Transcription

Aston Martin Q3 results

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07 November 2019

PRESENTATION

Operator

Hello and welcome to the Aston Martin Q3 results. Throughout the call all participants will be in listen-only mode and afterwards, there'll be a question and answer session. Please note that this call is being recorded. Today I am pleased to present Mr Mark Wilson, Executive Vice President and Chief Financial Officer. Please begin.

Mark Wilson

Good morning, everybody and welcome to the Aston Martin Lagonda quarter three 2019 results call. As the operator said, I'm Mark Wilson, and I'm the CFO here at Aston Martin Lagonda.

So first I'm going to take you through the presentation that I'm sure you've seen and it's available on the IR section of our website and then I'll very happily take your questions at the end of that presentation.

So without further ado, moving on to slide one. It's clearly been a very difficult year for us and trading conditions have been tough, particularly in the UK and Europe. Despite this, in the first nine months of the year, retail sales grew in all regions, up 13% globally as we took market share in our segment, which itself is outperforming the wider auto industry. As we look to find a balance between growth, brand positioning and dealer inventories, we controlled wholesale volumes. They are down 3% in the period and 16% in the third quarter on its own, although worth noting of course, the particularly strong comp of the prior year following the full impact of the launches at that point in time of the Vantage and the DBS.

Revenues at £657 million in the year to date were down 7% with a greater mix of Vantage and fewer specials, as we planned and communicated, in addition to those lower core volumes. Adjusted EBITDA at £70 million for the nine months was impacted by the £19 million provision for doubtful debt taken in the first half, as well as costs associated with an improved retail financing offer. Reflecting the seasonality of the business and an increased contribution from specials, £48 million of this EBITDA came in the quarter in Q3. And this resulted in a modest operating profit in the quarter of £11 million.

Cash generation in the year to date was £69 million with sequential improvement in the third quarter, where we generated £48 million of cash from operating activities following an outflow of £26 million in the second quarter. Capex for the year to date stands at £255 million, with the majority of investment for DBX and St Athan now complete. Net debt at the end of the period was around £800 million. The additional bond raise we announced at the end of September closed in October, post the quarter end. We raised $150 million of senior secured notes with an option to draw an additional $100 million to improve near-term financial flexibility.

In terms of the operations, DBX is on track. We're pleased with the reception the car is receiving from its customers. You will have no doubt seen the reviews that came out yesterday. Two new Vantage variants are coming in the short-term: AMR with its manual gearbox and into Spring of next year, the Roadster. Both of those cars will support the Vantage in its life cycle. And we've started to deliver the DB4 GT Zagato

Continuations, as you know a key driver of profitability for 2019. All 19 are due to be delivered by year end and six of those have already been delivered during quarter three.

So moving on. Before we touch on performance by geography, let me say we're generally pleased with the ongoing performance of DB11 models and the DBS Superleggera. However, it's very clear that Vantage has and continues to sell at a rate that is below our original plans and expectations. Despite this, we've been taking share, as I said earlier, from the competition in the segment of the market in which Vantage competes. But of course, it's worth noting that the segment in which it competes is also declining, down 4% so far this year. And, of course, it's also the most economically sensitive of our segments. And in Q3, we hit the anniversary of the impact of the Vantage and DBS Superleggera launches last year, which drove a near doubling of wholesales and retail growth of over 50% in that prior period. So of course, the comparative base has been getting tougher as we progress throughout the year.

Turning to the regional trends for wholesales. The Americas, our largest markets, continue to grow – up 25% year to date and 2% in Q3 despite quite exceptional growth of 185% in the prior year. APAC is stable, with China up 15% year to date and we're starting to see some maturity for our sports cars in China, having delivered a CAGR of 40% in APAC, over the last two full years. DBX of course, we expect to lift those sales going forward. We see China being a critical key market for this car. And the softness that we've been talking about for a year now in the UK and Europe has continued, albeit the slowdown in Q3 was at a lower rate than that in Q2 despite a tougher comparative between those two periods.

In terms of mix you can see from the chart in the top left the V8 / V12 mix remained relatively stable, consistent at around 70% of core volumes in favour of the V8.

Finally, average selling price, the chart in the bottom left. The year to date core average selling price was £136,000 down from £140,000 in the same period last year, principally, due to the costs of the improved retail financing offer, particularly in the Americas, and in addition to the increased mix of Vantage relative to the total. This pressure on average selling prices was partially offset by strength in the DBS Superleggera Coupé and the launch of the Volante building from the third quarter of this year. With fewer specials than last year, 47 units in total versus 110 in the prior period. Total average selling price was down from £157,000 to £147,000. Q3 itself saw an uptick from £144,000 and £151,000 as we delivered six of the high price point DB4 GT Zagato continuations.

Turning to the next slide and to profits. The results from the year to date clearly include the £19 million provision taking in the first half relating to that sale of legacy intellectual property in 2018 that we briefed you on previously. Stripping out this provision, adjusted EBITDA in the year to date was £89 million against £140 million in the prior year on a comparative basis.

So looking at the chart. You can see the most significant impact is the mix shift, £40 million headwind year over year. And, of course, the £19 million of planned cost increases, reflecting DBX and St Athan costs, high marketing support to new vehicles and motor sport spend, in addition to first time PLC-related costs. It's offset by the benefit of the first time adoption of IFRS 16 and a £7 million foreign exchange benefit principally due to US dollar/sterling movements.

In terms of the Q3 adjusted EBITDA itself of £48 million, underlying performance was consistent, but of course we had the benefit of those six DB4 Zagato Continuations.

Moving down the income statement to depreciation and amortisation, the step up to £92 million versus £69 million last year reflects the expanded range of core sports cars now selling and the impact of IFRS 16. This step up will continue into 2020 with a DBX in St Athan starting its depreciation life in addition to the Vantage Roadster, Valkyrie and the annualisation effect of the increase seen this year.

Below this on adjusting items, £3 million relates to pre-IPO long-term employee incentives as previously discussed, and there were £2 million of restructuring costs in the quarter as we seek efficiencies across the business.

Net adjusted financing costs of £59 million were lower year on year driven by the conversion of preference shares to ordinary shares at IPO, partially offset by a foreign exchange headwind on unhedged US dollar borrowings. In our release this morning you will have seen that after those financing costs we reported an adjusted loss before tax of £80 million for the period. Finally, on the income statement, we had a tax credit of £19 million. With 228 million shares in issue, our adjusted diluted EPS was negative 29 pence. The effective tax rate for the full year still estimated to be 21%.

On to the next slide dealing with cash and starting on the left. Cash generated from operating activities in the period was £69 million, £48 million of which was generated during quarter three. The movement across the year was primarily driven by EBITDA at £70 million, adjusted for working capital movements. These two comprising a receivables inflow combined with tight management of payables, resulting in a positive cash movement of £101 million and this being somewhat offset by a £91 million inventory outflow. And this being due to holding more finished goods in stock in plant, ahead of proportionally greater wholesale deliveries expected in our seasonally large fourth quarter. We are also holding around £15 million of additional stock in anticipation of the UK's previously expected departure from the European Union at the end of October.

Capex was £255 million, with the majority of DBX and St Athan spend now complete. The balance of Capex for the year, £45 million, reflects the timing of product launches and R&D spending on new programmes. The £148 million of cash received from financing reflects the $190 million of funds received from the mirror bond placement in April and we note that the cash from the most recent issue of senior secured notes in September was in fact not received until early October, so not in these numbers.

Overall, there's been a £35 million cash outflow in the year to date compared to an outflow of £81 million for the same period last year. The cash balance at the end of September of £110 million was up from £87 million in the same period last year, £17 million down from Q2 this year, the balance then being £127 million.

Moving on to the right-hand side of the slide. The change in senior secured notes reflects the April debt raise and a £21 million mark to market exchange impact of those unhedged notes. The additional drawdown of the RCF along with the net cash outflow resulted in net debt of £800 million. Leverage at this level was 5.5 times last 12 months adjusted EBITDA.

Including a pro forma look at the first-time adoption of lease liabilities per IFRS 16 of £116 million. Net debt at the end of the period would have been £915 million. On the 25th of September we announced a private placement of $150 million of senior secured notes with the option to draw a later $100 million subject to some conditions. These notes closed after the period end and the proceeds were used to repay short-term cash borrowings, totalling £90 million, including the RCF mentioned above and related transaction fees. The remaining cash balance has improved our short-term liquidity position as we continue to invest for the future. The company will keep its strategic financing options under review as required.

Moving on to the outlook and to close on the financials. It's very clear that this year has been a difficult period of trading and that we've not met our own expectations. We see pressure on volumes, continuing to the end of the year and now expect total whole sales to be lower than previously guided but within the range of market expectations. As we head into the peak delivery period for both core and special vehicles, despite lower volumes we expect to meet market financial expectations for full year 2019 and for your reference, of course, we published the current consensus expectations on our IR website.

Appropriate that we're taking actions therefore to control our costs looking across all areas for efficiency and this includes, but is not limited to, reducing contractor spend and reviewing our operating footprint. To that end and as we assess our plans, we continue to look prudently at 2020 and we expect to provide a further update when we report our full year 2019 results in February of 2020.

Finally, on this slide you can see our updated interest guidance, reflecting current exchange rates for your models and we confirm there is no change to our Capex guidance for the year of £300 million.

Turning to strategic progress. Firstly, new products. Fresh off the back of the successful start to DBS Superleggera Volante, which of course won the Sunday Times Sports Car of the Year award, we've also opened the roof on the Vantage. Deliveries for that model starting in the Spring next year. The manual Vantage AMR received 4.5 stars from Autocar and deliveries of that 200 unit limited run start in quarter four of this year.

This quarter, we also released first images of the second car in the DBZ Centenary pair, the DBS GT Zagato, due for delivery in half two next year. The first car of this pair of course, being our most expensive new car, the DB4 GT Zagato Continuation, as we said six of those delivered in Q3, and the remaining 13 scheduled for delivery by the end of this year.

And whilst we're on the topic of specials, the Aston Martin Valkyrie development continues apace, with deliveries of those highly technical cars expected to reach run rate maturity in the second half of next year.

Next, the DBX, the next model in the line-up, and as you can imagine, we remain intently focused on the delivery of the car. Start of production is fast approaching, Q2 next year. We're on track. We're excited about its performance. We're very pleased with the customer reception to date.

Starting with the operational side of things. The first production trial, where cars have been built end to end in the factory is now complete. These cars have been out in the real world, completing extensive testing regimes and they're also now being used for customer events globally. And the second production trial, 2PT, starts later this month. The plant is now commissioned, there are over 300 employees on site and this number will quickly double ahead of the start of production. You've seen we've announced that St Athan will be officially opened on the 6th of December, three and a half weeks from now.

Moving on to launch plans. Yesterday you saw we announced the DBX global reveal will be on the 20th of November in Beijing, and there will be a simultaneous event in Los Angeles and at this point, the official dealer order book will formally open.

We also confirmed the price point in the UK of £158 thousand, including three-year servicing. And we're exactly where we indicated it would be relative to competitive cars and of course, you would have seen the very first interior image of the cars and some videos posted on various motoring websites. In terms of technical specs, the car will be powered by tuned four litre twin Turbo V8 from Daimler, making it the most powerful V8 in our range and there's a wide options range of tailored lifestyle packages to suit individual needs from the snow pack through to the pet pack. We will provide a more fulsome update, including a view of the order book at the full year results in February, however, as we stand here today, we're increasingly confident in the DBX's potential following the initial customer confidentials and the reception that the car has received so far.

So, in closing: trading this year has been challenging, particularly for Vantage and in the UK and Europe. We're working hard to deliver this year and as we head into our peak trading period, balancing growth, brand positioning and dealer inventories is top of mind. We're taking actions to control our costs and there is intense focus on preparing for the launch and delivery of DBX next year. We look forward to keeping you updated on our continuing progress and with that. Thank you operator, I'll now open up the lines and take your questions.

Q&A

Operator

Thank you. Ladies and gentlemen if you do wish to ask a question please press 01 on your telephone keypad now. If you wish to withdraw your question you may do so by pressing 0 and then 2 to cancel. If you do wish to submit your question on the webcasting platform, you can do so in the Q&A box.

The first question is from the line of Kai Mueller from Bank of America Merrill Lynch. Please go ahead, your line is open.

Kai Mueller

Thank you very much for taking my question. The first one, I think what I wanted to touch upon is maybe just the sell out in the back end of this year. You obviously said it's your key trading period when you sell it into your dealership networks in Q4. Has there been any change in behaviour given obviously your dealers will be looking at inventory stocking for the DBX as you go into next year? And then the second question is, you mentioned the Valkyrie is hitting the full run rate in H2 2020. Just wanted to check is that a change? Because I understood obviously first we were planning to get the first unit this year, that changed into 2020 now to H2 2020 and can you give us a bit of an update in terms of the comparative profitability of the Valkyrie versus your core models, because I understand it was to do with the engineering that has led to somewhat of a delay on that product.

Mark Wilson

Thanks, Kai for the questions. Just dealing with Q4. First off, no, again, we said it's been a difficult year. It's been a difficult year for us. It's also been a difficult year for our dealer groups. At the end of Q3, dealer inventories were lower than they were at the end of last year and we will do the right things as we come through this quarter to manage demand, brand positioning, costs, volume as you might imagine. So that's where we are at Q4 as we come into this typically larger sales period.

Valkyrie in 2020, I think when we spoke at the half year we confirmed that the bulk of those cars that you would see next year would come in in half two. You asked that there was some time ago a discussion about whether there'd be one this year or not. There won't be one this year. We saw an opportunity with a particular customer who requested to get a pre-validation and pre-homologation car. We don't think that's in the right interest of the customer so that car will come in 2020 along with the others. Of course, worth reminding you that not all Valkyries will be delivered in 2020. We've said historically that would span 2020 and into 2021 as well. In terms of comp profits, we haven't really spoken about Valkyrie other than to say that it delivers reasonable profits, I think. It is a technically, extremely complicated car. It's very high priced. We said historically before it has a very high bill of materials, as you would expect from a car at that level of performance, but we haven't specifically commented on margins.

Kai Mueller

And maybe just checking on your total special shipments for this year. I think you were talking about something like 65 units in total. Can you give us an update on how many specials you expect to ship this year? And maybe the split of those.

Mark Wilson

Yeah, I don't think we've changed our expectations, Kai.

Kai Mueller

OK, so basically the DB4 Zagatos you shipped in Q3 are just not coming in Q4 but you're not adding any incremental ones in Q4 of others.

Mark Wilson

Correct, that's correct.

Kai Mueller

Perfect, thank you very much.

Operator

Next question is from Giulio Pescatore from HSBC. Please go ahead. Your line is now open.

Giulio Pescatore

Hi, morning, everyone. So first question on your cost base. Am I right in thinking that your ability to control costs has been a key factor for you in order to maintain the guidance and maybe can you give us some colour on the actions you've taken and how much more can you do?

Second question, maybe slightly related to this one: Q2 and Q1 next year actually look pretty tough as quarters because you're going to have to increase your cost base in preparation for the DBX launch. So maybe can you give us an idea about how can you offset that also in the absence of key model launches and still weak demand in key markets next year.

Then third one, on the free cash flow. Am I right in thinking that the free cash flow should be positive in Q4, thanks to better EBITDA and lower capex as well? Maybe can you give us some colour on the working capital outflow inflow in the last quarter of the year?

Mark Wilson

Morning, thanks very much. I think we've demonstrated all the way through that controlling cost is very front of mind for us. We've done that, we will continue to focus on that. You heard me say in the statement just now that we'll be looking to all areas across the business to see where we can be more efficient and more effective. That will include but not be limited to satellite footprint. It will also include contractor base. We're looking at all ways in which we spend cash in order that we can preserve more of it.

In terms of Q2 and Q1 look: we're going to update on 2020 in 2020 itself. But I think that's where we would leave Q2 and Q1. We don't expect the seasonality to be very different but of course, you were correct to identify we will be building inventory for St Athan in that period. I think we've clearly said that previously.

In terms of free cash flow at the end of this year. Clearly, as we come into our largest selling season we are optimistic for free cash flow in that period. But don't forget as well that there is some initial DBX build going on in there as well that may come back the other way, and we'll roll through that and we'll see how we get on.

Giulio Pescatore

And on the inventory, to come back on that point, for how long should we still expect retail to outperform wholesale. Is there a part in that we should expect to continue for the next six to 12 months or is there a point in which the two should start to perform in line?

Mark Wilson

So it goes without saying that any company with growth aspirations has to be wholesaling more than it's retailing, otherwise it's shrinking but of course, there is a seasonal aspect to all of that. Clearly, you will see the retail/wholesale dynamic today where retail is ahead. You'll see that start to invert as we come into initial order supply of DBX. Clearly, we'll be supplying and system filling that car into dealers satisfying not only their showroom and demonstrator cars, but also that initial strong early demand that we expect. So that's where you'll start to see that inversion take place. But certainly this year, so far, we've seen that retail run ahead of wholesale as we look to sort of balance volume versus dealer stocks and pricing.

Giulio Pescatore

Can I just squeeze one last one in: On the DBX I found it interesting that the price in dollars was lower than the price in euros. Can you maybe explain why is that and what's the dynamic behind it?

Mark Wilson

I would first say this, is that we price to markets, and markets don't always reflect purchasing power parity or relative currency movements, so clearly the US is a competitive market and it also needs to be spec-adjusted. They don't all go to the same markets with the same specifications, there are different legal requirements, but fundamentally we price to the market. You can see where our competitors are priced, we price in that competitor segment and as you've seen, pricing as we said we would, in the midrange of where the Bentayga and the Urus sit.

Giulio Pescatore

Thank you.

Operator

And next question is from Stephanie Vincent from JP Morgan. Please go ahead. Your line is now open.

Stephanie Vincent

Hi. Thank you very much for taking my questions. I just have three if that's OK. Can we speak about the one-time marketing cost next year related to the DBX? I'm also wondering given your comments on cash flow, I appreciate you can't talk about 2020 but are you expecting any revolver borrowings through year-end? And then finally, you have of course, touched on the regional difficulties and the difficulties in the Vantage particular. Just wondering how you view the Vantage versus its competitive subset, I guess, the competitive position.

Mark Wilson

Yeah, thanks, Stephanie. We haven't commented specifically on the marketing costs of the DBX but clearly we're incurring some of those now, you see them come through on our numbers, so they kind of weigh on the numbers despite the efficiencies we're making in Q3 and as we come into Q4. But we'll talk about 2020 as I said at the prelims in February in more detail. In terms of cash flow in this year again, you heard the answer I gave to Giulio around it being our largest selling season. I don't think we're going to comment on particular aspects of financing, where we expect to be at that point in time.

In terms of regional difficulties, regional variances, Vantage versus competitors: I think it's fair to say, it's true to say that Vantage is taking share in the marketplace, but it's also true to say that that marketplace is declining. Vantage in all the reviews it's getting is strong, it's a minimum four out five star car. It has been four-and-a-half and up to five stars as well, so it's a great car. Those people who buy it tell us they really enjoy it. They think it's a great car. I think where we're now focused is on getting the message more widely disseminated that it really is a great car and it's an outstanding purchase in the segment, so that's where we're focused on Vantage.

And, of course in reminding you that there are two clear product actions coming. The AMR limited run manual car that starts in Q4 that will support Vantage, and the open top car comes in the Spring of next year and there is a substantial proportion of the lifecycle volumes of that car, so again, supporting the Vantage line as we go through the next six months.

Stephanie Vincent

Cheers. Thank you very much.

Operator

And next question is from the line of Sanjay Jha from Panmure Gordon. Please go ahead. Your line is now open.

Sanjay Jha

Hi Mark, just a couple of questions if I get my head around. So you're saying Vantage, you're saying it fell short of your original plans. Does that mean that the stimulus lifecycle that you've mentioned before, does that means that you have to find a replacement for Vantage much sooner than you had expected?

And my second question is what £350 million capex next year is going to be on? Because it looks like St Athan is nearly done, so what sort of major items next year do you plan to spend on?

Mark Wilson

Yeah, thanks Sanjay. No, there's no change to lifecycle at all for Vantage and no replacement any time sooner. As I said, it is a single car, unlike DB11 which has had four variants in its lifecycle, Vantage only had one. So the next obvious thing to do is to bring out the product refresh actions that we're doing, the AMR as I mentioned and just moments ago, the Roadster as well. So in that sense, I think it's true to say it hasn't met our expectations to date but that doesn't mean it won't do going forward. And as you would expect with a company like ours, you've seen what we've done with the DB11 and the product actions there. You can expect us to follow a similar discipline trend with Vantage.

In terms of next year, as I said, we're going to talk about 2020 in more detail at the prelims in February.

Sanjay Jha

But you must have some idea what you're going to spend on, because £350 million is quite a— because you spent £300 this year, you're saying St Athan is nearly done so I'm just trying to see why you've got £350 million as a other number. Just trying to get my head around that.

Mark Wilson

Clearly we're on a growth trajectory and you know we’re three and a half cars into our plan. You saw what we launched at Geneva this year in respect to the product actions there. So you might imagine that some of it is going in those directions and of course, there are also the slightly more boring things like legislative compliance that you have to manage within the capex cycle. But look, we're going to comment more fully on we expect for 2020 in February of next year.

Sanjay Jha

Thank you.

Operator

And next question is from the line of George Galliers from Goldman Sachs. Please go ahead. Your line is now open.

George Galliers

Thank you. Just as a first question I just wanted to follow up on the question from Kai at the start of the call. If we just compare your Q3 presentation to H1, it looked like you had 11 specials in the quarter of which six were the DB4 GT Zagato Continuation, were the other five Zagatos Shooting Brakes and when we think about Q4, does that mean the 29 that you mentioned for Q4 previously now drops by 11 plus the one Valkyrie that you also referenced being postponed till next year?

Mark Wilson

Correct, George.

George Galliers

Great, and then following on from that, can you give us any insight into how much the specials contributed to the cash from operations during the third quarter?

Mark Wilson

No, we don't separately disclose those breakdowns, so I'm afraid I can't give you any more details.

George Galliers

OK and then just moving on back to the last question on the capex and the R&D. When we think about next year, will you be starting to make the investments in both the Valhalla and also the AM9, and when we think about platforms is the Valhalla, as has been described by the press, sort of son of or child of Valkyrie and the AM9 on a completely new distinct platform for you? Or is there some crossover between these two products?

Mark Wilson

George, as you heard me just answer to Sanjay, we're not going to be drawn on what's in 2020 today. That's a question for another day and in respect to Valhalla and AM9, what we launched at Geneva, we showed you there. We haven't said anything specific about those in the meantime, but of course I would draw your attention to what we said about carry over, carry across our strategy. That's a core theme of what Aston

Martin does, so you know any product that we deliver we'll always be looking to optimise and maximise reuse of existing assets that are already invested. So you can take that as a clear line forward, it's been the way we've operated in the past 4.5 years as well.

George Galliers

OK and can I just ask one final one? Are you able to give us any insight into the R&D expenditure and the associated capitalisation rate for the quarter?

Mark Wilson

George, in line with our usual expectations.

George Galliers

OK, thank you very much.

Operator

The next question is from Thomas Besson from Kepler Cheuvreux. Please go ahead. Your line is open.

Thomas Besson

Thank you so much, I give it a try as well. I'm sure you're probably going to give me the same answer to all previous questions. Particularly your volumes, your wholesale volumes this year should end up approximately 20% below the initial target on the path to 2022. Could you effectively confirm first that Vantage is really the only deviation compared with the plan? And second, could you tell us whether there's going to be an update to the 2022 targets at one point, maybe in February. That’s the first question.

Mark Wilson

Thanks, Thomas. Look, we're calling out Vantage as having underperformed and very clearly in the statement we said we are happy with DB11 and DBS so I don't think I could be any clearer than that. In terms of an update to the medium term, we've said that we are planning prudently. We're reviewing plans at the moment and you should expect to hear from us in due course on that.

Thomas Besson

OK. I have another question, if I may. On the difference between wholesale and retail. Normally on the kind of cars you sell there shouldn't be such a wide difference. I guess you agree? Could you give us an idea of where you stood in terms of a gap between wholesale and retail year to date and whether— what kind of rate we still need to see. Immediately, what I'd like to get to is ultimately whether the plan for the new SUV is going to be— to have a more aligned level of wholesale deliveries to effective level of a custom orders rather than dealer orders.

Mark Wilson

Yeah, so look, the retail wholesale dynamic isn't straightforward because within the mix you've got different cars and cars like the DBS, for example, sell much more on a longer-term order book basis, it's much more customised, it's a much longer tail buying experience. We said before that Vantage sells a lot more like a 911 and therefore you have to service a walk-up market, so those two facts of themselves will tell you that that difference between retail and wholesale is very often product-driven as much as it is timing. And you've also got launch cadence as well, and how we flow new products into the system and how dealers will stock up. You'll always run ahead wholesales there then you will retails because clearly dealers keep their showroom and demonstrator cars for longer. So it's not quite as straightforward as that. I would say clearly, as you start the life of a product, that relationship is much more one to one, so you're correct to draw out the fact that as you come through into DBX, you would expect once you're into customer orders and you filled the dealer pipeline, those showroom and demo cars that every dealer must have, then you would expect a smaller delta between wholesales and retails. But over the life for a growing company, as I said earlier, wholesales have to run ahead of retails.

Thomas Besson

Sure, last one if I may. How many demonstration cars should we expect for DBX and when do you plan to put these into dealerships?

Mark Wilson

Yeah, so our dealer standards say that each dealer must have at least one showroom car and one demonstrator so that's one static car for customers to see in the showroom and one for them to be able to drive. We have, and I'm going to look to Charlotte, 166 dealers globally? Right, 166. So fairly easy maths to work that one out and of course, naturally you would expect all of those cars to be there before any customer takes delivery of their first car as well. Stocking the dealers or putting those two cars into the dealers, should I say, is very important so that's the way that particular dynamic would work.

Thomas Besson

Great. Thank you, Mark.

Mark Wilson

Thanks, Thomas.

Operator

And next question is from Akshat Kacker from JP Morgan. Please go ahead. Your line is open.

Akshat Kacker

Thank you. Akshat from JP Morgan. Three from my side. And again, coming back to the Vantage as you said it sold well below expectations. Just wondering when you do your internal review and benchmark it against competition, has anything stood out in terms of digital and tech content on the interiors and how do you compare that on the DBX versus competition? That's the first one. And the second one is on the core ASP. I've seen that it's, on my math, it's roughly flat in the third quarter year over year. Can you explain what's going on there, despite you telling us that the DBS and the DB11 have continued to sell well? And the last question is how comfortable are you with your EBIT guidance of £67 million for the year? Can you discuss a few downside risks to that number please? Thank you.

Mark Wilson

Thanks, Akshat. In terms of the Vantage, we build and engineer and sell the car relative to its competitor set. Obviously, we specification adjust and we think the Vantage, both from a pricing and offering perspective, sits in the right place in its market segment. The DBX again, we do exactly the same. We looked at the DBX, its main competitors are the Bentayga and the Urus. We benchmark extensively those cars and that's how we've come up with the price and product offering for that particular car.

In terms of the ASP year over year, clearly we've said we've seen a geographic mix shift away from Asia Pacific in China. You've seen that in the presentation, and we saw an ASP benefit there in Q2 so that's moving against us. You've also seen a high proportion of DB11 V8s versus V12s in Q3 and Q2 and we also said that pricing pressure we felt has come most keenly in supporting retail financing and lease rates and that obviously has a negative, incremental impact on ASP.

Clearly, we're giving guidance because that's appropriate for us to do so for the year end, and clearly Q4 is all about our core sales volumes and how the market goes for us in this seasonally important quarter. It is and it has been a large quarter for the past four years for us. And so, I guess if you're asking to discuss risks, that's the risk. Costs are well in control, capex is well in control, we feel very confident and comfortable with where we are with specials, so as ever for us as we come into that final quarter, it's to do with core wholesales.

Akshat Kacker

Thank you. Just one follow-up on the Vantage. I think the question I was trying to get to is has anything stood out as a special weakness to you guys when you do your review after the product launch?

Mark Wilson

I think we would probably say that awareness of the car is not necessarily where we would want it to be. I think dynamically you can read what you need to read in the various trade magazines. Dynamically, it is the equal and, in some cases, the better of its competitors. I think its price point is appropriate. I think we have to do more to get the story out there, to get it in front of people because as I said earlier, those people who buy it are very, very pleased with the car.

Akshat Kacker

Thank you.

Operator

And next question is from Christophe Boulanger from Barclays. Please go ahead. Your line is open.

Christophe Boulanger

Hi, good morning, I will have three questions. The first one is on your dealer inventories on the core model. So I understood you mentioned earlier that with the launch of the DBX your wholesales should indeed outperform the retail sales. But if you put the DBS on the side and you just focus on the existing core models, at which point would you expect wholesales to be in line with retail sales? That's the first question.

And the second question is really on FX. We've seen the dollar appreciating quite significantly versus sterling in the past few months and if we will take a scenario where the sterling stays in line with the dollar's level of the past few days going into 2020, what would be the impact? Do you have any type of sensitivity analysis you could share with us for 1% move of the sterling dollar's impact on your EBIT? That's the second question.

And the third question is on your net leverage. So, you are standing at 5.5 times now coming up from 2.3 times at the end of last year. Do you have any targets in mind going into next year or is there any guidance you want to share with us for the coming years?

Mark Wilson

Yeah, thanks, Christophe. Just in terms of inventory, just to make sure I've understood your question correctly. At the moment on core cars, retail runs ahead of wholesale. And as we said in the statement we are controlling those wholesales in order to allow the stocking and at the end of Q3, dealer inventories of core cars were lower than they were at the end of the year.

Christophe Boulanger

Does it mean that you are happy with this level now?

Mark Wilson

Yeah, we're satisfied with where it is, and as we then come into DBX, clearly those inventories will increase initially to provide the ability for the dealer to retail those cars out subsequently.

In terms of FX we don't give a cent to cent movement but I can talk briefly about the various movements. Clearly our major exposure is long dollars. We have a lot of dollar income, not a lot of dollar spend. Set against that we've also got a substantial proportion of our gross debt configured in dollars these days as well, so there is a little bit of arbitrage there, but we don't necessarily publish a cent for cent movement in FX.

On leverage, yeah, you're correct that we are at an elevated level of leverage today. Over time, and as we said at the IPO anything sub-two is acceptable. I don't think we changed our view on that. I think it's taking longer to get there than perhaps we expected.

Christophe Boulanger

Do you have any target in mind in terms of timing to go down at least below the four times?

Mark Wilson

No, we have never given targets in respect of when we expect to move on net debt other than to say that over time we expect it and we would like it to be below two.

Christophe Boulanger

Thank you, Mark.

Operator

And next question is from Charles Coldicott from Redburn. Please go ahead. Your line is now open.

Charles Coldicott

Good morning, thank you for taking my questions. I've got two, please. First, following a question earlier actually, I'm just wondering how much visibility you have on wholesales into year end. Can you give any idea on the orders you have against the wholesales that you're expecting to come in Q4?

And then secondly, on cash. Can I just confirm that you're expecting to utilise that $100 million debt option that you have next year? And secondly on that, you said previously that the only source of additional financing that you would consider is the debt markets. Is that still the case or are you tempted at all perhaps to raise equity and to fix the balance sheet in one fell swoop? Thank you.

Mark Wilson

Yeah, thanks, Charles. Obviously against the backdrop of us having a difficult year we have less visibility and have had less visibility all year than we would have ideally liked, but as we come into the quarter, we've given you a point of view on where we think volumes will be. It's obviously lower than we thought so that obviously, that tells you a little bit about how we're thinking.

In terms of cash, we configured the debt raise in the way we did so that we have the option to draw should we need it. Should that need to be the case, then yes, we would draw the $100 million; it's obviously undrawn today. And in terms of source of financing, look, very clearly in the statement we’ve said we keep all of our options under review and as you know, I can't give you an absolute guarantee and nor do you expect me to, and there are many different factors that will influence cash over a two-year period. I'm confident following that recent bond issue, we're better placed to weather any short-term pressures and just always worth making the point looking out further, just to remind you, of the consistent support we've had and continue to have from our majority shareholders. They're represented on our Board. They see our performance and our plans. They have been and remain strongly supportive of this business and that's been the case for the long term.

Charles Coldicott

Brilliant, thank you.

Operator

And next question is from the line of Philippe Houchois from Jefferies. Please go ahead. Your line is now open.

Philippe Houchois

Thank you and good morning. I have a question, a few questions on the balance sheet. First maybe on the Capex. So you said you've done the majority of the DBX Capex, majority could be 51% or could be 80%. Could you maybe clarify how much of that capex has actually hit your cash flow?

Mark Wilson

We haven't been specific, but it is the substantial majority.

Philippe Houchois

OK, alright. Trying a different way. If I look at your balance sheet, you only give us a summary balance sheet in a quarter. But you've got £945 million of current liabilities. Normally you contract capex and then eventually the final payment on capex will be after the production has started, which is within 12 months. So I'm just trying to understand, of the £945 million of current liabilities, do you have pretty much all the contracted out capex for the DBX?

Mark Wilson

So you're asking about the level of accruals in there, really aren't you?

Philippe Houchois

Yeah exactly. Yeah.

Mark Wilson

Yeah. Pretty much, there's a little bit left to go.

Philippe Houchois

Alright well, you probably had about £300 million of basically commitments of capex that have yet to train to cash in that balance sheet position.

Mark Wilson

Well, I'm not going to be drawn on a specific number. But thanks for trying.

Philippe Houchois

Right, yeah, and I won't try again on the customer deposit. Let's assume there's still about £200 million. OK. And then I've got a last question. I hear your comment on Charles's question about raising equity, etc. And you've got the support of your shareholders, etc. But it feels to me from the outside not knowing the details, a bit of brinkmanship. Your shareholders have basically told you you're not going to get any more equity, you work it out. And they're willing to take it very far, the shares at 400p versus the IPO price and I'm just wondering – we know you would need a new EGM to get through for rights issue, but something else is blocking your shareholders. And what are we missing here, because it is getting a bit destructive to starve assets of equity at this stage.

Mark Wilson

Philippe, they're all your conclusions and the way we see it is that these are long-term shareholders, truly long-term shareholders. They've been with us for a long time. They have supported this business in a variety of different capital structures to help it grow to more than 2.5 times the size it was when Investindustrial joined and substantially greater than that when the Kuwaiti interest joined, so we have no reason to believe they won't continue to support that. They are supportive at the board, but I can't specifically comment on any of the points that you make, they will be matters for those shareholders.

Philippe Houchois

Understood, yeah, OK. Thank you very much, Mark.

Operator

And the next question is from Stephanie Vincent from JP Morgan. Please go ahead. Your line is now open.

Stephanie Vincent

Hi, I apologise to jump in here again, but there's a lot to go through so just one of the questions I did have, if you're willing to disclose it, or maybe if not now maybe willing to disclose it at the annuals, is just where you are in terms of your covenant EBITDA on your bonds and whether or not you would be able to review that on your 2020 guidance. Just so that bondholders will know how much additional secured financing is available to you at maybe the year or half year.

And then I realise that you're a small volume manufacturer, but just your view as we move into 2020 about the EU emissions requirements and your plans for moving those emissions down over the next two years. And any additional cost in your view that could be related to that.

Mark Wilson

Yeah, thanks Stephanie. Look, an interesting question on covenant EBITDA I'll take a view and certainly will come back if that's something that we can do and that's appropriate for us to do then, then we'll do that. I hear the request and I understand why you're asking it.

In terms of being a small volume manufacturer and CO2 limits, we're good in terms of our derogation. We have a glide path with the EU, which is agreed and we're confident of achieving. Clearly, you can see what we're doing on engine strategy. We've talked about moving from V12s to V8s, you can see that in the statement today; 70% of what we sell are V8s. You've heard us talk about launch plans for the DBX. Initially it launches as a V8. We've talked about the fact that it also then comes with a variety of different engine applications thereafter, you can imagine where they might be without necessarily being specific.

And you've heard us talk historically about the work we're doing on developing other efficient powertrain systems, so we feel comfortable with where we are on the EU derogation and we feel comfortable in our ability to achieve the glide path required.

Stephanie Vincent

And I finally can't help myself to ask one last question, and I promise I won't ask anymore, but on Brexit. Is there any down time for you this quarter related to Brexit and could there be down time in Q1 if it is actually an exit date of the end of January?

Mark Wilson

In short, no. Clearly we're a small volume manufacturer. Our production times are an awful lot longer than those of perhaps traditional car manufacturers. That gives us flexibility and ability to respond in a more helpful way to Brexit. We don't anticipate any down time. We're dealing with Brexit by managing stock and inventory, both in the factory and in end markets. That, we think, is the best strategy for coping with any disruption, were there to be some.

Stephanie Vincent

OK, great. Thank you.

Operator

And just as a reminder to everyone, if you do wish to ask a question please press 01 on your telephone keypad now. And the next question is from Adam Hall from MainFirst. Please go ahead. Your line is open.

Adam Hall

Hi, good morning. Thanks for taking my questions. Two questions, please. One on the D&A. Clearly your capex plans aren't changed, but could you help us a little bit on what the D&A roughly in the next couple of years or so will look like? Clearly it's up 33% year to date. That would be helpful.

And then secondly, you're seeing obviously a slowdown to some degree in the US. Could you help us a bit more as to what your dealers are actually saying in the US? Up to now, obviously you've been saying that Europe including the UK has been weak. Are we starting to see some question marks in the US? What are your dealers saying? How are the order intake coming in? What's the pricing, also maybe on the US side. Just help us a little bit on the US, which is clearly a pretty important market. Thanks.

Mark Wilson

Yeah, thanks for those questions. In terms of D&A, clearly D&A follows the same profile as car launches. As we bring cars to market you would naturally expect the concurrent investment to be fed back into the P&L and D&A, that will continue. You can see clearly the next step up would be with DBX. You should expect that, but we'll be more specific and more detailed on 2020 at the prelims next year.

In terms of the US, I think the overarching point to make here is that even accepting that this year we've cut our forecast for sports cars, we were in any case approaching a level of maturity for those sports cars, previously was around 7,000 units and were somewhat less than that. So you've seen the UK slow more quickly. I think all you're seeing now is maturity reach sports car markets, hence why the DBX is now an important car for us.

What are dealers saying in the US? I go back to the point I made moments ago. Dealers are telling us we need to do more to market particularly for the Vantage. The Vantage is selling brilliantly in the US. The US could not be sequentially up quarter on quarter, year on year, model by model were it not for a really successful Vantage in that market. So where we get traction with the Vantage, it's doing well, but I think the one thing dealers are saying to us is we need to invest a little bit more in marketing to get the story out there to tell people how good these cars really are.

Adam Hall

So the Vantage as you say it's getting a lot of share in the US in the segment, but how are the other segments? Do you feel those other segments, sports car segments, yes, they're maturer for you? What's the pricing condition? What's the level of order intake? How's that developing, is there a change in the last few months in the US?

Mark Wilson

Well, you can see the US up 25%. So if you took that to its conclusion, extrapolate it, you'd see it continuing to grow. Do we expect that necessarily to continue at the same rate? Not necessarily, because as I say, till we get DBX our sports car market has started to mature. We said, and I refer you back to the statement, that we remain pleased with the DB11 and the DBS. That's true in the US as it is anywhere else on the globe.

Adam Hall

And then maybe just finally on DBX, just maybe give us a very broad feeling for what you think this sort of normalised level of sales split by the three main regions: Europe, US and China, roughly.

Mark Wilson

So the DBX clearly is a really important car for China. We are public in saying that, it is as well for the US. That doesn't mean it won't do well in other markets, but I think relatively speaking, you should expect the larger markets to be those two. Of course, there's a reason we are unveiling it in Beijing and Los Angeles on the 20th of this month.

Adam Hall

OK, great. Thanks.

Mark Wilson

Operator, I think we I think we have time for one more question, operator

Operator

OK. No problem, so our final question for today is from Chris Ellis from Barings. Please go ahead. Your line is now open.

Chris Ellis

Morning, Mark. I just wanted to be clear on the guidance for the full year in terms of adjusted EBITDA. So if I see consensus is posted at £200 million, should that be on a year to date basis, taking the £90 million adjusted EBITDA or the £70 million reported, ie backing out what Q4 will be for a £110 million based on consensus or £130 million? Just as a few different EBITDA numbers around. Thanks.

Mark Wilson

OK, so just draw your attention to our IR website. On the IR website the collated consensus from all the analysts who report on us is £203 million adjusted EBITDA for the full year.

Chris Ellis

Sure, but just to confirm what number we're using on a year to date basis, is that based on like for like £90 million, or actually the reported £70 million, from your perspective?

Mark Wilson

Adjusted EBITDA in the year to date 2019 is £69.7 million.

Chris Ellis

OK, so, based on the consensus we're implying £130 million in Q4?

Mark Wilson

I believe we are.

Chris Ellis

OK. Thank you. Just wanted to be clear.

Mark Wilson

OK, ladies and gentlemen. Thank you, operator, sorry to talk over you. I'll just wrap up very briefly and thank you for taking the time to join us on our Q3 results call today, and for your questions and your further interest in Aston Martin Lagonda. I'm very much looking forward to updating you on our progress in the final quarter of this year when we report our full year results on the 27th of February 2020. So, thank you and good morning.

Operator

And this now concludes the conference call. Thank you all for attending. You may now disconnect your line.