H1 2024 results presentation transcript

Tuesday, May 28, 2024

H1 2024 Results

Operator: Hello and welcome to the Aramis Group First Half 2024 Results Call. My name is Laura, 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 mode. 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 to begin today's conference. Thank you.

Alexandre Leroy: Good morning, everybody. Thank you for joining us today for Aramis Group H1 2024 Results Presentation. I'm Alexandre Leroy, Head of IR. Today with me to comment these results are Guillaume Paoli, Cofounder and co-CEO of the company, and Fabien Geerolf, Group CFO. Before handing over to top management, the usual reminders. This conference is recorded, accessible both over the phone and internet. The replay will be made available on the company's website at www.aramis.group. Slideshow is available on the website for download. Let me also remind you that today's presentation contains forward-looking statements and that future results may differ materially from the statements or projections made in today's call. In particular, the risk factors that could affect those statements are described in our 2023 Universal Registration Document, filled with the French financial markets authority, AMF. This presentation will be of course 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 H1 2024 results we're going to report on today refer to the calendar period from October 1st, 2023, to March 31st, 2024. I now leave the floor to the management that will guide you through the main business and market highlights as well as the results for the period. Guillaume, please go ahead.

Slide 2

Guillaume Paoli: Thank you, Alexandre. Good morning, everyone. In the first half year of 2024, Aramis Group has continued to demonstrate strong, profitable and cash generated growth, thanks to our singular business model designed for sustainability. Our B2C volumes grew by 26%, outperforming the market, and we achieved a vast improvement in profitability with an adjusted EBTIDA reaching €16 million, and let me say that we are just beginning on that front. Thanks to our operating knowhow and discipline, we also generated a cash flow of €6 million on the half year. This performance lays once again on the strength of our model, built for sustainability, as I said, and long-term value creation. Our DNA is to serve, delight every single customer, over 55,000 this semester, and once again we achieved a net promoter score at a market leading level of 71, showcasing exceptional customer satisfaction. This would not have been possible without the engagement and expertise of our team in our six countries. Over the period, we reached an employee net promoter score of 50, illustrating our team's commitment to our success.

Finally, our operations are future-proof, with ecological consideration, in particular, embedded in the model as we operate at the heart of the circular economy. Strong of this performance and reflecting our market leading positions and ambition, we raised our guidance for our fiscal year 2024, now expecting over 110,000 B2C vehicles sold versus 100,000 units previously and adjusted EBITDA higher than €32 million versus higher than €19 million previously. We also very glad to invite you to join us face to face on November 27 for our capital markets day where we will discuss, among other topics, the business model, competitive advantages and provide you with an update on our mid and long-term outlook and guidance.

Slide 4

Moving on now to slide number four, let's start with a short market update. Well, as you know, the automotive market has experienced an unprecedented correction in recent years. Internally we speak of 'Carmageddon' with the virtual disappearance of pre-reg in H2 2022 and H1 2023, and it used to represent 40% of our volumes in 2021. And of course there was a huge inflation on used car prices. However, the worst is now clearly behind us and the market for used vehicles under eight years old, which is our core business, has begun to rebound, as you can see on this slide. The absolute level of registrations remains significantly lower than pre-crisis, but the trend has become firmly positive again. One of the explanatory factors is of course the ongoing correction in price trends, as you can see on the right-hand side with price now 10 to 15 points lower than the peaks reached in 2022. The price correction is we believe not yet complete and continues in trend which bodes well for future demand. We now believe that the traditional resilience, age old resilience, of this used car market is now picking up.

Slide 5

I am now on slide number five, which lays out the balance in the new car market. Here we can see the production and registrations across Europe in new cars. Structurally the new car production has always been higher than the sales. Why? Well because all OEMs want to conquer market share and setting up the production of a new car is planned years in advance. And when a new model of car hits the market, well, it does not always work as planned. In 2021 this usual structural excess of car production totally disappeared leading to the near full disappearance of pre-registered cars, as I said earlier. The new car market is now functioning almost normally again, with production exceeding new car registrations. Consequently, our pre-reg operations have recovered and I would say faster than what we expected. In total number of cars, the new car markets remain below pre-crisis; however, this does not impair our pre-reg operations as they rely on the market functioning with a structural excess of production rather than its absolute levels.

There are structural changes in new car market, as you know, with EV and Chinese OEMs progressively entering Europe and challenging incumbents. We are progressively heading towards a new normal, generating many opportunities for us given that Aramis Group is totally agnostic to brands and engine technologies. And the arrival of Chinese OEMs will ignite competitive battle that will be favourable for our pre-reg operations as we have seen years ago with arrival of the Koreans. On another note, it is also supportive for used car sales, particularly for professionally refurbished used car sales, like those of Aramis Group, as they are the best both worlds with the reliability of new cars on the one hand and the affordability of used cars on the other hand.

Slide 6

And moving now onto slide six. We generated revenues of nearly €1.1 billion this semester, selling over 55,000 cars to private customers, representing a 26% volume growth. Once again, this performance is a result of our unique model, we call it Antifragile after the book by Nicholas Taleb. This model is based on three continuously improved dimensions.

First our vertical integration through the value chain, meaning the integration of all the activities needed to run this business end to end, sourcing, refurbishing, logistic, marketing, retail, I won’t elaborate more on that today. The most visible achievement in H1 2024 on that dimension was certainly realised in Spain which is undergoing a transition period reviewing the operations across several business dimensions. This will be visible in the figures of the coming months, and I will come back to that in a few minutes.

The second element of our unique model is that all links in this value chain are tech and data powered. We invest in tech, data, AI, and have always had a very clear philosophy. First of all, we don’t do tech for tech; we do tech to empower our people, help them to be more productive and better source and process the cars that really sell, that our customers really want. We also want our tech and data system to serve and empower our final clients. Just two examples of achievement during H1. We implemented in Belgium, the powerful website platform developed at group level. Amongst many other features, this platform allows much better interactions between our teams and our customers. It enables a seamless online, offline customer journey. We know precisely all the interactions of our clients and prospects, what they have been looking for and more. We have also developed and implemented a new machine learning algorithm for C2B pricing in France which enables more productivity from buyers, more attractive cars and pricing for our customers, and you will see with Fabien later some things on our productivity improvements.

The third aspect of our model is our unique organisation in company culture, which is collaborative, innovative, and fully customer centric. We are an entrepreneurial company led by the two founders, driven by the collective effort to bring value to our customers and we aim to have the most engaging, trustworthy, and collaborative company culture in Europe focusing on customer satisfaction. And I believe we are on the right track. Our teams and experts are located close to our customers to better and understand and meet their expectations. And finally, we have a very frugal effective approach to things.

It’s really thanks to this threefold secret sauce, developed since the company’s creation in 2001 that enables us to consistently grow, that we outperform our market and generate market leading GPUs.

Slide 7

I’m now moving on slide number seven, and sometimes an image or chart are better than words. Hence, we have depicted our growth outperformance versus the market over the last four years and the resulting increase in market share. Well, there is little to add except that our European market leadership is clear and stronger day by day, as a consequence of the business model and knowhow I just recalled. We are the leading player, with over double market share versus the next biggest listed digital used car player where we operate, but with only 1.5%

market share where we operate and just 1% at continental level, so we have a huge opportunity to keep growing.

Slide 8

I'm on slide eight now. And as I just said, we grow steadily and rapidly, but more importantly, this growth is healthy, routed in what we believe are robust fundamentals and therefore sustainable. What does this mean?

First, it means we don't use short term tricks to boost volume, such as price slashes or confuse the customers. We are here to stay; we want this business to be sustainable over the long term. Then our people are key to achieve this performance. We care that they are engaged, they want to work for the group, that they grow, and they help drive our business. Finally, we sell tomorrows product, namely refurbished cars which we believe is the good option to help the mobility through the ecological transition, or a good option. I remind you that the used car market is a €400 billion per year market, very fragmented, so our market opportunity is really limitless. I also highlight that our French subsidiary recently published a manifesto in the press in support of refurbished used cars as a major lever for the ecological transition of mobility. We are conducting a campaign together with other players to engage the country's political leaders.

Slide 9

Moving on to slide nine. Besides our unique model and the healthy fundamentals it builds on, our progress is also the consequence of competitive advantages. We are often asked about it; I would like to give a few examples.

First, we have a unique, really unique multichannel sourcing strategy capitalising on both C2B and B2B sourcing, with hundreds of professional partners we have been working with for years. And this is including a privileged and preferential partnership with Stellantis. When we identify good opportunities in the professional channels, we overweight them. Conversely, when the professional channels are less favourable, we are able to reaccelerate our C2B sourcing.

Second, we have an excellent understanding of local demand in each of our countries, thanks to our local multi-expert teams on the field, and our tech and data suite. This enables us to offer our customers precisely the car they want. We constantly adapt our mix in terms of brands, models, engine technologies, etc., to best fit what they expect. We really aim at being locally the best in town. This explains how we can sell more cars with fairly stable inventory levels. There is an illustrative on the right-hand side for France because we are able to improve, in particular with data, tech and AI to pick the right cars and price them competitively.

Slide 10

Another example of clear competitive advantage is on slide 10, our brands and marketing efficiency. As you know we have strong commercial brands in some countries. This is a result of many, many years of presence and smart marketing investment. Such brand equity allows us to leverage optimised COCAs because we benefit from substantial organic traffic. For example, in France, Belgium, we have nearly 15% top of mind awareness when people are asked “what online car retailers do you know?”. And this is a huge strength. You can easily understand the power of this to save money. So, on the right-hand side you can see the evolution of COCA: it decreased by 11% to stand slightly above €300.

Slide 11

So now moving on slide 11. A few words on Spain, before handing the floor over to Fabien. Our Spanish subsidiary is undergoing a transition phase aimed at converging more towards the group standard retail model. Spain is a country where we have long had a fully centralised digital model which has some advantages but also disadvantages, particularly in terms of market penetration in areas distant to the central operating base. Clicars initiated several changes with the support of the group, reviewing their refurbishing operations, diversifying their sourcing, and starting to open frugal physical customer centres. Focusing on the two most emblematic changes: 1/ refurbishing centre; the productivity of the Villaverde Centre has significantly improved, production flow is no longer disrupted, and as you can see on the chart at the bottom, the number of cars on the Clicars website is now back to normal, supporting their sales and their margins. 2/ customer centres; two points of sales has been opened on top of the Madrid central one with different formats and I n the coming months we will continue by opening a new frugal customer centre in Alicante, with several more to come in 2025.

So, you will see results going forward on Spain and we are very confident in our ability to do profitable growth in Spain.

With that, I hand over to our group CFO, Fabien Geerolf, for the financial performance review.

Slide 13

Fabien Geerolf: Thank you, Guillaume. Good morning, everyone. We are now on slide 13. As Guillaume said, H1 2024 was marked by an acceleration of the growth and improved level of profitability, and another semester of positive cash flow generation. You can see here the main financial highlights for the period. Total revenues reached nearly €1.1 billion, up 17% compared to last year. Total B2C volumes increased 26% year on year, fully organically. GPU once again stood at European leading level of €2,153 per B2C car sold. Adjusted EBITDA reached more than €16 million compared to just €1 million in H1 2023. And on cash flow, despite high growth, we generated almost €6 million positive cash flow in H1 2024, by further optimising our operating working capital requirements which now stand at 27 days of sales compared to 37 days one year ago.

Slide 14

Turning to slide 14, overall, our B2C sales are up 23% in value, 26% in volumes, with a strong performance on both segments. B2C pre-registered revenues have more than doubled versus last year. Thanks to our broad network of suppliers all over Europe, we have been able to seize the full potential of the higher availability of pre-registered cars on the market. B2C refurbished revenues are also up 7% year on year and 10% in volumes, which is also a high performance considering that the jump in pre-registered cars has obviously impacted the refurbished cars growth. B2B revenues decreased by 28%, as presented by Guillaume earlier in the presentation, we have opportunistically accelerated the sourcing from professionals and reduced the sourcing from private customers. Considering that the B2B revenues are directly related to cars sourced from private customers, these revenues have mechanically reduced. Finally, revenues from services increased by 11% to €57 million, mainly driven by the B2C volume growth. The slightly slower growth on services among B2C revenues is mainly explained by the slight erosion in financing services versus last year in the context of higher interest rates.

Slide 15

I am now on slide 15, the slide shows the usual revenues split by country. We achieved a strong performance in virtually all our geographies in H1 2024. In France, revenues increased by 23% with a volume effect of around 37% versus a market growth rate of around 7%, mainly driven by the recovery of pre-registered car sales. In the UK, revenues increased by 20%, B2C volumes are up 21%. This represents here also a very strong outperformance compared to the market which has been very challenging in H1 and declined by 9% in volumes. In Spain, revenues decreased by 17% with a volume effect of -10%. This is the results of the transition that our Spanish subsidiary, Clicars, has been undergoing for several quarters, as Guillaume detailed earlier. The trend has been improving month over month during the full semester with both increasing volumes and improving GPUs. Beginning of H2 2024 confirms this positive trend.

In Austria, revenues surged by 52%. Austria has shown very high agility in seizing the increased sourcing opportunities on the market, benefiting also from a sound opening inventory position thanks to the work carried out during H2 2023. In Belgium, revenues increased by 15% in line with market dynamics, and in Italy, sales continued their steady progression quarter over quarter with revenues reaching €14 million in H1 versus €5 million last year.

Slide 16

Moving onto slide 16 now, you see here the GPU achieved in H1 2024. With €2,153 per B2C car sold, we once again generated a European leading level of profitability. We have been able to maintain this high level of GPU despite two adverse conjunctural factors.

First the services components which slightly eroded, affected by the higher interest rate environment. Please note that our financing penetrations have now stabilised over the past three months. In addition, we are actively working on our services offer and with our financial partners to offer the best possible solutions to our customers in this context.

Secondly, in the UK, the GPU has also sales pressure on its metal components over the last few months due to the extremely sharp correction in used car prices as mentioned earlier. Despite the fact that we always keep very low levels of inventories across the group and therefore are usually not at all exposed to price fluctuations, when the correction is so steep we are not totally immune. Before turning to the next slide, I would like to remind you that our GPU is calculated in the same manner as our peers in the US, including all cost of refurbishing, rent and labour, which is not the case for some of our European peers. We truly stand ahead of our European peers on this KPI.

Slide 17

Slide 17 now for a look on the SG&A which we have kept under control during this H1, as part of our profitable growth strategy. As you can see, they amounted to approximately €103 million in H1 2024, which is a moderate increase of around 9% compared to H1 2023, considering the 26% increase in volumes over the period. Per B2C cars sold, the SG&A decreased from €2,143 last year to €1,860. If we go a bit more into details, cost of customer acquisition decreased by 11% per unit versus last year, as detailed by Guillaume earlier. Downstream logistic cost also went down by 3% per unit. Personal expenses amounted to €53 million representing a limited 8% increase, corresponding mainly to salary inflation and the strengthening of certain sales team to support the business growth. Overall, as illustrated on the right side, the number of cars sold per head has increased by 20% versus last year. Going forward, we intend to maintain the same level of discipline and bring further up these positivity gains.

Slide 18

If we now move to slide 18, we see the EBITDA bridge that illustrates the profitable growth achieved in H1 with an EBITDA that has recovered from €1 million in H1 2023 to €16 million in H1 2024, thanks to volume growth, both pre-reg and refurb, with a positive €24 million impact on EBITDA, margin improvement, however fully offset by the two conjunctural elements that I described before which resulted in a limited negative impact for €0.7 million and contained SG&A increase, thanks to marketing efficiency and productivity improvements.

Slide 19

Moving to slide 19, finally, let’s take a look at our cash flow generation and net debt. In a context of high growth, we have generated €6 million positive free cash flow over H1 and €34 million positive free cash flow over the last 12 months. This performance has been made possible by a strong improvement of our working capital requirement and its main component, the inventory that we have constantly been improving in the last two years. By selecting the right cars for our customers through the improvement of our data algorithms, by improving our operational processes, we are able to constantly improve the rotation of this inventory. Please note that we are also benefiting from favourable mixed impact at the end of March versus previous period, mainly due to the growth in the pre-registered business that rotates faster.

This is resulting in the financial debt, excluding IFRS16 of €77 million at end of March 2024. I just remind you that this financial debt does not include the future cash out for the Onlinecars and Carsupermarket earn outs scheduled in 2025 and 2026, as detailed in our financial statements. I also remind you that we have more than €200 million of undrawn credit lines with no conditions from Stellantis and from local financing lines.

With that, I’ll hand the floor back to Guillaume for the outlook and the guidance.

Slide 21

Guillaume Paoli: Thank you, Fabien. We are now on slide 21. As I mentioned earlier, the used car market began to rebound in the first half of 2024, in most European regions, and the functioning of the new car market, and the car market overall, is returning to normal. The normalisation of this new vehicle production has had a positive impact on the used car market, with on the supply side easing sourcing on professional channels and a continued general downward trend in car prices; and on the demand side, an upward inflection in household demand given the lower prices of used cars. This market is returning progressively to normative functioning (meaning pre 'carmageddon', which in our jargon is the impact on our business of the combination of COVID and Ukraine war), so we are very confident in our prospects. Our H1 2024 performance was satisfactory. We expect a better performance in H2 2024 and at least the one of H1. So, we revise our guidance for fiscal year 2024 upwards, now expecting over 110,000 units of B2C vehicles versus previously 100,000 at constant scope, and an adjusted EBITDA exceeding €32 million versus exceeding €19 million previously.

Slide 22

Finally, on slide 22, I would like to warmly invite you to our capital markets day that will be held on November 27, 2024. We really look forward to welcoming many of you to this event, which will offer an overview of our business model, competitive advantages, an update on the strategy, and medium and long-term outlook. It will also allow the participants to gain a better understanding of our technology, our organisation, our unique corporate culture, which are key elements of Aramis Group value creation and contribute to its profitable and sustainable growth profile.

So, thank you very much for your attention. We can now open the question-and-answer session. Operator, please start with the questions by phone please.

Questions and Answers

Operator: Thank you. Ladies and gentlemen as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We will take our first question from Christophe Cherblanc of Bernstein, your line is open, please go ahead.

Christophe Cherblanc (Bernstein): Yes, good morning, thanks for taking my question. First one was on the pre-reg market. I was curious as to whether you could guide a bit more on H2, and more specifically in the past I had in mind that 30,000 was the unit level which was the kind of normal. So, is it fair to expect that will be there maybe in 2025? And Guillaume, can you remind us what is the size of the addressable market, in terms of units, in terms of pre-reg for France and Belgium? That's the first question.

The second one is on the margin. You've come back on the Spanish situation; is it fair to assume that in the H1 number, in the full year guidance, Spain contribution will be significantly below the average, and that it would imply a catch up for next year? That's the second question.

And the third one, and then I'll jump back in the queue, is on working cap. How low can you go? Can you go below 27 days? And is that the level we should expect at the end of the year? Thank you.

Guillaume Paoli: Thank you, Christophe. Maybe I'll take the first one and leave the two other ones for Fabien. On the pre-reg market, we are not where we used to be, we still have some room to grow to resume the operations we had before the combination of COVID and Ukraine war consequences. So, we still have room to grow. I have to say it went faster – the improvement went faster – than what we – than what I – expected, and we believe that the outlooks are favourable with, in particular, the arrival of the Chinese OEMs, with normalisation of the production levels in the car factories, which have not yet recovered the full speed they had before. But it's quite difficult to really estimate, you know – we don't believe it will go down, if there can be recapture there, but it is difficult to predict when we will resume the full level of pre-crisis. So, I'm sorry, I can't really answer precisely your question, except that we see no reason why it should go down. It will continue to go up, at which rhythm, this is the question. And now for the full size of the zero-kilometre market, pre-crisis it used to be one million cars per year, at European level of zero-kilometre cars, so for France and Belgium it's 200,000 cars. We do sell a few zero kilometre outside of France and Belgium, but it's still marginal. But we don't have a very recent assessment the market. So, we believe it will recover to these levels in the future, within a few years probably, but we are not there yet. Sorry I cannot be more specific at this stage. And now maybe handing over to Fabien for the questions.

Fabien Geerolf: So, on your question on the margin, is Spain below, and I think more generally speaking, how can we expect the margin to go up. This is a question where we will probably come back on that during the capital markets day; but yes, in Spain, the margin is probably below, especially on the metal component part, versus what we are able to do. There are some other countries where we are also seeing some very nice levers for improvements, due to the history of each country, as they all have their profile in terms of profitability and margin, and we expect of course to converge to a model that generates the highest possible margin. We do see levers for improvement, and we will come back on this question more in detail during the capital markets day.

Regarding your question on the working capital, so your question was how low can we go, and what can we expect by the end of the year. So, as you know, we are not providing a precise guidance on the working capital. We have some long-term goals and here again we will come back on that during the capital markets day. We see some huge opportunities to improve on the cash flow, on the cash position. The cash at end of March should not be considered as a one-off position that we would not be able to replicate. We still have levers for improvement – by picking the right cars, by identifying very quickly the cars that do not rotate as fast, by refurbishing and transporting the cars even faster – so we have some levers for improvement, and we are not issuing a short-term guidance, but we will provide some long-term insight for the capital markets day. I hope that answers your questions.

Christophe Cherblanc: Okay. So, that means on a full year basis, we should expect a change in working capital to be at least neutral, right? That will be a realistic assumption?

Fabien Geerolf: To be at least neutral in absolute value or in number of days?

Christophe Cherblanc: No, no, in million. In million. In million.

Fabien Geerolf: Well, again, we are not providing a guidance on the working capital. We continue to deliver what we think makes sense for the business, and we will come back on the longer-term guidance during the capital markets day on this topic.

Christophe Cherblanc: Okay. Merci Beacoup.

Guillaume Paoli: There can be typically a mix effect with the pre-reg that have a different profile, but we believe on the long-term we can do better, but as I said, we won't be more specific. Thank you, Christophe, *merci*.

Christophe Cherblanc: *Merci*.

Operator: Thank you, once again ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. I don't see any further questions coming through. I will now hand it back to Guillaume for closing remarks. Over to you. Thank you.

Guillaume Paoli: Okay, well thank you very much and we look forward to seeing you for the Q3 results at the end of July, namely on the 24th of July at 10am, and we wish you a very good day. Bye-bye.

Operator: Thank you, ladies, and gentlemen, this concludes today's call, thank you for your participation, you may now disconnect.