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AutoStore Holdings Ltd. (AUTO.NO)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Hiva Ghiri Flåskjer

Vice President-Investor Relations, AutoStore Holdings Ltd.

Good morning and welcome to AutoStore's First Quarter 2023 Presentation. My name is Hiva Ghiri, and I'm the Investor Relations Officer at AutoStore. And I'm very pleased to host our presentation today from Oslo, Norway. I'm joined by members of our executive team, including Mats Hovland Vikse, AutoStore's CEO; and Bent Skisaker, AutoStore's CFO.

I would like to remind you of all of our disclaimers with regard to forward-looking statements, which you can read in your own time and leisure. Moving on to our agenda. Mats and Bent will provide an update on our business and discuss the first quarter results. As a reminder, all financials are stated in US dollars. The management discussion will be followed by a question-and-answer session. We've participants joining on the webcast, as well as the earnings call today. For the webcast participants, please submit your questions at any time. We'll conclude the session today with some final remarks by our CEO, Mats Hovland Vikse.

With that, I'll hand over the word to you, Mats.

Mats Hovland Vikse

Chief Executive Officer, AutoStore Holdings Ltd.

Thank you, Hiva. So, as you can see here on this page, the team has delivered yet another strong quarter. We achieved revenue growth of 21% year-over-year, driven by strong underlying demand. Our ability to take market share and successful execution of our strategy. Gross margins grew substantially to 67% in line with historical levels representing an increase of over 600 basis points for the second consecutive quarter. Subsequently, we improved our adjusted EBITDA margins to 46%. In addition, we saw continued strong order intake of $164 million, taking our backlog to all time high levels at $489 million, which provides good visibility for our 2023 target.

On the operational highlights, we were pleased to sign our first pay-per-pick customer with Europe based e-commerce grocer, the Rohlik Group. The pay-per-pick offers customers more flexibility and it's an opportunity to drive increased demand from small- and medium-sized companies, while also building recurring revenues for AutoStore. We also introduced a new workstation, the FusionPort and this workstation complements our existing portfolio and provides improved operational efficiencies and ergonomics. It fits particularly well with grocery and high throughput applications and we are already seeing strong demand.

On the corporate development side in March, the UK High Court dismissed our patent infringement case against Ocado. This decision does not impact our business or our operations. We have an extensive patent portfolio and we are continuing to innovate and serve our customers around the world. So all-in-all, we have delivered yet another strong quarter with revenue growth, substantial margin improvement and order intake together with backlog, which supports our 2023 growth target.

So, now let's take a step and look at some of our unique attributes and accomplishments and numbers and how things now stand at the end of the first quarter. We've now sold more than 1,200 systems and over 55,000 robots in 49 countries. We have an efficient go-to-market model where we sell to a network of now 23 distribution partners with more than 2,000 representatives. We have a scaled global platform with now more than 850 unique end customers. And our lean business model has resulted in a superior financial profile with high growth, 50% CAGR since 2010 and around 80% annual growth the last two years, with high EBITDA margins of around 50% in recent year and high cash conversions, above 80%.

So, our sales has also continued to be strong with existing customers. And still around 50% of sales is to already existing customers through new sites, extensions and subscription fees. So, we have generated a sales CAGR of more than 50% since 2017, and as you can see from the graph there, some years with higher growth than others. But we've not only been able to deliver high revenue growth, we've also done this with industry leading profitability.

In 2022, margins were under pressure primarily due to higher retail, but we've implemented actions both on pricing and sourcing, which have yielded strong margin improvements over the last two quarters, equal to 1,280 basis points. The improvement in gross margin, together with our lean business model where we're selling through partners, have put us back on the path to historical EBITDA margins.

And although there is uncertainties in today's global economy, [indiscernible] (00:05:34) is a market driven by secular megatrends and the long-term potential and the attractiveness of the market remains intact and very strong. We are confident in our ability to continue to deliver growth for our strong product and effective go-to market model, as we've also shown in the past. We also have a clear strategy which we're already progressing well. High-throughput and micro-fulfillment grew 226% and 138% during the past year. And we continue to see strong opportunity within these segments.

On new commercial offerings, we now signed our first customer on pay-per-pick. And we are continuing to take actions to drive overall adoption, as well as building more recurring revenue into our business. Investing in product and R&D is a key priority. And we keep releasing new products to expand our portfolio and also to drive improvements on existing products to maintain our market needs. We also keep on investing in APAC and North America. Both are areas where we see high growth opportunities which we were also able to achieve in 2022. And lastly, we will still evaluate M&A where it can make sense.

So, moving into our customers. We now have roughly 850 unique customers globally, and we've included a small selection of them here on this page. First, I would like to emphasize our exposure to a wide range of end markets.

We are helping our customers build automated warehouse solutions across many different industries and all types of fulfillment centers. Secondly, we are operating and growing all over the world. We have helped blue chip companies across North America, Asia, and Europe to streamline their logistics operations. And thirdly, we have a massive opportunity to grow within this customer base. 50% of our revenues today come from existing customers. And we have acquired a large number of customers over the last few years.

On this page here, we have an exciting example of a recent win in the high-throughput segment in North America with Geodis and a leading clothing retailer. This [ph] serve us a large impressive single (00:07:47) installation which serves both e-commerce and 1,000 stores across the United States. An omnichannel fulfillment capability serving both online and stores, and the flexibility to allocate capacity across this is hugely valuable, and this demonstrates our capability at large scale with over 84,000 bins, 320 Red Line robots, and the ability to process roughly 460,000 order lines per day. And for comparison, an average standard systems will typically have 30,000 to 40,000 bins, 40 robots, and ability to process 10,000 to 15,000 order adds per day.

So, this is an example of a type of project where we did not really have real access previously, but now we have because of the technological advancements that we've had, particularly on the software side. And in this example set, we were selected because we provided significant cost savings versus the other alternatives that we're looking at. And as we continue to bring our unique benefits like density, flexibility, and modularity into this high-throughput segment, we will continue to gain market share and drive growth.

So, let's now take a look at our order intake. In Q1, we had a strong order intake of $164 million, which, on a sequential basis, was up 8% and roughly in line with the same period last year. We've been able to deliver stable to growing order intake in what has been a challenging market environment, driven by the short [indiscernible] (00:09:25), our ability to grow more [ph] effectively the (00:09:28) pipeline, as well as our broad exposure to different markets. And this growing order intake in a lower market also suggests that we are gaining substantial market share. And the order intake of $164 million brought the backlog to $489 million, which gives us good revenue visibility for the balance of the year and puts us in a good position relative to our 2023 growth target of 20% to 30%.

As I also mentioned on the previous slide, we are having more success in the high throughput segment which [ph] aim to get (00:10:02) longer project execution type. And because of this timing dynamic, we already now have projects with 2024 delivery in our backlog. But all in all, this is a solid order intake level and we are gaining market share across all areas of the market.

I'll now pass it over to Bent to walk us through the financials.

Bent M. Skisaker

Chief Financial Officer, AutoStore Holdings Ltd.

Thank you, Mats. I will now look at the financial highlights. As Mats already stated, we delivered another strong quarter with 21% revenue growth, 67% gross margin, 46% adjusted margin or adjusted EBITDA margin. 84% cash conversion, $164 million of order intake and order backlog, a record high $489 million.

So, on the next slides, I will go into more details on the key financials. AutoStore reported revenue of $149 million in the first quarter of 2023, which was up by 21% from $123 million in the corresponding quarter last year. Revenue growth was supported by a solid development across all regions. In addition, we had good diversification across a wide range of end markets. I would particularly call out 3PL, apparel, sports and accessories, and grocery.

On the right-hand side of the slide, we'll look into the trends in Q1, in the geographies where we do business. We see here net revenues in the EMEA region increased to $92 million, up by 10% year-on-year. While EMEA continues to represent the majority of our revenues, we see that revenue in the North America region increased by 46%, compared to last year to $39 million. And the revenue in the APAC region also increased by 46% year-on-year to $18 million in the first quarter.

This is a very satisfactory development and confirms our previous communication that North America and APAC are [indiscernible] (00:12:46). Moving from revenues to gross profit and adjusted EBITDA. On the left side of the slide, you see that Q1 gross profit ended up $100 million, up from $77 million in the same quarter in 2022, and sequentially up from $90 million in Q4 2022. This corresponds to a gross margin of 67% in Q1. In line with what we have emphasized in the previous quarters, our gross margin have improved gradually and over time. We have seen a substantial sequential improvement for two consecutive quarters. This has been driven by the combined effects of our pricing actions and reduced grid cost. We will discuss the positive development and gross margin in more detail in a minute. But before we do that, let's look at adjusted EBITDA on the right-hand side here.

Adjusted EBITDA was $68 million in the first quarter, representing an adjusted EBITDA margin of 46%. Also, on adjusted EBITDA margin, we experienced a strong sequential improvement. From Q4 2022 to Q1 2023, we saw an increase of 585 basis points, which was driven by the positive development of gross margin. As we publicly discussed, given the project based nature of our business, we [indiscernible] (00:14:35) revenue distribution.

If we consider our full year revenue guidance, Q1 had a relatively lower share of that revenue would also impact operating effect. We have a lean business model selling through our partners, and that provides us with operating leverage and revenue growth. Now let's look into the details of that substantial positive margin development. The bridge to the left on this slide shows the progression of margins from 2021 to the low point in Q3 2022, which was driven by increased grid cost and limited positive impact from the strategic price action. And it also shows the subsequent recovery. The bridge also saw the impact of price increases which gradually [indiscernible] (00:15:38) over the past two quarters as orders [indiscernible] (00:15:42) prices have moved from backlog to revenue. This positive margin development is in line with what we have expected and communicated over the last quarters.

In addition, rig costs have come down somewhat from the peak level. This combined effect resulted in margin improvement of over 600 basis points in each of the past two quarters. So, before I hand over the word to Mats, I want to remind you that adjusted EBITDA is an important supplemental measure to give our investors the overall picture of operating activity, profit generation. You can find the breakdown of adjusted EBITDA in the appendix section of this presentation. You can also find an additional information on adjusted EBITDA and the IFRS financial statements as part of the APM section in the Financial Report on page 24, 25 and 26. For the full P&L, balance sheet and cash flow statements, please see the Board of Directors Report announced at 6:00 CET this morning, which provides an in-depth discussion of the consolidated IFRS accounting.

I hand back the word over to you, Mats, who will take us through the outlook.

Mats Hovland Vikse

Chief Executive Officer, AutoStore Holdings Ltd.

Thanks, Bent. So, as we have presented today, AutoStore operates in a growing market, and even though more and more warehouses are automated, only about 15% to 20% of the market is automated today, leaving plenty of space for growth. We're operating in an uncertain market. Nevertheless, the underlying drivers of automation and the business case for AutoStore remains very strong as evidenced by our order intake levels. On top of that, we have a well-defined strategy that will continue to drive growth for us going forward, and we're already progressing well on the initiatives we have.

Now, to the growth outlook which remains unchanged. For 2023, we expect to grow revenues 20% to 30% to $700 million to $750 million. This growth is supported by our strong backlog. We continue to believe this long-term market growth in the market is 15%, and we have strong confidence in our ability to go grow two to three times that market, which would then yield 40% for us. There will be variability year-over-year as also the historical numbers show, but the potential here is huge. With respect to margins, we are well on our way to returning to historical levels in 2023, as we have demonstrated earlier in this presentation.

So, I want to end this session by calling out two key points. First, we are the pioneer and global leader in cubic storage. The global warehouse automation market is massive and growing and we are able to serve applications across all types of end markets, system types and geographies. We have a proven growth strategy with an efficient and scalable go-to market model, where we are driving growth across all these different applications.

And thirdly, our technology is market leading, with a differentiated robotic cube solution driven by intelligent software that helps customer improve operational efficiency and profitability. And last, we have a long track record of delivering strong revenue growth at high margins. And for all of these reasons, we, at AutoStore, are both proud of what we have achieved and what we are achieving in the current market conditions. And we are very excited and optimistic about our future. So, thank you for participating this morning.

And with this, I'll hand over the meeting and webcast to Hiva who will take us through the Q&A.

Hiva Ghiri Flåskjer

Vice President-Investor Relations, AutoStore Holdings Ltd.

Thank you, Mats. Let's start with the questions that we have from the participants who dialed in. Operator, can you please take us through the question.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question will be from the line of Eirik Rafdal from Carnegie. Your line will now be unmuted.

Eirik Rafdal
Analyst, Carnegie Investment Bank AB (Norway)

Q

Yes. Yes. Thank you. Eirik from Carnegie here. Thanks for taking my questions. I've got a couple. If we can start with the gross margin actually, you're now more or less back to the historical levels. How should we think about the aluminum surcharge going forward?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, we are maintaining the aluminum surcharge as we are still seeing cost pressure higher than what we've seen historically. And at the end of the day, we're looking at the total price of our system relative to competition and relative to the business case that we're able to produce for our customers both of which have a very strong positioning.

Eirik Rafdal
Analyst, Carnegie Investment Bank AB (Norway)

Q

That's very clear. Thank you. And I've also got the question on kind of the key underlying drivers you called out for the order intake. You called out a couple of end customer use cases also [indiscernible] (00:22:01) and high-throughput. And on high-throughput and [indiscernible] (00:22:05), you kind of called out, maybe particular on a high-throughput, the importance of software to be competitive in the segment. Can you talk a bit about kind of the product evolved Mats going forward now and what your plans are there and also kind of to stay competitive and move even further ahead? Thanks.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

Investing in R&D and releasing new products is a key priority for us. And if you look at our road map, that is a mix between different categories. One is that the majority of the investments that we're doing is linked to software because software is really what drives efficiency on a system level. In addition to that, we are developing new modules which we are releasing quite frequently. An example this quarter was the FusionPort that improves the value proposition of the cube through a new module. We're also looking at new robots and focusing on the other modules as well. But thirdly, and just as important is the continuous improvement that we're doing on the system on a day to day basis based on all of the data and experience that we're gathering from the 1,200 sites that we have live.

Eirik Rafdal
Analyst, Carnegie Investment Bank AB (Norway)

Q

That's perfect. Thank you. I'll jump back in the queue.

Operator: Thank you, Eirik. The next question will be from the line of Martin Wilkie from Citi. Your line will now be unmuted.

Martin Wilkie
Analyst, Citigroup Global Markets Ltd.

Q

Thank you. Good morning. This is Martin from Citi. My first question was on the dynamics of the pay-per-pick model you've mentioned. You've signed your first customer, and I don't know if the profit and revenue dynamics are similar to what we see in software-as-a-service or industrial software companies. But could you talk a little bit about how that impacts your profit profile? You've obviously had a good step up in gross margins in the quarter. Presumably, this contract is relatively small compared to the group overall. But if this gets to become a larger portion of your mix, does this have a drag effect on profit in the short run, even if it's very value accreting in the long run? Just to understand that dynamic on pay-per-pick. Thank you.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

No, accounting-wise, this will kind of keep our gross margins at similar levels as we have on the upfront. However, over the long contract period, this will be actually more profitable to us. And how it works is that the customer will pay a portion from roughly 20% to 30% of the current levels and then pay a fee for every pick that is being made that covers the profits of the [indiscernible] (00:24:48). So, typically, we will be cash-neutral within the first year and we gain the same absolute profit levels as with the current contracts within the three to five years' period and over the long duration, this will be profit increasing for us.

Martin Wilkie
Analyst, Citigroup Global Markets Ltd.

Q

Great. Thank you. And if I could have an unrelated question. Obviously, there was the news over the course of the quarter in the UK High Court dismissing the infringement case. And just in terms of the news flow that we might expect over the remainder of this year or over the summer, and there's obviously other cases that I think are – have been stayed in Germany, but [indiscernible] (00:25:29) if you could just give us a bit of an update as to what we might expect over the remainder of the year to the news flow on the various cases.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, Germany has been stayed and wait for the patent authorities in Germany. And we expect that to come up at the end of this year. The next significant case is in New Hampshire, as we expected at the end of this year, in which a verdict will come at a later point after the case has been heard.

Martin Wilkie
Analyst, Citigroup Global Markets Ltd.

Q

Great. Okay. Thank you very much.

Operator: Thank you, Martin. The next question will be from the line of Toby Ogg from JPMorgan. Your line will now be unmuted.

Toby Ogg
Analyst, JPMorgan Securities Plc

Q

Yes. Hey, good morning and thanks for taking the question. Perhaps just coming back on the order intake. So you talked about some of the specific drivers of the order intake there in the quarter. Could you just give us a sense of how sustainable you think those drivers are over the coming quarters, given the more difficult macroeconomic environment? And then, just on the revenue side, could you just remind us how we should be thinking about the relationship or the translation between the order intake and the revenues? Are there any sort of changing dynamics there in terms of that relationship we should be thinking about? Thank you.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

On the order intake side, we're still seeing a broad diversification across different type of segments, geographies and system types. So, in this quarter, we saw North America being stronger than what it's been historically. We've seen on the segment side that still 60% to 70% of orders are linked to omnichannel and e-commerce. So, serving both e-commerce and stores and the value of the flexibility that that brings. But I think on a more overall level, what we're seeing is that the top of the funnel is increasing. So even though the current market conditions means that conversion are getting more challenging, because we're increasing the top of the funnel, we've been able to maintain and grow the order intake. So, at the end of the day, the drivers of our order intake is the value that we are able to generate for our customers. And even in a difficult market, the short payback time and high ROI that are investing in AutoStore deals makes it attractive.

Toby Ogg
Analyst, JPMorgan Securities Plc

Q

Very clear. Thank you.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

Then on the order intake to revenue side, historically, we have converted roughly 100% of all of our intake into revenues, and we're not seeing cancelations or anything that should change that dynamic. The difference is, however, as we increase our exposure to high throughput, we are seeing that the average time from order intake to revenues is increasing because of the low project execution dynamic that comes with larger system size and more complex systems.

Toby Ogg
Analyst, JPMorgan Securities Plc

Q

Great. Thank you.

Operator: [Operator Instructions] And there are no further questions on the call right now, so I will give the call back to the speakers for any written questions.

Hiva Ghiri Flåskjer
Vice President-Investor Relations, AutoStore Holdings Ltd.

A

Thank you. So, we actually do have some questions from our Web audience. So, we have a question on the order intake in Q1 and the backlog. And the question is, how much is based on verbal confirmation?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, first of all, what you would define as verbal confirmation there is really the result of our business model because our partners will receive an order before they're actually placing a formal purchase order with us. So, that's the dynamic that we're talking about there. Looking at the quarter, and the backlog as a whole, they have similar levels to what it had historically. And on the order intake side, it naturally follows the fact that our partners receive the order before us. But to reiterate what I said on the last question, we have historically roughly 100% conversion on that intake, and there is nothing that suggests that that is changing.

Hiva Ghiri Flåskjer
Vice President-Investor Relations, AutoStore Holdings Ltd.

A

Thank you Mats. We have another question. But now related to market share. So you say that [indiscernible] (00:30:02) substantial market share is a total market share – market declining or growing less than you? By how much in percent?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So I think the market overall is not seeing the same growth rates as we've seen the last few years and kind of being in the market, we see that we are winning more relative to competition. So, we don't have a specific percentage to guide you on. But overall, we're taking share across all of these segments that were operating in.

Hiva Ghiri Flåskjer
Vice President-Investor Relations, AutoStore Holdings Ltd.

A

Thank you. So, that concludes the questions I have from the Web audience. Operator, do we have any additional questions from our participants on the earnings call?

Operator: There are still no further questions on the call. So, I would just get the word back to you for any closing remarks.

Hiva Ghiri Flåskjer
Vice President-Investor Relations, AutoStore Holdings Ltd.

Thank you. That concludes our question-and-answer session. I'll hand over the words to Mats for some final remarks.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

Thanks, Hiva. So, I would like to end our meeting today with two key takeaways. One, we remain focused on executing our strategical [indiscernible] (00:31:12). We will continue to execute on all of our strategic priorities, increasing our geographic diversification with growth in North America and APAC and continuing to innovate to drive growth. We remain confident in our ability to continue delivering strong profitable growth. So thank you again, for spending the morning with us and we look forward to providing you with future updates. Thanks.

Operator: This concludes the conference call. You may now disconnect.