FY19 Trading Update – Andy Palmer & Mark Wilson

7th January 2020

Analyst call script and Q&A

AP: Good morning everyone and welcome to the Aston Martin Lagonda trading update call. I'm Andy Palmer, CEO of Aston Martin Lagonda and I am joined by Mark Wilson, CFO.

As you are aware, we released a trading update for FY19 this morning, which is available on the IR section of our website. I will now cover the key points in the announcement and then Mark and I will take your questions

From a trading perspective, 2019 has been a very disappointing year.

The challenging trading conditions highlighted in November continued through the peak delivery period of December resulting in lower sales, higher selling costs and lower margins.

Whilst retails have grown by 12%, our best result since 2007, and exceeded wholesale volume leading to reduced dealer inventory our underlying performance will fail to deliver the profits we planned.

Core wholesales declined 7% to 5,809.

- In terms of regional performance, the Americas, the UK and Asia Pacific, performed broadly in-line with our expectations; however, Europe underperformed.
- Vantage performance improved in the fourth quarter, supported by retail financing particularly in the UK and the US

All 65 Specials including the remaining 13 DB4 GT Zagato Continuations were delivered in the year.

For FY 2019, we now expect adjusted EBITDA to be £130m-£140m with an associated margin of 12.5%-13.5% principally reflecting:

- Higher than anticipated retail and customer financing support
- Weaker core model mix, with a shift to Vantage weighing on average selling price
- in addition to the lower than expected wholesale performance.
- Incremental fixed marketing spend to support retail campaigns, particularly in the US, contributed to lower cost savings than originally planned.
- And finally, the late December rally in Sterling, which resulted in an incremental FX headwind
- Note - At the net income level, the translational exposure on the USD denominated debt will be significantly positive.

The year-end cash balance was £107m, giving expected net debt of £875m to £885m and associated leverage of 6.2-6.8x[1].

The DBX continues to receive a very positive response and we are pleased to announce that the order book has built rapidly to 1,800 orders since it opened on 20 November. The order rate seen to date is materially better than for any of our previous models.

- 1,200 of these orders are customer-specified
- As a result, we have now exceeded the various conditions to draw the additional $100m of April 2022 notes and currently anticipate drawing these notes down within the next four weeks.

In line with our announcement on 13 December 2019, we continue to review our funding requirements and various funding options.

- We also remain in discussions with potential strategic investors which may or may not involve an equity investment into the Company.

We are, as you would expect, reviewing our planning for FY 2020 and will provide an update on our expectations in due course.

[1] Amended to 6.9-7.6x post-trading to include IFRS 16 calculations to EBITDA

In closing –

- we are very disappointed with trading in 2019
- We are taking a series of actions to manage the business through this difficult period. This will include a cost saving programme alongside a focus on returning dealer stock levels to those more normally associated with a luxury company;
- winning back our strong price positioning is a key focus.

- The early signs for DBX are very encouraging and launch plans are progressing well
- We're hitting all the key operational milestones and are on track to start production in Q2 2020
- Our focus is now on revitalising the business, launching the DBX and ensuring profitable growth in the medium-term.

And with that I will ask the operator to open the line for questions.

Q&A

OPERATOR: This is Conference # 6639757

MW: One of the issues of Vantage being higher than expectation is that it's lower margin and that's obviously weighted on us. It also means that additional support in there, both for – both for retail support and for fixed marketing. We're not going to again, stick a pin in those numbers, but they are itemized on the statement in order of their size and scale. And they were, both of those things, significantly ahead of where we expected them to be.

But again, in doing that, we're trying to take the sting out of the Vantage that we felt and we – we've talked to all year. So, they were ahead – they were significantly ahead, but we can't – we can't stick numbers in them.

(George): OK. And if I can just try one final one, you didn't disclose (this), so maybe you'd prefer to wait till the full year, but could you just tell us roughly where CapEx finished for the full year and whether you think CapEx will be flat or down in 2020?

MW: No, look we haven't updated on CapEx today. If we had anything material to say about that, we'd, of course, be saying it.

(George): OK. Thank you very much.

MW: Thanks, (George).

Operator: Your next question comes from the line of (Haning Kaufman). Your line is open. You may ask your question.

(Haning Kaufman): Hi, gentlemen. Good morning. Thanks for taking my questions – (Haning) from HSBC on behalf of (Julio). Obviously good to see the DBX orders so strongly. Maybe we can talk a little bit related to the questions of my colleagues before me, trying to get a bit of a better feeling how structured or temporary some of these detrimental elements of Q4 are going forward.

So, specifically, the tightness of the market that you have discussed, is that something that you see away – see going away, going into 2020? And maybe specifically also with respect to the discounting, could you imagine this to be a bit more structured? Is that something that you see quite isolated to yourself or have you observed that in the – in the wider segment, if you could please elaborate a little bit?

MW: Yes, I mean look, we do see wider segmental pressures similar to ours. And look, there are many things in this statement today, things like FX and some of the other cost misses that would be – would be specific to this period, and we would be expecting them not necessarily to be particularly structural.

We said we're going to be – and you saw us in November say we are planning prudently for 2020, and you've seen us today also talk about wanting to restore dealer stop levels, and we're giving you some clues about how we're thinking about next year.

Clearly, next year, you rightly identify is exciting in many ways because the DBX arrives in quarter two, and those are – those are signs of revitalization for the business. And in the meantime, you can expect us to be cautions and thoughtful about how we manage sports cars, having taken (inaudible), we think probably in 2019.

(Haning Kaufman): Yes, so on that, with the mix then shifting towards the DBX as an additional model, do you anticipate for example, on that financing side, that additional measures could be required or extended efforts on that on your part? Is that something to watch out for specifically?

MW: I think the strength of the DBX orders we see today gives us a lot of confidence that that care seems to be hitting the spot in terms of the offering to the customer, 1,800 orders, I think we are pleasantly surprised with how fast we have accrued those orders.

When I look at a graph that you can't see on the end of the phone today, what I see as the gradient of that order rate is pretty – is pretty similar since we – since we launched. So, we're saying that it's doing very well in that respect.

That would point you towards a car which is well priced; it's a good offering, and we would hope that that car stops not only the re-growth of the business again, but the revitalization obviously as we go through the income statement as well.

(Haning Kaufman): But you don't really see the – an incremental threat of cannibalization there, seeing that the core – the core models have been a little bit softer than you may have anticipated?

(John): I don't think significantly. Obviously the only other four-door car that we have in our range was the Rapide, and that's now gone out of production, so if there was going to be cannibalization, it would be a car that we've already taken out of production.

(Haning Kaufman): OK, thank you very much.

(John): Thank you.

Operator: Next question comes from the line of (Phil Bagly). Your line is open. You may ask your question.

(Phil Bagly): Hi, thanks, it's (Phil Bagly) from Bank of America, just on the Vantage point, I mean how much of those increased volumes do you know people are trading down within your range?

MW: I mean we don't – we don't necessarily see that. And one of the things we were always conscious to do with the – with the new range was to differentiate it. One of the criticisms of the previous range was that it was very much Russian dolls – difficult to tell a DB11 – a DB9, rather from an old Vantage, difficult to tell the two of them from a Vanquish.

The visual differentiation, the dynamic differentiation is quite different. I think if anything, we see people going the other way, from a – from a Vantage into DB11s, which is exactly the trend you would want, and certainly from DB11s up into – up into DBS.

So, we don't see an awful lot of trading down. I mean those cars do very different things. The DB11 is a 2-plus-2 GT. The Vanquish is an out and out two-seater-only sports car. So, you are targeting quite different markets there, so I don't think we see a lot of people trading down.

MW: And it's (also, sales) for Vantage is mainly German manufacturers.

(Phil Bagly): (Inaudible). Sorry?

MW: Is mainly German manufacturers.

(Phil Bagly): OK. Thanks. And then on the – on the additional notes that you expect to draw in the next four weeks, I think previously, we – we've talked about the vast majority of that being (deep) senior secured (in parody) to the existing notes, is that – is that still the – still your expectation?

MW: I mean look, on those delayed draw notes, there are – there are two conditions, one is – one is if the leverage test allows it, they would be senior, if not, they would be – they would be (senior unsecured).

(Phil Bagly): Yes.

MW: So, I think – so I think previously it's been – it's – the expectation has been that most (of it would) be senior secured.

MW: I don't think we've commented on that. I think – I think all we've said is that there are two options.

(Phil Bagly): (Ah, thanks).

MW: Any other questions?

Operator: Yes, we have – (for a question) it comes from the line of (Charles Coldicutt). Your line is open. You may ask your question.

(Charles Coldicutt): Hi, guys, thank you for taking my questions. The first one, I just wondered if you can comment on the cash demands of the business in Q1 and Q2 of 2020, and whether following the 100 (million) debt option that you're going to use in the next four weeks, whether that provides you enough liquidity for – to get through to the DBX, or whether or not you'll need more liquidity in your view, in the near future?

And then my second question was just on Valkyrie orders, and I – could you just remind us if you've had any – or how many orders have been canceled and whether or not that's changed at all in the last six months? Thanks.

MW: Just – yes thanks, (Charles) – thanks, (Charles). In terms of our cash situation, obviously we're saying we expect to draw on those notes. That's in support of getting us into DBX and into later part of the year of course. You'll also note that we said we keep all financing options under review, and you'll note that we said we are talking to strategic investors.

So, you know, as you would expect for where we are in the cycle, all of those things are appropriate.

You know, look, in terms of or pre orders, the car is sold out. I think – I think that's the – that's clear message. We don't – we don't comment otherwise on the car, but it – but it – it is sold out. It remains sold out.

(Charles Coldicutt): Thanks.

Operator: Next question comes from the line of (Philip). Your line is open. You may ask your question.

(Philip): Yes, hi – I think it's (inaudible) Jefferies, can you hear me?

MW: Morning, (Philippe).

MW: Hi, (yes we can hear you) ...

(Philip): Yes, morning – hi, just trying to understand the mechanics of – (I mean) – when you – when you disclosed the financing in September, you were talking about orders in production that would generate 66 (inaudible) EBITDA. That's pretty much a number you're producing in the fourth quarter. I'm just trying to understand, you – you've delivered the specials you expected, can you indicate whether those specials contributed the level of profit that you also anticipated?

MW: Look, we haven't – again, (Philip) today, we're giving a – an update to the extent that – you know, that we're able, so we haven't commented necessarily on those. (What) we have said is we did – we did deliver all those as we – as we planned to.

And we've talked about the line items that were pressures that have – that have pushed us into this level of EBITDA. And you're right to draw out the orders in production, it's just I think, you know, broadly in line – we were a little short of where perhaps we thought we would end up, but of course, it's come at a higher selling cost pressure. And also, we've continued to flow through some of the fixed marketing costs, which is what is contributing to today's statement and today's update.

(Philip): Yes, because if I continue on that line, let's assume that you've delivered the profit you wanted on the specials, it's a massive shortfall in gross margin for your core business, and I'm just trying to understand when we look at DBX next year, you know, it's – if – as the marketing seems to be a 30, 35 percent (gross) margin business before depreciation in your definition, is DBX going to be a step up to the gross margin? Or is it going to be about the same thing?

MW: I mean look, we – the things you know about DBX are where its price point sits, which is ...

(Philip): Yes.

MW: ... a little bit above DB11 ...

(Philip): Yes.

MW: ... as an average. And – but you could also expect that given it's got a transfer box, four doors, a rear bench seat, it – the bill of materials is also a little bit higher ...

(Philip): Yes.

MW: We haven't specifically commented on gross margins for DBX, but those are some data points that might be useful in thinking about what that comes to.

(Philip): Yes. OK, great. Thank you very much.

MW: Thank you.

MW: Thank you.

Operator: Your next question comes from the line of (Guy Mullier). Your line is open. You may ask your question.

(Guy Mullier): Hi, thank you very much for taking my question and sorry, I missed the start of the remarks, maybe just to jump in straight away on your sales, obviously the 5.8 K in units, is that the new starting point we need to think about also when you extrapolate into 2020, and also 2021 and beyond?

And that sort of comes a little bit along (Helen)'s question obviously you mentioned (that) Vantage was somewhat better than you thought. At the same time, you know, we are getting to a later model cycle on the Vantage, we're getting to later (out of the cycle) on the (DB11), and there's this offsetting item obviously of the DBX against it but what should really be a big (inaudible) driver in next year in terms of wholesale volumes that you (think)?

That's the first one. And then I think on the question also that (Philippe) just asked on the – on the specials, just trying to little bit understand how did this materialize between – you know, September and now? Was it really a matter that came together in – you know, November and December?

Because I'm just struggling a little bit to understand how suddenly all these extra marketing expenditures et cetera, only materialized in the very last month of the quarter?

MW: No, no, I understand, we'll talk through – we can talk through that and give that – give some explanation to that. In terms of – in terms of the initial – you know, the initial (inaudible) the second piece rather, look, December was a massive, massive month.

We had an unexpectedly high level of retails in the month, which led to additional costs in terms of dealer volume bonuses, other incentives we didn't expect. We continue to spend on – given where DBX was heading into December, we took a view that continuing to expend on programmatic and visual and related marketing activities was the right thing to do – had a cost associated with it.

We continue to believe that driving again, similar core campaigns into the US, particularly for Vantage was the right thing to do. It had a cost associated. We pushed through the holiday season into late December to do that. And these were all things that sort of compounded up. They had decent outcomes, but they also came – they came at a cost.

I think – so, look, it was – these were things that we're developing right into the late weeks of December. We were taking decisions in real time, hence why we're updating now. Look, it's working day three of the new year – (it's – hence) why we're giving you an update.

So look, these are things that developed into the – into the period. There were some cost misses that we saw as we came into December as well, particularly on things like some leasing of facilities that we were looking to negotiate to get out of, didn't materialize. Obviously, you're pushing right to the end of the period to try and get out of those, they didn't come through.

We had a few minor headcount misses on cost, but the bulk of that cost miss was (into fixed) marketing.

Just on Vantage in next year, you're right of course, the product is a little older as it comes into next year. (It is) the right starting point to think about (decay from of course), but of course, don't forget that next year, we have the Roadster as well – the Vantage Roadster which launches in the spring, and that will give a (Philip) and a lift to volumes.

And over the lifecycle, we generally expect about 40 percent of volumes to come from that variance. So, that supports us next year.

You know, we're not – we're not on the call today talking about other product actions for the core range, we'll update you accordingly on those as we go through our 2020 planning and on into the end of February and on our annual reports and accounts timetable.

(Guy Mullier): Perfect. And maybe just a follow up just for us to understand. You said obviously a big push (on – in terms of) products in December, meant that you had bigger dealer incentives, when you do your financial planning, you obviously – the red new line is really much dependent upon your wholesale volumes, but then the profitability really depends on how much the retail sales progress, in terms of the profit contribution you pay to dealer.

I'm just trying to – you know, square it up versus if you plan to ship X units on wholesale, you know, actually it sounds to be more that retail was actually better than you had planned, and that's led to the cost base?

MW: Well, it depends what incentives you want to put in place at a point in time to try and drive through a pull scenario – and bear in mind, we haven't been in a pull scenario for a lot of the year. A lot of the year we've – we – we've been trying to manage a bit of destocking, but not

– but we've been doing that by reducing wholesales rather than necessarily driving retails ahead of our expectation. There's a – there's a subtle dynamic in there.

So, look coming into – coming into December, we took a view which we wouldn't normally necessarily take, which was to drive additional retail incentive programs into the dealer network, and that's what drive the cost. I don't think that's a normal thing to do.

I think that's where – you know, you're managing through a particularly difficult period. You're trying to drive that poor scenario as hard as you can. You're still trying to drive a bit of destocking, but without necessarily taking a big cut to wholesale.

(So now), I think – you know, we managed that reasonably well, but it's come at a cost. And you know, the comments I made earlier about trying to make sure that we deal with as much of 2019's issues in 2019 have played into where we are today with these numbers.

(Guy Mullier): (Oh), and then maybe to follow up, basically does that mean because he also wants a clear dealer inventory for the launch of the DBX, that you're really want to incentivize dealers to shift their product right now to be able to take orders for the DBX.

And can you just clarify on those DBX numbers you gave in the press release, how many of those are custom (initiated) orders versus how many of these are orders for your dealers in terms of dealer stock and dealer inventory for showcasing the car?

MW: So, just to reiterate, there are 1,800 total orders, of which 1,200 are customer named, customer specified. The gap between 1,200 and 1,800 consist of two different types, one where the customer had ordered but not yet spec'd the car and the second is dealers moving in line with dealer standards where they take a show car and a – and a – and a test drive car.

(Guy Mullier): OK, (let me just) (inaudible) ...

MW: (Inaudible) ...

(Guy Mullier): ... (along), right?

MW: So, the answer to your question is if you want to know absolute signed contracts with customer name fully specified, the number is 1,200, but there are 1,800 cars ordered by the dealer.

(Guy Mullier): OK. And then maybe just to clarify what is your capacity to ship in 2020?

MW: Just in terms of – we haven't – as I said earlier, we talked about where the factories capable of producing (at) full run rate. We haven't ...

(Guy Mullier): Yes.

MW: ... talked necessarily about 2020. We'll update you accordingly. You asked another question about are we trying to clear the dealers out in order to make way for DBX, wee – I mean that's not a – the two are linked but they're not linked.

What we're trying to do with sports cars is make sure that we restore a situation where we have pull through from retail, which drives a sensible level of wholesales and allows us to restore our luxury price positioning as quickly as we can.

And so, taking some of that pain in 2019 was the right thing to do and we will be thoughtful about how we deal with the first part of 2020. And we said previously that we're planning prudently back in November for 2020. And that m3eans we're trying to do the right things by the sports cars.

We're certainly not trying to push sports cars out at all costs to make way for DBX, that's absolute not what we're trying to do. Balancing demand and supply is the right thing, restoring pricing to where we rightfully should be is the right thing, and that's our focus.

(Guy Mullier): OK, very clear. Thank you very much.

MW: Thank you.

MW: Thank you.

Operator: Your next question is for the line of (Sanji). Your line is open. You may ask your question.

(Sanji): Thank you. I think most of my questions have been answered. I just wanted to get my head around the numbers you've given. If I assume you spent 50 million on CapEx in quarter four, would (that) be fair to say that cash and operations is about 15 million?

MW: (Sanji), we haven't given details on CapEx. The only cash number we've given is we've said there was 107 million in the bank at the end of the year. And all of those are the metrics we'll update on if we've got something which is – we're required to talk about and therefore if we were – have something on that, we'd be talking about it today, but otherwise, in the normal course of the results process.

(Sanji): OK, but of the 150 million (not you got) – money you got from there in October, you (inaudible) you paid off 19 million of RCF? Would that be (inaudible) – (would that) be right?

MW: (Inaudible) we – it wasn't quite that number, but we paid down short term borrowings yes.

(Sanji): OK, so what's the facility now? What's – how much (are you getting) – get from – once you are sort of – well, how much more cash you can raise from your banks?

MW: So look, all – what we've said today is the remaining 100 million of delayed draw notes ...

(Sanji): Yes.

MW: ... we expect to draw in the next ...

(Sanji): (Inaudible).

MW: ... in the next four weeks, yes.

(Sanji): But you're not saying anything about what (your bank facility is), is that what you're saying to me? That (you'll not tell us today) ...

MW: (Inaudible).

(Sanji): ... what your bank facility is?

MW: No, we're just not talking about (it) today. We're – look, we said at the start that obviously we're in a closed period and we're updating on our – on our obligations – we're trying to be (inaudible) in that, but we're not getting into a general discussion around the more sort of detailed part that (we'd) expect to talk about during the annual (results – reports) and accounts period.

And we feel that ...

(Sanji): (Inaudible).

MW: ... (inaudible) ...

(Sanji): (Inaudible) this is public knowledge, I mean you're bank – and you must have a facility with your bank. Not – you can't say this is – I mean it's either there or it's not there. I don't see how that – you can't tell us about it? I just don't understand that.

Anyway (I'm not going to press on that). Thank you.

MW: OK.

Operator: There are no further question at this time. Please continue, sir.

MW: OK. If there are no further questions, I'd like to thank you for the questions that we have had, and we will update you on full results when we report on the 27th of February.

Thank you very much.

Operator, if you can close the meeting.

Thank you.

Operator: That does conclude our conference today. Thank you all for participating. You may all disconnect.

And speaker, please stand by.

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