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Presentation

Operator

Hello and welcome to the Aston Martin Lagonda Q3 2018 Investor Results Call. Throughout the call, all participants will be in a listen-only mode, and afterwards there will be a question-and-answer session. Please note this call is being recorded. Today I'm pleased to present Dr Andy Palmer, President and Chief Executive Officer; and Mr Mark Wilson, Executive Vice President and Chief Financial Officer. Please begin your meeting.

Andy Palmer

Ladies and gentlemen, good morning, and welcome to the Aston Martin Lagonda Q3 Results. Notably, of course, these are the first results as a listed company. The presentation itself is available on our corporate website and also via the link on the RNS that you've been sent. I'd like to walk through some of the business highlights for the first quarter to the September 30th, and then my intention is to hand over to our Chief Financial Officer Mark Wilson, who will cover the financials and provide any update on business outlook and objectives. Then of course, we have the opportunity to take and answer some of your questions.

So let me move on to the slide three of the presentation. I'm pleased to report the momentum that we built under the Second Century Plan has continued into Q3, and business momentum really accelerates into the third quarter. We continue to execute the plan robustly, and I'll shortly walk you through where we are now in that Second Century Plan.

This robust execution has resulted in a really sharp and pleasing year-on-year increase in profits, and revenue growth, in fact, exceeded 80% year on year. This performance has been underpinned by particularly strong sales in America and in APAC, and in particular in China. And I'll touch more on China later where we can see that we're outperforming the HLS markets.

The launch of the DBS Superleggera fundamentally completes the refreshment of the sports car portfolio, stage two of our turnaround plan. And interestingly, the DBS Superleggera was launched three weeks early, thanks to an exemplary execution from our engineering and manufacturing teams at Gaydon. And I draw that out because in 40 years of me being in this business, I can only remember doing that twice before, so a phenomenal achievement, and this really continues our trend of successful launches as time goes by, meeting the key requirements of quality, cost and delivery.

Just as importantly, we remain on track for the DBX launch. This is our first SUV, which as you know will be unveiled at the back end of next year. During the course of the last quarter, we saw several key milestones being completed on time. In particular, in terms of derisking the launch of the factory, we finalised the installation and the commissioning of a state-of-art paint plant in the new factory, probably the most difficult piece of capital equipment to be installed, and that is now starting the job of programming to do the trial vehicles.

Complementing the core cars, we've now extended our special-edition pipeline out until 2022, and thus we have full visibility of the cars that we'll be delivering through until 2022, and they include the cars that we've announced so far which is Project 003, which is a mid-engined hypercar with a production run of 500 coupés; the DB5 Goldfinger continuation edition, 25 cars, priced at £2.75 million before tax; and the DB Zagato Centenary pair, which is 19 pairs of cars priced at £6 million before tax. As you know, the DB5s and the DB Zagatos are already sold out.

As a result of our continued momentum in Q3, as Mark will go into more detail, we're reaffirming that our 2018 outlook – so we reaffirm that. And we expect wholesale shipments to be at the top end of our 6,200-6,400 unit range. Slide four.

So moving to slide four, which outlines the continued robust execution of the Second Century Plan. Just as a reminder, you've seen these many times, but as a reminder, the plan is broken down into three phases. Phase 1 stabilisation completed in 2017. Phase 2 core strengthening is now materially complete with the launch of the DBS Superleggera. We've replaced five of the car derivatives, and just as a reminder, of those, DB11, V12, which has recently been updated by replacing it with a DB11 AMR, went into production in Q2.

DB11 V8, DB11 Volante started production in Q1 this year. The Vantage Coupe which started production Q2 this year, and the now just launched DBS Superleggera Coupe, so two more to go: the Vantage Roadster and the DBS Volante. All four core launches this year have been done on time or even early. So we're building this proven track record of successfully launching new products.

But to be clear, I'm often asked, so to be clear, our biggest risk remains around the robustness of our supply chain and not around our ability to launch a new car to market, and obviously we're putting a lot of efforts into that supply chain robustness. As I mentioned, the convertible versions will be completed and revealed in 2019, therefore completing phase 2. Phase 3: phase 3 is well underway. It's on track, and as you know, this enables us to deliver on our commitment of the three-pillar product strategy of sports and supercars, luxury SUVs and a luxury sedan. We're confident that we can successfully execute phase 3 in the same way that we've done for phases 1 and 2.

Moving on to slide five, you'll see that Q3 delivered record operating performance with significant year-on-year improvements in revenue, unit sales and profit. The numbers are staggering, an 81% increase in revenue reaching £282 million, a 99% increase in wholesale units delivering 1,776 vehicles across our core and special projects, and a 93% increase in adjusted EBITDA reaching £54 million.

Alongside this growth, we continue to deliver margins in line with our plan and your expectations. These results have been driven by continuing demand for our new products. And as I mentioned earlier, demand was particularly strong in the Americas. Volume was up 185%. In APAC, up 133%, and indeed within that, included China, where volumes were up, bucking the trend, 118%.

We can continue to strengthen our dealer network in each of these regions, enabling our growth to continue, and probably more importantly, preparing for the launch of the DBX. DBX and St Athan remain on target of full production in the first half of 2020 with pre-production on track to commence from H1 2019. And the advantage of not having a pile of plants means that the production prototypes for DBX need to be made off a production-ready production facility. Consequently, the St Athan plant will be commissioned one year ahead of it actually being needed.

I know that not many of you've had the opportunity to visit St Athan to see the progress that we've been made. So what I'd like to do is show you a quick video highlight of some of the latest developments in St Athan. For those of you that are on the phone and without access to the presentation, this will last for just over 90 seconds. The video will play now.

[VIDEO]

So moving to slide seven, as you've seen from the video we're now in the final phase of construction of St Athan, a plant where we've secured considerable savings in time and money by taking over a facility that didn't require us to break new ground or to erect completely new buildings. So, as you saw, front of house is now complete and the installation and commissioning of the paint shop is complete, with the first bodies about to be painted.

Production line is currently being facilitated. And as you saw on the video, the material racks are now in place for parts storage. As importantly, the people, the manufacturing employees who were recruited at St Athan two years ago and have subsequently been trained at Gaydon will move back to St Athan early next year to help us oversee the first pre-production build. And these initial employees will help train the new manufacturing employees; again, it's all about derisking the production ramp-up.

And we also have about 85 employees from several functions, including manufacturing, quality, purchasing and manufacturing engineering. They're currently based at St Athan and will support the production readiness of both the plant and the DBX. We're confident that we'll be operational, as I mentioned earlier, one full year ahead of actually the production starting.

Now, Q3 also saw us complete some major milestones on the DBX Vehicle programme itself. We have a milestone called the M1 prototype vehicles. These are essentially fully production representative under bodies, and we've made now a number of these vehicles, and they were delivered fundamentally on time. We've successfully – and this is a little nerdy, but we successfully completed the initial crash tests and we've demonstrated that we've got close correlation between the actual crash test and our simulations.

And that really is, I can't over-emphasise, a really significant step in derisking the project because we now know that our body structure is robust and good. We know that the engine and transmission is good because it's carry over, carry across, as is the electrical system. So the remainder of the development of the vehicle is not dissimilar to, for example, launching the Vantage, something that we understand very well.

Finally, on this slide, we've confirmed that St Athan will be our home for battery electric vehicle production, and therefore will be the home of Lagonda. And on the note of EVs, the Rapide E, our first electric vehicle, and indeed the first electric vehicle from any luxury manufacturer is expected to go into production in 2019, obviously laying the foundations for Lagonda, and again, derisking that launch.

Let me take you on to slide eight. Before handing over to Mark and because I know that it's a point of question, I wanted to touch on our continued success in China, a market which has shown significant growth for Aston Martin particularly over the last 24 months. Now while the HLS market in China has declined from April 2018 to August 2018, our product portfolio, and frankly the strengthening of both our team there and the dealer network, has seen us buck this trend, and year to date, our retails have increased by 21% compared to the total HLS market, which has increased by 5% over the same period.

To serve that market, we continue to invest in that market with an increased sales network, and we're planning to open more dealers. In fact, we're opening more dealers this week, and planning to open more in Q4 2018. What I'd like to say is that all in all, the third quarter has seen us continue to do what we promised, and that's what this management team is focusing on. We tell you what we're going to do and we robustly deliver on it. And that robust delivery of this Second Century Plan has resulted in record third-quarter operating profits and performance.

So, at that point, I'd like to hand over to Mark who will take you through the financial results. Mark?

Mark Wilson

Thanks, Andy. And just to reiterate, this is absolutely a story that's continuing to deliver on the promises we made to many of you six weeks ago at the IPO and to many of the debt investors quite some time ago. As Andy has noted, Q3 has been a strong quarter for us financially. A £282 million revenue has grown strongly, even allowing for the expected fall in average transaction price as a result of the Vantage launch. Of course, the Vantage being the lowest-priced product in our market.

In the year-to-date, revenues of £727 million represent a 28% increase over the same period for 2017. Adjusted EBITDA at £54 million for the quarter has almost doubled and the EBITDA margin for the quarter is gently up year-over-year, as we expected, at 19%. We've also continued correctly our focus on cash, generating £90 million from operating activities in the quarter prior to reinvestment.

And with operating cash performance strong, cash spend investing for new products is actually £35 million lower than the corresponding period in 2017. And this being largely driven by programme timing, supporting the new products offensive under the Second Century Plan. And as you can see by the cash flow in the appendices to the presentation, cash invested so far in the year to date on new product is in fact gently up year-on-year.

Moving on to the next slide, slide 11. We can see that the significant increase in volume in the quarter is the driving factor behind revenue growth, and of course non-vehicle revenue comprising mainly servicing spare parts and some growth in the Aston Martin brands business that we acquired last year has also contributed modestly to revenue growth. And our shift from almost exclusively V12 product this time last year into V8 product represents the maturation of the product set from that that was evident a year previously, of course.

This time last year, almost exclusively those V12 sales comprised DB11, V12, and of course residual Vanquishes. And considering that time we launched DB11 V8 Coupe and Volante models, alongside the new Vantage, and of course Vantage itself only available in V8 specification. And it is this planned shift towards the V8 models, which naturally sit at a lower transaction price, which has driven the expected fall in average selling price in the quarter.

That said, important to understand that the incoming V8 Vantage of course sits a significant price premium to the outgoing car; in the UK around £100,000 was the previous price, around £120,000 is the current price of the new car. And of course, the incoming

DBS Superleggera also sitting at a price premium to the outgoing Vanquish. And it's only as we move fully towards maturity, the sports car range that will see the underlying benefit this brings to average selling prices.

Moving on to slide 12 Wholesales, and I know Andy has touched on this. Globally, wholesale performance, absolutely, has been strong and very pleasing. A particular note has been the performance of the business in the US and Asia Pacific, with those markets growing significantly, and of course, those of you who we saw prior to the IPO will know that you knew this was important for us, and this was a point of strength. The US, of course, being up 195% year over year in line with our expectations.

And whilst EMEA is up by nearly 40% over 2017, market performance was of course weakest when set against those other geographies. And this was driven largely by customers awaiting new model introductions, and we also see some softness in that market in general. The UK, our largest market remain strong, with growth as expected.

On to adjusted EBITDA on slide 13. The story in Q3 on EBITDA and EBITDA margin has been one of volume growth driving through to increased operating leverage as fixed cost growth has been well controlled. We continue to invest in fixed costs for the growth of the business, but they are well under control. An EBITDA at £54 million in the quarter and £159 million in the year to date represents strong performance.

The impact of the 885 additional units sold has driven £60 million increase in EBITDA quarter, although, this is now being offset in the quarter by that heavy weighting towards V8 models and in particular Vantage, and that drives a negative £12 million of mix impact movement. We've added a full point to EBITDA margin year over year, net 19% in the quarter. As a consequence, this flows through to supporting us in the year-to-date overall margin improvement.

We continue on our track towards the guidance we've given and we'll come on to that shortly. SG&A costs and other costs have increased by £22 million a year, representing an investment in the resources required to support the growth of this business, and the increase has been broadly in line with our expectations and our philosophy of lean and agile management of this business.

On to investment, on to capex, so we continued to make planned investments in the new products offensive in the Second Century Plan. And capex and capitalised R&D in the quarter has fallen, which as noted earlier related to year-over-year timing differences in programmes. Programmes do not deliver in a linear fashion; we've been clear about when those programmes deliver and the capex for this quarter is very much a part of that planned investment programme. And a 25% capex intensity has also fallen dramatically, and of course, you will have heard both Andy and I talk pre-IPO and as part of the IPO about capex intensity being a key measure going forward and how that then starts to fall.

Finally, moving on to our outlook. During the third quarter, we delivered robust growth in revenue and EBITDA whilst maintaining strong control of cash. Margins have increased in line with plan and despite the fall in average selling price, which again was within expectations. And we continued to focus on delivering against the product launch previously communicated investing in a very controlled manner to support the strong growth that you see ahead.

Accordingly, we're pleased to announce that wholesale volumes will be the higher end of the range communicated in the prospectus for this year, and we reiterate all other metrics as you can see on slide 16. And in terms of our confidence going into Q4, you know that we have just launched the DBS. We've had strong performance from the Vantage in Q3 and you can understand clearly, as I said earlier that the DBS supports stronger pricing not only above the outgoing Vanquish, but also in terms of versus the range as it exists at the moment.

We've given you clearly in the year-to-date we've delivered a little over 4,000 cars, and in guiding towards the higher end of the range, you can see that Q4 in itself as an absolute volume play is going to be a large quarter for us, and therefore, you will be able to understand the strength of the margins we expect in order to be able to confirm and reiterate our adjusted EBITDA, and our adjusted EBIT margins for the full year.

So, in conclusion, before we take questions, to reiterate what Andy said, Q3 has been about telling you what we're going to do and then delivering on it. And this is a management team that has continued to do that. And with that, I'm happy to hand back to the operator and we will start taking questions from you.

Q&A

Operator

Thank you. Ladies and gentlemen if you do wish to ask an audio question please press zero one on your telephone keypad. If you wish to withdraw your question you may do so by pressing zero two to cancel. Once again, please press zero one to register for a question. There will be a brief pause while questions are being registered. The first question comes from the line of Thomas Besson from Kepler Chevreux. Please go ahead.

Thomas Besson

Thank you very much. It's Thomas Besson. I have three questions please. Could you comment on the Vantage dynamic by region please, and give us more details notably on the developments in Europe? I think if I remember correctly, you said the early start was not great for that region alone, but such comments would be helpful. Shall I ask my other questions later?

Andy Palmer

Yes, sure, go ahead. Give us all three.

Thomas Besson

Okay, great. Second question, I'd like to have an information, FX impact on the EBITDA bridge if it's possible. And thirdly, I'd like to know if you can give us some detail from the evolution of the order intake during the quarter, please?

Mark Wilson

Okay, let me deal with the FX one first. Thomas, this is Mark, because it's very, very easy. There was a negligible impact from FX in the quarter on the bridge.

Andy Palmer

Okay, on order intake, look, we're not going to go into details on the order book itself. But we have a healthy order book in front of us. We have all slots taken, all production slots obviously taken up for the remainder of this year. So the remainder of this year is not constrained by sales requirements. It's – if anything, because I mentioned it's constrained only by part supply, and so that continues to be our greatest area of concentration on that supply chain.

Vantage has launched well. We see a good uptake everywhere. It's true to say that as we said earlier, that the EU or Europe is our most difficult market, and that's true across the range of vehicles, to be frank. And I think that can be borne out some extent by looking at the market dynamic itself. If you look at the volumes that have been announced today from the European representative auto, some of our top-end of the premium groups, the Audi and Porsches share of market in volumes are worth looking at when you look in the context of our sales for Vantage.

So I think in the light of that dynamic, Vantage is doing reasonably well even in Europe, but it is the weakest area on our map comparing to how well Vantage is doing particularly in the US and in APAC.

Thomas Besson

Thank you very much.

Andy Palmer

Thank you. Next question please?

Operator

The next question comes from the line of José Asumendi from JP Morgan. Please go ahead.

José Asumendi

Can you talk a little about when do you start now seeing the vehicles coming out of the production line? Also in DBX, have you got any signals of order book, any incremental data points on how the car could come out in terms of personal reception, etc.? Any data points on DBX please. Second point, fourth quarter, can you talk a bit about the positives, negatives we should look through? Also can you comment on capex for the fourth quarter and the leverage you're looking in terms of net debt to EBITDA towards the end of the year.

Third question, outlook 2019, a bit early for outlook for 2019, but if you could please just kindly just mention a little bit product cycle. What are we looking for in 2019 in terms of product cycle? What are going to be the biggest contributors? And then I'm wondering in terms of the margin progression that you have, adjusted EBIT margin to medium term 20%, looks like you are on track for – on the 13% target for – in 2018. How do we think about margin progression in 2019? Are you looking more sideways 2019 or are you looking for some margin improvement? Thank you.

Andy Palmer

Okay, I'll cover the general points. DBX key milestones, DBX is unveiled at the backend Q4 of next year and goes into job one in the first part of 2020. If I was building that car in the traditional car manufacturer, I'd be building prototype cars right now on a pre-production line, not on the main production line. Now, we don't have – at Aston, we don't have the privilege of having one of those pre-production lines. So the consequence of that is that we have to build it on the new production line.

Now, in hindsight, that's rather good because that forces us to have the production line ready one year ahead of we need it because you've got to build those what we call pre-production one, pre-production two and pre-production three vehicles. So where we stand right now is that the paint plant is fully commissioned. It's been proven. It works. The racking is in for the storage; much of the body-in-white line is in, and the transfer lines as you saw on the fly-through are almost installed.

We are very close to having a fully ready factory and we will have a fully ready factory in Q1 of 2019 just around the corner. So the points of risk that when you're opening a factory, we passed them. They're in the past. The weather constraints of building new factory is done. The services, they're done. The paint plant, it's done. Basically, all the hard stuff is basically done one year ahead of when we needed.

The car itself as I mentioned, we're currently running our M-lot vehicles. This is an underbody prove-out. We have vehicles already doing durability testing. You saw yesterday we released a video, we'll be doing off-road testing. But most importantly are those crash tests, because those crash test are proving the 90-odd nodes on the body-in-white that they're performing in a crash as we expected them to, and that's massive in terms of derisking the project.

So those are the key points. We haven't started taking orders yet and we won't start taking orders until around Q3 of next year. And the reason you do that is that you don't want to be taking orders too far out because people get fatigued and bored of seeing the car, and people won't wait. So we'll start what we call confidential sales, which are sales of interested parties that we take behind the curtain over at either Gaydon or in St Athan.

And we'll start that process using real vehicles, so using those pre-production vehicles that have come out of St Athan, people will have the opportunity to see those and perhaps even drive them confidentially, and we start the order take process in the third quarter of next year. We found that through DB11 Vantage and DBS to be the most effective way of building up. Typically, we would look to build up about one year's of order coverage, that's where we'd aim to be.

In terms of the 2019 product cycle, the two vehicles due to go into production at least to be unveiled next year are the DBS Volante, the Soft Top, and the Vantage Roadster, again the Soft Top. Those are the two major product actions. We expect and we've said the production volume for next year will be at capacity, which is somewhere between 7,100 and 7,300, or said another way, our capacity is 7,000 units plus the specials. So the 100 to 300 is basically our special. So that will be two years in a row, 2018 and 2019, where the factory has been at absolute capacity. So you heard earlier, 6,400-ish this year ;that is maximum capacity given the units that one loses as a result of launching the four new products that we've launched this year, and 7,100 to 7,300 maximum capacity for next year. So obviously that reflects in the order book. Mark, do you want to comment on the Q4 capex and...

Mark Wilson

Thanks, Andy. There were various questions in there. I'm going to roll the Q4 answers up into a reasonably simple response, which is we're reiterating guidance. Can I just draw your attention on the slide there? Jose, slide 16 at the bottom there; we're reiterating net debt at two times leverage. So that one is a direct answer.

On capex, again, no change. As Andy and I said, and have said throughout this presentation, we gave a lot of guidance at – in the prospectus at IPO, and fundamentally with the exception of moving towards the higher end of the volume range for 2018, when we're not altering anything else. And we're not specifically giving guidance on 2019 other than our medium-term targets and obviously reconfirming the wholesale numbers we've got in for 2019. There will be more on that at another point in time.

But I would just say this – and this has been consistent with the prospectus. This is absolutely a story of operating leverage, and therefore growth helps us in that respect. But we will talk more fully about 2019 at a later point in time. So I think that rolls up all of your margin-based questions, your 2018 questions. Hope we've covered those.

José Asumendi

Thank you. Just a quick follow-up, when will you roughly give us the 2019 margin guidance and are there so many headwinds in 2019, that basically we should be thinking about sideways, as a follow up if I may? But when would you give us roughly the guidance for 2019?

Andy Palmer

So guidance 2019 will be at our full-year results, and clearly you wouldn't expect me to comment on the final point in that.

José Asumendi

Fine, thank you.

Operator

The next question comes from the line of Daniel Schwarz from Credit Suisse. Please go ahead.

Daniel Schwarz

First is on the free cash flow, could you say what the movement in working capital was in Q3 and what you expect in the fourth quarter? Secondly, could you share what the R&D capitalisation was in the third quarter and what the remaining non-recurring costs associated with the IPO are for the fourth quarter in terms of cash flow and earnings? And then lastly, could you share the absolute number – volume number for China for the third quarter?

Mark Wilson

We specifically haven't guided on China. We rolled it up into Asia Pacific, because that's the way, obviously, in which we report generally, internally anyway. So we can't share specific numbers. Other than Andy has told you that it's I think 118% in total year-on-year. So China is a good growth market for us.

In terms of the working capital delta, again, that's a general underlying working capital. If the question is focused more around deposits we've taken in the amount of deposits we expected. But as we said at IPO, that deposit balance is now starting to mature, so not a big change there. It's general operating working capital.

In terms of IPO cost, you'll see obviously in the appendix £1.8 million was expensed in Q3. They're related to non-conditional IPO costs. There are more IPO costs to come through. And as and when we've got more to brief you on that, we will talk about that some more, probably closer up to that the results for the full year as we wash all of those up.

I think that was – what else did you ask? You asked about capitalised R&D, again, in line with where we expected. You've seen the rate at which we've capitalised R&D and the rate at which we've expensed it. No significant change in the quarter other than to say that overall Capex was lower than expected and consequently also R&D lower than expected. But the amounts we've capitalised are in line with what we've seen historically.

Daniel Schwarz

Okay thank you. Maybe one follow-up if I may. What was the main pushback during the IPO process for you and how are you addressing this?

Andy Palmer

I think the main – I don't know whether you call it pushback or not, but questioning was around the execution challenges particularly around the DBX. Obviously, the growth story has manifested itself with the DBX. And in terms of counter measuring that, I think I've taken this opportunity at this meeting to show you what we've done in terms of derisking. I've also been fairly open with everybody in terms of where – after 40 years in this business where I think the risks lie therein the supply chain.

And I think I've been fairly sanguine with everybody that I'd much rather they – the risks always exist. I'd much rather they'd be in things that I can control and things that I'm good at, which is operationalised, than the things that I can't control. So the one question, of course, on that is therefore the second question which is Brexit, and I don't know whether we have any more clarity or less clarity as a result of today, but at least we have some form of plan on the table which is good.

So yeah, that's where I'd characterise it. There was obviously questions around things like capitalisation. But I think for those people that had the opportunity to listen to our answer and particularly the comparison between capitalisation of Ferrari and capitalisation of us, and understood the necessity to compare car company with car company, in other words, eliminate particularly the Formula One expensed costs, will know that that is not so much of a concern for us once we've answered that question well.

So, as I say, in summary, I think it was mainly around operational execution in what is a growth story, and we really have hit two big risks out of the park with the derisking of both factory and the crash testing of the platform.

Daniel Schwarz

Thank you very much.

Andy Palmer

Thank you.

Operator

The next question comes from the line of Kai Mueller from Bank of America Merrill Lynch. Please go ahead.

Kai Mueller

My questions, maybe to start with the first one, when we think about your ASP development into Q4, especially as you're ramping up your DBSs, how do you think that develops versus what you just printed in Q3, and then also with the view looking into next year on a year-on-year basis?

Mark Wilson

Thanks, Kai. So, look, without commenting specifically on the numbers, clearly Vantage has played a heavy part in the strong set of results in Q3, and it's been a large part of the numbers. And the very first few DBSs were also in those numbers, but it didn't play a large part in those numbers. But as you come into Q4, Q4 is the first full quarter of DBS so you will naturally see more balance.

Now, couple that with the fact that you've also got a bigger volume quarter, as evidenced – we said top end of the 6,200 to 6,400 range, we're just over 4,000 in the year to date. So you can see that the DBS will clearly have a helpful impact as we go into Q4. I think as well there is a – we haven't touched on it, but there's more special projects relatively speaking coming in Q4 as well supporting those numbers. And clearly, those special projects have a very high average transaction price and as you can see from the bar graph we showed previously they gently help overall average selling prices to move upward.

So I think it's reasonably easy to understand with DBS coming in, DBS will only have a positive effect on the overall position.

Andy Palmer

And the delivery of the Zagato shooting brakes, which has a transactional price of something in the order of £650,000.

Mark Wilson

And just to say this as well, if we go to our medium term, we've always stated A, a movement upwards in average selling prices looked at over the medium term is exactly the right way to think about this business. It's the way in which we will drive gross margins and whilst controlling SG&A, therefore, feeds all the way through to operating leverage.

And in reconfirming our medium-term guidance of a 30% EBITDA margin, of course, an obvious and important component of that is increasing not only the quantity of earnings in terms of volume of what we're doing, but also the quality of earnings, therefore, in terms of – a substantial component of which is average transaction prices.

Kai Mueller

Yeah, that brings me to the question on your regional mix. Now, you grew quite heavily in APAC and Americas. And I understand when you talked about the DBX launch, you know, that you focus on launching in your home market first, which is the lowest ASP and then go in the foreign markets. Are we seeing an inverse of that at the moment with the Vantage sales picking up so strongly in Americas, for example?

Andy Palmer

I think in terms of – clearly the ASP in the likes of US and China is higher than it is in the United Kingdom. Nevertheless, the ASP of Vantage itself is lower, so you're seeing a mitigation or a bettering of what would happen if you'd simply launched in the UK only. Vantage itself of course, Vantage over Vantage, old Vantage to new Vantage is a significant increase in ASP, but of course for the vast majority of this year, we've not been selling or not wholesaling Vantages.

So obviously, this being the first quarter that we bring Vantage in, for all of its good points, there are many good points in terms of what – the role that Vantage plays notably entry to the brand. You are naturally lowering the ASP for the quarter. You are mitigating that to some extent with good performance of Vantage outside of UK and Europe, and mitigating it to some extent by the fact that there's a fairly considerable increase in the MSRP of that vehicle over and above the old one.

And that – look you've got to launch Vantage sometime. It happened to be in Q3 of this year, and obviously within our product plan, we sat the launch of the launch of DBS essentially to offset that in Q4, a business – no car business can launch two cars simultaneously. But we've got as damn close as we could possibly have done that, with basically Q3 and Q4. So you see this effect essentially over one quarter.

Kai Mueller

Perfect, and then just a quick two to follow-up, the first one on capacity. I understand in the fourth quarter you're running well ahead, you're 7,000. You mentioned maximum capacity. I've heard before optimal capacity. What is the room to actually run higher than your 7,000 for the core units next year? And then just as a clarification from a point earlier. I saw in the prospectus you mentioned up to £95 million in one-off costs for LTIPs, IPO charges, etc. You said you're going to clarify that closer to the time. Is that the number we can work with at the moment or might this change?

Mark Wilson

No, I think that's a reasonable number. I don't think again anything has changed on that. And clearly as we come into the year-end there will be more clarity on that.

Andy Palmer

On capacity, so you're absolutely – good point. We talk about optimal capacity, which is, I would call it maximum capacity, but its maximum practical capacity. In other words, it's the two – or the one paint line, the one body line and the two trim lines basically working on a two-shift basis. And that that number is 7,000 units per year and it's replicated into St Athan later.

We can over-speed the line. I don't necessarily recommend it. Definitely don't recommend it over a long period of time, but obviously you do that by putting a third shift in or a night shift in. And during launch periods when we're – this year for example, where we are at that optimised capacity, in order to support vehicles like press demonstrators, showroom cars, test drive cars, we do over-rotate the plant, and we can do that on a short-term basis in order to put a few more cars in.

So when I talk about this year achieving the upper end of that 6,400, essentially what I'm saying is that the optimised capacity this year was at around 6,200, and we've over rotated the plant to 6,400. And next year, we run at basically optimised capacity and we'll only over-rotate the plant if for some reason we have supply shortages, which means that we lose some vehicles earlier in the year. We do have a little bit of flexibility to allow us to catch them back in the latter part of the year.

Kai Mueller

Thank you very much.

Andy Palmer

Thank you.

Operator

The next question comes from the line of Julio Piscatore from HSBC. Please go ahead

Julio Piscatore

– would be on the medium-term guidance. You said that you reiterated the guidance, but actually, from the prospectus, it looked like you were guiding for above 30% EBITDA margin and above 20% EBIT margin. So now it looks like you're guiding for around 30% and around 20%. So what changed and why have you decided to review that guidance?

Mark Wilson

No change, it may be just the formatting of the presentation; we're reconfirming absolutely exactly what we said in the prospectus.

Julio Piscatore

To make that clear, you're reconfirming above 30% adjusted EBITDA guidance and above 20% adjusted EBIT guidance.

Mark Wilson

To be absolutely clear, that's what we're confirming.

Julio Piscatore

Okay. The second question on the gross margin, if you look at the fourth quarter, you're ramping up the DBS, but you initially guided for gross margin in line with 2017 on a full-year 2018. But that would imply gross margin for the fourth quarter in line with the third quarter. But given the ramp-up of the DBS, don't you think that's a bit conservative.

Mark Wilson

Well, think about the volumes in the fourth quarter, think about the nature of those volumes. If you take the top end of the guidance minus what we delivered today, there's a good run for volumes, and Vantage will play its part within that. Of course, DBS would be helpful as well, so no, we don't think it's conservative.

As Andy said at the start, we have guided what we expect to happen. We've gone through the first stage of that, which is Q3 where we guided and we've delivered against that. And we expect to guide against Q4 as we have done and deliver against that as well. So no, I don't think it's conservative.

Julio Piscatore

So just a follow-up on this one. So you do expect to sell sequentially more Vantage in Q4 than you did in Q3?

Mark Wilson

Absolutely, you can see at -- if you just take around about, if you just take the high end of the guidance minus what we delivered in the year-to-date and you annualise that, that is a run rate of more than 8,000 units. So naturally at that run rate you clearly expect to sell in absolute terms more Vantages in Q4 than you would Q3, so absolutely the case, yes.

Andy Palmer

Just, if it's helpful if you remember that we have two trim and final lines at Gaydon. One is entirely dedicated to Vantage, and therefore if we're running flat-out, that line obviously is running flat-out. And the other line is dedicated to DB11 and DBS. And we obviously have the ability to change the mix through that, but obviously we need to make sure that mix is well controlled. For the fourth quarter, of course, it tips towards DBS volumes.

Julio Piscatore

Okay, thank you, and then the last question on capex. You did slightly lower capex in the third quarter, and then looking at your guidance for the full year that would imply, I think, an increase in capex in the fourth quarter, like a really significant increase in capex. So is that likely to happen and what's the reason for that uptick in capex in the fourth quarter of this year?

Mark Wilson

So capex is very much in a growth business like ours – how cyclical is related of course to when you're commissioning tools, when you are doing design releases, when you are putting cars into production, it's also related to the carryover carry-across strategy; one of the reasons that Q3 was lower is because it represented the launch of DBS. And DBS of course benefits from carryover carry-across. It is orders of magnitude lower in terms of its overall capex build than DB11 was.

So year-over-year, where a lot of that capex was related to DB11, you would naturally see a fall. In terms of capex for the remainder of this year, we have guided where we think it would be, which is in line with what we expected in the prospectus. It certainly won't be any more than that, but the timing will be determined by the work done in the quarter. And as I say, in a growing business like ours that capex is – does have intra-year, intra-month cyclical, and it's to do with the amount of work done and when things are commissioned.

So that's normal for us. That will, once we get into the natural cadence or the mature cadence of product in the medium term, you will see that sort of cyclical smooth out a little. But in the meantime, you should probably expect that intra-year cyclical seasonality if you like, of capex to continue, but absolutely in line with our guidance targets.

Julio Piscatore

Okay, thank you. Can I maybe just one last one? The Rapide E, on which quarter of next year do you expect [inaudible] to begin, and have you confirmed the average – the base price for this model?

Andy Palmer

It's Q4, and we haven't confirmed the base price, probably don't need to, because it's being sold as a special. So it's sold through our private network just 155 customers. And so we are choosing – I don't wish to sound arrogant, but we are able to choose our customers and we're choosing the customers across a variety of continents and usage types, because essentially Rapide E is almost like a big fleet test in terms of the technology that will find its way through to Lagonda. But obviously we're confident on the sales of that car and it will – well, to answer directly to the question, it will start production in Q4 next year.

Julio Piscatore

Thank you very much.

Andy Palmer

Thank you.

Operator

The next question comes from the line of Gungun Verma from Goldman Sachs. Please go ahead.

Gungun Verma

I have two, please. Andy, you mentioned that supply chain remains a key risk for the business. As you've completed your core portfolio refresh, could you maybe tell us if you've seen so far any issue with the key supplier that could maybe constrain production somewhat in 2019? And then the second is a clarification. When we think about previous generation models, is it fair to assume that as we head into 2019 the share of sales coming from previous generation is almost negligible? Thank you.

Andy Palmer

Look, just to answer the second one, is an easy question. Basically, VH is – the only VH car that is remaining is the Rapide and it's in its two run-out forms. Run-out form number one is a limited run of AMR Rapides and the second is the 155 Electric Rapide. So those are the only cars that basically are – we simply don't produce any other VH cars in the plant anymore.

To the first question on supply chain, I mean to highlight it because it would be a lie if you say you haven't got any problems or you wouldn't need a Chief Executive if you didn't have any problem. So top of the list is obviously for me is supply chain. And there are a whole raft of reasons why supply chain, you can consider it the highest risk.

The most obvious one is we're going from a supply chain that has historically made around about 3,000 – or supply parts for 3,000 cars a year, and suddenly you're going to 7,000 cars a year, and then you're going to 14,000 cars a year. And whilst it doesn't sound like big increments in car terms, in terms of our traditional supply base, which is somewhat cottage industry, that's a big increase.

And you think about the badge maker for example, we don't have a problem with the badge maker. But if you think about the badges, they're handmade. They take 20 hours to do, and suddenly you're going from 3,500 into 14,000, and that's a big increase in production. So what you're seeing is some of those suppliers being unable to cope, some of them having teething difficulties in that ramp-up.

And you're also seeing us tending now to sub-source with different types of suppliers; as we grow, our business becomes interesting to them. We have at any given moment we have suppliers in difficulty. We've had a number of suppliers recently giving us some issues and we have essentially a SWAT team that we use, that goes in and supports those suppliers. So ultimately, we haven't lost cars in the last quarter, but we have lost cars on a week-by-week basis.

And that's why right now we're using some of that additional capacity above the optimised capacity to catch back, in other words, said in simple form, we're currently running on a three-shift basis in order to make sure we catch back some of the cars that we've lost because of supplier issues. It's not easy, but we're on it. We're managing it and we're reinforcing our team to make sure that we continue that to be the case.

Gungun Verma

Great, thank you.

Operator

And the last question comes from the line of Mike Dean from Bloomberg Intelligence. Please go ahead.

Mike Dean

Just a couple of questions please. Firstly, just a follow-up on R&D Capitalisation, what do you see as a normalised rate for this, say, post the DBX launch? And then secondly just on currency, how far are you hedged out in the major currencies please?

Mark Wilson

Okay on R&D, we're not going to give full guidance. I think you can see where we are today has been the subject of a lot of discussion amongst many people. We don't anticipate that changing in the short term.

And in terms of currency we have a three-year policy which has varying degrees of cover. It's a reasonably simple to understand policy, and it's aimed at being – protecting the business plan. So, the longest we'll go out is three years, but that doesn't mean we're fully covered for three years.

Mike Dean

Okay, great, thank you.

Mark Wilson

Thank you. Well, thank you very much everybody. I think I'll just hand – this is Mark. I'll hand back to Andy to sort of summarise before we close the call.

Andy Palmer

Very good, so thank you for the questions, very insightful as ever. It's clear from the tone that we see these as strong results, better than perhaps we were planning. That's good, big double-digit growth numbers and – but for me, the most pleasing aspect of this quarter has been the derisking of the future vehicles and the launch of the DBS, not only on time, but actually early.

So, good quarter for us, and of course we look forward to speaking to you again as we come back to you with the full-year results. Thank you very much.

Operator

Thank you. This now concludes our presentation. Thank you all for attending. You may now disconnect your lines.