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Presentation

Operator

Hello and welcome to the Aston Martin Lagonda Q1 2019 Investor Results Call. Throughout the call, all participants will be in a listen-only mode and afterwards there will be a question and answer session. Please note, this call is being recorded. Today I'm pleased to present Mr Mark Wilson, Executive Vice-President and Chief Financial Officer. Please begin your meeting.

Mark Wilson

Good morning everybody and welcome to the Aston Martin Lagonda Q1 2019 Results call. Firstly, I'm going to take you through the presentation available on the IR section of our website and then, of course, I'll be very happy to take your questions from there.

Turning to the Q1 highlights: The key message for the quarter is that we remain absolutely focused on continuing to execute the second century plan, building on the progress we have made since its launch in 2015. We are now firmly in phase three of the plan, portfolio expansion, we are on track and we are progressing well. Customer demand for our range of sports car continues to drive our growth and you will, of course, see that we have now taken firm steps to deal with the supply chain issues and consequent stock position at the end of last year. Set against a backdrop of weak automotive market trends; a weakness which is stretched out, in fact, to impact everyone below the luxury segment, we feel our sales results underpin our luxury credentials as growth in both wholesale and retail units continues.

So, Q1 seasonally is small and this year is no different. And just to touch on some of the key metrics: Revenues at £196 million, up 6% over the prior year, driven by increasing wholesales, improved personalisation and the sale of new GT3 and GT4 race cars. Despite this growth, gross profits flat at £83 million reflecting fewer specials; the impact of the lower margin Vantage and the shift to V8 variants, remembering of course in the same period last year we were selling almost exclusively DB11s.

Adjusted EBITDA at £28 million was down versus last year, driven entirely by planned fixed cost increases supporting our product expansion; the growth of the brand; and, of course, the growth in our operating footprint ahead of the DBX launch next year. D&A at £31 million, consequently also up in line with plan, reflecting of course the three new vehicles brought in since last year. And, accordingly, therefore, at adjusted operating profit level, we delivered a moderate loss of £2 million.

Core wholesales: Up 12% and with fewer specials year-on-year, total wholesales were up 10% with continued strength in the Americas, Asia Pacific and China offsetting continued challenges that we see in Europe and the maturity of the UK market.

For the first time in this set of results we're also talking about retail units and we're doing that specifically in the context of the supply chain disruption we experienced last year and to demonstrate that we are taking the right steps to manage the business in the right way for strong and profitable growth in the future. Those retail units were significantly ahead of the prior year – up 39% globally and well ahead of wholesales in the quarter and, of course, the net effect of the retail rate running well ahead of that wholesale rate, is that we significantly destocked our dealer network, returning to more normal levels of inventory and therefore dealing with a lot of the commentary we received from you at the end of last year.

So, it's also important that we contextualise that retail/wholesale dynamic. Of course, in a growth business, and over time, you would always expect wholesales to run ahead of retails. We expect that trend from Q1 to continue through Q3 this year, before it starts to invert a little as we go into the launch of DBX, next year. And as you would expect when we launch DBX, we'll be stocking the dealer network and the wholesale trend will run further ahead. On which, preparations for DBX are firmly on track: the first production build we told you about, in February, it commenced, as we said, on the 15th of April, and as previously communicated. And I'll come back on the DBX with more colour and detail later in the presentation.

The Geneva Motor Show at the start of March was our platform to reveal the fifth and sixth core cars in the seven-car line-up. They received an extremely positive response from customers, investors, the media alike. Car number five – the mid-engine super car – bringing back the Vanquish name to the brand and, of course, car number six: The All-Terrain Lagonda SUV. And you will remember that this marks the relaunch of the brand and it will be our first car for the first fully electric luxury car brand in the world.

And finally, and by no means least, our special edition cars continue to be in high demand, with the most recent special AM-RB 003 concept also revealed at Geneva, receiving significant attention. That car is now over-subscribed.

Turning to wholesales and just looking at those in a little more detail. The geographic wholesale trends seen towards the end of last year continued into the first quarter of 2019. There was significant positive momentum across both Asia Pacific and the Americas, resulting in 30% and 20% growth respectively. Within APAC, China remains a key growth market for us and this quarter – wholesales up 29% – was no exception. This was balanced by a softer quarter in Europe and the UK, both down year-on-year. These two regions were the most exposed to the late December deliveries due to the supply chain disruption we've previously detailed, and in particular in Europe continue to show less favourable macro-dynamics. The UK dynamic, of course, being related to the maturity of that market, where we already have a very high market share.

Turning to average selling price: ASP – you can see that in the bottom left corner of this slide. The core model ASP was £149,000 compared to £160,000 last year. As expected, given the model shift towards V8 variants, and, in particular, Vantage itself. Looking at the sequential move, ASP was up from £138,000 in Q4 with those Vantage sales being offset by the strength of the DBS Superleggera. A positive geographic mix and higher personalisation and option uptake rates also contributing favourably. Total Group average selling price was £160,000 versus £177,000 in the prior year. The major difference there, of course, being more specials in the prior year, 48 last year compared to the 32 this year. Again, as we expected and that will continue through Q2 and Q3 until the DB4 GT Zagato continuations arrive in Q4. Q2 and Q3 being almost no specials in those quarters. And of course, that product, the DB4 GT Zagato continuation provides the bulk of the specials in the year.

The net results of volume growth and average selling price led to modest growth from vehicle sales along with growth in the sales, parts and services, reflecting obviously more cars in circulation and income from brands & motorsport and, as I say, sale of those race cars we talked about earlier. All of this delivering 6% revenue growth year-on-year.

Turning to key profit metrics. Below the top line gross profit was stable at £83 million year on year. The gross margin of 42%, lower than the 44% in Q1 in 2018, largely due to those mix factors and ASP factors I described previously. Adjusted EBITDA at £28 million – 14.4% margin was down from £44 million in the prior year as we continue to invest for long-term sustainable growth in the cost base. Looking at the chart you can see a clear read-through, the positive contribution from additional wholesales offset at the gross level by lower core average selling price and fewer specials. £18 million of planned cost increases reflects our continuing investment in DBX and running costs of St Athan, continued marketing and sales spend, supporting the residual launch of Vantage and DBS, de-risking of the supply chain, spend on motorsport, and, of course, versus last year, PLC-related costs that we didn't have in 2018. Then, a positive exchange impact of £5 million, primarily due to dollar:sterling and some euro movements and a £3 million benefit from the first-time adoption of the IFRS 16 standard.

Moving down the income statement to depreciation and amortisation. This increased 41% to £31 million, representing almost 40% of the total operating costs for the quarter which were £85 million in total. And this increase, mainly due of course to the number of products currently available and with three core models and the DB11 Volante in production, is in line with the charge we saw in Q4 2018, which was of course the first quarter with all three of these core models selling. Overall, these costs leading to an adjusted operating loss of £2 million with £1 million of adjusting items relating to pre-IPO, long-term employee incentives as we discussed at the prelims and these adjusting items will total £4 million for the full year.

Finally, as you would expect from a business close to SG&A maturity, we're taking a firm line on costs with a view to ensuring we both drive efficiency and effectiveness into the business as we look forwards and you'll see some of this benefit come through at maturity in the second half of this year.

So, moving out of the income statement towards cash and net debt and onto this slide, starting on the left the main working capital movements in the quarter were positive and they relate primarily, as you would expect, to the unwind of the majority of the £90 million receivables build-up that we discussed during the prelims; £64 million of that total has now been collected.

That is partially offset by an inventory outflow as we increase factory inventory representing a rebuild from the low stock level at the end of the year. And of course, you need an understanding the manufacturing dynamic here maintaining optimum run rate during a seasonally small quarter of deliveries, you'd expect, of course, for us to build ahead in order to meet our volume aspirations for the year. Final thing to say on inventory, approximately £5 million of that inventory increase relates to the Brexit stock we discussed before, moderate but negligible frictional costs in the P&L associated with that but carrying around £5 million of inefficiency for contingency stock and we'll continue to work at that heightened level until more certainty on Brexit is seen. Finally, a small working capital benefit from timing on creditors, which we would expect to reverse as the year goes through. CAPEX £10 million lower than the prior year at £78 million, largely due to a combination of timing of new product launches. Clearly last year, we were heavily into Vantage and late stage DBS. And also R&D spend on new programmes ramping up more slowly than we've seen in the prior year. This is clearly a dynamic we've seen in previous quarters as well as you start programmes. Spend on CAPEX and R&D is expected to accelerate to the second half, although it's now expected to be at the lower end of the previously guided range, which was £320-£340 million.

So overall, a £17 million cash outflow since the year end versus an outflow of £72 million in the prior year. Period end cash balance at £128 million up from £96 million last year. Moving on to the right hand side, that that reduced period end cash balance and increase in loans and overdraft, primarily relating to back to back facilities to extract currency from China and on the water funding for cars in transport, resulted in a £30 million increase to net debt at the end of the period with leverage at 2.6x LTM adjusted EBITDA, up from 2.3 times last year end. And this follows the same intra-year trend as seen previously, with the business consuming cash in H1 and balances generally restoring during H2. It's also worth highlighting the technical decrease in net debt year over year, of course, following the conversion of the preference shares to ordinary shares at IPO, obviously a technical dynamic on a year over year basis. Including the pro forma look at the first time adoption of least liabilities per IFRS 16 of £112 million, net debt at the end of the period was £702 million.

So to close on the financials. Immediately following the period end on 1st April we issued $190 million of 6.5% senior secured notes. This capital increase allowing flexibility in the investment portfolio, expansion throughout phase three of the Second Century Plan, underpins resilience, and provides us with a more robust funding position. Post the new issue, leverage was unchanged at 2.6%. And we updated of course, interest guidance for the year to approximately £63 million reflecting that issue at the time.

Secondly Brexit. As I say, we see nominal frictional costs in the quarter built approximately £5 million of inventory. Now that we've had Brexit timing moved to October we plan to build resilience and contingency in the same way, just over a slightly more extended period. And so we maintain our previous guidance in that respect.

And finally, as we look towards the end of June, we expect adjusted profit to be lower year on year in the first half, principally due to the non-repeat of the £20 million consultancy contracts and fewer specials. And in addition, of course the fixed cost run rate for Q2 remain in line with this quarter supporting those growth ambitions. A lower run rate as we drive efficiency into H2 can be expected thereafter. It's also worth reminding you of the seasonality of our core cars which tend to build from Q1 into Q4 and we expect this year to be no different, and in addition this year the Specials cadence as I've mentioned, with almost zero specials in Q2 and Q3, primarily to support the ramp-up of the of the much-anticipated Aston Martin Valkyrie, prototype build and ramp-up into production. And also as we develop products for inclusion in the upcoming Bond film, Bond 25. Specials of course, therefore being heavily weighted towards Q4 with the DB4 GT Zagato continuations accentuating that seasonality. In terms of the full year we are on track with our plans and at this early stage we expect to deliver in line with market expectations.

And before I go to questions, I just like to spend a moment on a couple of strategic highlights.

First, on new products we've opened the roof on the DBS Superleggera with the Volante due to ship in Q3. This car delivers all the evocative talent of our critically-acclaimed Super GT flagship and blends it with class leading convertible technology. Secondly, Q4 will see the first manual for the new Vantage. We said that we would always do manuals and we are sticking to that promise with a motorsport-inspired seven-speed transmission, featuring a dogleg first gear. That car is limited to 200 units and 59 of those crafted in celebration of the 60th anniversary of our triumph in the 1959 24 hours of Le Mans with of course, the iconic DB-R1. Vantage will continue to feature a manual gearbox as an option to all cars from Q1 of 2020. The Rapide E was revealed at the Shanghai Motor Show to great acclaim and development of this first electric car continues apace. I'm sure you will have all seen the dynamic reveal at the Monaco ePrix last week. We've also commenced the initial prototype build of the Aston Martin Valkyrie, following the reveal of that car in its full trim at Geneva. There's an extensive program of dynamic events planned over the summer with a dedicated period of testing, building into the final stages of the year. The first delivery of that first car is planned for later this year and a progressive ramp up then sees deliveries building towards run rate maturity from Q2 2020.

Just worth also touching on the progress that we've made to further de-risk our supply chain. Obviously, that was a topic for us at the end of last year. And of course, you remember Andy talking at the prelims about the recruitment of a new supply chain head reporting into him. As you might expect, John's been pretty busy. We have now put purchasing and supply chain together amalgamating a skilled supplier improvement resource with the operational team to ensure it's deployed in the right place on time and crucially, early on in the process. We've further strengthened the highly-skilled rapid reaction team that we are able to deploy to resolve chronic issues quickly and effectively. And finally, we've made significant improvements to early warning processes and systems giving us a better feel for suppliers close to distress so we're better able to respond in a timely manner. There are of course many more projects going on in supply chain management. We wanted to give you an idea that we have taken significant steps in progress in that respect since the end of last year.

Moving on to the future of our business, I know, a topic that all of you are keen to hear more about. Whilst we were able to see many of you at Geneva, I know not everyone will have seen what cars we presented there. So, it's just worth touching on the three design concepts revealed to the world, which generated an outstanding response. The stand at Geneva was packed all day, every day. Starting on the left, the AM-RB 003 special edition, with coupe volumes strictly limited to 500 units, at around a million pounds a car, and for which as I said earlier, we are now oversubscribed. It is tricky to work out who to prioritise in that list, I guess you would say a nice problem to have. The car is part of the mid-engine Valkyrie bloodline of course, continuing our successful partnership with Red Bull Advanced Technologies, and it will be the first car to have our new Aston Martin designed, UK manufactured hybrid, V6 turbo engine. Next, in the middle is the core mid-engine car, bringing the Vanquish name back to life, car five in the seven by seven by seven plan. Not only does this car clearly demonstrate our commitment to our love of beautiful, but as you would expect it delivers the highest technical specification, has a variant of that new V6 from the 003 and the reveal of that production car will be next year. This one of course being a concept for now. The third car on the page is the Lagonda All-terrain vehicle, number six in the core car line-up, marking the relaunch of the iconic Lagonda brand. And we plan that to be the world's first all-electric luxury brand, designed specifically to disrupt the duopoly that exists currently in that segment. The global reveal for this car is planned for 2021.

Importantly, last but not least, touching on the next critical inflection point for this business, the DBX. The message here clearly is that we were on track and we remain on track, consistently hitting our milestones towards the start of production from half one of next year. Testing is well underway with activity in multiple locations, including cold weather testing in Sweden, sound and cooling tuning at Silverstone, breaking and slip control at our test centre at the Nürburgring. The first production trial started, as I said, as planned on the 15th of April. Those of you who follow us on Twitter will have seen the tweet that morning and those since. We started customer clinics on the car with a very encouraging response including favourable comparisons to competitor products, high scores for design, dynamics and utility. And as a reminder, we start the build of that order book from September with the global launch unveiling to the world in December. Of course, not forgetting the factory that is able to make those cars is continuing to progress at pace. The test track is now complete. We're putting DB11s through the paint shop as we finalise testing on that facility. The new access road to the site, a direct access road from the main trunk road is now being built. The site is now home to over 200 people, including 90 who have been training alongside our Gaydon teams for the past two years. And these employees start to now extensively and significantly test the manufacturing processes in the next few weeks, as we progress taking the assembly from the Wellesbourne facility through the various manufacturing stages. There's still a lot of work to do, but we remain on time, on budget and the car is coming together as we expected. We will of course keep you very up to date with our progress.

So to reiterate, in closing, before I take your questions, we had really strong retail growth, good wholesale growth, are taking the necessary steps to answer the criticism of stock levels at the end of last year, costs are in line with expectations for a growing business. We're comfortable with consensus and our guidance is unchanged and we have a heavy weight to H2 exacerbated by specials and helped by SG&A maturity. And with that, operator, that concludes the more formal part of the presentation. I'm happy now to take questions.

Q&A

Operator
Thank you. Thank you, ladies and gentlemen, if you do wish to ask an audio question, please press 01 on your telephone keypad. If you wish to withdraw your question do so by pressing 02 to cancel. Once again, please press 01 to register for a question. There will be a brief pause while any questions are being registered. And our first question comes from the line of Thomas Besson from Kepler Cheuvreux. Please go ahead. Your line is now open.

Thomas Besson
Thank you very much. It’s Thomas Besson from Kepler Cheuvreux. I have three questions, please. One on the retail figures, please. We’ve covered it I know but any more granularity you could give us on retail figures beyond the absolute 39% gross you gave for the quarter? Can you give us an indication of retail growth for 2018? Or give us some general geographic granularity of the 39% by region in Q1? The second question is on the DBX. I'd like to know if you could confirm both the date of the commercial launch and the date of the first deliveries, which I assume would take place either in the UK or in Europe. Thank you very much.

Mark Wilson
Yeah, thanks, Thomas. In terms of more granularity, look, we saw really, really strong retail growth in the US almost doubling. All regions we were pleased with, some, obviously you work out, were below the average but generally looked good, and across the board we are pleased. We're not going to give specific granularity. But we think the retail rate at its own level +39% globally, speaks strongly for itself.

In terms of DBX, we've said that commercial launch is around September, the early part of September. And we said the worldwide reveal when the public sees that car is December. What's the difference between the two? Well, fundamentally, that's the time we then have with our prospect list, our black book, if you like, to show those people in a controlled and appropriate environment what the DBX is and what its capabilities are and start the build of that order book. So those are the two differences between those two dates. I think we said, well I know we said, that we expect deliveries of the DBX to commence in Q2 of 2020. We haven't been specific on region. But of course, it would be entirely logical to assume that just for geographical purposes, and distance between factory and end customer, you will probably see the first cars in the UK and Europe and then once they're off the boats, the US and China and beyond.

Thomas Besson
Thank you.

Operator
Our next question comes from the line of Kai Mueller from Bank of America Merrill Lynch, please go ahead. Your line is now open.

Kai Mueller

Hi, thank you very much for taking my question. The first one is on your employees for the new St Athan factory. You mentioned you have about 200 people working there now, full time. Can you give us a little sense on terms of the cost headwinds. That is, in terms of a margin and absolute number for the full year? Obviously, you showed that planned costs step up. How do we have to think of that, especially in line of your confidence that you are going towards where street estimates and you're guiding the market to? The second point is on your V6 turbo engine, hybrid turbo engine that you mentioned. You’ve designed this you know, for the launch of the AM-RB 003. Is that an in-house engine? Or in what relationship is that to Daimler or is that fully done by you? Or where do you source that from? And the last one would be on Specials. You mentioned now obviously the new AM-RB 003, 500 units at £1 million. That's obviously quite a significant step up in terms of the units and in terms of the price points versus some of the prior versions you've been selling. Can you give us a bit of an idea when those revenues should be coming? And how you actually think off the split of your specials, revenue and earnings contribution compared to the rest of the group going forward in light of some of these launches.

Mark Wilson

Thanks, Kai. Yeah, so touching on expenses at St Athan at the run rate, clearly, those are headwinds to us at the moment as we ramp up our growth at St Athan and the people there, and clearly no product coming out of there until Q2 next year. We haven't been specific on the quantum of those expenses. But those St Athan expenses will continue to ramp up as we go through the year. But of course, also as we go through the year, we get a benefit in maturity of SG&A spend as we bring down the intensity of marketing in the second half. Remember that we had to launch Vantage and DBS, two core products in the second half of last year, where we don't have that significant product launch, we start the process of DBX but in terms of cost intensity, that helps support the weight of the St Athan expenses, but we haven't been necessarily specific on those numbers.

In terms of the V6 turbo, yes this is an all Aston Martin in-house designed proprietary engine, there is no relationship with Daimler on that engine. That engine lives today in prototype form. It's being extensively tested as we speak. And we haven't yet revealed where we're going to build it and who we're going to build it with. But it will be in the UK. It's going to be a UK engineered and a UK sourced engine. And in terms of specials, you'll see the first revenues for that 003 coming through in 2021.

Just to pick up a sort of point you made rather than the question you asked in terms of volumes, that's entirely in line with the price volume dynamics that we would see for the competitor set at that level. And clearly, you will have in mind cars like La Ferrari, you will have in mind cars like the McLaren Senna. And of course, the 918, that car is some years old now, nearly 1,000 cars in its product lifecycle. So I think in terms of volume, we're very comfortable with that. And of course, the pricing dynamics also supported at that level and are reflective of the Valkyrie bloodline, and the significant demand we see from customers at that price point for cars like that. So you will see the first revenues for that car later in 2021. In terms of specials earnings, what we have said is two specials each year, every year, clearly one of the things you will see with Valkyrie is it will have a bigger overall impact on some of the numbers, certainly at the top line as we go through the period. And we expect that specials cadence to normalise in terms of its impact on the P&L as we go through the latter part of or the starting part of the next decade.

Kai Mueller

Perfect and maybe just to follow up, you mentioned obviously Q4 will be the quarter for your Specials delivery. Can you give us a little bit of an idea of how many of your Valkyries, of the total, will get shipped still in 2019, verses then 20 and possibly 21?

Mark Wilson

And so what we've got coming in Q4, clearly DB4 GT Zagato is the major player in that quarter. You know that's the first part of the twins specials. You know what they sell for, and therefore I guess you can work out that that's a high transaction price car. What we said about the Valkyrie. We said all along that there wouldn't be a significant impact from the Valkyrie in this year's numbers, you will see maybe an early delivery. And we said that then there's a gentle ramp-up into the start of next year as we hit full production cadence for that car. Remember that car is not built on a production line, it's an extremely specialised car, built in race bays at our special projects Wellesbourne facility. So the ramp up is a longer term ramp up. And it's actually part of the reason, the Valkyrie ramp up, that we are not doing any specials in Q2, and Q3. We want to give the operational teams the very best opportunity to work with the prototypes and the production ramp up for that car.

Kai Mueller

Okay, thank you very much. Maybe this last one on, you said Q2 / Q3 you're working for the new James Bond movie. Are you getting compensated for these models?

Mark Wilson

We never talk about our relationship with Bond other than to say it's an extremely positive relationship. It's a long term relationship, we've been there since Goldfinger in 1964, but what I can tell you is we don't pay to be in that movie.

Kai Mueller

Okay. All right, thank you very much.

Operator

Our next question comes from the line of Giulio Pescatore from HSBC. Please go ahead. Your line is now open.

Giulio Pescatore

Hello, thank you for taking my question. The first one on personalisation. You mentioned that the personalisation take increased in the quarter. Can you maybe give us an idea of where you stand now in terms of percentage of revenue? The second one on the DBS. So, you're launching the Volante edition in Q3. Does that mean that as a whole the DBS will pass the 1,000-unit mark that you initially indicated as a maximum output for that model in 2019? And the last one on the Vantage, it was maybe my understanding that you were going to launch a Volante version of the Vantage as well this year. I don't know if that was the initial plan but has there been any delay that we should be aware of? Thank you.

Mark Wilson

Thanks Giulio. In terms of personalisation, most of the uplift came from the fact that obviously we had a greater intensity in the quarter of DBSs it's a higher ticket price car and we tend to see greater levels of personalisation on that car than we do on others, for example such as Vantage, so you see a sort of run rate of DBS. People spend more on DBS than they do on any other car I think is the point there. I don't think we've ever given specific guidance on exactly what the quantum is of individualisation revenues, but they grow and they're strong. You can probably back-solve in many respects. DBS Volante and DBS itself this year is strong on volumes. I think we see that car as well, the DBS Volante, coming on time as a minimum and we're doing everything we can to accelerate it. In terms of overall volumes for the year on DBS and DBS Volante, you're probably not a million miles away from where our expectations are. And, in terms of the Vantage, the Vantage Roadster, we don't call it the Volante we of course call our open-top Vantages Roadsters, the reveal for that car is this year.

Giulio Pescatore

Okay, thank you.

Operator

Our next question comes from the line of Daniel Schwarz from Credit Suisse. Please go ahead. Your line is now open.

Daniel Schwarz

Yes, thank you. My first question would be on the guides for the first half. You said EBITDA down in the first half principally due to the non-repeat of the £20 million effect from last year. After Q1, would you say that first half is down, cost at least, as much by the operating performance? What I want to know is the decline from your operating side, is that still expected to be less than £20 million? And the second question would be on the seasonality. Q1 revenues is just below 16% of the full year consensus. Could you explain a bit more what's driving these significant seasonality's? I know at in 2018 you see similar effects but just not that significant. And then last question, the strong wholesales in the US, is part of that built up of inventory before potential tariffs or is it just driven by retail demand?

Mark Wilson
Yeah, thanks very much, Daniel. I'll go back to front there. The easy answer is that in the US, no, it is strong retail demand. There's no build up ahead of tariffs at all and in fact a lot of what we're doing in the US is because the brand is getting significant traction and we're getting the retail offerings right and we are encouraged by performance in the US.

In terms of seasonality, the seasonality we have, the selling season, the shape of the year, is very much similar to what we see with this business in most years. It's exacerbated of course by those DB4 GT Zagato continuations in Q4, but the relative quantums are in line with what we've seen previously. Q4 is always a strong season for core cars for us.

And in terms of the first half, you should expect broadly the operating performance you've seen in Q1 to continue through Q2, minus of course that non-repeat of the consultancy income and that's why since the start of the year, we've been calling out H1 as being expected softer with a skew towards H2.

Daniel Schwarz
Okay, thank you.

Operator
Our next question comes from the line of Jose Asumendi from JP Morgan. Please go ahead. Your line is now open.

Jose Asumendi
Morning, Jose from JP Morgan. Good morning Mark and Andy. Three items please. Can you comment please on your expectations for geographical mix over the coming quarters if you should expect a similar pattern to Q1? Second, clearly, for me at least, the market is not believing at all in your EDITBA market guidance for the year and you're making a clear statement that you want to be around 13%. So, going back to this margin quarterly cadence that we have, can you maybe just help us understand a bit more the D&A pocket for 2019 on an absolute level or a quarterly basis? Just roughly how should we think about that? Should we just multiply by four the increase we have in Q1? And then, on this other operating expense, can you maybe just comment a bit more on the other two pockets that we have there, the marketing expenses and the higher number of workers. How should we think about the expenditure over the coming two quarters? Final question will be please on the leverage for the company. How do you think the leverage could progress going forward? What is your year-end target in the light of Q1? Thank you.

Mark Wilson
Yeah, thanks Jose. Just in terms of geo-mix in the coming quarters, we've obviously had strong demand in the US, APAC and China. We expect that to continue. We are driving towards those markets that have performed less strongly and looking to see where that recovery is going to come from so you may expect a slight shift

back towards those other markets as we go through Q2, but broadly we expect the trend that you see now to continue.

In terms of guidance and D&A specifically, D&A I think where you are in Q1 is a reasonable proxy for the rest of the year but of course remember that in Q4 you've got those Specials. Remember that our D&A policy is over years, it's not over car units, and of course therefore the delivery of those DB4 GT Zagato cars is going to impact a bit higher D&A in Q4, but otherwise normal run rate.

In terms of expenses, let's just talk about those SG&A expenses. Obviously in the first quarter, and we will expect this in Q2 as well, you've got a trend of ramping up in St Athan and you've also got the residual marketing expenses associated with the Vantage and DBS launch. As you come through into H2, those marketing expenses, as I've said earlier, are less intense because you don't have those two huge launches. We are spending on DBX of course, but in terms of bigger product launches the intensity is less and therefore we get a benefit. We also get an SG&A maturity benefit. This business sort of matures in terms of its SG&A profile this year, and so a lot of the things we've done historically which have potentially involved outsourced working or consultancy or hired and contracted services, some of those things we've brought back in-house and therefore we will be able to see those cost efficiencies in the second half of the year. I'll give you a tangible example. We use a facility in the Midlands for a lot of our testing. It's called Millbrook. It's quite an expensive facility. You'll have seen last year we now have a facility at Silverstone, it's our own facility, it's less than half the cost of what we do at Millbrook and there are lots of examples of how that SG&A maturity is feeding through into improved efficiency in the second half of the year. So that's why we expect the SG&A run rate to be lower in the second half than it will be in the first half, marketing intensity and more efficiency.

And then in terms of leverage we haven't given a specific target other than obviously we gave some longer-term targets back at the IPO and reaffirmed those at the start of the year. Clearly there's a natural deleveraging as this business grows over time in terms of its growth potential. The next big inflection point in terms of that growth of course comes with the DBX, but we reaffirm our growth targets for this year also. So, my statement on leverage is we expect the business to continue to de-lever. There is an intra-year movement of course and we talked about that at the start of the call where this business tends to consume cash in the first half of the year, tends to build that cash balance back up with static net debt therefore you'd expect leverage to increase as we go towards the half. You saw that last year, and then come down again as we come towards the end of the year building our cash profile accordingly. So, I think those are the four answers to the four questions you asked.

Jose Asumendi
That's perfect. Can you just follow quickly on the Rapide E, the vehicle in terms of unveiling the car and in terms of taking orders, when will you start invoicing for that vehicle?

Mark Wilson
So, obviously you saw that car launch at Shanghai a couple of weeks ago. It had its global dynamic reveal in Monaco last week. Very successful. To great acclaim we had received in advance of that a lot of interest already. That has only accelerated since those two launches. We are filling up the order book as we speak. We are heading forward with that and you should expect to see that car – it's going to hit the income statement towards the end of next year, the start of the year after. That's when the majority of the income statement benefit is going to start coming through.

Jose Asumendi

Thank you very much. Thank you.

Operator

Thank you. Once again, if you do have a question, please press 01 on your telephone keypad now, or press 02 to cancel. There will now be another pause while questions are being registered. And we have our next question from Philip Taylor from Deutsche Bank. Please go ahead. Your line is now open.

Philip Taylor

Yeah, good morning. Thanks for taking my question. Mark, you mentioned that the US demand obviously has been increasing and I suppose with that in mind and the knowledge that it's a market which lends itself more to financing, can you please give a little bit more colour on how you see that developing in that market but elsewhere and where the natural levels are? Thank you.

Mark Wilson

Yeah, thanks Philip. That was a good question. One of the things we are really, really pleased with now is that we've got that retail offer in the US right. I mean the US is, as you say, a predominantly lease-driven market. More than 3 quarters of our Vantage customers in that market, and increasing, look to lease their cars so therefore firstly having the right partner in place, which we now have – we've added a new partner this year – and then having a strong relationship with a residual value agency is really important. That helps us to deliver a compelling proposition and you see that traction being a significant part of the development of the US market and the strength of that market. I'm also pleased that we have rolled out a similar proposition now with FCA Bank and it's Pan-European – very, very difficult to get a Pan-European lease proposition unless you're underwriting it on your own balance sheet – we're not doing that, it's a white label offering, but FCA can offer facilities, Pan Europe, bar the UK of course, and we are rolling out a similar process, or started rolling out a similar process during Q1, and we are optimistic that that will get some traction as we go through the year. Those are the two major markets, obviously the UK as well, the UK we use a different provider, that's a good market. We've had a good proposition in the UK for a while. Financial services is less relevant in other parts of the globe, I think. It's primarily a US / European-driven piece and we are quietly pleased with what we see and quietly encouraged by what's happened in the US.

Philip Taylor

Great, thank you.

Operator

As we have no further questions, I'd like to return the conference back to our speaker.

Mark Wilson

Thank you, operator and thank you to all of you taking the time to dial in this morning. Thank you to those of you who gave questions. That concludes the call. We look forward to keeping you updated throughout the year. Just a reminder, half one results at the end of July. A date to be confirmed shortly. In the meantime, have a good day. Thank you for your time.

Operator

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