



ARAMISGROUP

Q3 2024 revenues presentation transcript

Wednesday, July 24, 2024

Q3 2024 Revenues

Operator: Hello, and welcome to the Aramis Group Third Quarter 2024 Conference Call. Please note this conference 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. 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'll be connected to an operator.

I will now hand you over to your host, Alexandre Leroy, Head of Investor Relations, to begin today's conference. Thank you.

Alexandre Leroy: Good morning, everybody. Thank you for joining us today for Aramis Group Q3 2024 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 Fabien Geerolf, Group CFO.

Before handing over to the top management, the usual reminders. This conference call is recorded, accessible both over the phone and internet. A 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 on today's call. In particular, the risk factors that could affect those statements are described in our 2023 Universal Registration Document filed with the French Financial Market 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 Q3 2024 activity we are going to report on today refers to the calendar period from April 1st, 2024 to June 30, 2024.

I now leave the floor to the management that will drive you through the main business and market highlights for the period. Guillaume, please go ahead.

Slide 2

Guillaume Paoli: Thank you, Alexandre, and good morning. Before starting, I would like to thank everyone who contributed to the perception study we conducted in preparation for our Capital Markets Day at the end of the year. Your feedback was very useful for us and greatly appreciated.

Now, on the trading update. Well, Q3 2024 has been another great quarter for Aramis Group with solid performance across all our countries, thanks to very strong execution and improvement by our outstanding teams that deliver a truly unique customer value proposition.

Our B2C volumes grew by 25%, massively outperforming our market, which posted flat performance over the same period. We have been very successful in selling our strategic products, future-proof products, which are the refurbished cars, with volumes up by 17%. And we kept a record satisfaction of our customers at 74% of Net Promoter Score, indicating that this growth is very sustainable. Big thanks to our teams for that performance.

And in a market that continues to progressively normalize, both in terms of prices and functioning, we have stood out once again. Our unique sourcing network and abilities have shown its full potential. We are able to source a wide range of cars at competitive prices, and these cars sell very well because, simply, these are the cars our customers want.

We are the industry benchmark at refurbishing. Our industrial-scale Donzère refurbishing center in the south of France has celebrated its 10-year birthday in June and remains a European best-in-class for productivity.

Beyond sales, we have been performing very well in continuously improving our operations. Some countries have reached important milestones, and all have accelerated to further enhance our margin and cash generation.

Our gross profit per unit in the quarter is significantly higher than in H1 2024, leading us to raise our guidance for adjusted EBITDA once again. We now expect at least €40 million versus €32 million previously.

We are also very glad to invite you to join us face to face on November 27, 2024 in Paris for our Capital Markets Day, where we will discuss, among other topics, our future-proof business model, competitive advantages and, I'm sure you'll be expecting it, provide you with an update on our mid- and long-term outlook and guidance.

Slide 4

Now, moving on to slide number four, a short and brief market update. Q3 2024, the used-car market posted a flat performance. This is not overly surprising because some big European countries went through election periods, which are not the best times to sell cars, but the trend in July is positive, reflecting some catch-up in activity.

As for prices, they continue to slowly correct downwards, as shown on the right-hand side. In some countries, prices will soon reach pre-crisis levels, while in some others, like Spain and Italy, they remain high. These trends, in any case, are good for us, supportive of demand, even though, at Aramis Group, we don't uniquely rely on the market to grow.

We have demonstrated since the inception of the company that we continuously grow, outperforming the markets thanks to our superior customer value proposition. I also remind you that slowly decreasing prices have absolutely no impact on our margins, as car prices are the pass-through for us. We sell cars at lower prices, but we also buy them at lower prices, maintaining our targeted GPU margin, while adding value and services along the way.

Slide 5

Now on slide five. Our business model, as you know, is built around three critical dimensions. First, vertical integration throughout the value chain. Second, a long-term entrepreneurial and collaborative corporate culture that engages, responsabilises, and grows people. And finally, tech and data-powered operations.

This quarter, we have served nearly 30,000 B2C customers, up 25% year on year, and achieved €574 million in revenue. Our employees are happy and proud to work with Aramis Group, as is evidenced by the 59 Employer Net Promoter Score achieved at the end of June.

We grow and continue to satisfy our customers. You can see the 74 Net Promoter Score at record level, achieved also at the end of June.

This is quality, sustainable growth, exactly what we aim for. We are here to play and – to stay and play the long term, becoming an even bigger leader in used car retailing in Europe.

Our systematic mark-to-market outperformance relies on solid fundamentals, given the market opportunity that is absolutely huge, with over 30 million cars sold every year in Europe. We are very confident for the future and the company's ever-growing story.

Slide 6

Now moving on to slide six. Why is our customer value proposition second to none? Well, we excel in three key aspects of the business: buying, transforming, and selling.

As for sourcing, first on this slide, you can see how dynamic our sourcing strategy is. Dynamic to optimize the offer for customers, deliver conversion, rotation, and margin. Well, the more suppliers you have, the larger your playing field, hence the competitive advantage of having built a deep and well-diversified network of partners over 20 years old.

At Aramis Group, we leverage three complementary sourcing channels.

First, a massive network of professionals, over 500 suppliers throughout all Europe. These suppliers include car manufacturers, leasers, professional dealers, wholesalers, importers, and short-term rental companies. From them, we generally buy recent and middle-aged cars.

Second is private owners. We know how to source well from private owners. This is the largest and most stable sourcing pool, representing millions of cars that we can leverage. The challenge is to pick the right cars and refurbish them efficiently to retail them at our targeted margins. These cars are typically older and have more mileage.

And finally, Stellantis. We have a unique relationship with our main shareholder, Stellantis, to source quality cars at preferential prices.

These three channels ensure that we have a diverse and reliable supply of vehicles, allowing us to maintain our competitive edge and to continue to meet the needs of our customers.

Slide 7

Now on slide seven. Ten years ago, we established the first industrial-scale refurbishing factory in Donzère, in the south of France, which remains the benchmark in terms of productivity in Europe, with an average lead time of three days.

During these years, we have learned to refurbish cars, develop people, systems, tools, and software to help us, and also, which is very important, how to replicate this in new refurbishing centers. We understood and learned the hard way, to be honest, the proper level of refurbishing, meaning that the level that aligns with customer expectations, ensuring that the cars sell well, and at the same time, generate our targeted margins.

Today, we have eight refurbishing centers across Europe, with at least one in each country, and we have an annual nominal refurbishing capacity of over 130,000 cars at full speed. We are

proud to have pioneered car refurbishing, a practice that has now been widely adopted by other players, even OEMs, but has yet to be equaled.

Refurbished cars are the product of the future, given the rising prices of new cars and their impact on the ecological transition. Refurbished cars extend the lifespan of the automobile fleet, contributing positively to sustainability.

Slide 8

Finally, on slide eight. We are also retail experts, not just online retail, but overall retail. We have a deep understanding of our customers, what they want, how they behave, and how to talk to them, and this locally. This DNA has been instilled from day one by Nicolas and I, the two co-founders of the Group, as we started by selling cars ourselves for over two years.

We address customers through a 360 marketing approach, promoting our flagship product, which are refurbished cars. As an illustrative, France and Spain launched their latest TV ads in recent weeks, highly impactful, highlighting the uniqueness of the value proposition and illustrating our commitment to making mobility accessible to all. As you can see here on the right-hand side, these ads result in strong drive-to-web performance with the ratio between web visits and gross rating points of the advertisement that is illustrated here. They humorously parody traditional cars ads clichés to stand out and boost our brand equity, while promoting Aramis Group's refurbished cars, which, as we say, are cheaper than new and more reliable than used.

With that, I will hand now the floor to our Group Chief Financial Officer, Fabien Geerolf, for the financial performance review.

Slide 10

Fabien Geerolf: Thank you, Guillaume. Good morning, everyone.

We are now on slide 10 for the revenues per segment. Overall, as Guillaume stated, Q3 2024 performance was very solid. Our revenues are up 17% year on year, driven by a 25% volume growth. Pre-registered car volumes are up 67% compared to Q3 2023. As anticipated, the growth rate has slightly slowed down during Q3 versus Q2, due to a higher comparative basis, seasonality, and some end-of-calendar-year opportunities, which have obviously not been reiterated in Q3.

This has been offset by an acceleration in the refurb segment, from 10% growth in H1 to 17% growth in Q3, showing our flexibility between our two business lines. B2B revenues are down 31%, consistent with the decrease in the proportion of cars sourced from private owners. I will come back to this point in the next page.

Revenues from services are up 17%, with the contribution from financing solutions, in particular, having stabilized.

Slide 11

Slide 11 now. Let's deep dive on what are these B2B revenues and why they are fluctuating.

As you know, we have two sourcing channels to buy refurbished cars; either we source them from professionals, or we source them directly from private customers. The B2B revenues come from the cars we directly purchase from the private customers.

Indeed, if the car is below eight years, or 150,000 kilometers, usually the car purchased from a private customer is reconditioned and then sold B2C on our digital platforms. But if the car is above these limits, meaning more than eight years, or above 150,000 kilometers, and the customer needs to sell his car, we still make a pricing proposal to the customer, as a service, but we will most probably sell it B2B without refurbishing it, because we consider that the car would be better sold via a non-digital channel with a different value proposition to the customer.

And then, we have two B2B sales channels; either we sell it directly to a network of B2B customers, what we call the merchants, usually local car distributors, or depending on the countries, we sell it via auctions that are addressing large bases of B2B customers.

Depending on the context and on the opportunities on the market, we may prioritize the sourcing from private customers or the sourcing from professionals. It does not mean that one sourcing channel is better than the other, but our goal is to always select the best cars for our customers.

In the past years, the sourcing mix has evolved, sometimes towards private customers, and sometimes, like today, towards professionals. These shifts mechanically generate swings in the B2B revenues, shifts that we are currently experiencing in Q3 with this 31% decrease.

Slide 12

Let's quickly review the performance by country now, on slide 12. As you can see, all our countries contributed positively to the growth during Q3. In France, revenues are up 19%, of which 27% volume growth. Activity in the country remains strong, especially on refurb, despite the political environment.

Spain is back to growth, as announced, with revenues up 7% and volumes up 16% year on year. The efforts we made over the last quarters to improve several of our processes, our offering, and open new points of sales are starting to pay off.

UK revenues are up 15%, with a volume effect of 23%, despite the local markets remaining uncertain.

Belgium revenues are up 5%, with a 3% volume effect.

Activity in Austria remains very strong, with revenues once again up 49% year on year.

And in Italy, we are doubling our volumes sold year on year.

Slide 13

I'm now on slide 13. Besides performing very well on the revenue side, we also had a strong momentum on our profitability this quarter, with a GPU in Q3 2024 meaningfully higher than in H1 2024. In addition to a market that continues its normalization, this is the result of our continuous operational improvement dynamics, with some important milestones passed in some countries.

In order to increase our profitability, as Guillaume mentioned, we need to source smartly, transform well and sell well. Here we have shown some concrete examples of what has been achieved over the past few months in these three areas. Let me just highlight a few of them.

In Spain, the metal margin is up by approximately €400 per unit year on year, thanks to a more precise sourcing achieved through continuous improvement on the selection and pricing of the cars, and a higher productivity to refurbish the cars. In Austria, we have reinforced our data tools to buy and price more precisely, resulting here again in a significant margin improvement. And in France, refurbishing costs are down by more than €100 per unit, as a result of an improvement of our operations in the factories.

At the end of the day, there is good progress on virtually all dimensions of the business, and we intend to keep this trend to converge towards our profitability targets, something that we will clarify during the Capital Markets Day.

With that, I'll hand over to Guillaume for the outlook and guidance.

Slide 15

Guillaume Paoli: Thank you, Fabien. I'm now on slide 15 for the guidance. As you understood, we achieved a very strong performance in quarter three, with a significant acceleration in operational execution improvement. Fabien just gave you a few examples.

In this context, we are raising our fiscal year 2024 adjusted EBITDA guidance, and now expect to generate more than €40 million compared to €32 million previously. Our annual guidance volumes remain unchanged, meaning that on a constant perimeter, we will sell more than 110,000 B2C units. As a reminder, we had raised this volume target at the end of May when publishing our H1 2024 results.

Slide 16

Now moving on slide 16 finally, a quick wrap-up. In a market that continues to normalize, Aramis Group stands out with very strong operational and financial performance. On the one hand, our vertically integrated business model gives us a unique ability to identify, acquire and process vehicles, offering unmatched value to our customers. On the other hand, our continuous improvement initiatives contribute to ever-increasing productivity, ensuring profitable and sustainable growth.

We are very confident in our prospects for the end of the year, and mid-term and long-term in our capacity to further consolidate our European leadership in the coming years.

I remind you again that we will hold a Capital Markets Day on November 27, 2024, during which we will review our business model, competitive advantage and provide you with an update on our medium and long-term strategy and outlook. You are warmly invited to this event, which will be held in Central Paris.

Thank you very much for your attention today. We now open the Q&A session. Operator, we are ready to start with the questions by phone, please.

Questions and Answers

Operator: Thank you. 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. If you change your mind and want to withdraw your question, please press star two. Please ensure your lines are unmuted locally, as you'll be prompted when to ask your question. Our first question comes from the line of Christophe Cherblanc from Bernstein. Please go ahead.

Christophe Cherblanc (Bernstein): Yes, good morning. Thanks for taking me. My first question was on GPU, of course. You mention a much improved GPU in Q3. The numbers you're giving on France and Spain are impressive. So can you be a bit more specific? Should we expect landing at more than €2,200 on a full-year basis and even more in '25, going into '25? That's the first question.

And the second question is on prices. Q3 versus Q2, your prices were broadly flat, if I'm correct. So is that something we should expect again in Q4? Thank you.

Guillaume Paoli: Okay, I'm going to take the second question and let Fabien answer the first one. Hello, Christophe.

Look, regarding prices, yeah, they were more or less stable, but you have to consider that it's a mixed bag between pre-reg, refurbished cars, six countries with prices that evolve differently. So it's very, very difficult to predict how prices will behave in the coming months, but our opinion, educated opinion, is that they will continue to stabilize or decrease in some countries, which is very favorable for us because it sustains demand. So we don't expect massive variations of our ASPs in the future.

But, of course, it's, as I said, a mixed bag of where we source the cars, how prices evolve, and also the pre-reg and refurbished car mix. And maybe I'll let Fabien answer the GPU question.

Fabien Geerolf: Yes, regarding the GPU, so as you mentioned, Christophe, we have improved our GPU, and it's not only Spain and France. It's a more general improvement that we see nearly in all countries where we see that there are some robust factors sustaining that improvement. So, once again, it's not related to a specific thing that happened during the quarter. It's a number of improvements that are being done in our operations, and that makes it, in our opinion, very robust.

Now, you know that it's a trading update, and so we will not be more specific regarding the number itself. But from the guidance and from the improvement of the guidance that we are doing at the EBITDA, and where we mentioned that it's mainly driven by the GPU, I think that you can do the math and see how we can end up for the fiscal year. Thank you.

Christophe Cherblanc: I did. Thank you.

Operator: The next question comes from the line of Alexandre Raverdy from Kepler Cheuvreux. Please go ahead.

Alexandre Raverdy (Kepler Cheuvreux): Good morning, everyone. Thanks for taking the questions. I have three quick questions, please. The first one, just to come back quickly on the GPU, so I understand the improvement comes from all the countries. Do you think there is room for further increases going forward, although it's still a high number? So is it fair to assume a higher number for longer beyond the Q3 number? That's the first question.

The second is on the GPU split between metal and services. I know you no longer provide the split, but could you please elaborate a bit more on the metal versus services? I guess you have seen some stabilization in services and higher metal GPU. Just wanted to confirm that.

And the final question is on the free cash flow in light of the improved guidance for adjusted EBITDA. How should we think about the free cash generation after the very strong H1 performance already? Thank you.

Fabien Geerolf: Yes. So regarding the GPU once again, do we see some further room for improvement? The answer is yes, clearly, and we have always said that, that there are some opportunities to improve everywhere the way we source cars, the way we transform the cars, and the way we sell the cars. So we will come back to that and exactly what are the numbers longer term during the Capital Markets Day and provide you much more insights on how we can think about the GPU MSB in the next few years.

Regarding your question on metal versus services, so yes, I confirm what you said, meaning that there is – we see a stabilization in the services. You know that we have some big headwinds during the first part of the year that we mentioned, especially considering the interest rates. We can see that on this part, at least, it starts to stabilize, if not better. So, clearly, it's stabilizing and we can see that in the numbers, and we have an improvement indeed in the metal margins for which we gave some examples during the presentation.

Regarding the free cash flow generation. So indeed, you – we posted a very positive free cash flow for H1 and an improvement of our working capital requirements. We think that it's another topic like the GPU, where we always have some levers for improvements. Once again, this is a topic that we will clarify for the longer term during the Capital Markets Day to explain a little bit how we can see these improvements going forward.

Guillaume Paoli: Just to go in the same direction of Fabien regarding the first question, I would say, of course, there is all the operational improvements that we can deliver to improve our margin. We have a lot of room also to grow because of the strength of our brands. We have some very strong brands, brands that are less strong. And we see that when we have stronger brands, we have stronger pricing power.

Of course, there is the services bit and the strength of the Group as well, which is another occasion to – we will discuss that during the Capital Markets Day, but we believe that building a European-wide group will provide as well additional value on the GPU. But the most important leverage is, as Fabien has said, on the operational improvements.

Alexandre Raverdy: Yeah. Merci, messieurs.

Operator: Before proceeding to the next question, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. The next question comes from the line of Doyinsola Sanyaolu from Citi. Please go ahead.

Doyinsola Sanyaolu (Citi): Thanks very much for taking my question. I have two quick ones, if that's okay. Just on the GPU, I know we saw improvements across all markets, but is it possible to talk about the dynamics across the different markets and maybe what levers you have to improve in each country? Like from some of the comments you mentioned, it sounds like maybe France is further ahead.

And then the second one was on the sourcing mix. Could you just give us maybe any context on how you decide on which channel to prioritize between the professional and car owner channels? I know it's kind of a function of the market and some other things, but any other detail there would be super helpful.

Guillaume Paoli: Yeah, I'll take the second question and let Fabien ask – answer on the GPU. Lots of interest in our market-leading GPUs. I take the opportunity to remind us that some of our friends here in the European zone don't account the GPU the same way that we do. We do it the same way as our friends at Carvana in the US. So I think it's important to mention it that the gap is higher between us and the other guys if you compare apples to apples.

Regarding the sourcing mix, I think it's a great question. So first in the numbers that you see, again it's a mixed bag of countries which have a very good practice of sourcing and some that have still a lot of progress to make and that are slowly converging versus the Group practices.

Typically, I'll just give you one example. In Austria, they are excellent at B2B sourcing, but they are not so good at C2B. So we know we have a lot of value there because in the end, the objective is to provide the customer the car they want, they are looking for on our website. We have a wealth of information on what the customers are looking for and we try to – we strive to put forward cars that the customers are looking for. Some of them come from B2B, some of them come from C2B. Sometimes we have exceptional opportunities in terms of B2B sourcing or C2B sourcing when there are some moves on the market to make very good deals.

And, of course, price is a very, very important lever, meaning that some customers will change their purchase to benefit from pricing opportunities that can arise. Typically, we have seen electric, used electric, car prices really go down in the last months, particularly in the UK. We have done a great business with that, and we have been able to propose this kind of cars to customers that were not necessarily expecting this – to buy this kind of car.

So we are opportunistic. There is kind of a base level where we will always try to have a wide offer in terms of age, in terms of mileage, in terms of prices. So this is why we need always to have all these channels working. But sometimes we will be more opportunistic because there are some very good opportunities. And it can be brand X in country Z, or it can be this type of car from B2B operators. We buy cars from 27 countries amongst 30 brands amongst these three channels. So there is a lot of different possibilities.

So I know it's a very long answer but please, our focus number one is providing the cars that customers want. That can change in function of the market environment and we have all the levels we need to be able to optimize our offer.

And now, maybe on the GPU.

Fabien Geerolf: Yes, regarding the GPU, thank you for your question. Indeed, I think it's a good question. We do have some differences on the GPU from one country to the other. You will have some countries that are more efficient in refurbishing, other countries that have more advanced pricing tools, others that have a larger supplier base or even some countries that are more advanced in terms of services that they provide to the customer. So, indeed, there are some differences and it's normal because each country has a different history. It's an opportunity for us to further increase the GPU. And again, this will be one of the focus points of the Capital Markets Day.

Doyinsola Sanyaolu: Thank you so much for those questions. I have two small follow-ups on each one. On the, I guess, kind of conversation around the sourcing mix, is that part of what maybe drove the uptick in GPU that we saw or we kind of heard detailed in the 3Q release?

And then on the kind of GPUs across each country, I know you'll talk more about this at the CMD, but is maybe getting all the different countries onto kind of like a single, I don't know, maybe strategy of kind of end-to-end, the process, is that a goal at some point? Thank you.

Guillaume Paoli: No. Maybe on the mix, so we have a target margin. We buy used cars, we transform – I'm speaking of refurbished cars now. We buy – by the way, refurbished cars and pre-reg cars have more or less the same GPU. Regarding refurbished cars, we have a target margin. We buy used cars, we add value to them, we transform them into refurbished cars, and we sell them to private customers.

So we have a target margin, and the target margins are more or less the same depending on the channels. Sometimes there can be exceptional opportunities. Sometimes we have to decrease the price of some cars we have in our stock. I mean, this is the life of business, but please consider that it's more a question of opportunity. We are looking at a target margin, a target quotation and more or less we aim to have the same.

Regarding what we expect from the countries, there are a lot of things that are moving in the right direction within the Group. We are – we have an operating system. We share it with the countries. They contribute to this operating system, but they have flexibility to adapt it to serve the different – customers are different. Please take into account, typically in the UK, people will buy a car every four years. In Spain, people will buy a car every nine to ten years. The financing schemes are not the same. The pricing is not the same. So there are some local differences.

So what we expect from them is profitable growth. We expect from them to have very high customer satisfaction because we want sustainable growth and we expect from them to engage their people and grow their people. So this being taken into account, we give them freedom to – in some countries, there is more physical point-of-sale density, in some there is more marketing, etc. So there are some differences within the country, but our North Star, which is profitable growth, satisfying customers and engaging people, is the same for everybody.

Doyinsola Sanyaolu: That's super clear. Thank you very much.

Operator: We currently have no questions coming through. As a final reminder, if you would like to ask a question, please press star one on your telephone keypad.

Guillaume Paoli: Okay. So I think we have no more questions. Last chance, maybe.

Operator: There are no further questions. So far, no questions on the web. So I hand back to your hosts to conclude.

Guillaume Paoli: So thank you very much for your attention today. Looking forward to speaking to you again 27th November in Paris. For those that can attend, we'll be happy to meet you face to face for once. And again, we're very confident looking forward. And thank you and happy holidays for those that are taking some holidays. Bye-bye.

Operator: Thank you for joining today's call. You may now disconnect your lines. Hosts, please stay on the line and await further instructions.