ASTON MARTIN

Full Year Results 2020

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Q&A

Tobias Moers

CEO, Aston Martin

Tobias Moers: Welcome everybody. I am Happy you have joined us this morning for Aston Martin Lagonda's full year results. Before we start with the Q&A, I want to let you know that you can find our full year presentation, accompanied with a video, on our corporate website under results. With that, we are happy to start taking questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Please stand by while we compile Q&A queue. This will only take a few moments.

If you wish to cancel your request, please press the hash key. Once again, it's *1 if you wish to ask a question. Thank you. Your first question comes from the line of Charles Coldicott from Redburn. Please ask your question.

Charles Coldicott (Redburn): Thanks for taking my questions and good morning everyone. I've got two questions. First on the DBX, obviously the wholesales are very strong in Q4 again. But if my math is correct, I think there was only 593 units of retail sales in Q4. Was that in line with your expectations? When should we expect sales to customers to start exceeding a thousand units per quarter? And also – maybe also could you update the current size of the order book for the DBX?

Second, on Project Horizon, which obviously is going to try to improve the efficiency of the business, can you help us a little bit quantify the improvement we should expect from that project in 2021 or maybe on a three-year timeframe? Thanks.

Tobias Moers: Thanks for your questions – very good questions. First, in response to DBX retail rate last year. Yes, wholesales outpaced retails, however, remember we slowed down the ramp-up and moved into a quality-led ramp-up, which led to a lot of cars in shipment to the dealerships. We also had a lot of cars going into China and North America, which logistically takes longer to deliver. That's probably the main reason aside from delivering dealer units. And that's for sure the reason that we have a lower retail rate than externally expected.

It will improve as we now have dealer units delivers – it's different now. The highest priority for us is to align supply to demand and we're doing really well in that department.

The DBX order book is in line with our expectation, and we're happy with that. Sports cars are doing even better than our expectation. We're in a good situation and confident with our order book. We now have demonstrators in every geography and are getting customers in for test drives globally. As you probably know, the UK market is down in January and February due to the lockdowns. Nevertheless, we have an order book for UK.

With our order book, we are able now to pull other markets in our production sequence forward. For instance, we can ship vehicles a little earlier for certain geographies and push our UK orders a little bit further down the road. With that order book, we are able to balance our demand and supply through different marketplaces. That's very important for us.

For Project Horizon, to quantify what you saw in the presentation we talk about 30% operational efficiency. Program Horizon was established in October last year and it relates to almost every corner of the company and is very important. It's related to efficiency in manufacturing and really starts with inbound –it starts in freight. How we receive materials to our plants, how we treat materials, how we handle the whole logistics side. We're going to see the first outcome soon which will illustrate a different situation than previously. It's a different footprint for our plants as well which is related to right sizing the business through our demand.

We have a natural demand on the market, and we have enough capacity for that. We have no problem with capacity at our plants and have come to a new way on how we manufacture and assemble the cars through our right sizing of the business. This will all happen by the end of the first quarter. It's been really fast, how we have turned around assembly and our production facilities. Bits and pieces coming together and it's really across the business, the whole company is touched by this.

Charles Coldicott: Okay, thank you.

Tobias Moers: You're welcome.

Operator: Thank you. Your next question comes from the line of George Galliers from Goldman Sachs. Please ask your question.

George Galliers (Goldman Sachs): Good morning, everyone and thank you for taking my question. The first question I have was on DBX volumes. It looks like they were around 64% of the wholesale mix in 4Q. Is that a good assumption for the mix of DBX in 2021 and taking your total wholesale target, that would equate to around 3800 units which is obviously some way short of the 5000 to 6000 that is in the long-term 10,000-unit objective.

So, I am also wondering how do you plan to bridge the gap? I know you've mentioned variants, but could you clarify are these variants of models i.e., long wheelbase, AMR, Coupe or could they also be variants of the platform with different name plates potentially in a different segment size?

Kenneth Gregor: Hi George. Let me start on the numbers and then I'll hand it to Tobias to talk about product-related plans. On DBX wholesales you're right, Q4 was a big quarter. Partly you've got the normal pipeline fill of showroom models going through the wholesales in that quarter, so we've guided that we expect total wholesales for the business to be 6000 units in of all our models for 2021.

DBX may be slightly more than half, but not quite at that same rate as Q4. Overall, we're feeling good about DBX in terms of the level of orders and the run rate we see. I'll hand over to Tobias to talk about how we see the SUV platform.

Tobias Moers: There's one important topic that I'd like to mention, we are not running wholesales to cover our production capacity. That's one of the most important steps that we took last year. We have right sized our business to demand, not capacity. We are running our manufacturing sites at the same level of efficiency despite the numbers we produce. This is very, very important to know. We are not driven by a capacity which is in place for the future. This is what we are changing with Project Horizon

On the SUV platform, we're going to have both additional derivatives and carlines out of the existing platform. The first variant for DBX is coming to the marketplace by the third quarter of this year. The second one arrives to the marketplace by the second quarter of next year.

Our portfolio will increase through the SUV platform and there's more to come. If you have a close look at our presentation on page 17, the DBX provides an excellent platform. It's a bespoke Aston Martin platform and that makes the difference. We have received excellent reviews on drivability of the car, driving dynamics etc.

This is one of the building blocks for the future. There is certainly more to come, but I'm not talking about details of these variants because we have competitors out there in the marketplace. But yes, we are able to achieve that number over the course of the next two to three years.

George Galliers: Great. And if I could just quickly ask about the technology agreement, could you confirm, does the technology agreement give you access to Mercedes' EVA platform and would that be a platform that might interest Aston Martin? And secondly, at their strategy day last year, Mercedes said that by mid-decade they expect to be significantly below a €100 per kilowatt hour at the system level including cell module and battery system. Is Aston able to access those cost levels as a result of the agreement? Thank you.

Tobias Moers: First of all, EVA, that's one platform, but Mercedes has ownership of more than one platform. EVA is a compact-related platform. I know that quite well from my previous life, but there's more to come and there are different platforms to come. We have access to all of it.

The implementation of technology won’t be a problem for us. Foremost, we have hybrid technology with Mercedes, which gives us an electric range and we're in discussion with Mercedes about which platform we're going to use going forward. It must be an excellent fit for our platform, our performance and luxurious market segment and this is what we are keen on.

Regarding the battery price, this is a forecast. I know that. Battery pricing, I don't want to make any comments on that, but certainly the overall trend on batteries is moving down. We see that everywhere. Is it €100? Is it €110? I don't know, but everything we've received from Mercedes is at a very reasonable cost. I'm sure that we're going to achieve a reasonable cost situation for our electric platform.

For our segment and demand on our electric platform for performance/luxurious business is probably different than for an EQA platform, so this is what we have to consider.

George Galliers: Thank you.

Tobias Moers: You're welcome.

Operator: Thank you. Your next question comes from the line of Angus Tweedie from Citigroup. Please ask your question.

Angus Tweedie (Citigroup): Hi, good morning. Two questions from me. Firstly, for Ken, you talked a bit about cash burn being down in 2021. Could you give us a few more comments on how you're thinking about working capital and perhaps if cash flow could be positive if we stripped out the moves on deposits this year on specials?

Secondly, Tobias, thinking about the electrification strategy, could you discuss any thoughts you might have, and how concerned you are that we could see potentially higher taxation of high polluting ICE vehicles as part of the upcoming UK budget? Thank you.

Kenneth Gregor: Yes – hi Angus. On cash flow for 2021, as I think I said before at the time of the refinancing, I do expect it to be overall negative, a triple digit number, negative across the full year. I would hope to see and we're targeting to see some positive movement from working capital in the full year.

Building on the positive movement in working capital that we already saw in Q4 of 2020, which was also good to see, and relating to the customer deposits I think it would be broadly even.

Angus Tweedie: Okay, so not to expect a massive move negatively or positively in deposits for the year is a fair assumption?

Kenneth Gregor: Overall net, no.

Angus Tweedie: Okay, thank you.

Tobias Moers: As for electrification, yes, it's part of our journey. We're going to have a plug-in hybrid as part of the Mercedes technology transfer which offers reasonable electric drive range. Further, our core mid-engine programme, which is one of our building blocks for the future, will be electrified. Ultimately, we're going to have an electric drive with us.

If you look at slide 17, you will see our ambition: by 2030, 90% of our portfolio will be electrified or BEV. This segment is moving – it is moving faster than any other segment, especially with consumption related taxes in various regions. It's up to us to move forward. We are not able to change the future. We have to adjust to that future.

Angus Tweedie: Thank you. Very helpful.

Operator: Thank you. Your next question comes from the line of Mr. Schneider calling from Bank of America. Please ask your question.

Horst Schneider (Bank of America): Yes, thank you. Good morning. It's Horst Schneider from Bank of America. I have a few questions. First some housekeeping items. Can you maybe give some guidance on R&D Capex, but also regarding your earnings bridge maybe on the mixed price bucket if you have any visibility on that?

Then in your presentation, you mention a better order intake of GT and Sports cars. Could you maybe provide some more details on that? And then the last question that I have relates to DBX. Can you tell us in which region you see the best demand? Which regions are rather underperforming a little bit to your expectations? In general, if I want to order a DBX today what is the waiting time that I should expect?

Kenneth Gregor: Thanks, Horst –I can start with the R&D and Capex. We previously said we expect R&D and Capex to be between £250 million and £300 million each year for our business plan period. We're guiding today that we expect it to be between £250 million and £275 million for 2021.

It's very much in line with what we have said before. We're looking to build on our mix and price from what we saw in 2020, which is where we saw some improvement overall in the average selling price. The mix in Q4 was really driven by a combination of factors: delivery of specials in Q4; delivery of DBX in Q4; and a sequential reduction in dealer and retail incentives. All these themes are looking to build in 2021 at which point perhaps I hand over to Tobias to talk about the order intake and DBX.

Tobias Moers: Order intake in our GT/Sports cars is ahead of expectations. Further, we're delivering an additional variant with Vantage Roadster and we're going to have another more performance-oriented variant coming soon. The DBX is in line, absolutely in line with expectation.

We have a good situation – in the UK, it's slightly different as dealers are very restricted at the moment. But with our order book, we are able to manoeuvre around that. We are making sure that we can rearrange our production sequence because we have strong order books for sports cars and for DBX.

The lead time, if you're going to order one, maybe let me know and I'll make sure that you're going to get the car a bit earlier. As for regional strengths, China is doing really well. It is in line with expectations because China is obviously heavily DBX loaded. That's not a secret.

Europe is doing better than we thought. There is a bit of downside, as you know, with the UK market down in January 50% for our segment and 35% in February. Europe is covering that at the moment, which is really positive. North America is doing well too, so we're happy with the current orderbook for both front-engine and DBX.

Horst Schneider: Just a quick follow-up on that. On GT and Sports cars, I mean you said initially that you expect more than 50% share of DBX in 2021. What is the split then between GT and Sports cars that we should expect in 2021?

Tobias Moers: Sports cars, sports being Vantage, so Vantage is still a very important share overall. Our GT segment, DB11 and DBS, is doing well too, so it's a good mix, a profitable mix for us.

Horst Schneider: All right. Thank you.

Tobias Moers: You're welcome.

Operator: Thank you. Your next question comes from the line of Henning Cosman calling from HSBC. Please ask your question.

Henning Cosman (HSBC): Hi, good morning. Thank you for taking the question. Maybe going back to the operational excellence and the 30% savings. I don't know if I missed it, but could you give us the basis for that, or did you suggest it's over all variable and fixed cost? And if you could give us a GBP number for that?

And again, I think Tobias said in the prepared remarks in the video that you're well on track in 2021. If you could give us some sort of quantum on that as well? Finally, on that point, I think you mentioned it affects all corners of the Company, so I would expect in that sense the R&D within the Capex and R&D guidance, notwithstanding the capitalised R&D here, would imply that the Capex within the guidance over the period would increase as the R&D decreases, as you generate efficiencies there, so that's the first block of questions.

My second part is on cash again. I think Ken said in the prepared remarks that cash burn will reduce. I am wondering if there's any quantum on that at all. If you could help us with an order of magnitude and if there's any cash out for restructuring included in that as well in your mind as you talk about right sizing of the capacity, and what your plans might be for the magnitude of that right sizing in 2021? Thank you very much.

Kenneth Gregor: Thanks, Henning. Let me see if I can start and cover as many of the questions as you talked about. In terms of the cash burn for 2021, I do expect it to be negative. But I expect it to be substantially lower than the cash outflow we had in 2020. Still a triple digit number, but significantly lower.

In terms of the restructuring costs within that, there's a modest amount within that, but not huge in terms of the restructuring cash that we expect – that's kind of covered within that.

In terms of the efficiencies, as you asked about in the presentation, we talk about 30%. We're talking restructuring programmes across all areas of the business. We're thinking very significantly about material cost, variable labour, freight, inbound freight, outbound freight, all the variable areas of our cost base when we think about a number like that. We're not providing a pound millions guidance on that number.

What I would say is it's a very significant contributor to the delivery of our guidance that we're providing in 2021 to go from negative EBITDA in 2020 to mid-teens EBITDA for 2021. Then building on that through to our medium-term guidance of £500 million of EBITDA by 2024/25. It fills through time is what I'm saying.

Henning Cosman: Okay, thank you.

Operator: Thank you. As a reminder if you'd like to ask a question, please press star one on your telephone. Your next question comes from the line of Jose Asumendi calling from JP Morgan. Please ask your question.

Jose Asumendi (JP Morgan): Thank you very much. And good morning, Tobias and Ken. It's Jose from JP Morgan. A couple of items. Ken, can you speak a little bit about cash flow, and this balance between Capex and D&A. Can you help us understand a bit how do you see D&A on the cash side is going to evolve in 2021?

And do you foresee maybe to be a bit more balanced or still be a cash outflow versus Capex? Second, Tobias can you speak a little bit of around the shorter-term cost cutting actions you have implemented since you arrived at the firm? And also, when you look at the business, and you're looking obviously to square capacity with deliveries to dealers, is there additional need to write-down additional assets on the facilities or is this something that you're not considering in the medium term as you try to obviously bring this company to generate cash? Thank you very much.

Kenneth Gregor: On the last point, no, we are not anticipating any further write-downs or impairments of facilities. On the Capex and R&D, we provided guidance that we expect Capex and R&D this year to be £250 million to £275 million and expect depreciation and amortisation to be in the range of £240 million to £250 million.

So yes, I would continue to expect the Capex to be ahead of the depreciation and amortisation. That's kind of normal and so you get what you referred to which is a small net negative in the cash flow from the combination of those items.

Tobias Moers: Additionally, to Ken's point on cost cutting and facilities, from the very first moment we changed the business, we started to change the business in September-October, we saw initial outcomes and progress. For instance, the guidance for bringing programmes or derivatives of DBX to life and what the company thought verse what we achieved is significantly different at the moment.

We are able to bring a derivative to life with much lower Capex investment than the company thought before because we have a different leadership team in place. We know exactly how to talk to, who to talk to, and how we move forward with engineering. As a result, engineering runs a commodity approach now.

Everything is linked more strategically. We're not talking about bits and pieces for one colour or component, but instead talking from a strategic perspective; and this provides really good improvements. That's one side of the business.

The other side of the business is cost cutting. It's an efficiency programme across the whole company to make sure the operations manoeuvre and act on an efficient basis despite producing 50 cars a day, 20 cars or 25 cars a day. It should always be the same efficiency, but the Company hadn’t been this way before.

We are now applying a different footprint for our plans. We are consolidating single items in the plans, which provides a more flexible and agile approach to how we assemble and manufacture cars. These processes are coming to life now. Considering we started this journey in October, it is unbelievable how we have transformed the culture and the mindset of our people within the business.

This initiative is all over the business operations from inbound freight and how we do the logistics internally, it is almost everywhere. The company had a bespoke plant to build Valkyrie, but if you do this, you have additional headcount. You have additional overhead. You have additional fixed costs. We decided to move it to Gaydon, to the main factory and it's now here. We moved it within two weeks from that bespoke factory to Gaydon and now Gaydon is the heartbeat of sports cars, including Valkyrie build. There's nothing we have to write off on the other side because we can use it for engineering for the future

It's a different company in almost two to three months and it's really linked to variable cost and fixed cost. It's everywhere. If you moved out several hours per vehicle, it's variable cost. If you move down the overhead and quality and on factory engineering and other parties, it's fixed cost.

If you shut down a paint line, for example it's fixed cost. Examples like this are happening and will continue to happen. It's a consolidation of the business.

Jose Asumendi: Thank you very much. That's brilliant. I mean it sounds like there's a turning point definitely in the business. I definitely thank you for that colour. But your previous management team obviously went through missing a lot of financial targets that were put out there.

This is very important to some of the levers, the financial targets you are setting for 2021, for 2022, and the midterm plan, so from an equity perspective can you comment a bit about unit sales? You're trying to hit 2021, 2022, 2023, what is the level of unit sales you feel very confident with – like this company can definitely deliver this number of units and we can definitely hit the financial targets. How do you look at that Tobias, from your point of view?

Tobias Moers: Yes, we gave strategic guidance, and this is linked to 10,000 units, £500 million EBITDA and £2 billion turnover and that is in-line with our current guidance. Are we able to deliver it earlier, I'm not able to give you an answer on that, but we are doing well. There are bits and pieces coming together, but we are careful with our projections for the future. We don't want to under deliver as a new management team, as a new company. I'm careful with that. I stick with our preview and forecast.

Jose Asumendi: Very good, thank you.

Operator: Thank you. Your next question comes from the line of Angus Tweedie from Citigroup. Please ask your question.

Angus Tweedie: Hi. It's Angus again. Just a follow-up. I wonder if you could talk a little bit about how the Aston Martin Valkyrie launch is going, whether you've had any further difficulties with lockdowns and things there? And perhaps just a little bit more detail about how you're thinking about the mid-engine sports car launch in 2023?

Tobias Moers: That's a very reasonable question. I have many experiences now with hyper cars and they're complicated. In my past life, I had a complicated hyper car. Now I have another complicated hyper car – and with the Valkyrie, it's even a bit more complicated regarding the vehicle approach. It has been a challenge if I'm being honest. But we have had breakthroughs and are making good progress. We changed a lot with a new engineering team. We just recently changed the very approach to how we run the testing.

I'm very confident that we'll get to the finish line by the second half of this year. I'm really, really confident. I have driven it three times with the engineering team and it's honestly not a car. It's, I don't know what. It's more a jet plane in regard to the complication of the car.

It's really unbelievable. The drivability is great. It drives like a hyper car and I'm happy with that. We talk about expansion of the portfolio regarding Valkyrie, which is very helpful for our future. There's a lot of market demand for additional derivatives. So more to come.

Angus Tweedie: Okay, thank you very much.

Operator: Thank you. Your next question comes from the line of Charles Coldicott from Redburn. Please ask your question.

Charles Coldicott: Hi. I just had a follow-up as well on the Valhalla actually. I think that's going to be a major factor in you reaching cash flow breakeven in 2023. Can you just confirm, is the plan still to produce 500 units of the Coupe?

Also, could you comment on the deposits you've already taken on that vehicle? How many millions of pounds on the balance sheet is attributed to that? And is the plan still for the Valhalla to have a hybrid V6 or is there an alternative in mind coming from Mercedes?

Tobias Moers: We're currently going through the process of evaluating the drivetrain for Valhalla and conducting a reassessment of the Valhalla line-up, so we are not going to talk about details now regarding the numbers.

We're going to have the Valhalla with us in the second half of 2023, and it's going to be an amazing car with breath-taking technology, which means it may have a different drivetrain than the Company thought before. But please accept that I can't go into details because we need to speak with our customers first. We're going to do this over the course of the next three to four months.

But you’re right because of the transformational technology agreement with Mercedes there are other chances for us with regard to combustion engines, but we will still have an electrified powertrain.

Kenneth Gregor: On the deposit balance, we don't provide a split of the deposit balance between vehicles. The deposit balance at the end of the year was £269 million and there was a chunk of deposits in there relating to Valhalla.

Charles Coldicott: Okay, thank you.

Operator: Thank you. Your final question comes from the line of Horst Schneider calling from Bank of America. Please ask your question.

Horst Schneider: I have also got a question that relates to your electrification plan. I heard the part on the mid-engine and how you say that you'll electrify all 2024 product launches. So just want to understand again when you're going to launch the first DBX PHEV and the DB12? Will they also be offered electrified? And the last question is when you're going to launch your first BEV?

Tobias Moers: First PHEV. We plan on that in the DBX platform before 2024, but we have to adopt all the Mercedes technology transfers. That needs time. We are implementing technology faster than anything I have done before in my life, but it still takes time. So, by 2023 we're going to have PHEV with us.

Next, for electric drive I am not able to talk openly about that situation at the moment, but it is part of our journey and its part of our business plan forward and our products in the future. We should achieve something by the middle of the century. That's the ballpark and I think by that time having BEV is crucial.

We are on an engineering journey. We re-established engineering on a different level and we have a lot of things in mind, so we have to finally do that. We have to finally line it up.

But we have a clear ambition for 2030 as you saw in our presentation: 90% of the whole powertrain is planned to be electrified or BEV. We will still have pure combustion engine for track cars so to speak. As mentioned before, the mid-engine programme has to be electrified, there's no other way for the future. I think its ambitious planning, but I know quite well our segment is moving faster than a C segment or a B segment.

The luxury segment moves faster into the course of electrification, pure electrified cars, so electric-driven cars. There's a lot of things to do for us, but we are on it.

Horst Schneider: But if I get you right, then the DB11 successor will not yet be electrified initially. That's going to follow later, right?

Tobias Moers: When we talk about the front-engine cars, the DB11, the Vantage and the DBS, they're a bit aged and have been on the marketplace for a while now, so we need a refresh for these cars. This is what we are currently doing. Do we have a chance to electrify them in the interim? This is something we are investigating at the moment.

I'm not sure about that in the short-term because it's a transaxle layout. It's a very specific sports car layout. It's not that easy. I tried to achieve that in my previous life as well, an electrified transaxle, and it’s really complicated. That's a very technical detail.

But then we come to the next generation, we will certainly have them electrified. It should be an electric-driven car, absolutely. We're going to have a facelift by 2023 for these cars and we still have the same platform with us.

I'm not happy that we don't have any electrification with us, so we're working on that. Did we have a breakthrough? We're working on that, but for the next generation there's no way around it and this is what we must consider.

Horst Schneider: All right, thank you.

Tobias Moers: You're welcome.

Operator: Thank you. There are no further questions, so I'll hand the call back over to the speakers.

Kenneth Gregor: Just to say thank you so much for joining us today. Really appreciate your time.

Tobias Moers: As a summary: we have accomplished a lot over the last four to six months. We established our programme and that programme delivers us results in 2021 and over our plan. We're really focused on the full year results because the improvements we're implementing with our efficiency programme starts to come together through the year, primarily in the second half. It's always a glide path to achieve the whole level of efficiency.

We are ahead of target with all the efficiency programmes, but it's a journey, so we're focused on the full year results. We're more than confident that we will achieve everything that we are targeting, especially the forecast for 2024 and 2025.

Thank you very much for joining us this morning and have a great day.