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EUCAR.PA - Full Year 2021 Europcar Mobility Group SA Earnings Call

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CORPORATE PARTICIPANTS

Caroline Cohen *Europcar Mobility Group S.A. - Head of IR*

Caroline Parot *Europcar Mobility Group S.A. - CEO & Director*

Malene Korvin *Europcar Mobility Group S.A. - Interim Group CFO*

PRESENTATION

Operator

Good day, and welcome to the Europcar FY Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Caroline Cohen. Please go ahead.

Caroline Cohen - *Europcar Mobility Group S.A. - Head of IR*

Thank you, Gary. Dear, everyone, and welcome to Europcar Mobility Group Full Year 2021 Results Conference Call. In a moment, I will give the floor to Caroline Parot, CEO of the group; and Malene Korvin, CFO. So we'll 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 the presentation. This presentation is available on the company's website, and a replay of this call will be accessible shortly. And with that, it's my pleasure to pass the floor to Caroline Parot.

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

Thank you, Caroline. Good evening, everyone. Thank you for joining us at the occasion of our full year 2021 results publication. Before we deep dive into these results, let's have a look at the agenda. Please go to Slide 3.

To begin with, I will share with you the highlights of the year. Malene Korvin, our Group CFO, will then gain you through our financial results, and we will conclude with a status update on the consortium tender offer as well as on some '22 and midterm perspectives.

So please go to Slide 5. In a nutshell, 2021 was good in terms of business recovery but was also a very unusual year compared to the pre-COVID times. It was unusual terms of seasonality. The year began slowly as economies were still impacted by pandemic waves, and there were a lot of lockdowns and restrictions. Out of Q1, we began to feel some momentum and traction in the U.S. and to a lesser extent, in the Australian and New Zealand perimeters. These trends grew stronger from Q2 onwards in the U.S. and in Europe as well. Q2 was a good quarter in terms of business recovery and momentum despite no Easter effect.

H2 was very strong with a high Q3 we discussed already, but also a very good Q4 with unusual high demand in October and November and a slowdown starting mid-December due to the new Omicron outbreak. 2021 was also unusual in terms of pricing. As of Q2, we were faced with limited in-fleeting capacities due to the semiconductor shortage which was and is still impacting all OEMs. This chip shortage in all the industry began in conjunction with the strong and sustained customer demand mainly driven by the post-lockdown appetite for travel. This global tension between low supply and high demand resulted in high prices from the end of H1 2021 onwards across nearly all territories and in particularly, in the U.S.

2021 was finally unusual in terms of fleet pattern. Given our low fleet level during all the year and in particular during peak seasons and in Q4, combined with the difficulty to acquire new vehicles, very limited de-fleeting upon customer, saw us to be ready for 2022 while the balance of the non-vehicle programs has increased during the year.

So now let's go for the performance on Slide 6. Revenue-wise, our full year performance was very good. And month after month, we reduced the gap versus pre-COVID levels in almost all geographies despite limited long haul to Europe. But it is in terms of margin that our performance was particularly strong with 12.5% for 2021 versus 11.5% in 2019 and a record 21.5% for H2 versus 16.4% in H2 2019 -- '18, '19, sorry, benefiting from both positive price momentum and the combined effect of the Reboot and Connect on our profitability while relaunching the group and investment for the future.

This allowed for a high corporate free cash flow conversion rate at 49% versus 42% in 2019 for the full year and a particularly good 69% in H2.

I cannot comment this performance without coming to the Connect plan. So please go to Slide 7. In addition to our sharp business recovery, we also made good progress with significant achievements regarding the deployment of our strategic roadmap Connect. First, in terms of our new go-to-market approach with service lines, here are 3 concrete illustrations that have been managed during this year.

The service line leisure strongly leveraged Key 'n Go and Europcar Premium Pick-up, our direct access to car solutions in the context of growing demand from customers for fast, simple and contactless solutions. The professional service lines launched, we discussed already Flex, SuperFlex and DuoFlex, which mask businesses and especially SME strong demand for flexible and mid- and long-term subscriptions as an alternative to leasing. Then building on the group purpose to offer attractive alternatives to vehicle ownership, the Proximity service line launched on the German market in late 2021, a new service, My Europcar, a subscription model, which target individuals who need a vehicle that wants to evolve the asset of ownership.

Now on Page 8, coming to the operational and tech enablers of Connect, good progress were made as well. First, our connected vehicles program. It has been steadily scaling up for 2021 and met its annual targets with close to 100% of our U.K. fleet being connected, and around 20% of our global fleet being connected as well. Vans & Trucks benefited as well from those fast deployments. In this program, we also deployed new tech features, leveraging data, such as, for example, machine learning in the field of collision and detection damage processes to enhance our maintenance costs.

In terms of our network transformation, we continue to deploy our strategy. We deployed 8 new superior Vans & Trucks sites with a continuing focus on professional businesses. On the EV side, with 250 stations equipped with charging infrastructures, it is now 22% of our corporate network, which is able to operate EVs and PHVs on track to support our targets to operate more and more EV vehicles, which I'll remind you, is 20% in 2024.

And finally, we resized our networks with approximately minus 200 stations to adapt to the business environment and to prepare for network specialization and efficient digitized operation. As for the tech enabler themselves, we won a 6-month live lab in Portugal to test our One platform new IT system to progressively be deployed across all the group. And we also deployed a new fleet planning tool in our European countries that is already allowing a better utilization and fleet management. All these backbone programs and initiatives are key in strengthening both our operations and customer value propositions.

Let's go to Page 9. Let's finish to the 2021 highlights with ESG. As you know, transport accounts for 20% of annual in-house gas emissions. Today, the entire mobility ecosystem is at a major cross road and the only way forward is decarbonization. As a leading mobility player and building on an already robust ESG framework, we have decided to implement a systematic approach that in each and every stream of our operational framework which can significantly contribute to our commitment in terms of CO2 emission reductions at Scope 1, Scope 2 and Scope 3 level. This systemic approach and driving a sustainable path is now strongly embedded in our decision-making and operating processes. As you have noticed, these EV programs we are managing on the network and on the fleet.

That is for our 2021 highlights, and I hand over to Malene Korvin, who is going to guide you through our financial results.

Malene Korvin - *Europcar Mobility Group S.A. - Interim Group CFO*

Thank you, Caroline. Good afternoon, everyone. Let's now have a look at our detailed financial results. Please turn to Page 11.

As you can see on this page, we experienced a sharp recovery in terms of revenue progression, reducing quarter after quarter, the GAAP versus pre-COVID level, as mentioned by Caroline. Following a strong Q3 at plus 20% versus 2020 and minus 27% versus 2019, Q4 was outstanding versus last year and only down by 11% versus 2019. This was achieved, thanks to extraordinary October and November with a late summer effect in the south of Europe, and despite the slowdown we faced in December following the Omicron outbreak.

This performance mainly comes from the Leisure service line, which benefited from a very strong post-lockdown momentum. Revenue ended at almost EUR 2.3 billion for the full year, which translates a 28% progression versus 2020 and minus 30% versus 2019 with different recovery and business patterns along the year, as mentioned earlier by Caroline.

Please turn to Page 12. Overall, rental revenue generated for cars was up 32%, driven by a favorable pricing environment in the context of future service. Leisure service line contributed the most to our recovery with a 65% revenue progression versus last year, reaching EUR 840 million.

Let me underline that our low-cost brands, Fox and Goldcar, have performed very well, both in the U.S. and Southern Europe. We are still below 2019 level, but catching up progressively with Q4 at circa minus 15%.

Professional service line revenue has also progressed despite business travel still at a low level compared to the pre-COVID period. It was up 15% versus last year at EUR 740 million and down by 22% versus 2019. As targeted in our Connect plan, the service line has been able to develop its portfolio of fleet services and flexible subscription offers.

As you know, our Proximity service line is addressing mobility use case in cities. This service line was also up by 8% compared to last year, reaching EUR 270 million. It is down 32% versus 2019, mainly due to some lockdowns impacting in the first semester. The Van & Truck perimeter, which proved extremely resilient in 2020 is up 12% and got back to its pre-COVID level at EUR 360 million.

Please turn to Page 13. Let's now have a look at corporate EBITDA and main growth lines. With a record EBITDA margin in H2, our full year performance was particularly strong in terms of margin between 12.5% in 2021 or 90 bps more than 2019. The strong performance reflected the quality of the top line with positive price momentum due to fleet (inaudible). The outstanding fleet management and the continued strict control of our network and HQ costs. 2021 performance notably reflects the output of all the decisions we took and implementing since COVID outbreak to adapt to the crisis and be able to navigate through it.

We have readily become more agile in terms of cost base management and optimization at every cost level. Versus 2019, variable and direct costs have decreased by 32%, while revenue was down by 30%, resulting in a margin after direct cost improvement by 200 bps. Over the last 2 quarters, utilization rate was significantly above 2019 levels, even though we have reduced the de-fleeting process compared to our classical pattern to prepare for 2022. Fleet cost per unit were stable in 2021 compared to previous year, with favorable remarketing environment, compensating for higher fleet operating costs due to fleet aging.

We have continued to optimize our network Network and HQ costs. but without benefiting any longer from further measures from Q3 onwards. These costs were almost fully adapted to 2021 revenue level when compared to 2019 baseline. Overall, despite having lost circa EUR 1 billion revenue, corporate EBITDA is only down by EUR 85 million or below a 10% (inaudible) , which is a very good performance.

Please turn to Page 14. Let me now comment below corporate EBITDA items and corporate operating cash flows. 2021 net result is back in positive territories, lending at EUR 29 million. This is resulting from strong corporate EBITDA, as just explained, reduced below EBITDA cost in all areas and the impact of the financial restructuring together with a consistent approach as per activation of tax losses.

Let me underline the lower depreciation due to HQ and network rationalization. The nonrecurring costs are related to HQ and network adaptation plans, tender offer costs and tax litigations. With that, let's move to the operating cash flow.

As mentioned by Caroline earlier, conversion was very good at 49%, returning to the pre-COVID historical levels. We delivered a strong performance, generating EUR 92 million positive operating cash flow for the full year.

The main driver for this performance are naturally strong EBITDA and the continued focus of all teams on cash collection and also the segmented pattern in business mix. For the full year, our CapEx reached EUR 61 million, which is below our initial plans, but not due to phasing impact following delay in recruitment.

Please turn to Page 15. Net corporate debt blended at EUR 240 million of corporate leverage of EUR 1.3x, considering EBITDA before IFRS 16. To be noted, we have isolated VAT payment plan that we've obtained from various European states as part of the restructuring plan, aiming at postponing payments initially due in 2020 to 2021.

The fleet timing impact is mainly due to fleet working capital normalization and less de-fleet in Q4 versus historical pattern. As mentioned earlier by Caroline, the fleet was almost not reduced from September 2020 throughout the end of the year. Transaction costs notably reflects the staff and fleet bond refinancing costs together with fees in connection of the contracted standard offer.

Corporate liquidity stands at EUR 371 million, stable versus the end of the last quarter, having in mind that we have finance fleets to prepare the beginning of 2022 in the context of the future page. As a reminder, in 2021, we have achieved a major refinancing plan for EUR 2.2 billion, being the first player in the industry to finance with sustainability-linked criteria. The staff and senior note maturity were extended to 2024 and 2026, respectively, have very good conditions.

And to close on the debt side, we are happy to announce that we have secured our financing in the U.S., thanks to the implementation of our first securitization there that will allow us to finance our foreseen development in this geography. With that, I hand over back to Caroline.

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

Thank you, Malene.

Now I will share an update on 2022 as well as some midterm perspectives. So please go directly to Slide 17.

So let's begin with a status report on the Volkswagen-led consortium tender offer. As you can see on this slide, Europcar Mobility Group is continuing to cooperate heavily with Green Mobility Holding in the view of the completion of the tender offer.

The ongoing merger control procedures conducted by Green Mobility with the European Commission is making continuous progress. Europcar Group and its Board of Directors have decided to exercise the company options to extend the long-stop date until June 30, 2022, under the tender offer support agreement entered into between the company and Green Mobility Holding. The company and the offer, the consortium anticipate that the closing of the tender offer will occur during the second quarter of 2022.

In other words, the ongoing merger control procedures conducted by Green Mobility Holding with the Open Commission is taking a bit more time than usually expected and we need to exercise the company's options to extend the long-stop date, and we are going to work hard to make it happen in the course of Q2 2022.

Let's now move on our 2022 and midterm perspectives. Slide 18. All our efforts and actions over the last 2 years were driven by the objective to put us in the best possible conditions to fully benefit from the Travel & Leisure progressive recovery. As demonstrated by our 2021 results, here we are.

We managed a sharp recovery and achieved a strong performance, benefiting from both positive pricing momentum and the combined effects of our internal Reboot and Connect programs. But in 2022, the parameter of the equation will be different and might prove a little more complex to deal with. Our overall focus will be on profitability versus volumes as we anticipate a continuing tension between supply and demand. Volumes will be constrained, that's a certainty, but it's very hard to predict to what extent. We also expect global inflation, in particular, on the cars with a lasting semiconductor shortage to negatively impact our cost base and our business environment. On top, the current conflict in Ukraine provides more global business uncertainties.

As a consequence of all the above, we are not in a position to provide any outlook for 2022 and onwards. Nevertheless, as we move forward in the deployment of our Connect program, with first concrete benefits already observable, we are confident in our capacity to deliver long-term profitable growth, building on our leadership on sustainable, connected and demand mobility solutions.

So as a conclusion, I would like to tell you how proud I am of all the teams and the management of Europcar Mobility Group as these full year results fully reflect what we managed to achieve over the last 24 months. All our efforts are clearly paying off, demonstrating how relevant our choice and actions were. We owe this performance to Reboot and Connect, but also to the dedication of our -- and the engagement of our teams everywhere we operate. Regarding our [predatory], although we expect some headwinds, as I just told you, we are also confident in our long-term prospects.

And finally, I cannot end this call without addressing the terrible situation in Ukraine and for Ukraine people where they are and which goes beyond any financial prospects. As a group, we obviously do not take political positions, but the situation faced that population, seeing a trend to escape fight and bombing is not about politics and calls for solidarity. We consider this as part of our corporate social responsibility, and we will take appropriate solidarity actions accordingly in close cooperation with the UN refugee agencies.

Thank you very much for your attention. And now, Malene and myself are available to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we could take our first question from Jeffrey (inaudible).

Unidentified Analyst

I hope you can hear me well. Congratulations on this year's full year results. I had a question regarding the antitrust review by the European Commission. When you initially published the draft of the document when (inaudible) did in September, they said negotiations that started with EU. Can you elaborate a bit more on the antitrust issues that the commission has had? And why the filing, the official filing is taking so much time. Is a bit of prepared to propose remedy in order to comply with antitrust regulations in Europe?

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

No. This is Caroline speaking, perhaps we have not been clear enough. In September, we were entering in the prenotification discussion with the commission together with the consortium. So there is no particular issues. We have answered many questions, and we are on the way to answer to them. So the process has been slower than expected because we operate everywhere in the world, as do Volkswagen as part of the consortium, but we do not -- we do not plan to have new remedies so far as we speak. We are still in the same process, but it is longer than expected. So no real issue to wonder on our side, we progress, but it is longer.

Operator

(Operator Instructions)

We have no further questions at this time.

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

Okay. Great. So a short conclusion. Thank you, first, for your attendance. We are going to continue to progress on our plan. We know that those times are a little bit difficult to have certainties about what will be the next month is.

But the company is staying focused on delivering its program, delivering a good profitability and having also solidarity actions towards what is happening in Europe. Thank you very much for your attention.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
