarter 3, 2023. My name is Alicia and I will be your coordinator for today's event. Please note this call is being recorded and for the duration of the call your lines will be on listen only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator. I will now hand you over to your host, Alexandre Leroy, head of IR, to begin today's conference. Thank you.

Alexandre Leroy: Good morning everybody. I hope you're all doing very well. Thank you for joining us today for Aramis Group Q3 2023 revenues presentation. I'm Alexandre Leroy, head of investor relations. Today with me to comment this trading update, Guillaume Paoli, co-founder and co-CEO of the company, and Valérie Labouré Hirsch, group CFO.

Before handing over to the top management, just a few reminders. This conference is recorded, accessible both over the phone and internet. A replay will made available on the company's website at www.aramis.group. Slideshow is available on the website for download, by the way.

Let me also remind you that today's presentation contains forward-looking statements and that the future results may differ materially from the statements or projections made on today's call. In particular, the risk factors that could affect those statements are described in our 2022 universal registration document filed with the French Financial Market Authority, AMF. This presentation will be followed by the usual Q&A session.

Finally, I remind you that Aramis Group has a non-calendar fiscal year with annual results closing at the end of September. As a consequence, the Q3 2023 revenues we're going to report on today refer to the calendar period from April 1st to June 30, 2023. I now leave the floor to the management that will drive you through the main business and market highlights for the period. Please, Guillaume, go ahead.

Market and Business Highlights

Slide 2

Guillaume Paoli: Thank you, Alexandre. Good morning everyone and welcome. Q3 2023 has been a new period of focus and hard work for our teams in a used car market that remains slow. Despite this market environment, our efforts to bring our customers the car they need allowed Aramis Group to keep on growing with B2C volumes up 12% on a reported basis and plus 1.4% at 2022 constant scope. And it is sustainable growth with the customer satisfaction index, the net promoter score reaching 73, a very high level, a record level for us, and improving. Aramis Group products and services definitely fit our client needs with quality cars, competitively priced, and second-to-none warranties in Europe. We offer a very wide choice of vehicles, many of them available in 24 hours, or even less in some regions.

Besides our sales and vehicle mix, we also kept on working on optimising our operations, both at mature refurbishing cents and at the most recent ones, reviewing across the boards our ways of doing business to identify waste, inefficiencies, and useless costs. And, of course, we have been working on our core inventory level and rotation. These elements you know are really critical in our business to ensure margins and cash flows. With these continuous improvements, our unique vertically integrated business model, our experience and expertise in car retailing, we are very much confident in the group prospects and in its considerable potential to further grow and gain market share. In the short term, we reiterate today our full year 2023 guidance.

Slide 4

Let's jump now to slide number four for a few words on the market, starting with the new car market. New car registrations keep on increasing, as you can see. Over the first nine months of our fiscal year 2023, they increased by 18% versus the same period last year. But they are still 22% below 2019 level, but car production is definitely higher than what it was a few quarters ago with many more cars flowing into the market. And in parallel, we have indications that orders of new cars are down in line with the current macroeconomic trends, which will very probably recreate a gap between production on the one hand and sales on the other hand, benefiting our pre-registered operations.

Slide 5

This is illustrated actually on slide number five. As a reminder, this pre-registered market is a tactical market for us, coming from an imbalance between the number of vehicles of a given model produced by OEMs and the actual demand from customers for that given model. So production of a specific car model is planned several years before it hits the factory based on projections of the expected demand, which is quite difficult to estimate accurately. Under normal market conditions, you regularly have at least some overproduction. All these cars produced for B2C markets end up on franchise dealer lots and these overproduced units fuel the pre-registered car market. Aramis Group is currently able to find much more opportunities of pre-registered cars since a few months versus a few quarters ago, hence to sell more of these products. We sold 3,700-plus pre-registered cars in Q3 2023, which is two-thirds more than the lows of last year and still leaves a massive rebound potential to come back to just 2021 levels.

Slide 6

Moving on to slide number six now. A few words on the used car market. Here we focus on cars no older than eight years, which is the core of what we do. Well, the market is still currently almost 20% below its level of H1 2019. Registrations remain sluggish given that demand is subject to financial choices by households. With a massive inflation in general and specifically on cars, customers are looking for cheaper cars, leading them to favour cars a bit older or with a bit more mileage. We monitor that very closely at Aramis Group and our teams work daily to adapt the sourcing mix to this market reality.

But given that the market is slow, average prices for cars sold to private customers continue to slowly decrease, reflecting the gradual rebalancing of the market. As a reminder, for us the car price is a pass-through, given that we sell cars cheaper, but we will also buy cars cheaper, generating in between our targeted gross profit per unit, as we have added value and services along the way. Actually, for our business it's much more favourable when cars are cheaper, because they become more affordable for more people and this will normally support the overall volumes on the market in the future.

Slide 7

On slide number seven, we just wanted to illustrate this availability of cars. On the one hand, we have problems on the production lines that are easing, and on the other hand, car demand is still down. This gives us more choice and more flexibility in our sourcing options. The professional channels are much more available than last year and prices are going down. From a customer standpoint, it's also positive, because we're able to propose a wider range of cars, given that we source on B2B channels, cars that are younger than on C2B channels.

Slide 8

On slide number eight, finally, I want to stress the fact that independently of the market conditions, we are very much engaged to bring value for our customers and we are very much engaged to continue sustainable growth. NPS is at record levels at 73, as I said, thanks to our work to fine-tune our offer and our team's commitment, with employee e-NPS at very high levels.

Our people brought onboard very interesting initiatives over the last quarter in all our geographies. One of them is certainly that we have deepened our investigation on how artificial intelligence, which is much more accessible, as you know, could help us further enhance our business. We are very much excited on that matter and we see opportunities, like back in the days, the digital opportunities represented for us.

We have created an internal team. They are delivering new features and use cases every quarter. Typically, last month, based on maintenance invoice images, we were able to automatically recognise the key repairs that were already made on the vehicles, helping us both to better value the vehicles as well as to avoid replacing unnecessary parts in our refurbishment cycle.

At the end of the day, our revenues for Q3 2023 is up to €489 million, up 7% year-on-year. With that, I'll hand it over to Valérie who will present in more details our business performance for the quarter. Valérie, it's up to you.

Financial Performance Review

Slide 10

Valérie Labouré Hirsch: Thank you, Guillaume, and good morning everyone. We are now on slide 10, revenues per segment. Revenues reached €489 million in Q3 2023, up 7% in reported figures. We kept on growing despite the adverse market environment, selling 23,087 units of cars B2C, meaning plus 12.1% on a reported basis and plus 1.4% excluding the acquisitions of

Austria and Italy. Pre-registered cars revenues increased plus 34% to €62 million. Volumes are up a sharp 67% compared to Q3 2022, driven by a near doubling in France that reflects the strengths of the sourcing networks we built across Europe in the past 20 years.

Refurbished cars revenues are up 7% in reported figures to €350 million, with volumes up 6% versus Q3 2022. On the 2022 scope, revenues are down minus 5% to €311 million due to the diverging trends by country reflecting both the underlying dynamics of the various markets and the local operating decisions taken by Aramis Group.

B2B revenues are down to €52 million consistently with the decrease of the proportion of cars sourced from private owners. Therefore, less vehicles over eight years old or 150,000 kilometres to be resold directly to professionals.

Revenues from services, finally, are up 10% to €26 million. We saw a slight drop in the penetration rate for financing solutions during the quarter averaging about 45%.

Slide 11

So let's now go a bit more in-depth into the performance by country on the slide 11. I start with our newcomers. In Austria, we generated €28 million of revenues over Q3 2023. So the local market has been quite difficult for the past few quarters with a significant downturn, which has led us to accelerate our stock rotation on one hand, and to review more rapidly our historical operating mode at local level on the other hand. In Italy, things are moving on with a progressive even still yet low number of cars sold per month. Our growth ambition over the next years is high on this strategic market for us and we work hard to set up our operations to make this happen.

If now we talk about the 2022 scope, the total B2C volumes are up 1.4%, as I said previously, but with uneven performances by country. If we start with France. In France we generated over the quarter a very good performance in pre-registered cars that more than offset a bit of a decrease on the refurbished cost front in line with the French market evolution. Belgium shows the same trends. In the UK, the minus 8% revenues mostly come from a mix effect, given the country is actively working since several months to propose cheaper cars to local customers. Q3 2023 volumes are down minus 2% versus Q3 2022, which is actually an outperformance versus the overall UK used car market for cars less than eight years.

Finally, in Spain, where revenues are down minus 11% year-on-year, we face both difficult market conditions and internal constraints. The local market for recent used cars is currently down about minus 6%. On top of that, we need to prepare the next step of growth after six years of exponential growth in the Madrid region that made our Spanish subsidiary the undisputed local leader in online sales of used vehicles. Two enablers are fundamental to accelerate our growth in Spain. The first one is reviewing the way we operate at our Villaverde refurbishing centre to increase our production capacity, taking into account the change in mix of entering cars to be refurbished in the past quarter. The second is that we study different options of geographic expansions in the country. As a consequence, the production level at Villaverde plant is temporarily constrained and by extension our sales in Spain too.

Outlook

Slide 13

Guillaume Paoli: Okay, it's my turn now. Thank you, Valérie. Moving on to slide number 13. In terms of outlook for the coming quarters, on the supply side, we expect the availability of cars to continue improving. On the demand side, customers are likely to keep a certain wait-and-see attitude, at least until the situation on the inflation front becomes clearer for them. As a consequence of the rebalancing of the car market, we expect prices to keep on their slight downward trend for the months to come. On our side, with all the optimisation works we are carrying on internally on product mix, on services, on operations, on costs, on inventory, we are confident on the group's prospects.

In the short term, we reiterate our guidance for 2023, namely positive organic growth in our B2C refurbished volume sold, and a positive adjusted EBITDA. In the mid and longer term, we're very confident in our considerable potential for market share gains and profitable growth, given that the size of the European used car market is still huge, the fragmentation in all the countries where we operate – the dealerships are small and don't have the critical mass to operate services we do – the fact that all the refurbished car business is part of the circular economy and, of course, our group's very strong value proposition.

So thank you to all for your attention. We need to now open the Q&A session. Operator, we're going to start with the questions by the phone, please.

Questions and Answers

Operator: Yes. As a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. We currently have no questions coming through on the phone. As a final reminder, if you would like to ask a question, you can press star one now. As there are no questions on the phone, I will hand you back to Alexandre now for the webcast questions.

Alexandre Leroy: Thank you. We have a question on the internet from Christophe Cherblanc. What was the organic refurbished volume growth in Q3, since outperformance versus used car market seen in H1 reversed to an under performance versus the market? Is the first question of Christophe.

Guillaume Paoli: Let me rephrase to make sure I understand. The question is, what's the evolution of the refurbished vehicle sales for Aramis Group during the quarter?

Alexandre Leroy: Yes.

Guillaume Paoli: Organic or…?

Alexandre Leroy: Organic. Christophe comments that it seems that we were outperforming the market and we're now more doing the market or so.

Guillaume Paoli: The organic number was minus 7% for refurbished organic car sales, which is in line with the market trend of the last nine months, as you have seen, but it's a mixed bag.

So first there is the performance in Spain, which is temporarily disappointing, because as Valérie explained earlier today, the market is very low, plus the change of mix have obliged us to adapt the factory process, and a number of other elements. The fact that the pre-reg has increased has a very small marginal impact on refurbished car sales. So, long story short, yes, over the quarter the sales were temporarily down, the refurbished car sales organic level, and overall they were at plus 5%.

Alexandre Leroy: As a follow-up, both for Christophe and Alexandre from Kepler would like to get a bit more colour on the 20% price drop we see for the pre-registered segment.

Guillaume Paoli: Thanks for this question. Yeah, this is a massive price drop. There are two elements inside. First, we have been able to buy cheaper cars because the OEMs have concentrated last year on very expensive new cars. And now that the production level is going up, they have produced more smaller, cheaper cars. This is the first reason. And marginally, some of the volumes we do in France is a mandate system, so there is just the margin that comes into the turnover. There has been a slight increase of the share of these cars. It's the same process for the customer, but from an administrative point of view, we just invoice the margin. So the ASP evolution that you see is not consistent with reality. The drop is much lower if you look at just the price of the car sales.

Alexandre Leroy: Thank you. A follow-up question from Christophe on another topic. Christophe comments that it seems that used EV cars will rise sharply over the next quarter. Is that an opportunity for us? And what is the share of EV in the current mix?

Guillaume Paoli: So the question is the volume of EV used car sales?

Alexandre Leroy: Yes.

Guillaume Paoli: Okay. As I was saying during H1, just a few weeks ago, there is a discrepancy right now between offer and demand on the EV cars. The latest number I have is that around 4% of available used cars on the classified websites in Europe are EV cars, and only 2% of the sales are EV cars. Why? Because they're still expensive, because they don't cover all the needs of households. So we have seen the prices going down. So our sales are more or less in line, on the used car business, on the refurbished cars, are more or less in line with the market, if we just look at electric cars. If you look then at hybrid, plugin hybrid vehicles, of course, the share is much higher.

So, as a reminder, we are agnostic to engine technologies. We sell the cars that our customers ask for. We choose the cars that we buy and we will tell the customers we work hard on making our offer reflect the customer demand. So marginally, here and there, yes, we can make a little less margin, if there is a brutal price swing, but I can tell you that in the recent weeks, in the UK for example, we have benefited from this situation, because some dealers have decided just to stop to buy EV cars and our great team in the UK have built the knowhow to buy specifically certain EV cars at a certain price and they are turning super fast and we have a really good margin.

So it's a very local market. But to answer your question shortly, sorry, I was a bit long, we don't anticipate any problems for us but, for the moment, we see the prices of EV cars still going down.

Alexandre Leroy: Thank you. There are a number of questions on Spain. Overall, the question, if I sum up is, one, what's happening exactly? What kind of adaptation we are going through at the factory? And the second, of course, on the strategy and the plan going forward. Because we announced today that we are looking for geographical expansion. That implies in particular opening new centres, et cetera. So, overall, a wrap-up on Spain.

Guillaume Paoli: So let me just put that in context. We have had six years of really, really massive growth in Spain. We went, basically, from €1 million a month to... Well, you have the numbers now. That was only five years ago. So there has been massive growth. We have increased the size of the factory and the land around the factory. If you combine, in this beginning of year, the fact that the mix has completely changed, because we went from around one quarter of our sales that were C2B to almost 40%, there has been a very huge change of mix with older cars. So we had to adapt and settle a few bottlenecks in the factory. There was also a change of management at the factory in the beginning of the year and we have worked hard to adapt the tool to the new sourcing situation. So that's number one.

Number two is that the market in Spain is very difficult. It's a market that is particularly sensitive to hike in interest rates, because almost all the cars, most of the cars are financed. And finally, we have grown a lot in the Madrid area and we consider to now, and to answer the last question, to open new sites in the country. Spain is twice as large as the UK and we have only one one-stop shop, headquarters, shop, point of sale and factory, and we need to expand. So we're looking at different opportunities to open new sites in the country, and we'll get back to you by the end of the year on that matter.

Alexandre Leroy: Right, thank you. Another follow up question from Christophe. I'll read the question. Valérie, you mentioned destocking in Spain, if I'm correct. So, I believe you are not correct. But the second part of the question is what are your expectations for working capital levels at year-end? Valérie, if you refer on that.

Valérie Labouré Hirsch: A very good question. Today is a trading update, so I won't give you any specific numbers. What I can tell is that, yes, we maintain the pressure on lead times, that is the fundamental part of our business, and on inventory rotation. So this is a must-do everywhere. And we have good results in reducing sharply the inventory levels that we got in the two new countries. Austria and Italy came with their practises of operating with high inventory levels and they are now significantly reduced and we will continue till the end of our fiscal year to do so.

Alexandre Leroy: Thank you, Valérie. A few more questions from Dominique from CIC. Hello, Dominique. Dominique asked what types of pre-reg vehicle models we are able to obtain or we choose. Is there still demand for this type of vehicle? Meaning, can we sell all the ones we source or do we have to enter more into the analysis of customer needs to be more selective on the pre-reg sourcing also?

Guillaume Paoli: That's a great question. So let me explain. First, for pre-registered cars, we buy the cars we find. We don't necessarily find the car that customers are looking for. I'll explain with an example that was quite a time ago. When Fiat launched the Fiat 500, so it was some time ago, everyone wanted to buy one and we could not source them. So if there is super high demand for a car and low offer, it's very difficult for us to source. But for most cars there is always a delta between production and demand, at least somewhere within the European Union, there are 27 countries out there, and we are able to find opportunities on most cars.

Then it depends on the price that we manage to bargain for. If you take customer demand plus our bargaining power, we don't have exactly the same mix on what we sell versus the new car market. So that's one thing. But we consistently do margins with cars that are much easier to operate. What we're doing now is we're being very cautious, because we believe that there are stocks that are growing on the franchise dealer lots and that the prices will go down. It's a bit like for real estate. There is one stage where sellers don't want to lower the price and buyers have understood that the prices will fall. So we're a bit in this situation right now. So we're very cautious to buy the right cars at the right price and we believe that the prices will go down in the future. Yes, there is demand because there are always people looking for quasi-new cars.

The big question is at what rhythm will the pre-registered market come back to its normal, which were 2020, 2021, were normal years for us and where we reached almost 9,000 cars per quarter. We know it will reach normality one day, but will it be in one year, in two years, in three years? It's very difficult to say. But right now we see these numbers growing, because the market seems to be coming back to normality.

Alexandre Leroy: Thank you, Guillaume. A couple of more prospective questions still from Dominique. Dominique is asking how is current trading? So how is July and this Q4 going? And if we can give a bit qualitative information on the evolution of the margin, the GPU so far in H2?

Valérie Labouré Hirsch: Okay. On the trading, the month of July started with a good dynamic. It's in line with the last month, so we are in a good momentum. I will not confirm any number for the end of the year. In term of GPU, we are currently operating with the same good level of GPU that we had in H1. So it's consistent and this is what we aim at to continue.

Alexandre Leroy: Great, thank you. The next question, I jump a bit from a topic to another, but on financing, we're asked how we explain the decline in the penetration rates for our financing solution that you mentioned?

Valérie Labouré Hirsch: The decline is clearly linked to the peaks that we have in interest rates and the affordability of cars.

Guillaume Paoli: And there is also a mix effect with the two new countries, Austria and Italy, who are not at all at the level of the other countries, which has an impact.

Alexandre Leroy: Okay. I believe we answered all the questions here on the internet. Investors, analysts, should you have any other question, don't hesitate to drop me an email. Operator, do we have a question over the phone?

Operator: No, we don't have further questions.

Guillaume Paoli: Okay. Thank you very much to all for your attention. I hope you will have a nice summer, getting some rest. We will talk again at the latest at the end of November for the full year results. Thank you. Bye-bye.

Alexandre Leroy: Bye.

Operator: Thank you for joining today's call. You may now disconnect. Thank you.