Europcar Q1 2017 Results Conference Call

Olivier Gernandt, Europcar Group Investor Relations Director

Hello Everyone and Welcome to our first quarter 2017 results conference call.

I am Olivier Gernandt, Europcar's Investor Relations Director.

In a moment, I will hand you over to Caroline Parot, our CEO, and Jean Claude Poupard, our CFO, who will take you through the presentation and then we will open up the lines for questions.

As today's presentation may contain some forward looking statements, we invite you to read the important legal disclaimer on slide 2 of this presentation.

This presentation is available on the company's website and a replay of this call will be available on our website later today.

And with that, it is my pleasure to hand you over to our CEO, Caroline Parot.

Caroline Parot, Group CEO

Thank you Olivier and Welcome everyone.

So starting with the highlights of the first quarter 2017 on slide 5.

First, we are very pleased with the strong 6.6% revenue growth we delivered in the quarter, of which 3.2% were organic. Jean Claude will run you through our financial performance in detail in a few minutes but these solid revenue numbers were delivered thanks to good momentum in both our leisure and corporate businesses and are once again proof of the strength and robustness of our balanced business model.

Second, we have continued our efforts on our overall cost base and I am pleased to say that we were able to deliver a 3.4% decline in our monthly fleet costs per unit, thanks to the good work of our fleet purchasing teams during the quarter, as well as an overall good control of our operating fleet costs. This performance shows our ability to continue to improve our operational efficiency and allows me to give credit to our teams that are striving daily to deliver the operational excellence standards that are at the core of Europcar's success.

Third, we made an impressive 140 basis points improvement year on year in our fleet utilisation level. This excellent performance should not be extrapolated to the full year but clearly shows our know how in terms of managing our business through the optimisation of the three key pillars of our value creation model: 1. rental volume growth, 2. higher utilisation and 3. optimal pricing. This increase in utilisation is also the result of our strategy of supporting volumes and utilisation heading into the Easter period and we will discuss this further later in the presentation.

Fourth, totally in line with what we outlined at our full year 2016 results presentation at the end of February, we have been accelerating our investments in order to deliver our key strategic priorities for 2017. As a reminder, they are: 1. to place the customer journey at the heart of the Group's digital strategy, 2. to build commercial momentum accross all the Group's business units and 3. to accelerate the share of our online and mobile sales as well as the growth of our direct to brand sales.

So this is exactly what we have been doing. We have doubled our non fleet capex year on year from 6 to 12 million euros and most of that has been invested into our IT in order to accelerate the

digitalisation of our customer journey. We have also invested (both capex and opex) into our InterRent network in line with our ambition to significantly grow that business unit in the future.

Last but not least, we are happy to announce today that we have acquired yet another one of our franchisees, Europcar Denmark. This is again fully in line with the acquisition strategy we have laid-out to the invesment community at our Investor Day last October. I will tell you more about Europcar Denmark on the next slide and we are excited to welcome them as Europcar's eleventh corporate country.

More generally, we also wanted to confirm our strong ambition on the acquisition front which I will do in a moment, but it is clear to us that with a leverage ratio below one time, we remain under leveraged and have ample headroom to finance further acquisitions in the near future.

Now over to slide 6 where I wish to focus on our recent acquisitions.

First, I will start with the one we announced this morning, Europcar Denmark.

Europcar Denmark is a perfect fit and yet another good example of how we want to expand our corporate footprint. Europcar Denmark is the market leader with around 30% market share in the country and generated close to 60 million euros of revenue in 2016 of which around 20% came from Vans & Trucks. This will enable us to increase our footprint in the Nordic region and expand our exposure to the promising segment of Vans & Trucks. Europcar Denmark has a solid Management Team which is staying on board and will help us grow the business further in the future.

Finally, this acquisition will enable us to generate significant shareholder value through synergies, both on the cost and the revenue sides.

As is the case with any of our recent franchisee acquisitions, we are first and foremost able to extract important cost savings from the combination of our fleet purchasing exercises. On average, Europcar Denmark operated a fleet in excess of 6,000 vehicles last year where as the Europcar Group operated an average fleet throughout the year in excess of 210,000 vehicles. As you can imagine scale matters when purchasing and financing your fleet, hence the significant savings we can extract from the sheer scale of the fleet that we are purchasing and financing.

But there are many other buckets of costs from which we will be able to extract significant savings such as the improvement of the damage recovery process and a better management of our insurance cost to name just a few examples.

There are several opportunities on the Revenue side as well. Let me give you a few examples.

Europcar Denmark has today a high proportion of revenues from its domestic market and we believe there is a large potential of cross border revenue generation with other Europcar corporate countries. We also see an interesting revenue opportunity for our two other brands, InterRent and Ubeeqo, in Denmark. And finally, we also see a significant opportunity in terms of growing the level of ancillary sales in our danish operation, which will not only improve revenues but also create value as it will improve EBITDA margins.

All in all, we feel optimistic about the prospects for Europcar Denmark, which will have a positive contribution to the Group's overall EBITDA margin, and I hope that I have convinced you of the potential for value creation this deal beholds in the medium term.

Second, I wanted to take some time to talk to you about Ubeeqo. We bought a
24% stake from the company's founders in February and hence now own a 100% of the company,

which consists of Ubeeqo, Bluemove and Guidami. Our car sharing service is now available in several major cities across Europe (including Berlin, Paris, Barcelona, Madrid and Milan) and owns a portfolio of major B2B accounts.

This move to acquire 100% of the company makes a lot of strategic sense as we now have free rein to manage and integrate the company into the BU New Mobility of the

Europcar Group. I will you give you an example of
how this has changed the way we operate Ubeeqo and the pace at which
we are integrating the company.

We are clearly scaling up our commercial efforts to increase the
sales momentum of Ubeeqo by integrating Ubeeqo's

offering into our Corporate B2B sales product portfolio in order to sell Ubeeqo's mobility solutions to the wider B2B customer base of the Europcar Group. We are also working on the integration of the two companies' back office functions, in order to create the best vehicle sharing service in Europe, with the ability to use the service in all countries with one account and log-in.

We strongly believe in the high growth potential of Ubeeqo and
more than ever are managing its expansion in a smart, opportunistic as well as a cautious manner.

Finally, I wanted to use this opportunity to reiterate our strong ambition in terms of acquisitions. Since we have publicly announced it last year, it is now well known accross the industry that we want to play a significant role as an industry consolidator. Hence I can confirm that we want to add at least another 500 million euros worth of revenue to the Group by the end of year 2020. I can also confirm that our teams are working hard on that front and that we will update you in due course as we sign these future transactions. As a rule and for obvious reasons, we will not make any comment about market rumours about our potential acquisitions.

What I can reiterate on the other hand is that we are keen to continue to make acquisitions in three specific areas: Franchisees, Bolt on's and new mobility services.

And with that, let me hand you over to Jean Claude, our Group CFO, who will run your through our financial performance.

Jean Claude Poupard, Group CFO

Good afternoon and Good morning everyone. This is Jean Claude Poupard, Group CFO.

We are now on slide 8 which shows you the 4 key indicators of our financial performance for the quarter ie our revenue, adjusted corporate EBITDA, Net Income and Adjusted Corporate Operating Free Cash Flow performance.

Before I do get into the specifics of each of these four KPIs, I need to remind you that in our industry because of its intrinsic seasonality, the first quarter of the year is not a meaningful quarter, particularly in terms of profitability and free cash flow generation. Having said that, let's discuss each of these KPIs.

First in terms of Group Revenue, we delivered a solid 6.6% growth in the first quarter of 2017 versus the first quarter of 2016 at constant exchange rates and 3.2% growth on an organic basis. This is the third quarter in a row during which we deliver over 5% revenue growth, having delivered a strong performance in the second half of 2016 during which our revenues grew by 5.1% in Q3 and 5.2% in Q4.

This solid revenue performance in Q1 2017 was driven by a strong momentum in our leisure business supported by a good macro-economic environment and a good ramp up in the commercial momentum in our B2B business.

Secondly, our adjusted corporate EBITDA remains slightly negative at -6 million euros down by 1.5 million on last year as a result of three elements: 1. The shift of the Easter vacation period from March last year to April this year, 2. Our increase in opex investments in IT on our digitalization programs, in the InterRent network, and in sales and marketing for the Group; and 3. to a lesser extent our operating losses in our New Mobility business unit.

It is worth mentioning that the good management of our 3 pillar strategy (Volume, Utilisation and Pricing optimization) has delivered a flat Margin after variable costs in Q1 2017 versus Q1 2016.

Thirdly, our Net income reached a positive 19 million euros in the quarter versus -20 million euros last year as result of the release of a 45 million euros provision related to the French Antitrust Authority's decision to dismiss its case against the French car rental industry.

Finally, our Corporate Operating Free Cash Flow came in at -27 million in the quarter down on last year's level due mostly to a doubling of our non fleet capex. I will come back to that in our Operating Corporate Free Cash Flow slide later in the presentation.

Now onto slide 9 for some of our key operational KPIs.

Volumes were up a strong 9.3% year on year in the first quarter boosted by 1. solid volume growth in our B2B business with good trends with both SME's and Key Accounts and 2. strong growth in our leisure business positively impacted by good momentum in both our direct to brand as well as our indirect businesses and despite the fact that Q1 2017 had one less day of business or 1% less volumes than in 2016 as 2016 was a leap year.

Our Group blended RPD was down 3.6% mostly due to the negative impact of our RPD in Vans & Trucks but also due to a decline in our Cars business and we will discuss this on our next slide.

Our utilisation rate grew by an impressive 140 basis points. This is clearly the result of our shift in strategy in our Vans & Trucks business unit, as well as strategic choice to maximise our position in the Cars market ahead of the Easter holidays. I will get back to that in a moment.

And finally, we made significant improvements in our fleet costs per unit per month which were down 3.4% year on year. This is the result of (1) good fleet negotiations, (2) good control of our fleet operating costs and (3) continued improvements in our fleet mix during the quarter.

Hence, our choice to grow our volumes, maximise utilisation at the expense of reducing slightly our pricing ahead of the Easter period. Again, this is proof of the robustness of our business model based on our 3 pillars of profitable growth generation, which are volumes, utilization and pricing optimisation.

Now on to slide 10 where we break down some rental revenue KPIs for our 3 major business units.

Cars first. Here rental revenues were up 4.3% in the first quarter of 2017 supported by a strong 6.8% growth in volumes and a 2.3% decline in pricing. Our rental revenues now include the impact of our Irish franchisee and Locaroise, the French franchises acquired last summer. At constant perimeter, ie excluding the impact of these two entities, our decline in pricing in the Cars business unit would only have been -1.9%.

Our pricing in Cars declined for two main reasons. Traditionally, our pricing starts to trend upwards with the Easter holidays every year. Hence the fact that Easter was mid April this year as opposed to last year when it was at the end of March explains part of this decline. The other reason why our pricing declined is strategic. You know that as a car rental operator we strive every day to maximise our profits as we try to find the optimal balance between growing our rental volumes, maximising our utilisation and setting the optimal pricing level. This year, as we were heading into Q2 and the Easter holiday period, we decided that the optimal strategy was to temporarily reduce prices in order to generate good volume growth and high utilisation levels in order to maintain an optimal level of capacity heading into the Easter holiday period.

It is worth noting that the overall pricing was particularly impacted by the performance of the UK.

The UK delivered the strongest volume growth in our leisure segment across the Group but also experienced a highly competitive pricing environment ahead of Easter, hence a significant negative mix effect of the country on our RPD of approximately 100 bps.

Our Vans & Trucks rental revenues grew by a solid 4.5%, with a stellar 9.7% growth in volumes but a negative 4.8% price effect. This negative effect is due to our shift in strategy and focus on extending the duration of our rentals and increasing the utilization level and hence the profitability of our Vans & Trucks business unit.

Finally, our Low Cost business unit delivered a strong performance with rental revenues up 49% supported by growth in volumes of 51% and a 1.6% decline in pricing due to (1) the commercial ramp up in some of our more recent countries such France, Germany and the UK and (2) the impact of Easter on some of our more mature countries of southern Europe.

Now on to slide 11 and our adjusted corporate operating free cash flow, which is never meaningful in the first quarter of the year.

It came in at – 27 million euros in the first quarter of 2017 as a result of a doubling of our non fleet capex which reached 12 million in the quarter reflecting continuing investments into our digitalisation but also into our network operations to enhance the level of our customer service and our operational efficiency. It was also impacted by a 5m of non recurring expense charge, which compares to a positive one off figure of 5 million in Q1 2016, mostly coming from several structural reorganisation programmes launched in Q1 17 and which should bear fruit in 2018 and onwards.

On slide 12, we show you that our corporate net debt has continued to decline year on year at the end March due to our strong operating free cash flow generation. Our net leverage is around 0.9x at the end of Q1 2017. We are hence in a comfortable situation to execute our ambitious acquisition plan.

And with that I will turn over to Caroline who will tell you more about our future prospects and our 2020 Ambition.

Caroline Parot, Group CEO

Thank you Jean Claude.

I wanted to say a few words about our April trading which was particularly important as it included the Easter holidays. I will say two things: first, we have experienced better revenue trends than in Q1 and second, we delivered a positive RPD at the Group level during the month.

These positive trends lead me to conclude this presentation by reiterating our confidence in our ability to continue to improve the Group's operational and financial performance in 2017

Hence we confirm all four key components of our full year 2017 guidance which are:

1. An organic revenue growth target of at least 3%
2. An increase in adjusted Corporate EBITDA margin versus last year
3. An Operating Corporate Free Cash Flow conversion above 50%
4. A Dividend Payout ratio above 30%

Finally, I also wanted to reiterate our confidence in our ability to deliver the two major financial targets of our Ambition 2020.

Our solid organic growth prospects as well as our ambitious acquisition strategy will enable us to reach at least 3 billion euros of revenue and operate the Group with a an improved efficiency; This improvement in efficiency will come from progressive profitability increases accross all of our business units which combined with a strong operational leverage will enable us to reach a corporate EBITDA margin in excess of 14% by the end of the year 2020.

With that, we wish to thank you for your attention, and Jean Claude and I are now happy to answer any questions you may have. Operator over to you.