H1 2017 Results Conference Call Transcript

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Hello everyone and Welcome to our first half 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.

Slide 5 : CP

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 10.1% revenue growth we delivered in the first half of 2017, of which 4.6% were organic. Jean Claude will run you through our financial performance in detail in a few minutes but this topline growth acceleration was delivered thanks to a strong momentum in our leisure business and an improving momentum in our corporate business, across all our corporate countries and our three major business units of cars, vans and trucks and low cost.

Q2 2017 is not only the fourth consecutive quarter of reported revenue growth above 5% for the Group but almost as importantly the fourth consecutive quarter of organic growth above 3% with an acceleration to 6.6% organic revenue growth in the 2nd quarter of this year. This strong performance is not only proof of the resilience of our balanced business model, but also shows that we are able to deliver significant revenue growth and gain market share across our corporate footprint.

We are also very pleased with our performance in Adjusted Corporate EBITDA which excluding the impact of new mobility is up 9.8% YoY with a 10 basis points increase in our Adjusted Corporate EBITDA margin. Our performance in Corporate Operating Free Cash Flow is also very satisfactory as we grew that key performance indicator by 10.6% YoY.

Second, we have continued our efforts on our overall cost base and I am pleased to say that we were able to deliver a 1.8% decline in our monthly fleet costs per unit over the first six months of the year, thanks to the efforts of our fleet purchasing teams, as well as an overall good control of our operating fleet costs. This performance shows our ability to sustainably improve our operational efficiency and we expect that to continue going forward.

We have also delivered a solid 80 basis points improvement year on year in our fleet utilization level which reached 76.3% in the first half of 2017. This excellent performance also demonstrates our know how when it comes to optimizing our value creation model along the following three key pillars: 1. rental volume growth, 2. higher utilization and 3. optimal pricing.

Third, we have had some good momentum in our B2B business and signed several large clients - that we define as generating above 10 million euros of revenue per year - in the first half of 2017 in France and Germany, but we have also delivered good results in terms of commercial partnerships with the signing of a partnership with Lufthansa as well as an extension of our long term partnership with EasyJet.

Fourth, we have announced this morning a net loss of 27 million euros for the first half as a result of a high level of transformational actions implemented during in the first half. This is the result of an acceleration of our transformation which means we took a 39 million euros exceptional charge for 3 major non-recurring expenses which Jean Claude will detail later in the presentation. The point I wish to make is that we are accelerating on all fronts, our own streamlining, our digital transformation and our acquisitions.

Finally, since setting ourselves a new target in terms of acquisitions in October last year, we have significantly accelerated the pace of our acquisitions; in other words, we have clearly switched gears in terms of acquisition momentum since the beginning of 2017 and particularly during the second quarter during which we signed agreements to acquire two major companies, Buchbinder in Germany and Goldcar in Spain. These are transformational transactions for us and although we have recently announced these transactions, I will spend some time to tell you a bit more about the strategic rationale and our ambition and excitement as we prepare to welcome these companies into the Europcar Group.

Fifth, we also made a minority investment into SnappCar, the second largest peer to peer car sharing platform in Europe, and I will take some time to tell you why we see a great growth opportunity in peer to peer car sharing in Europe.

Slide 6 : CP

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

These recent transactions – Europcar Ireland and Denmark, Snappcar and more importantly Buchbinder and Goldcar will enable a significant transformation of the Europcar Group. They will not only enable Europcar to continue to enlarge its European footprint but will also allow us to continue to expand our offering and presence in the low cost segment, in the vans and trucks segment and in the New Mobility space.

We have already mentioned extensively the quick plug and play benefits we can reap when acquiring our franchisees over the last few months, hence I will not discuss our recent Irish and Danish franchisee acquisitions further. I will on the other hand reiterate that we will continue to be actively seeking to acquire more franchisees particularly across Europe.

Having said that, and before I talk about Buchbinder and Goldcar, I wish to start with Snappcar that I just mentioned where we have made a 20% minority investment.

So what is Snappcar? Well with more than 250,000 community members and over 30,000 cars available on its platform, Snappcar is today the number 2 player in Europe in peer to peer car sharing. The company has been growing fast since its inception in 2011 both in terms of registered cars and number of transactions. Its business model is basically similar to the one of Airbnb but replacing an accommodation with a vehicle.

Peer to peer car sharing services are mostly used for out of town trips ranging from 8 hours to up to 5 days. Hence it is highly complementary with both Ubeeqo, our short term urban rental business, and our traditional rental business. In other words, this is a way for us to enlarge our solutions offering and address new customer needs.

Peer to peer car sharing platforms have a strong need for car availability, hence with an average fleet of around 215,000 vehicles in 2016 we believe Europcar can help Snappcar to expand and improve its service. We believe there are numerous synergy opportunities between Snappcar and Europcar in fleet as mentioned earlier but also in technology. Snappcar is for example introducing keyless technology making it possible to open a car through the Snappcar app. Also we can share some of our experience in terms of connected cars. A third area of synergy potential is in insurance, repair and maintenance as well as replacement of vehicles. And finally, we look forward to sharing best practices and know-how in terms of pricing tools, customer data analysis and usage patterns.

Anyways, this investment which was made through our Lab, which is our entity dedicated to innovation, is fully in line with Europcar's ambition of wanting to become a leading mobility solutions player by providing a good alternative to car ownership thanks to a large portfolio of affordable solutions tailored to every specific need.

Snappcar is an ambitious company, with a collaborative corporate culture and a strong management team made of entrepreneurs. Today SnappCar is only available in the Netherlands, Denmark and Sweden and we want to help them expand across Europe. We believe we can help them to improve and innovate their platform usage and range of services.

Slide 7 : CP

Now let me switch to Buchbinder and Goldcar on slide 7. We have already hosted specific conference calls and discussed each of these acquisitions in the recent past but I will nevertheless tell you why we are eager to close these transactions and start integrating these two companies into the Europcar Group.

First, with the acquisition of Buchbinder, we are becoming the leader car rental operator in Germany and Austria gaining critical mass in both the low cost / value segment and the vans & trucks segment.

The key for us in terms of strategic interest as we acquire the Buchbinder brand – which is a strong local brand particularly for SME's - and its customer base in Germany and Austria is to boost our fast expanding low cost business in southern Europe and better leverage what we call our "source to destination" customer based model. In other words, expanding our presence in Germany is a way to ensure that we can tap into Europe's largest market in terms of customer sourcing potential.

With Goldcar, we acquire the largest European player in the low cost segment which will consequently put us in the number one position in the space. The company has an impressive track record both in terms of topline growth and profitability, and will hence boost both our topline and EBITDA margin prospects. Strategically, acquiring Goldcar made a lot of sense to us as it increases our exposure to three major growth engines: the Mediterranean region, the leisure segment and the low cost segment.

Both deals will bring a significant amount of cost and revenue synergies, which we have detailed in previous presentations, but to summarize as with all our acquisitions, we will first extract significant benefits from better fleet management ie better financing, procurement, maintenance and repair, utilization of the purchased fleets. Second, we can extract savings as we integrate the companies into our insurance scheme. Third, we can improve the back office of our combined operations and extract cost structure savings. Fourth, we can improve the overall performance of the integrated companies as we implement Europcar's yield management tools (our RCM). Last but not least is what we will generate in terms of additional revenue for the Europcar Group in line with what I just said about the tapping potential of the German customer base for Buchbinder. More generally, our acquisitions offer large opportunities to boost our intra-European sales growth. Finally, I want to add that the opportunity to combine Buchbinder and InterRent with Goldcar will enable us to accelerate the roll out of our low cost strategy outside of the low cost industry's sweet spot of Spain and Portugal.

Once we have closed the two transactions in the fall this year, we will organize an investor day to amongst other things tell you more about how we want to build the platform and the scale we need to roll out our Group's low cost strategy.

Now to conclude on the topic of acquisitions.

Since our Investor Day last October, when we made public our intention of buying at least €500 million worth of additional revenue, we have acquired our Irish franchisee (€50 million of revenue in 2016), our Danish franchisee in May (€60 million of revenue in 2016), Buchbinder (€200 million of revenue in 2016) and Goldcar (€240 million of revenue in 2016). In total these four transactions will represent an additional revenue pool of around €550 million. Hence we have now achieved the bulk of our ambition 2020 in terms of acquisitions. Having said that, we will continue to be opportunistic and are likely to make further acquisitions in our three areas of interest - Franchisees, Bolt on's and new mobility services – albeit significantly smaller sized deals than the Buchbinder and Goldcar ones.

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

Slide 9 : JCP

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.

First in terms of Group Revenue, we delivered a strong 10.1% growth in the first half of 2017 versus the first quarter of 2016 at constant exchange rates and 4.6% growth on an organic basis. As Caroline mentioned, this is now the fourth 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, and in the first half of 2017 during which our revenues grew by 6.6% in Q1 and 13.7% in Q2. We are also pleased with the strong positive trend of our revenue growth on an organic basis. Here also we deliver our fourth consecutive quarter of organic growth above 3%, with a particularly strong performance in Q2 this year, as we grew our revenue organically by 6.6%, well above our FY17 target of at least 3%.

Our revenue performance in H1 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 increased by 2.7% to reach €56.4 million. Our adjusted Corporate EBITDA growth was impacted by increases in our operating variable costs and in our network and personnel costs. There are four main reasons for these increases: (1) a significant change in perimeter since H1 2016 with Year on Year comparisons being impacted by the acquisitions of EC Ireland, EC Denmark, Ubeeqo and Brunel, (2) higher volumes of rentals particularly in Q2, (3) an increase in airport fees particularly in Spain and (4) an increase in network investment to support our

Low Cost deployment at InterRent and improve the welcoming capabilities at our main airport stations.

Having said that I want to remind you that our Adjusted Corporate EBITDA is impacted for the first time this year by our losses at our New Mobility division which is now being fully consolidated. This was not the case in 2016. These losses represent the cost of acquiring this new customer base across Europe's major cities and reflect the current low utilization levels versus our traditional car rental business as those new mobility solutions are still in their ramp up phases.

Excluding the impact of our new mobility solutions business unit, which incurred a €3.9 million loss in the first half of 2017, our adjusted corporate EBITDA grew by 9.8%, in line with our Group revenue growth of 10.1%.

Our adjusted Corporate EBITDA margin was down 30 basis points YoY but was actually up 10 basis points when excluding the impact of new mobility. Hence, we remain confident that we can achieve an increase in our adjusted Corporate EBITDA margin excluding the impact of new mobility services in 2017 in line with our Group financial guidance.

As a reminder and to put things in perspective, only around 20% of the Group's annual adjusted corporate EBITDA is generated in the first half of the year.

Thirdly, and as mentioned by Caroline earlier, we report a net loss of 27 million euros in the first half. This is the result of a high level of transformational actions implemented during the first half. To be more specific, the acceleration of our transformation meant we took a 39 million euros exceptional charge for 3 major non-recurring expenses. They are: (1) an expense for the acquisitions fees of Goldcar, Buchbinder, Europcar Denmark and others. (2) a restructuring charge primarily driven by the downsizing of our headquarter staff at Europcar Germany, and (3) an increase in our consulting expense to accelerate the Group's transformation.

Finally, our corporate operating free cash flow, one of our key financial metrics, increased by 10.6% in the first half of 2017 as a result of a better performance in terms of non-fleet working capital. I will come back to that in our Corporate Operating Free Cash Flow slide later in the presentation.

<u>Slide 10 : JCP</u>

Now onto slide 10 for some of our key operational KPIs.

Volumes were up 12.2% year on year in the first half boosted by 1. sustained 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 all of our corporate countries with yet again our southern European countries – Italy, Spain and Portugal - delivering the highest growth momentum. Our Leisure business, which generated 54% of Group revenues in the first half of 2017, was also boosted by an acceleration in our direct to brand revenue. We estimate that 2/3 of the growth in our leisure business comes from our online direct sales channel and direct online reservations grew by a strong 20% in H1 2017.

Our Group blended RPD was down 2.0% mostly due to the negative impact of our RPD in Vans & Trucks but also due to a slight decline in our Cars business and we will discuss this on our next slide.

Our utilization rate grew by 80 basis points. This is clearly the result of our shift in strategy in our Vans & Trucks business unit, as well as a good performance in our cars business.

And finally, we have continued to improve our fleet costs per unit per month which were down 1.8% 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 first half of the year.

With the benefit of hindsight, we know now that our decision to grow our volumes and maximize utilization at the expense of reducing slightly our pricing ahead of the Easter period was a good one. Again, this is proof of the robustness of our business model based on a smart balance between our 3 pillars of profitable growth generation, which are volumes, utilization and pricing optimization.

Slide 11 : JCP

Now on to slide 11 where we break down some rental revenue KPIs for our 3 major business units.

Cars first. Here rental revenues were up 7.7% in the first half of 2017 supported by a strong 8.2% growth in volumes and a 0.5% decline in pricing. As our rental revenues will increasingly be impacted by our acquisitions, in this instance by Locaroise, Ireland and Denmark, we have decided to communicate our organic revenue growth by business unit. For the cars business unit, it was 4.3% in the first half of 2017.

Our Vans & Trucks rental revenues grew by a 9.7%, driven by a 14.4% growth in volumes more than offsetting a negative 4.1% 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. On an organic basis, our vans and trucks business unit grew its revenues by 3.4%.

Finally, our Low Cost business unit delivered a strong performance with rental revenues up 80% supported by growth in volumes of 64% and a 10% increase in pricing due to more positive pricing trends as a result of our more value enhancing pricing strategy across our low cost network and a more positive country mix effect as we have generated more revenues outside of Spain and Portugal.

Slide 12 : JCP

Now on to slide 12 and our adjusted corporate operating free cash flow for the first half of 2017.

It came in at 90 million euros up 11% YoY as a result of a strong performance in non-fleet working capital coming from an acceleration of our cash collection and higher broker prepayments.

Our non-recurring expenses were impacted by a one-off for the restructuring of our German headquarters as well as one-off fees related to our recent acquisitions. We now estimate that our full year 2017 non-recurring expenses should be around 50 million euros.

Our non fleet capex increased from 13 to 21 million euros as we continued to invest into our IT systems and the digital transformation of the company.

In terms of cash conversion, we have been able to convert 65% of our Last Twelve Month adjusted corporate EBITDA into FCF, well above our FY17 target of at least 50%.

Slide 13 : JCP

On slide 13, we show you that despite significant investments and upgraded dividends, our corporate net debt has halved year on year at the end of June due to our strong operating free cash flow generation and our recent capital increase. Our net leverage is around 0.4x at the end of H1 2017 and we expect it to be below 3x on a proforma basis at the end of 2017 once we have closed our recently announced transactions.

In July, We have signed both a new €500 million Revolving Credit Facility and a €1 billion bridge facility.

The new secured €500 million Revolving Credit Facility (RCF) will replace the existing €350 million Senior Revolving Credit Facility and will mature on June 2022.

We have also signed a new unsecured €1.04 billion Bridge Facility dedicated to the financing of the Goldcar acquisition and the refinancing of its existing debts including its fleet.

Europcar will refinance this Bridge Facility in the future through a mix of bond issue and implementation of specific fleet financings.

And with that I will turn over to Caroline for some closing remarks.

Slide 15 : CP

Thank you Jean Claude.

First, I wanted to say a few words about the recent launch of an investigation by the Trading Standards in the UK. Since we are currently under investigation and at a very early stage in the procedure, there is a limited amount of information I can share with you at this stage, but here is nonetheless what I can share.

The Leicester City Council Trading Standards Services have opened an investigation into the invoicing of repair costs at Europcar UK. We are fully cooperating with the authorities and have decided at this early stage of the investigation to record a provision of €44 million euros.

We will of course keep you updated as the investigation advances and we believe it is appropriate to communicate but I want to reassure our shareholders as well as our customers that we have taken this investigation extremely seriously and that we will take whatever potential action is required to fully comply with UK legislation in terms of consumer protection.

Anyways, on this side of the channel, we have a more positive news on the litigation front as the French State did not appeal against the French Antitrust Authority's decision to dismiss its case against the French car rental industry. As a result, we were able to release a 45 million euros provision we had recorded for that purpose in our 2015 accounts.

In conclusion, the net effect of these two provisions only has a limited impact on our net income for the first half of 2017.

Secondly, I wanted to say a few words about our current trading environment.

First, our summer bookings are looking good so far and our traditional 4-weeks visibility on our bookings enables us to say that over the first two months of the third quarter we have experienced better revenue trends than in H1 both on an organic and a reported basis.

Again the full extent of our performance in the third quarter will come from a strong performance in July and August, but also during the after season in September on which we have only limited visibility at this point in time.

Having said that, the positive momentum since the beginning of the summer leads 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.

In other words, 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 strong confidence in our ability to deliver the two major financial targets of our Ambition 2020.

Our attractive 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 an improved efficiency; This improvement in efficiency will come from progressive profitability increases across all of our business units which combined with a strong operational leverage will enable us to reach by the end of the year 2020 an adjusted corporate EBITDA margin in excess of 14% when excluding the impact of new mobility services.

I will conclude by expressing that we feel excited about the recent transactions that we have discussed with you today and wanted to remind you that these are absolutely key to the transformation of the Group the Management Board and I have been so keen to implement. These acquisitions not only strengthen our position across our footprint in our core European market but they also enable us to significantly enlarge our current product offering in order to offer our customers a full range of services in a fast evolving mobility environment.

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.