Q1 2023 revenues presentation transcript

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List of MAIN speakers	Company	Job title
Guillaume Paoli	Aramis Group	Co-founder & Co-CEO
Valérie Labouré Hirsch	Aramis Group	CFO

Q1 2023 Revenues

Alexandre Leroy
Head of Investor Relations

Good morning, everybody. Thank you for joining us today for Aramis Group Q1 2023 trading update. I'm Alexandre Leroy, Head of Investor Relations. Today with us, to comment these results, Guillaume Paoli, 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 be made available on the company's website at www.aramis.group. 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 2022 universal registration document recently filed with the French Financial Markets 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 Q1 2023 activity we are going to report on today refers to the calendar period from October 1st to December 31st, 2022. I now leave the floor to the management that will walk you through the main business and market highlights for the period. Guillaume, please go ahead.

Executive summary

Guillaume Paoli
Co-founder & Co-CEO

Thank you, Alexandre. Good morning, everyone. During our fiscal quarter one, 2023, the last three calendar months of 2022, the market environment was in line with the last months, meaning it was weak and it was challenging with inflationary pressure leading households to adopt a more wait-and-see attitude.

These conditions are really unseen. Total 2022 used-car markets in France, for example, is the lowest of the last 20 years, and all the European markets are down linked to the global macroeconomic and geopolitical situation.

On the positive side regarding the market, the pre-registered car market may have bottomed out and we have been able to source some more cars in the past weeks and months.

In this context, Aramis Group is continuing to execute its strategy of organic growth and of inorganic growth with both revenues and volumes growing as we will see later in the presentation. In terms of priority for 2023, and given the market context, of course, our team remains fully engaged to serve our customers, in particular to propose them cars that are adapted to their new budgets, and the whole Aramis Group structure is ready to accelerate even more when the market conditions will improve.

We remain tight on costs, tight on inventory management, but giving us the possibility to continue to grow both in our historical countries and in new ones where plans are being rolled out.

Finally, in terms of outlook, despite some positive signals that we start perceiving, visibility is still insufficient for the coming quarters on the new car production, on car prices, on customer demand, and as a consequence we reiterate our 2023 guidance as stated last month.

Market and business highlights

If we take a look now at the market on slide number four.

Further slowdown in volumes whilst car prices remain high

As you see on the left-hand side of the slide, prices remain high. Prices are still growing or flattish, except in the UK where the prices are decreasing since the beginning of 2022, but they remain high even in the UK. This contributes to further fueling the decrease in used passenger car registration with an extra -10% year on year in Aramis Group six geographies in Q1 2023 versus Q1 2022 and this is the total used-car market. And this total used-car market hides differences because this -10% is an average of all types of cars used in the six countries.

But in reality, the most recent used-car segment decreased much more. We don't have the figures in each geography, but just to give you an order of magnitude: in France, which is around 40% of the business of the Group, for the full 2022 year, the used-car market is announcing -13%. But the segment of cars of less than ten years is down by -20%. And of course, we operate on this market. So, this dynamic is related to overall inflation, of course, and specifically automotive inflation.

A new quarter of growth despite a deteriorated market environment

If we move on to slide number five. Despite this unfavorable market environment (we have a very low used-car market, a very low new car market, probably the lowest since the end of the 70s), Aramis Group has continued to grow and has continued to grow qualitatively, as we'll see with our unique vertically integrated business model. As we speak, we have eight industrial-scale refurbishing centers. Our teams, as I said, are fully committed and challenged to satisfy more and more European customers despite the market conditions. These customers recognize the value and distinctiveness of our offering with a very high NPS score, which reached 69 at the end of the quarter.

This results in quality growth, not at the expense of customer satisfaction, not at the expense of employee commitment. We have reported revenues of €439 million, up by around +11% compared to Q1 2020. And Valérie will give us more detail later on.

Strong reduction in COCA through an efficient management approach to marketing costs

But the context is there and if we move on to slide six, given the more challenging environment, we are maintaining a tight cost structure while trying, as you know, not to compromise our ability to take advantage of the market rebound when it will materialize. On the marketing side, for example, we significantly reduced our cost of customer acquisition, bringing it down by almost €200, thanks in particular to more efficient approach to our marketing cost, more discipline, and of course a little less investment in brand development (but we are in most countries in a good situation regarding the brand).

Opening of a second industrial-scale refurbishing center in Hull

If we move on now to slide number seven, one of the milestones for Q1 2023 for Aramis Group is the opening, as planned, of our second industrial scale refurbishing center in Hull. This is a 5,000 square meter facility which in the future will be able to handle around 20,000 to 25,000 cars at full capacity. Of course, we have adapted the ramp-up to the current market environment and only one team is currently operating the facility.

I would like to remind that the UK is by far the largest European market and we believe that we have a very large potential to grow. This new unit will help us to deliver in the coming years.

First steps with plans for newly acquired companies

Now, if we move on to the most recent geographies. As you know, we have acquired Onlinecars in Austria, the leader of used car retail in October 2022, and BrumBrum, the only digital player in Italy on the 1st of November 2022. We have started to roll out the respective integration plans.

At Onlinecars in Austria, our main focus for the moment is inventory management. The company has a high operating debt due to the way it operates. We are working with the local team to accelerate lead times to adjust some processes and review the refurbishing process, which will gradually decrease the working capital requirements.

At BrumBrum in Italy, the top priority is to turn the company around to restart the business that was virtually shut down by Cazoo when they launched a strategic review of their European operations. The plan to streamline the workforce has been completed. We have rebranded and relaunched the website and we are relaunching sourcing, marketing, basically we restarted the business beginning of January. With that, I will hand it over to Valérie, who will present the financial performance of the quarter.

2022 Financial Performance Review

Valérie Labouré Hirsch
CFO

Thank you, Guillaume.

Continued growth in all segments except pre-registered

Hello, everyone. We're now on slide ten. Despite the unfavorable market environment, we continued to grow in this first quarter of 2023 with overall revenues of €439 million, up +11% year on year on a reported basis. All segments were up again with the exception of the B2C pre-registered ones that are down -44% year on year on a reported basis to €48 million. The sourcing difficulties in the pre-registered cars market have gradually increased over the months in 2022. So, the base effect for Q1 2023 is particularly high. Just as a reminder, no pre-registered cars are sold in Italy, neither Austria, so there is no scope effect in this performance.

On the other hand, B2C refurbished revenues are up +25% year on year on a reported basis to €314 million. The volumes are up +17%. Average selling price +7% on a historical basis. Without taking into account the two recently acquired companies, volumes are up +7%. As during the previous quarter, France and Belgium have fueled this growth switching massively from pre-reg to refurb.

B2B revenues reached €53 million. They are up +37% year on year. As you already know, besides the price increase, this is due to the rise of vehicles of sourcing from private individuals, part of which we decide not to refurb and retail again, and we just resell them to professionals. Revenues from services finally increased +16% to €24 million. The penetration rate of financing solutions remained around 50% on a consolidated basis over the quarter.

Decline in pre-registered car volumes may have bottomed out

If we move to slide 11, as mentioned earlier, we focus our efforts on profitable growth of the company with refurbished cars only. However, we have seen in the recent months an encouraging trend on the pre-registered car market. Compared with the Q4 2022 our pre-reg volumes are up +5%. So it is of course too early to claim victory, but we are seeing small improvements here and there on this pre-registered market front. Hopefully the market may have bottomed out and this positive trend will continue and certainly give us additional opportunities.

Rising revenues in all historical countries except the UK

So, moving to slide 12. As previously mentioned, total revenue growth was +11%. Organic growth at constant scope was +3%, leading to €406 million revenues in our historical scope. In these historical markets, we managed to generate growth despite the strong decline in the UK market, -18% compared to the previous year, which impacted our growth.

On the other hand, the other three countries grew to some extent due to price increases, but mainly due to the combined acceleration of the used-car segment and sourcing from individuals in France and Belgium. Activity in Italy in the first quarter of 2023 was close to zero as Cazoo virtually stopped operations last summer which we restarted earlier this month. With that, I'll turn it over to Guillaume for the outlook.

2023 Outlook

Guillaume Paoli
Co-founder & Co-CEO

Thank you, Valérie.

FY 2023 guidance reiterated

So now we're on slide 14. In terms of outlook, although we can see the first signs of some encouraging trends, visibility remains limited by the macroeconomic, geopolitical and automotive environment. We know the refurbished car market is resilient as three out of four Europeans go to work every morning with their car. And car mobility is at the heart of European lifestyle. But it is also dependent on the level of household consumption and therefore on their budget, which is currently limited by inflation.

The market for pre-registered cars is highly dependent on the production of new cars, which is far from being normalized. Prices remain high, although in some geographic areas they are levelling off and in the UK they are decreasing. But even in the UK they stay high with prices that are over 20% higher than pre-crisis level.

Consequently, we are reiterating our guidance for the FY 2023 and expect positive organic growth in B2C refurbished vehicle volumes and a gradual improvement of adjusted EBITDA over the year, not taking into account a few restructuring costs.

So, this is it for this Q1 2023 presentation. Thank you for your attention. And with that, let's open the question-and-answer session. Operator let's start with the questions by phone.

QUESTIONS AND ANSWERS

Operator: Thank you. To ask a question, you will need to press *11 on your telephone and wait for your name to be announced. To withdraw your question, please press *11 again. If you wish to ask a question via the webcast, please use the Q&A box available on the webcast link at any time.

We will now go to our first question. One moment, please.

And your first question comes from the line of Catherine O'Neill from Citi. Please go ahead. Your line is open.

Catherine O'Neill (Citi): Great. Thank you very much. I've got three questions in total. The first one actually is on the UK market. I just wondered if you could talk about that market in a bit more detail in terms of why it's looking, or what you're seeing in terms of why it's looking softer than other markets in terms of the supply and demand trends? Because I know pricing came down off a much higher peak. I guess volumes were worse as well.

Secondly, on used-car pricing and how you're sort of seeing that trending as we go into calendar year 2023, because I know you previously said you expected it to fall. And I just wondered also if we're seeing any impact on the Tesla price curve. Does that feed through more broadly to the used-car market in terms of pricing?

And then finally, I had a question on GPU. I think previously you talked about GPU for early in FY23 being broadly in line with what you saw at the end of FY22. Is that still a consistent message? And could you maybe talk about some of the areas of pressure you're seeing and in particular the logistics costs, where I think you said at the end of last year that has had risen quite considerably?

Guillaume Paoli: Okay. Thank you. Catherine. I'll answer the two first questions and I'll let Valérie finish with the third one. I'm not sure I caught the end of the second question, so I'm sure I'm going to miss something. Please don't hesitate to tell me.

So, regarding the UK market, our performance in the UK is not good. It's not a good performance. There are two main reasons. First is the market. And second, it's a number of things from an operational standpoint. So, regarding the market – and we believe our performance will increase in the coming months. So, regarding the market, well, we don't have exact figures for the UK market. The very last ones we had were -12%. That's on the overall figure. And as I said, we believe that is much more on the most recent used car. There was a number of, I would even say, internal political factors in this quarter that scared off customers when they saw their mortgage rate that was increasing. Of course, the energy bills that were increasing at a massive level, very different from here in France, where there was a lot of money put by the government. Anyway, between the political local turmoil, the hike in interest rates, the energy crisis, the UK was in a very particular situation. Plus, it was at the time the country where the prices were the highest. So, all this combined had a very strong impact on the most recent used-car market. So that's for the market. We have first signs of demand picking up now – I wouldn't say going back to normal, but it's kind of normalizing. And regarding the internal performance, there was a number of changes that have been made during the last year and there were some operational changes that needed to be digested. We also opened this new factory and these are factors that also can explain a bit the performance of the last quarter. But things are picking up.

Regarding the used-car prices: I believe that in the past we said we were expecting the prices to go down at one stage. I don't think I was perfectly specific on the timing because it's still a bit blurry. So, we believe that these levels of prices are not sustainable. We see prices and we see the UK as like an advanced indicator. The prices in the US as well, the prices are decreasing. So, we believe that the prices will reach a maximum. Are we there yet on the continent? I'm not sure. We believe that they will start to go down in the course of this calendar year. We're not sure when; we have a few signs, but these prices are not sustainable, we believe. Plus, there are also some signs that the OEMs are normalizing their production, which would give some air on the most recent used car and enable the prices to go down. I'm not sure I caught the end of your question, so please if you can reiterate if I didn't answer you.

Catherine O’Neill (Citi): The last bit of that was just related to, we've seen quite a big price cut from Tesla, and I know it's very specific to Tesla. I just wondered how that, if that's feeding through more broadly to used-car pricing. I know it probably is for Tesla used cars, but I didn't know if it was having a sort of broader impact.

Guillaume Paoli: Not on the used-car market as a whole. On Tesla used-car prices for sure it had an impact. So, I won't specifically comment on Tesla but yes, it had an impact on the Tesla prices. Maybe I'll hand it over to Valérie.

Valérie Labouré Hirsch: Thank you, Guillaume. Yes, regarding the GPU, well – if I give you the trends for 2023 – indeed, our GPU will be impacted by the inflationary environment. We do have increasing transportation costs. There is the legal obligation to increase salaries according to the inflation level in some countries. So yes, we have that increase. And also, more internally, as Guillaume was mentioning, our lastly opened refurbishing centers are still in the phase of ramping up, so it's momentarily an additional cost. On the other hand, we continue to make progress in the way we select our cars and build our sales offers in line with customers expectation, and this has a major impact on the GPU. Our assessment of selling price and refurbishing costs is always more accurate and this puts our GPU under control. So, we also are, as a company, really engaged in the continuous improvement mindsets and dynamics. And this really helps us in finding all the necessary savings to keep our GPU under control. I will not give you precise numbers, we are not there yet, but we have efficient operations and we continue to monitor and focus on the GPU improvement.

Catherine O’Neill (Citi): Thanks. I just wanted to follow up actually on the transportation cost point, because I think we're seeing more broadly sort of logistics and freight costs coming down. I just wondered if that's something you're seeing at all, whether those costs would have peaked at the end of last year?

Valérie Labouré Hirsch: For the moment, we are still very high and we don't see downs on the international transportation. There is still a shortage of available transportation, still high costs, and so on this international transportation for importing cars, we are still at a high level.

Catherine O’Neill (Citi): Thank you.

Operator: Thank you. Once again, as a reminder, if you wish to ask a question, please press *11 on your telephone. If you wish to ask a question via the webcast, please use the Q&A box available on the webcast link. We've just got one more phone question in. One moment.

And your next question comes from the line of Christophe Cherblanc from Société Générale. Please go ahead. Your line is open.

Christophe Cherblanc (Société Générale): Hello. Good morning. Thanks for taking my question. I had three. First one was just to follow up on prices. I just wanted to clarify, it seems to me that, Guillaume, you just said that prices in continental Europe had not started to go down, which I think I’m a bit surprised by this, because it seems the average selling price did go down in Q1 versus Q4. So that's a first question. And maybe a sub-question is, how much do you believe we need to see in terms of price decline for cars to be affordable again and to see demand coming back?

The second one is on Italy. Can you give us an update on the process of resetting BrumBrum and maybe some visibility on the cost associated with reorganizing BrumBrum? Is it a single-digit amount, mid-single-digit amount? Any clarity would be welcome.

And the third one is a very small one; it's on Austria. Valérie, you said that they were not doing pre-reg, of course, but is there any impact on B2B and services revenues? Thank you.

Guillaume Paoli: Okay. So, regarding the prices, of course there is no official indicator for prices. We generally use not only these, but we generally use the data from Indicata to give us some insights. And I'm looking at the figures right now. Apart from Germany, which has lowered by two points, in all the other countries – apart from the UK – they are either increasing by one or two points or are flattish. So, as we speak right now, we have a few signs in France that the prices are starting to go down. But as for the quarter, the data we have, and by the way, our own sales price shows that the prices are still increasing or flat.

Regarding BrumBrum, it's a bit soon to give you a number, but probably there will be one at the H1. What I can say is, versus what we perceived when we bought the company, there will be probably less restructuring costs and maybe a little more time for the business to pick up because of halt. So, it's a bit early to give you a number, but it will not be something that has a huge impact on the company. It's more like in the bottom of the range that you have mentioned, Christophe.

And maybe for Austria, Valérie, I'm not sure I understood the question.

Valérie Labouré Hirsch: Well, maybe first one point on price. If I can just come back one minute on it. There is also a mix impact on the pricing for our own average price as we are adjusting our offer to cheaper cars. This obviously has an impact on the average price. So this is not only the market price evolution; this is also due to the mix of our sales portfolio.

To come back to Austria. Well, on the service side, we know that we have potential there. Clearly, this is a good point and we start to work on it with the Austrian team. This is not the country where it is the most developed and we know we can accelerate.

Christophe Cherblanc (Société Générale): And there is no B2B activity, i.e. resale of excess cars in Austria?

Guillaume Paoli: Well, historically there was some, but at low levels and during the quarter there might be, but it was marginal. I don't have the answer right now.

Christophe Cherblanc (Société Générale): Okay. Thank you.

Operator: Thank you. There are currently no further phone questions. I will hand back to Alexandre for web questions.

Alexandre Leroy: Thank you very much. We have one question from Dominique that would like to come back on the UK performance. Dominique, you're asking for more color in terms of relative performance of Aramis versus what our competitor Cazoo published a few days ago. And you would like to understand why such a discrepancy.

Guillaume Paoli: Yeah, I think that we're in a very different place with Cazoo. What we're looking for—I won't comment. We are looking for consistently to have qualitative sales, i.e. sales with margin, sales with customer satisfaction and preserving the commitment of our team. So, I don't think it's really comparable at this stage comparing the evolution between a company that still has very low GPUs and Aramis Group, which has a leading amount of GPU. And some good signs, even in the UK on the GPU front in the last quarter. So yeah, there is a discrepancy, but it's probably due to the difference of approach in terms of how we look at growth.

Alexandre Leroy: Thank you, Guillaume. A second question from Dominique. Dominique, you ask if we can be more specific. I understand quantitative on the trend in GPU in H2 2022 versus what we see in Q1 2023. I guess, Valérie, the answer is no.

Valérie Labouré Hirsch: I'm afraid, yes. I will reiterate and I won't repeat what I said previously to the GPU. We are keeping the GPU under control and all the efforts are done to improve it over time.

Alexandre Leroy: We don't have any other question so far on the Internet. Operator, on your side?

Operator: There are currently no phone questions, sir.

Guillaume Paoli: Okay. Well, thank you very much for your attention. Happy to talk to you again for the H1 results, which are May 24th. And happy to give you more color on FY 2023 at this occasion. Thank you very much, everybody. Thank you. Goodbye.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.