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Presentation

Operator

Hello and welcome to the AML H1 results, throughout the call all participants will be in a listen-only mode, and afterwards there will be a question and answer session. Please note that this call is being recorded. Today I'm pleased to present Andy Palmer, President and group CEO. Please begin your meeting.

Andrew Palmer

Good morning everyone, and welcome to Aston Martin Lagonda's 2019 interim results call. First I'll start by walking through the key financial and business issues of the first half. Mark Wilson our CFO will then cover the financial results in detail, and I'll come back briefly with a strategic update. And of course we'll then be happy to take questions. In May, we commented on the challenging external environment in certain of our markets. Since then, the environment has worsened, macroeconomic uncertainties have increased and the impact on us has continued. We expect this to continue for the remainder of the year, and we are planning prudently for 2020. As a result, as you know, we felt it necessary last week to issue revised wholesale guidance for the year, as growth performance against our original target has been impacted. However, it's worth noting that both in retail, where we're 26% up, and in wholesale, where we're 6% up, volumes have increased year on year. The strongest market for retail growth has been the Americas, the Middle East, and China. This reflects our underlying strength and that we are growing our overall market share. Protecting the exclusivity and luxury of our brand is key. We started last week by proactively taking the decision to adjust our full year volume guidance, tailoring our production and sales volumes to wholesale demand, particularly for the UK and Europe. This is based on some of our lessons of history, where it's fundamental to protect pricing and residuals, and as a result, we expect wholesale volumes to be in the range of 6,300 to 6,500 vehicles for 2019. In terms of margin guidance for the year, we expect adjusted EBITDA margin to be ~20%, and adjusted operating or EBIT margin of ~80%, reflecting the volume revisions and the Intellectual Property income provision that we called out last week.

As we continue to invest appropriately in our product expansion, capital expenditure will be re-phased to ~£300 million this year. To support our growth, and to ensure that we are fully funded throughout the second century plan, we're taking immediate actions to improve efficiency, and reduced our fixed cost base as we head into 2020. Now onto the headlines, with fewer specials, which was planned, and with a more diverse model mix resulting from the growth of the Vantage, we've seen a decline in revenue to £407 million. Planned SG&A growth investment, as well as that £19 million provision relating to the sales of legacy IP in the prior year, have resulted in a lower adjusted EBITDA of £22 million. On the product side, we're underway with the product expansion phase of our plan, and as you know deliveries are weighted towards Q4 with the DBS Superleggera Volante, Vantage AMR, DB4 GT Zagato continuation and Aston Martin Valkyrie - these are all due to ship later this year. I'll take you through our progress in more detail once Mark has taken you through the results and the guidance, Mark.

Mark Wilson

Thank you, Andy, and good morning everybody. So moving to slide seven, starting with our normal KPIs, the ones of course that we focus on internally here at Aston Martin. As Andy has mentioned, despite growth in both retail and wholesale volumes, falls against our original targets has been impacted by weakness in two of our key markets. Specifically the UK, where despite having a strong market share, and it being our leading market, we have seen a decline in dealer sentiment, and the EU where general uncertainty and delayed purchase decisions appear to have impacted us. That notwithstanding, we still posted unique growth, with wholesale volumes increasing by 6%, pulled through by that 26% increase in retails that Andy has just talked about. In the half, the mix of core cars has been weighted towards V8s and Vantage, impacting the core average selling price, which itself is down year on year, at £140,000. A combination of fewer specials as planned, particularly in Q2, and that lower group average selling price, ASP, resulted in a slight decline in revenue from £425 million to £407 million. So those fewer specials, and that lower core ASP led to lower gross margins, and in addition to this, operating expenses were up as we'd planned, and these factors including the £19 million doubtful debt provision from the sale of legacy IP, resulted in adjusted EBITDA at £22 million. Moving over to the right-hand side of this slide, we can see net leverage is up just over two turns versus last year at 4.7 times the last twelve months' adjusted

EBITDA. And this increase is partly driven, of course, by the issuance of the new bond on 1st April, but also substantially impacted by the half one cashflow dynamics and of course that fall in EBITDA alongside the provision that we took. And finally, CAPEX was slightly up year on year, primarily due to timing of near-term product launches, and R&D spending on new programmes.

Moving to slide eight, and with retails up 26%, underlying core wholesales of core cars up 9% delivering again on a gross basis fewer specials, in fact just 36 specials delivered in the first half compared with 95 in the same period last year. And this disparity year over year being most pronounced in Q2 with just four specials being delivered. Geographic wholesale trends that we saw in Q1 have in fact continued in Q2, we saw significant positive momentum in the Americas for the fourth consecutive quarter, that region delivering 54% growth in the half. Asia Pacific including China, in total was 24% up during the half, China itself outperforming the region up 39%. But of course, as we discussed last week, we continue to see weakness and further softening in Europe and the UK markets, those down 19% and 17% year-on-year respectively. Deteriorating macrotrends in these markets are now starting to be felt, and their performance also reflects the higher than usual dealer inventory levels that we experienced at the start of this year, and it explains that, obviously why our approach has been to carefully manage supply into these regions. Again, this time around we continue to share retail unit growth, up 26%, and this remains significantly ahead of wholesales and demonstrates, we believe, the strength of the brand, which is of course our main and enduring focus. As we head into half two, we'd expect the retail growth rate to slow a little, particularly given last year we had the first full quarter of retails for Vantage in Q3 and the first full quarter of DBS in Q4, clearly mathematically, the bar as you go into these quarters gets progressively higher. That notwithstanding, we expect the strong retail trend to continue. Turning to average selling price, ASP, which you can see in the bottom left hand corner of the slide. For core models, this was £140,000 compared to £146,000 last year. This was as we expected with increased numbers of Vantage offsetting the relative pricing strength in the DBS Superleggera. Total group ASP down from £167,000 to £145,000, clearly due to the impact of specials weighting in the previous half in 2018. And remember of course, this lower specials impact will continue to be felt through Q3 as we give the team space to focus primarily on the Valkyrie programme, and then on delivering the DB4 GT Zagato continuations in Q4. The Valkyrie programme of course, substantially starts deliveries in 2020.

To total revenues, when we look at revenues the net result of volumes and lower group average selling prices, on now to slide nine, led to a decline in revenues from vehicle sales. Revenues from sales of parts and servicing is broadly unchanged year on year combined, as the heritage team focussed on the DB4 GTs that we sad previously, and cars for the upcoming Bond 25 film which you may have seen in the press recently. Income from brands and motorsports was up £11 million, driven by the new Vantage GT3 and GT4 race car sales, and in total, group revenue therefore down 4% at £407 million.

Turning to key profit metrics, and EBITDA, last year of course saw the benefit of £20 million of other income from the ;egacy IP contracts. Excluding this, core EBITDA would have been £86 million at a 20% margin. The lower number of specials in the half led to a decline in contribution from wholesales despite increased total volumes, with that contribution down at £17 million in total. And mix was also negative with lower core ASP as higher Vantage volumes more than offset DBS, and the cost with the associated lease rate offering started to come through. Non-vehicle profit was up £3 million driven by those race car sales we discussed a moment ago, and operating costs up as planned driving our expansion. Spending increased in areas that you'd expect, and that we've communicated previously, including motor sport, DBX development in St Athan. That factory of course now commissioned and producing production trial cars. Marketing spend in the half also up across existing and recently launched products, most recently the DBS and the tail of the Vantage launch still playing through into the half. Headcount has increased year on year to support planned growth for the business of course, versus the half in 2018, we're also bearing first time PLC related costs this year. The £7 million FX benefit and £7 million reclassification from first-time IFRS 16 accounting, is partially offset by a modest increase in other costs, resulting in core EBITDA of £41 million and a margin of 10%. As we said last week, and as Andy has already highlighted, we've taken the decision to take a provision for a doubtful debt of £19 million, relating to the sale of legacy Intellectual Property. We will of course continue to explore all routes available to us to protect the brand, and we're now taking the appropriate steps at this time to do just that. Post the provision, therefore, adjusted EBITDA of £22 million at a 5% margin. On the table on the right, shows the step to the adjusted operating loss of £35 million, with depreciation and amortisation the major variant up to £57 million with scaled production of the three core models and the variants in the period alongside the corresponding IFRS 16 charge coming in at that level too. Adjusting items in the half, total £9.1 million, £3 million of adjusting operating items predominantly relate to the pre-IPO long-term employee incentives as disclosed previously, and as we said before they are expected to total £4 million for the full year. They of course have no cash impact. A one-off £7 million adjusting finance expense relates to US dollars exposures uncovered by hedge accounting. To note here, the adjusting finance expenses split £8 million charge in Q1, and £1 million credit in Q2, which is an update from at the time of the Q1 results and the re-stated numbers you can see in the appendix. The finish the income statement including adjusting items, net financing costs of £41 million, including the first-time interest cost for those new bonds issued on 1st April, and there was still a year on year reduction with of course no preference share costs inside

IPO at £21 million cost in the half last year. We should also point out the new dollar bonds, not hedge accounted, so movements in the sterling dollar rate will have a non-cash market to market impact moving forwards. The tax credit of £16 million reflects tax on adjusting items as appropriate and the loss in the half. We still expect to achieve an effective tax rate of around 21% for the year, that's been applied at the half. Therefore with 228 million shares in issue adjusted diluted EPS was negative 25 pence.

Moving onto cash, on the next slide and starting on the left, the main working capital movements in this half which led to £21 million of cash generated from operating activities, related to £71 million of finished goods and stock in plant as we ran Gaydon at its optimised run rate to support the half two wholesale deliveries. You will of course appreciate the factory is at its 7,000 capacity now, matched our original wholesale plan, and this of course will create a timing difference between finished goods and wholesales, which is what you're seeing here in this inventory build. £41 million inflow from receivables is dominated by collection of the £90 million overhang from 2018, which was discussed previously, and of this a modest £7 million remains outstanding, although this is largely within terms. The movement the other way relates to half one billings and transits and was collected promptly in the first week of July. And finally, payables increased by £43 million with continued management of supply payments, tight management of the supply base and continued inflows from special deposits as we expected. CAPEX was £10 million higher than the prior year at £162 million, due to the timing of near-term product launches, and as we said last week, CAPEX now has been rephased with spend of around £300 million, expected for the full year. The £121 million inflow from financing largely reflects the private placements of $190 million of Senior Secured Notes, offset by interest payments. Cash of course is usually lower for us in half one than half two and this is also true this year with a cash balance of £127 million at the end of June, down from £145 million in December 2018, but up £55 million from the previous period last year. Moving onto the right-hand side, the private placement and FX on existing bonds, along with the £18 million decrease in cash, resulted in net debt of £732 million up from £560 million at the year end. This gives leverage of 4.7 times the last twelve months' adjusted EBITDA. Removing the write-off related to the sale of legacy IP, leverage would fall to 4.2 times. And of course including a pro-forma look at the first-time adoption of lease liabilities IRFS 16 of £112 million, net debt at the period on a pro-forma basis would have been £844 million. Clearly I know the cash position is on everybody's minds and of course we will get questions on that later I'm sure, but just to be clear, our first priority is that we are focussed on execution of the second century plan. And even with our revised guidance in the second half, we are focussed on delivering that increase to operating cashflow that strong execution of the plan would bring. But we recognise of course there are headwinds and continued uncertainties, you therefore expect we keep our financing arrangements under regular review to ensure we have the resources necessary to fund ongoing investment needs. And if we require some additional financing from sources with which we are familiar - and let me be clear those are the debt markets - to maintain capacity and flexibility that's exactly what we will go out and do. This was, is, and will of course continue to be a keen area of focus for Management and the Board.

Finally, on outlook and to close on the financials, there is no change to the revised guidance we gave last year for the full year, and we'll continue to monitor the external environment as we plan for 2020, and the details are here on the slide for you. You can imagine, we're disappointed with the wholesale correction for full year 2019, but we will, at all times, prioritise maintenance and protection of our brand positioning as we execute our plan to build a sustainable luxury business. The planned lower fixed cost run rate in the second half with seasonality of motor show and motorsports spend is now behind us, and a lower intensity of spend supporting new products along with delivery of operation efficiencies will benefit half two profitability. And those profits will continue to be weighted into Q4, with the delivery of the DB4 GT Zagato continuations and seasonal peak volumes in that final quarter. That concludes the financial review and with that I will hand you back to Andy.

Andrew Palmer

Thank you, Mark, I'd like to now take you through some business and strategic highlights. As a reminder here of the schematics that you're hopefully by now very familiar with, we're now firmly in the third phase of the second century plan, our all-important growth phase, with a key focus on DBX.

But before turning to product, I thought firstly a few words on supply chain. At the front end of the manufacturing process we've seen a significant improvement in supply chain management, which is fundamental to ensuring production is on time and to quality. More importantly, in these politically uncertain times, we've focussed on ensuring that we are operationally prepared for Brexit as is possible, and particularly ahead of scaling production in St Athan. We've implemented a more robust and consistent supplier performance management system, which monitors core suppliers against the key risk criteria basically shown here. In the last quarter alone we've seen a marked improvement in those measurements indicating a more robust supply base. Secondly, since the start of the year we've implemented an internal efficiency and effectiveness programme. The scope of this project has been expanded in the light of the pressures that we've been experiencing, and work continues in earnest to yield cost savings into H2, which will then flow through into 2020. And these include for example, restructuring of SG&A costs, focussing on the key components of working capital, including factory inventory, credit management, and timely collection of receivables. We've rephased CAPEX with a focus on near-term programmes with increased efficiency in the DBX development profiles, and we're maximising the "carry-over-carry-across" principle, and this remains a core part of our engineering process, which will drive CAPEX efficiency and improve quality into future generations.

Thirdly, sales, which of course is the frontline touchpoint with our customers. To support the growth in global demand for our cars, that 26% increase in retail, we're continuing to strengthen the dealership network. In the last quarter, new dealerships have been opened in China, in Jinan, and in Tianjin, and our seventh dealership in Japan, in Kobe, has been opened. Alongside, a few underperforming dealers that have been closed, and our existing network is continuously being improved as we maintain the standards appropriate to our luxury positioning. And I point to the opening of Hatfield in the UK and Bucharest in Romania.

Back to the products, on our core range, we're now launching, in fact right now launching the DBS Superleggera Volante, with first production models now in shipment. To meet customer demand for even more exclusive products, we continue to launch special editions of the core line-up. Two examples, the first is On Her Majesty's Secret Service, the special edition DBS, which celebrates 50 years of that Bond film. Secondly, the DBS 59 edition which celebrates 60 years since the historic victory at Le Mans, all 24 units being sold out prior to build, and in fact we handed them all over to their owners on the grid at Le Mans. Looking to Vantage, the new Vantage AMR is coming in Q4 featuring a motorsport inspired manual seven speed transmission. And furthermore, at Goodwood Festival of Speed just a few weeks ago we launched six unique Vantage heritage racing special editions, each honouring a famous race car from our long racing history.

Now turning to the all-important DBX. To be clear, timeline remains unchanged. The St Athan facility has been commissioned, pre-production cars are now rolling off the production line and undergoing rigorous physical testing. We're hitting all of our production milestones, noting that there's been significantly less need for tooling modification resulting from the build and test phase than in previous programmes, and that is one item which is driving our CAPEX savings. We've completed our customer clinics, and the results are very encouraging. Two key statistics to share with you. In China and in the US, 68% and 64% of people indicated a strong interest in the products. On top of that, customers' expected price is also in line with our proposed pricing in those markets. The DBX "Take-To-Market" plan is fully underway. DBX made its first dynamic debut running up the hill at Goodwood. It's the first time the DBX was seen and heard on a racetrack by the British public. And in only a few weeks, we start DBX confidentials at Monterey Car Week in California, and here prospects are given behind the curtain access as we start to build the order book ahead of the global launch this December.

Moving onto other cars in the pipeline, we celebrated the first-time public reveal of the Aston Martin Valkyrie at this year's Silverstone Grand Prix. There's still a lot of work to do given the extremely complex development and production of what is effectively a Formula 1 car on the road, but we will deliver a Valkyrie in Q4 this year and build up production in 2020. Our exclusive specials continue to be in demand, and of course these build and enhance the brand strength. The Aston Martin Valhalla, which we previously called 003, is oversubscribed. This, as you know, will be the first car powered by our new Aston Martin hybrid V6 turbo engine, which will also power car number five, the Vanquish.

To finish off, I'd like to highlight some of the recent key events, including the Goodwood Festival of Speed, where we celebrated the 70th anniversary of our first race at Goodwood Motor Circuit. A few weeks ago, we also announced that three iconic Aston Martin cars will be featured in the upcoming James Bond film, tentatively called Bond 25. We celebrated our proud association with James Bond at the 1,007th Grand Prix at Silverstone, where the Aston Martin Red Bull racing car featured special 007 inspired livery when the Aston Martin Valkyrie made its global dynamic debut.

In summary, the market's tough. While we're not immune to macroeconomic uncertainties, we have continued to see wholesale growth, retail growth, and market share growth. We're really disappointed that we had to notify you of our performance, and that our performance was behind our original plans. We've taken the decision to plan appropriately for the year ahead, and to protect our brand positioning. We're also taking actions to improve efficiency, and have a rigorous cost-reduction programme in place to match our outlook. The first pre-production DBXs have rolled off the production line. DBX confidentials begin in only a few weeks, and this programme is in very good health. Deliveries of both core and specials are weighted towards Q4. Along with efficiency benefits, this will drive a higher concentration of profits into the second half and notably the fourth quarter. We remain focused on executing the plan, financial discipline, and long-term sustainable growth, and of course ensuring that we have the right funding structure in place. The strength of the brand underpins our confidence in the long-term opportunities ahead. And with that, I'll open up the line for your questions.

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 forestall your question you may do so by pressing zero two to cancel. Once again, please press zero one to register for a question. And our first line comes from the line of Giulio Pescatore from HSBC. Giulio, please go ahead, your line is open.

Giulio Pescatore

Hello, thank you for taking my questions. The first one, of courses, as expected, is on the cashflow. How much more cash do you think you are going to have to burn until the launch of the DBX, so I mean in H2, this year and H1 next year, until the launch in Q2?

Mark Wilson

Yes, thanks Giulio, I'll just refer you back to the point I made earlier, which is we are very focussed on delivering the plan, and obviously the plan in the second half of the year is significantly higher in terms of core volumes. You'd have seen in the half we delivered just over 2,400, and at our range of guidance you can see what's left. And of course those DB4 GTs. So clearly you can see, at the same time, we will be de-stocking, you know we've reached a high internal stock position as well at this point, as you would expect with the factory at its run rate. So all of those things taken into account, we'll be focussed on delivering against those things in order to deliver cash into the second half of the year and as we get towards DBX. So look, that's where our focus is, our plans remain unchanged otherwise, investment in DBX remains unchanged otherwise, and we move forward confident that DBX is on-time and on-plan. But just to be clear, our focus is on delivering this big second half.

Giulio Pescatore

Okay, thank you, very clear. And so, if everything goes according to plan, to your current plan, you think you won't need another arm of financing, being it debt or other sources?

Mark Wilson

So yes, exactly, but I've also said, just to be clear, that we are watchful, and if we do think we'll need it, we'll come back to markets that understand us and that have been around us for a long time, and to be clear, those are the debt markets. If we think we need it, that's where we'll be headed.

Giulio Pescatore

Okay, thank you very much. Second question, if you could give us an update on the inventory situation at the dealer level please?

Mark Wilson

So in terms of inventory, we have destocked quite considerably since the start of the year. And that has been key to the first half, and obviously underlines why we told you, that wholesale would be lower, that was in our plans we've executed there. I'll let Andy talk about the second half.

Andrew Palmer

Yes, you can see down in the numbers. A 26% increase in retail, a 6% increase in wholesale, and obviously that reflects pretty significant destocking at the dealer groups. The dealer groups also of course being more cautious with the outlook, particularly in Europe and the UK. But there, if you want, is proved positive of a continuous destocking and us basically at or around at what we consider to be the ideal stocking level.

Giulio Pescatore

So just to follow up, how long should we expect to see, for how long more should we expect to see wholesale lower than of retail growth?

Andrew Palmer

We're in a relatively stable year, because we don't have a lot of new product, well not a major new product this year, so normally in that case you would expect retail to outperform wholesale or approach an equilibrium during the course of the year. Now obviously you'll see that reverse as you launch DBX because you need to put cars into the supply chain, so you will see wholesales reach ahead of retails as we go through the launching of DBX.

Giulio Pescatore

Thank you, that's very clear. And just one last one, if I may, on the Valkyrie. Can you give us an indication of the gross margin for this car? Will it be aligned with the group, slightly above, or slightly below because of the high cost of developing the car?

Andrew Palmer

I think you've almost answered your own question, we're not going to get drawn on, and you wouldn't expect me to answer details on individual product lines. But you've almost answered your own question, that it has a high price and that obviously a high ticket price, it also has a high bill of materials, but the Valkyrie is substantially for next year, and I don't think we'd want to comment further on the gross margins.

Giulio Pescatore

Okay, thank you.

Andrew Palmer

Thank you.

Operator

Thank you. Our next question comes from the line of Christophe Boulanger from Barclays, please go ahead, the line is open.

Christophe Boulanger

Hello, hi, good morning. I will have two questions primarily. The first one is on your revised guidance, what have been the main drivers for the guidance, cutting wholesales? Can you please help us understand, what did you do, did you lower the book on the back of lower demand, or is it really cancellation of orders? Or is it just a question of timing, and therefore you would expect a significant rebound going into 2020, especially with the DBX I guess, but I am talking about the core models, those three core models. That's the first question and then I will ask another question.

Andrew Palmer

Okay, let me have a go. We haven't seen orders being cancelled, to be clear, neither of specials or core. What we're reflecting here is basically, particularly from the UK and Europe, a shortening of order books, and it's a judgement call, very clearly. It relates to where we see those, particularly those wholesales coming in from the dealers and particularly sentiment at the dealer, and basically they're ordering into what is our twelve week window. I've spoken many times before that we absolutely maintain a minimum order book of essentially twelve weeks because that's what we scheduled to the line, and we are seeing sentiments of weakness from both the UK and the European market, and that's why we're modifying the guide. The worst thing that could happen for us is to over-build and under-sell, so we obviously prefer, very much, to keep the model that we have now, where we're overselling and underbuilding. So we're over-retailing and under-wholesaling. It's basically a reflection of that sentiment, particularly from those two markets as you can see, we have got quite strong demand from the other markets.

Christophe Boulanger

Thank you. The second question is really around your contingency plan in case of the UK leaving the EU without any deal. The question is really, do you feel that you have any need to increase further inventories of parts or engines ahead of the October deadline, and if so what would be the impact on working capital?

Andrew Palmer

Very clear. So obviously, as I guess everybody is, we now look at the no-deal as a more likely outcome. We planned for that, as you'll recall, back in last March, and so we had a kind of dress rehearsal for it. And it was a bit different back in March because we pretty much emptied the factory of stock, so we were having to build up stock very quickly back then, and of course the exit didn't happen and we had to drain that stock back into normal supply. Now as we stand today, we're in a different situation because obviously the new date for Brexit is late in the year. We've run our line at a consistent tack time over the past seven months, and in consequence, because of that, we have some stock around, both of parts and of finished inventory. And we think that is sufficient to see us through what may be a disorderly Brexit. The things we did change, back at the start of the year, and which we've continued to keep is the changes to the supply chain, the inbound supply chain. So for example, we reduced our reliance on the port of Calais-Dover and started bringing in parts through other ports, and that continues. And obviously we've had a lot more time to check the health of our suppliers, and as you know, that I put a supply chain directly onto my first line and employed John Griffiths to manage that. And lastly of course, probably the biggest point, is for two years we've been looking at the local content because obviously if we fall into WTO rules, local content, UK content, becomes an issue, and I'm pleased to say that our local content is above the normal threshold, so UK content is above the normal threshold, which is 55%. And that, if you will, has us in as good a position as we can be in if and when we leave the European Union. I hope that's a comprehensive answer.

Christophe Boulanger

Yes, it's very good, thank you very much. Maybe I will have just a follow-up question on the Brexit. You know, with the pound getting really weaker over the past few days, could you maybe share with us what could be the weaker pound impact on revenues and EBITDA, do you have any kind of funding analyses you can share with us?

Mark Wilson

I mean look, Christophe, in terms of intrinsically our exposures, we are long dollar, and therefore you would expect a weak pound and a stronger dollar benefits us. Of course we do have hedging in place that will mitigate some of those movements. But fundamentally, we have that long dollar exposure, so that dollar strength will help revenue. We are also net buyers of euros, but we do have a partial hedge, because obviously we sell in euros and we buy in euros at the same time. So the major exposure there is dollars, so weaker pound versus dollar is helpful.

Christophe Boulanger

Okay, thank you very much.

Mark Wilson

Thank you.

Operator

Thank you. Our next question comes from the line of Thomas Besson from Keppler Cheuvreux. Please go ahead, your line is open.

Thomas Besson

Thank you very much. First question please on the timing of your production adjustments to the new wholesale volume targets. When was that taken? Do you need to cut your production more in Q3 and H2 because you overproduced in H1 versus the new targets? If that's the case, can you help us reconcile this point with the fact that H2 EBITDA needs to be up quite substantially year-on-year against the record figure in H2 last year to reach the updated targets? So my point is, can you just help us reconcile these points please?

Mark Wilson

Yes. Hi, Thomas. Obviously, we're dealing with the decision that we took last week, so that's happening in real time, now, that movement in the factory. In terms of where we'd got to, obviously we'd produced up to a point where we'd expected, 7,000, or just over 7,000 in our previous guidance, and obviously now we're going to have to, sort of, wind that back. So, you will see that inventory wind out more slowly in Q3 and then more significantly into Q4. You know, clearly, as Andy has said, we've got a twelve week lead all the time. So, it obviously has some run rate implications as we turn that down. So, that is, I guess, the answer to the first part of the question. In terms of the bridge to delivering what we need to in the second half year, well, you can see that, at the half, we've delivered 2,400 wholesales, with a very low specials mix, as well. So, clearly the key, in the second half, in order to achieve our revised guidance, it's to deliver against that greater mix of those additional core wholesales. Now, of course remembering, as Andy has said, you've got the DBS Volante in there, which is a new product, and you've got the Vantage Manual, which is a new product. They are both gently margin accreting, so they will help us. Of course, they bolster and support that volume increase in the second half. The final two points to note, on EBITDA in the second half, specials heavily weighted to Q4, DB4 GT Zagato continuations, those cars are high ticket price, high margin. Of course, as we've said previously, and just to reiterate, SG&A in the second half, intensity comes down, with a lot of the launch spend and the tail of launch spend for Vantage and DBS behind us, there aren't any major launches in the same way there were last year. So, year over year, SG&A comes down, coupled with the efficiency programme we've talked about. So, that's the broad bridge into second half.

Thomas Besson

Okay. Thank you, Mark. Can I please ask, on the new wholesale targets for the year, can you help us understand which models from where these are reduced from? Because you had the three car models, without some of the variants you mentioned in. So, the DB11, maybe aging slightly. But you had the very fresh DBS and Vantage. Can you help us understand where the shortfall comes in your initial planning, from model mix, please?

Mark Wilson

Thomas, thank you. Yes. Actually, it's more of a regional issue than it is a product-specific issue. So, for instance, I can point to Vantage doing really quite well in the US, right now, whereas, for example, in China, the DB11 is doing really well. So, basically, where we're seeing the issue and the point which has caused us to trim the wholesale, is basically Europe and UK, and obviously those are two big markets for us. We see a decline not peculiar to one model or the other, it's just, in general, the water line is down. I think you can see that if you look at the industry as a whole, but you know that better than I do.

Thomas Besson

Okay. I have a last, really simple question, and maybe completely stupid. There is a difference in some of your specials between fully sold out and oversubscribed? Can you just help us understand, does sold out mean you've already got some of your client's deposits in, and oversubscribed would therefore mean customer interest. Can you explain the difference between the two?

Andrew Palmer

Yes, you're not far off, Thomas. Basically, in the case of Valkyrie, the customer has said they want it, they've signed a contract, they've specified the car, in detail, and they've paid the first two tranches of deposits. So, basically, it's done. It's fixed. There's no room whatsoever for anybody else to come in on a Valkyrie. In the case of the Valhalla, 4/5 of what I've just described of Valkyrie is basically the same. In other words, contracts have been signed, broad specifications are sorted and deposits paid. We have then, against the remaining hundred units, we have a significant number of clients basically asking for the car. What we're doing right now is choosing, of the long list, we're choosing who gets the car, basically. So, that's the key point. So, basically, when we say oversubscribed, we've got more people asking for the car than we can sell the car. We have this rather difficult, actually, problem of then saying to people, 'You're not getting a contract,' and that's the process that we're now going through.

Thomas Besson

Okay, thank you very much. I have one last detailed question, please. Can you give us a number of H2 2018 specials, so that we can factually compare the impacts, quarter on quarter, for the second quarter alone, please?

Mark Wilson

Sorry, we're digging around. Haven't got that immediately to hand but maybe we can come back on that. Someone will dig around and we'll talk about it as we go through the call.

Thomas Besson

Thank you.

Operator

Thank you. Our next question come from the line of Philippe Houchois from Jefferies. Please go ahead, your line is open.

Philippe Houchois

Alright, good morning. Mark, question for you. Hope springs eternals. I'm going to ask again, can you disclose how much deposit you have in your growth cash position for special cars.

Mark Wilson

No, Philippe. I'm going to say it's a couple of hundred million, as I've said before, but we're not going to disclose the absolute number.

Philippe Houchois

Okay. But it has gone up, in the first half, when your growth has gone down?

Mark Wilson

Yes.

Philippe Houchois

Right. Am I right in understanding that, as a percentage of the revenue per car, the cash deposits from customers that you receive before those cars go into production, potentially exceeded cash profit, once you have delivered the car? Is that a fair assumption?

Mark Wilson

No, I don't think that's a fair assumption. In some cases, possibly, in other cases not.

Philippe Houchois

Right. So, in general terms, if we assume a stable deposit base, you are not, basically, depending on cash position as you go into production?

Mark Wilson

Look, I mean, I don't want to get drawn on it, because I don't want to, sort of, give another backdoor route to you getting a slightly different number. But look, for commercial reasons and confidentiality reasons, we don't disclose the deposits we take on any given car. But I would say, they are different profiles on different cars. I think, that's all I want to say about deposits.

Philippe Houchois

Okay. Another question is have you, so far, or are you intending to perform asset impairment review? I noticed that you have not reduced guidance on depreciation for fiscal year 2019. So, it's either because you've done the review and you said the assets are fine, or you haven't done the review yet. Which one is it?

Mark Wilson

Yes, clearly Philippe, we've gone through our half year numbers, with our auditors, whenever you go through a set of numbers, whatever position you're in, you ask yourself that question, 'Are there indicators of impairment?' Both ourselves and our auditors have concluded there are not indicators of impairment. I would say this, we've got significant headroom against any impairment calculation. We did have and we continue to have.

Philippe Houchois

Okay, because you're trending now below the planned volume on cars that are only, in some cases, three years old. You are on a seven-year life cycle, some of your competitors are on a four, five-year life cycle. So, that's why I asked the question.

Mark Wilson

No. I mean, there's no change to our product life cycle. When we build our models, we give ourselves headroom around that life cycle, within the impairment calculation, that's what we've done. Of course, there are no indicators of impairment. So, that's very clear.

Philippe Houchois

Okay. My last question, I promise to leave the floor to others. Andy at the beginning said Aston is investing appropriately on the DBX. I know you've cut the CAPEX guidance a bit for this year, is there any chance, is it too late to actually change the capital intensity of DBX? Or is it set, today?

Mark Wilson

It is changing, but it's changing for one peculiar and I think, good reason. So, when we set the CAPEX profile for DBX, DBX, as a development, is quite similar to DB11, new platform, basically new engine, new electrical system, new upper body and new line. So, we looked back at the costs of DB11, and we profiled the costs of DBX, based on that experience. Now, obviously, in the interim, more or less four years, the fact that we've had this regular cadence of new cars means that we've significantly improved our development processes. In particular, the virtual testing that we now do has seen a pretty dramatic reduction in what's called 'design changes'. This is basically where you test the car, something breaks, and then you have to modify the tool to accommodate the counter-measure. We have seen a dramatic reduction in those unstimulated concerns. In consequence of that, obviously, that gives you a saving in manpower, which of course we generally capitalise, but also, probably more importantly, a reduction in tooling change and the consequential impact that that can have on the quality of the launch. So, from that point of view, that is part of our ability to reduce our guidance from ~£320 million to ~£300 million.

Philippe Houchoise

Right, okay. Thank you very much.

Mark Wilson

Thanks, Philippe.

Operator

Thank you. Our next question comes from the line of Stephanie Vincent from JP Morgan. Please go ahead, your line is now open.

Stephanie Vincent

Thank you very much for taking my question. Just going through my assumptions here on the need to support your upcoming launch plans. Am I wrong to think that probably the rates you're going to take is either something like, a payment-in-kind note, that can help safeguard cash as you're going into H1 of 2020? I also have a question on your secured capacity, because right now, the bond has a covenant of three and a half times, senior secured, but I just want to know what additional flexibility that you have within that? Also, we've seen a manufacturer in the UK take on credit export funding from the UK governments, is this something that, potentially, is on the table for future product launches, as you're quite an important employer in the Midlands, West Midlands. Then, outside of funding, I guess my second question is on the Vantage Manual. Can we talk about timing for deliveries for that vehicle in the second half of 2019? Those are my two questions.

Mark Wilson

Yes, Stephanie, look, you obviously wouldn't expect me to comment on specific instruments, but I would say that, I'll refer you to the point I made earlier, we are very focussed on delivery of what is a big half two for us, and delivery of that will give us additional liquidity of its own right. So, that's primary focus. But if we do need to come back, then we will come back and, as I've said very clearly, the debt markets would be our primary route, under which there are many options. In terms of credit exports, then, yes, we talk to government about that and we talk about how government can support us. Obviously, there's a new regime in place now that is interesting. So, I don't think that's something we would rule out. It's obviously a bit more, sort of, day-to-day. Oh, in terms of Vantage Manual timing.

Andrew Palmer

The Vantage Manual, or Vantage AMR, as well call it, is in October. So, it hits our Q4 revenues. Also, because it's an important car, our most expensive core car, the DBS Volante, I think at the last call I told you it was coming forward a few weeks. We've actually overachieved that and we've started shipment, basically now. So, good news, we've taken about five weeks out of the development of that car. That car hits the streets in Q3.

Stephanie Vincent

That's great. Thank you very much.

Operator.

Thank you. Our next question comes from the line of Phil Bagguley from Bank of America. Please go ahead, your line is open.

Phil Bagguley

Hi, thanks for taking my questions. Just to follow up on Stephanie's question, actually, on additional debt capacity, I think, under the bond documents, I think there's about £260 million of total capacity, so about £190 million when you check off the RCF drawing, is that about right?

Mark Wilson

Sorry, Phil. You were crackly. Could you repeat the question?

Phil Bagguley

I'm sorry. So, I think there's about £190 million or so of incremental debt capacity under the bond covenants, is that about right?

Mark Wilson

Look, I don't want to get drawn on what there is and what there isn't, because clearly, you can choose to take many routes into the debt market and there are many options open to you all the way through that process. So, I don't really want to get drawn on, a, sort of, discussion into the minutiae of detail on what or what we might do, or what or what isn't available. Clearly, as I said earlier, our focus is on delivery of the plan, and if we do that then that's the primary route to driving us forward.

Phil Bagguley

I mean, I can understand you don't want to deliver every detail but I guess, when I look at the guidance and I look at what's implied for earnings for this year, I don't see material cash improvements through the second half of the year. I think, initially, we understood that working capital was going to be a marginal positive this year. So, is that going to be more positive than expected? Or are we just too low in our earnings assumptions? Because I think, between CAPEX and interest in the second half of the year, that's about £180 million of cash out again.

Mark Wilson

So, look, if you just take what we did in the first half year against 2,400 units, we delivered £21 million of underlying operating cash flow. We said the second half year looks substantially bigger in terms of core whole sales. It contains, pretty much, all of our specials and they are high-margin, high ticket price specials. Of course, we have an inventory unwind, having built £71 million of inventory in the first half. So, those are the, sort of, key things to think about when you think about our cashflow in the second half. But yes, look, that's what we're focussed on. I think, delivery against that plan is absolutely our core focus, as you would expect.

Phil Bagguley

Yes, okay. I mean, I guess, just finally, I know it's a way away, but, you know, if we're deferring some of these volumes for a year, perhaps against the original plan, you now seem to have $1billion or so of gross debt in 2021. When you look to refinance the 2022 bonds, that seems like quite a lot, relative to the trailing earning, at least, of the group, I understand, DBX rollout will be well underway then.

Mark Wilson

Yes. I mean, look, consider DBX as the next big inflection point for us. Obviously, you've got Valkyrie next year as well, which is helpful. You know, you can see already where the street is. I mean, we haven't talked about 2020, but you can see where the street is on 2020. So, you can see that there is still substantial growth to be delivered. We think that's a strong story. We think it's in line with our long-term trend of growing this business in a sustainable manner. That's what we'll be focussed on delivering.

Phil Bagguley

Okay, thanks.

Operator

Thank you. Our next question come from the line of Kai Mueller from Bank of America. Please go ahead, your line is open.

Kai Mueller

Hi, thank you very much for taking my question. The first one, just on the product mix site, on ASPs, you obviously grew very strongly in the Americas and China, but we haven't really seen that as strongly come through the ASPs, how is that delta between that region and Europe and the UK still holding up?

Mark Wilson

Yes. So, Andy sort of alluded to it earlier, Vantage is doing really well in the US and therefore, a lot of the growth you've seen come through the US has been that latent surge in Vantage, over there. Vantage, of course, is our lowest-priced car. So, that's probably why you're seeing the volume move forward but of course you're not seeing the ASP move forward because the relative impact of Vantage, to the average, is gently downwards.

Kai Mueller

Okay, perfect. Then, obviously you have the longer-term ambitions outstanding with the 14,000 units, there was also, before, a target around 9,200 to 9,400 units, if I remember correctly, for next year. Can you give us a little bit of colour? Obviously, you're now running well below what you planned for 2019, can we talk about a similar, you know, growth rate into 2020, or absolute number? How do we need to think of that?

Mark Wilson

I don't think we've been specific on 2020, and we certainly haven't given formal guidance for it during this year. But of course, we'll continue to look at the external environment, as we move forward. Don't forget, of course, we've been very specific that DBX is on plan and unchanged. You know, we will expect to give 2020 guidance in due course.

Kai Mueller

Okay. Then just to come back on Phil's point as well, on the cash side, is there a minimum cash balance that you like to operate with, that you say is at least required for you to run the business?

Mark Wilson

I mean, we tend to think of it in a growing business as ever-changing. I would just refer you back to the position we were in this time last year, where we had £72 million in the bank, that's gone up this year to where we are today, £127 million. So, we don't necessarily think of it that way and I probably wouldn't be drawn on it anyway, that would be something for us internally to think about.

Kai Mueller

Yes okay, but, I mean, the step-up is obviously after you've raised £140 million in debt, right? So where is the cash?

Mark Wilson

Clearly, no. I mean, we raised £140 million and continued to invest and of course, built that inventory in a way we haven't necessarily built it before. So, you know, £71 million of that is sitting within that inventory build because we'd expected to run the factory to meet a 7,000-ish number. So, that's where that is.

Kai MuellerYes, then, I mean, just to sum up with it, I mean, you clearly have seen, I mean, since the warnings, stock is down significantly, people are really no longer really focussing on your second century plan, it seems, but very much about the balance sheet and the cashflow position. You mentioned, you know, you have possibilities to add more financing and you know the debt markets very well, what keeps you away from actually going and raising equity and just fixing that balance sheet problem, and then, you know, getting investors focussed again on the longer-term growth story?

Mark Wilson

Well, that's not a conversation we're having. We're looking to execute the plan. We're looking to deliver on this larger second half. You know, that's why we put that revised guidance out, to give absolute clarity that we're focussed on the brand, not on chasing volume. In doing that, then, we give ourselves a very good chance of executing against the plan we had for the second half. So, you know, there's our major focus. As I've said, if we need to come back, we'll come back to markets that understand us, which is the debt markets, at the moment.

Kai Mueller

I mean, I'm just putting it into perspective because obviously, the bonds are trading at a 10% yield by now. You know, I wonder, if not, equity routes would just fix the problem in one go and then you can move on from here.

Mark Wilson

Look, Kai, these are not conversations that we're having. We're focussed on execution, as I've said, and if there is a requirement for us to come back, then we'll do it via the routes I've described.

Kai Mueller

Okay, thank you very much.

Mark Wilson

Thank you.

Operator

Thank you. Our next question come from the line of David Larkam from Numis. Please go ahead, your line is open.

David Larkam

Hi there. On the, sort of, working capital in the second half, obviously we expect the inventory to come down, but with the big Q4 anticipated, what should we expect happens to receivables, particularly after last year?

Mark Wilson

So, I mean, the receivable issue last year was driven by the supplier issue that we had, that was well-communicated, and the fact that, ordered cars had to be compacted into a much shorter period than we would normally have liked. That's what drove that receivable issue. We should expect normal receivables as we go through year end. I mean, I would say this, receivables over every year end since I've been here have always been slightly above the run rate because of the time of year that it is, and the fact that as you come into that seasonally large fourth quarter, often that's the business model. But normal service, we're not expecting any supplier issues this time around. So, I don't expect that we will have that level of receivables increase.

Andrew Palmer

One of the reasons I majored on supply chain management in my part, obviously, the three very operational points I talked about, supply chain, cost reduction and dealer management. The supply chain issues that we saw at the end of last year, we've taken huge amounts of efforts to try to make sure that they're not repeated. So, so far so good. The management of the supply chain is quite precise and we have better focus or better visibility of suppliers that are having some troubles.

David Larkam

Okay. I don't know if you can give us some help on what the CAPEX number for next year might look like?

Mark Wilson

No David, we haven't been specific on that, as I said earlier. We'll consider our 2020 guidance and update the market in due course.

David Larkam

You've got to try. Okay, thanks.

Mark Wilson

Of course.

Operator

Thank you. Our next question comes from the line of Brian Stunioso from Creditsights. Please go ahead, your line is open.

Brian Stunioso

Hi, thanks for taking my question. I was just curious, if we go back to the DBX, I was looking at the DB11 and, you know, there was also a US inventory destocking at that point. So, getting it clear, kind of, looking at working capital build, heading up into a major product launch is a bit difficult. So, I was wondering if you'd give a little clarity on the DBX and the working capital development on that alone, excluding all the other inventory reductions and other working capital ins and outs, heading up to the first delivery, coming in 2020. Thanks.

Mark Wilson

Yes, sure. So, obviously on any car launch, you would expect to see inventory stock of parts building ahead of the launch. You will see some of that in Q4 of this year, but significantly into Q1 next year, when you would expect to see that inventory build. Then, you will obviously fill the chain, you'll fill all the line stations at the St Athan factory and as we've said, into Q2, you start relieving the chain as you take finished goods off the line and you supply them into the network. Of course, the first cars supplied are not to the customers, they are to the dealers. Each dealer has to have one showroom car, one demonstrator, and we have 162 dealers worldwide, so it doesn't take a great leap of faith to understand it's, sort of, 324-ish cars coming out. The first 324 go to the network, there will be some marketing cars and then customer cars flow thereafter. Those network cars are paid in full, clearly, they're for cash purposes treated exactly the same as a customer car. But you should expect some modest build as we come through Q4 of stock on the shelves, and then into Q1 as we drive and ramp the factory up.

Brian Stunioso

That's great, thanks.

Operator

Thank you. Our next question come from the line of George Galliers from Goldman Sachs. Please go ahead, your line is now open.

George Galliers

Thank you for taking my call. Earlier, you spoke about efficiency benefits that you were looking to target as you go forward, could you give some examples of what kind of actions you're taking and, you know, if possible, what the P&L impact might be from those, through the second half?

Andrew Palmer

I won't go into detail of the impact but obviously they're concentrated. Liberate, which is the project name that we use, is basically about liberating cash. So, first and foremost, there is a strong look at ensuring that we've scrubbed the CAPEX with all of the efficiencies that we're seeing coming through. So, that's key because the worst thing is that we cut CAPEX that we might not have spent, because of the efficiency. So, that's first scrubbed through. There are then a number of non-essential projects which we've retimed. So, first key point. Second key point, obviously we're looking at the key components of working capital. So, we're looking at reducing inventory, where it's not necessary creditor management, and obviously collection of receivables, all the normal stuff that you would do. Enhanced use of what we call COCA, "carry-over-carry-across". So, stuff that you've already invested in, making sure that you continue to use that. Then, finally, the restructuring of the SG&A costs. An example there is overseas travel stopped where not necessary. The recruitment freeze, where not necessary. So, basically, as we go forward for the rest of the year, you can imagine that the plan assumed that we were recruiting quite a number of people. Now, unless, it's direct to line, in other words, to build cars, that's frozen, as is overtime. So, all of the normal levers that you would pull, in order to reduce costs is passed to the absolute management. You know, we call it lean management but it doesn't matter what it is. It's all about making sure that every penny that we spend is a necessary penny.

George Galliers

Okay, thank you. Another question, just focussing on the cash, if I look at your payables, they're north of £700 million, and I understand that does include, you know, a couple of hundred million plus of deposits, but of those payables, can you give any indication of, you know, how much trade payables due are, over the next three months, and then also over the remainder of the year?

Mark Wilson

Obviously, because we don't wish to get drawn on the balance of deposits, then obviously giving you the corollary would give you the other. So, look, that is normal and as we expected it to be, those deposits have grown. Trade payables are, and have been for some time now, broadly consistent. So, I don't think there's been a significant move one way or another which wasn't expected.

George Galliers

Okay. Then, just following also on Thomas's question around production, as I understand it, Gaydon was running at an annualised run rate of around 7,000 units during the first half. Clearly, given your new guidance, it would suggest that needs to come down. So, is it correct that production will be down sequentially, second half on first half? And also that, given the inventory you have today, production will likely be down year-on-year, in the second half also?

Mark Wilson

So, sequentially, yes. Clearly, as I said, the factory likes to produce at a regular cadence, to the half year point. As would be normal, it's produced at a 50% cadence to deliver the original plans we had. So, yes, your sequential analysis is correct. In terms of year over year, I think it would be marginal, one way or another. Obviously, our guidance, our mid-range of guidance, corresponds closely to where we were last year as well. So, I think what this is really about it is making sure that the factory in Q3, but significantly in Q4, is tuned to the right run rate. Accepting that's one factory, for the other factory, we'll be going the other way. The new factory in St Athan, as we come into Q1 next year, will be gearing up and obviously moving the other way.

George Galliers

Great, and one final one. You talked about the cadence of the specials through this year, can you just comment on the year-on-year Special effect, if we compare the second half of '19, to the second half of last year?

Mark Wilson

Yes. Actually, you've reminded me, and thank you, there was a question asked earlier about Q4 specials, we have a number for that. It was 75. Just to orient you, giving a specials number is often a little misleading. Why? Because those specials can be wildly different in price and margin. Those 75 specials in Q4 of last year, were primarily Zagatos, so Vanquish Zagato variants, and a handful of DB4 GTs. At a, relatively speaking, lower price and lower margin than you would expect those DB4 GTs in the final quarter to be, accepting those DB4 GTs there are fewer of them. So, that's the kind of dynamic into Q4.

George Galliers

I think there was an earlier question about Q2 last year but I was asking specifically about H2 '19, versus H2 '19, so including the third quarter.

Mark Wilson

I see. So, pretty much all of our specials, which are dominated by the DB4 GT Zagato, they are going to come in Q4 of this year, so there are nineteen of those cars and that's going to make up substantially all of the half two volume. There may be one or two others, but substantially, that is the 2019 number. The Q4, 2018 number, as we've just disclosed, was 75. The Q3 number we're just looking up at the moment. So, give us a moment and we will answer it before the end of the call.

George Galliers

Thank you.

Mark Wilson

Right, we'll answer it even quicker than that, it's 15. So, you had 75 plus 15, so 90 in half two, last year.

George Galliers

That's great, very clear. Thank you.

Operator

Thank you, we have now reached the end of our Q&A session, and the last question comes from the line of Ashlee Ramanathan, from Redburn. Please go ahead, your line is open.

Ashlee Ramanathan

Good morning, team. Thank you very much for taking my questions. Just one on the DBX and with respect to the sentiment we're seeing at the dealer level, how much longer do we need to see a deterioration in this sentiment before we take a haircut to the 4,000 units in the first full year of production? What I'm getting at here is, you know, post the post profit warning, you know, obviously this has been widely covered in the press, are we seeing an impact on customer demand, and can we translate that through into peak sales at the DBX? Thank you.

Andrew Palmer

I'm going to reiterate that, in terms of customer demand, we're 26% up in retail. So, we're not seeing a decline, we're seeing a growth, and basically, predominantly, in Europe and UK. I just want to reiterate that because we saw that somewhat misunderstood. We're growing. We're just not growing at the rate we wanted to in wholesale. In terms of the DBX, I'm better able to exactly answer your question by taking orders. We start taking orders in Pebble Beach in a couple of weeks' time and we run that through to the end of the year. The cars that are in the plan for production next year are basically the maximum number of cars that we can build. Obviously, our expectation is that there are significantly higher customer demand than we can build, based on everything that we've seen from Bentayga and particularly, of late, from Urus. So, you know, that's where we are for next year, which is why, as Mark said, we're not changing our outlook on DBX.

Ashlee Ramanathan

Perfect, thank you very much.

Andrew Palmer

Thank you.

Operator

Thank you. This now concludes are Q&A session and I'll hand to back to our speakers.

Andrew Palmer

Thank you everybody. Mark just wanted to clarify one point, so I'll hand to him.

Mark Wilson

Yes. Forgive me, in the charge for numbers and in answering this specials question, I just want to read you the specials volumes, because I think we may have just got them a bit wrapped around our neck there. So, half one specials 2018 was 95. Half two specials 2018 was 90. Of course, we've already given you the half one specials for this year, which was 36. And the half two specials will be around 29. So, those are the four numbers you need. So, apologies for any mix up but we thought it was worth just reiterating at the end of the call.

Andrew Palmer

Just to conclude, obviously you've seen from the results, from the announcements this morning, SMMT yesterday, that the markets are tough, almost everybody's down. I'm going to reiterate, we were 26% up. 6% up in wholesale. But that 6% up in wholesale wasn't as much as we think that we need to complete the plan. We're reflecting on the sentiment of Europe and UK and we're trimming our wholesales to suit. We're cutting our costs to suit that new outlook. Difficult times, but we think we're taking the appropriate action to protect the brand. I thank you for your patience. I thank you for listening.

Operator

This now concludes our conference, thank you for all for attending. You may now disconnect.