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EUCAR.PA - Q1 2022 Europcar Mobility Group SA Earnings Call

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CONFERENCE CALL PARTICIPANTS

Michael Kuhn

PRESENTATION

Operator

Good day, and welcome to the Europcar Q1 2022 Results Conference Call. I would like to introduce today's speakers, Caroline Parot, CEO; and Malene Korvin, CFO. Today's conference is being recorded.

At this time, I would like to turn the conference over to Caroline Cohen, Head of Investor Relations. Please go ahead.

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

Thank you, Eden. Hi, everyone, and welcome to Europcar Mobility Group Q1 2022 Results Conference Call. In a moment, I will give the floor to Caroline Parot, CEO of the Group and Malene Korvin, CFO. They will take you through the presentation and then we will open up the line 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 the 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, and good evening, everyone. Thank you for joining us at the occasion of our Q1 2022 publication.

Before we deep-dive into the results, let's have a look at the agenda. To begin with, I will share with you the highlights of Q1, and Malene Korvin, our Group CFO will then guide you through our financial results. We will conclude with a status update on the concession tender offer as well as some 2022 and midterm perspectives.

Please go to the Slide 5. So Q1 was a very good quarter. We achieved positive corporate EBITDA in the first quarter of the year for the first time ever in our group history at EUR 31 million. Revenues future was characterized by the sustained demand progressively recovering to pre-COVID levels, reaching 92% of Q1 2019. This was achieved despite Omicron wave still active during the first part of the quarter in many European geographies with lots of travel restrictions and with very marginal impact of the current Ukraine war and the travel demand.

This sustained demand coupled with our strict discipline on pricing and selective distribution channels, resulted in sharp increases in pricing in all our segments. [Convoy] discipline occurred in particular in the leisure segment with higher than expected momentum in sales in European countries and in the U.S. But what is more important and sustaining our long-term vision is a provisional pricing strategy renewed since last December and the result of paying off from now on and going forward.

Our new customers offer, progressively deployed in the framework on our Connect program since more than 1 year, are the cause of this positive momentum meeting the customer needs for more agile and sustainable mobility services. Fleet average level in Q1 showed a limited decrease versus Q4 2021 as we decided to keep our existing fleet at a high level to prepare for the coming quarters.

Our in-fleeting capacities were and are still constrained by the OEM manufacturing difficulties mainly due to the chip shortage, combined with the impact of the invasion of Ukraine by Russia. In this context, we accelerated the evolution of our fleet sourcing model with an increase in proportion of at-risk vehicles or non-program vehicles with a larger share of non-European OEMs, while planning to continue to increase our EVs and PHV percentage for the years to come, subject, of course, to the OEM delivery capacity.

On the cost side, our discipline remains strong. And thanks to the efforts we made during the COVID crisis to be able to navigate through it, we now benefit from a structurally reduced, but also more agile cost base. Cost efficiency programs will continue to be managed actively. Now to mitigate the inflation we are foreseeing in all our lines of P&L at the time when we are continuing to invest in our tech and digital platforms.

Please now go to Slide 6, looking at our performance per service lines. Overall, rental revenue generated for the cars was up 72%, driven by a favorable pricing environment and as said, sustained demand. The leisure service line contributed the most to our group performance, notably in France and in the U.S. with 120% revenue progression versus last year, reaching EUR 200 million.

Volumes are still lower for Q1 than pre-COVID, but well offset by our pricing policies. The professional service line revenue progressed as well despite business travel still at a low level compared to the pre-COVID period. It was up 57% versus last year at EUR 206 million. As targeted in our Connect plan, this service line strongly leveraged its portfolio of fleet services and flexible subscription offers during Q1, allowing volumes to come back close to the pre-COVID levels.

The proximity service line was also up 37% at EUR 53 million, leveraging local demand from customers, progressively leading extensive car ownership and looking for flexible mobility services. Going forward, it will benefit visibly from My Europcar, our freshly launched subscription offer for individuals in Germany, expansion now planned for the rest of Europe. As for the Van & Trucks perimeter, it remains stable compared to its already good performance in Q1 2021 and above Q1 2019 with revenue at EUR 84 million.

Please go to next page. Let's finish this Q1 highlights with our ESG ambition. As a leading mobility player and building on an already robust framework, we have decided to implement a systemic approach of tackling each and every stream of our operations, which can significantly contribute to our commitment in terms of CO_2 emissions reduction at Scope 1, 2 and of course, Scope 3 level.

This systemic approach and driving a sustainable path is now strongly embedded in our decision-making and operating processes. And we are proud to be the very first mobility service company to have its de-carbonization objectives validated by SBTi, the science-based target initiative.

That is for our Q1 highlights. And I'll hand over to Malene Korvin, who is going to get you through the financial results.

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

Thank you, Caroline, and good afternoon, everyone. Let's have a look at our Q1 preliminary analytics business. Please turn to Page 9. As you can see, we continue to experience a sharp recovery in terms of recovery production, reducing the gap versus pre-COVID levels once again. We have closed Q1 revenue at EUR 567 million, increasing by 57% versus 2021, driven by a strong volume recovery and positive pricing environment.

Positive pricing notably reflects our discipline in leisure pricing, but also some structural price increase on professional service line, as just mentioned by Caroline. Versus 2019 Q1 is only down by 8%. The beginning of the quarter was impacted by Omicron, especially in Germany, where volumes were significantly down. The gap has reduced month after month with March month closing at minus 3% versus 2019.

Some of our countries have reached a revenue level above 2019, notably the U.S. and the U.K., while Germany is lagging behind. The U.S. and certain countries of Europe, especially Spain, Portugal, have driven major performance up many thanks to strong pricing. So to recap, the momentum we saw during the first quarter of the last year continued into the first quarter of this year, which is confirming a recovery pattern.

Please turn to Page 10. Let's now have a look at corporate EBITDA figures and margins. We have delivered a record booking quarter with a positive EBITDA in Q1. That is the first time in our group history. This reflects the strong pricing I just mentioned, our outstanding fleet management and the continued strict control and our network in H2. Please remember that most of our geographies were under lockdown in Q1 last year and a significant number of our teams were under [seller] measures, which is not the case since Q3 last year.

Hence, a better point of comparison is Q1 2019. Our great performance is particularly obvious when you look at the emergency margin that ended at 34.5% or more than 5 points above 2019 level. Fleet cost per unit were broadly stable versus previous year with favorable remarketing environment compensating for higher fleet operating costs due to fleet aging. I will come back in a minute on the fleet utilization rate.

As regard to fixed and semi-fixed costs, they decreased by 15%, aligning with volume trends versus 2019, which is showing our sustained adaptation efforts. We are also starting to see the first signs of inflation, notably on salary and energy running costs in the network, while HQ costs are also reflecting our investment in tech people. To conclude, despite the EUR 52 million lower revenue, corporate EBITDA is up by EUR 46 million.

Please turn to Page 11. Let's now dive on fleet operational KPI and overall trends. In the current context of fleet scarcity and (inaudible) management, we have to adapt as much as possible to the inflecting challenges we are facing with even greater flexibility. Starting with feed volumes, you can see a decrease by 7% in Q1 2022 compared to Q4 2021 while usually in Q1 fleet reduction would have been quite higher on the normal pattern.

We have kept on purpose some fleet to prepare for the Easter and summer periods. And even by doing so, our 52% rate is almost at 2019 levels. Along with the current fleet shortage are coming temporarily longer fleet holding period, opportunistic diversification of type of sourcing between at risk and buybacks, development of some OEM in our portfolio, introducing new car makers in our fleet, notably for EVs. And along with the current feature page is also coming a huge agility from our fleet sourcing teams and the adaptation of our financing for fleet purposes.

Please turn to Page 12. Net corporate debt landed at EUR 237 million of an improved corporate leverage versus end of 2021 that I remind you was at 1.3 before IFRS 16. Positive corporate operating cash flow was at EUR 44 million and mainly reflected positive EBITDA and favorable change in non-fleet working capital, notably thanks to prepayments received for the strong Easter period that has just ended, but also the continued DSO close monitoring that we have achieved.

IT CapEx had been ramping up versus last year after our plans and nonrecurring costs were limited. The fleet timing impact is mainly reflecting change in fleet working capital in this half, and the other line includes investing activities for EUR 5 million and EUR 9 million of transaction costs and others, notably in relation with the U.S. securitization program that we implemented in February.

The corporate liquidity stands at EUR 442 million as of 31 March. And to close on the financial side, we are happy to announce that we have been upgraded by both S&P and [UGS], S&P to B- and UGS to B3 and for corporate ratings. Moody's rating was restitute today.

With that, I'm pleased to hand over back to Caroline.

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

Thank you, Malene, and I will now share an update on 2022 and as well some midterm perspectives. So please turn to Slide 14. Over the last 2 years, all our efforts and actions, as you know, were driven by the objective to put us in the best possible conditions to fully benefit from the travel and leisure progressive recovery.

As already demonstrated by our very good full year 2021 results and confirmed by an excellent Q1 as you have seen, here we are. We manage a sharp recovery and achieved a great performance benefiting from a positive momentum and the combined effect of our internal Reboot and Connect strategic plans.

With demand recovery in parallel, we are almost back to pre-COVID levels. As 2022 unfolds and despite the cost base that we expect to increase over the course of the year due to vehicle price and global inflation, we foresee revenue and corporate EBITDA growth compared to last year, given the current momentum.

Besides, as we move forward in the deployment of our Connect road map, with first concrete benefits already observable, we are confident in our capacity to deliver long-term profitable growth, building our leadership on sustainable, connected and demand mobility solutions.

Now let's finish with the status report on the Volkswagen-led consortium tender offer on Page 15. As announced by Volkswagen on April 19, Green Mobility Holding formally filed for the European antitrust clearance, meaning that pre-filing discussions with the European Commission have been completed. As they wrote in the press release, it is expected that the European Commission will decide in last May or early June the closing of the tender and following such decision (inaudible) market regulator will set the closing date of the initial acceptance period of the offer during shareholders of Europcar Mobility can tender their shares, which now is expected to occur before the end of Q2. So this will be the event of Q2.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Michael Kuhn from Deutsche Bank.

Michael Kuhn

One quick question on your market outlook for summer. So I see versus year-end, your fleet size came down from like to 60,000 to 40,000 vehicles. Do you expect to be able to increase the fleet size considerably going into the summer months based on car availability? That would be on the supply side and on the demand side, do you see demand going back to pre-COVID levels this summer already?

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

This is Caroline speaking, and Malene to complete for (inaudible). On the demand side in Europe, we see a healthy demand, which is developing month after month. Obviously probably going close to pre-COVID levels, but we still have to monitor what could be the outbound from the U.S. and what will be some Asian flows. So it's too early to consider we will be at the level of COVID, but we see good and sustained momentum from every geography.

And we see also good momentum in the U.S. developments. We do consider you from today that we will have to increase our level of fleet to be able to cope with at least renewed demand. And that's why we have not decreased or very slightly increased for technical reasons our fleet during Q1. And as mentioned by Malene, we actively managed to source in more and more fleet, but with different kind of sourcing policies and different kind of programs compared to what we were doing before.

So we go more and more for at-risk non-vehicle programs vehicles across all the markets. We are sourcing more and more Asian vehicles to be able to cope with the current difficulties European manufacturers are facing in delivering volumes. So we don't guide, as usual, on the level of fleet we are going to purchase. And there are still some uncertainties anyway. In the full level, we will be able to get depending on those chip shortage for the European OEMs. But yes, we will increase our fleet, and we have already increased it for our Easter period.

Michael Kuhn

All right. So current levels are above the good 240,000 that you had during the first quarter?

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

Yes, yes, as we are speaking. Yes, as we speak. It's fair to say that as you have seen earlier in the full year results, the Ukraine situation is and has been considered as potentially having an impact on what could be the business travel and leisure travel development. So as we speak, we see limited impact, but we will have to consider the evolution progressively.

Operator

(Operator Instructions)

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

So we have a question from the website. The question is, could we give more color on inflation costs we are facing this year and the magnitude of the impact expected?

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

So we won't guide you through the full effect because it is still to be monitored. Obviously, we see and we are facing cost inflation in the fleet sourcing, which we are mitigating with also some actions and good action on the secondhand markets. So we are able to control it, but we see a really cost increase in the fleet. We see cost increase, as mentioned by Malene, in the utilities and energy in the networks. The vast majority of the petrol cost is a pass-through to the customer. So it will be plus and minus. So we will mitigate a portion of it, but not all of it because we are also running our own operations. And fundamentally, the question which is relevant is the one on the people side where we will go probably above our budget of salary increase compared to what we were thinking at the beginning of this year.

We are following very closely the reports of the inflation per perimeters. And we will continue also in parallel to mitigate our cost efficiency models. But in this macro context, obviously we are monitoring those cost of inflation. We have mitigation, but we won't mitigate everything.

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

Operator, do we have other questions over the phone?

Operator

At this time, we don't have anybody signaled. (Operator Instructions)

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

So I think -- this is Caroline Parot speaking. I think that the results are amazingly good, and we have been amazingly clear. So thank you for having no further questions. Obviously if questions are coming in very few hours or days, our team will be available to guide you through more colors. Thank you for your attendance to this call, and we will see you back at the end of Q2.

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

Thank you.

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

Thank you.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
