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AutoStore Holdings Ltd. (AUTO.NO)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Hiva Ghiri

Vice President-Investor Relations, AutoStore Holdings Ltd.

Good morning, and welcome to AutoStore's Second Quarter 2022 Presentation. My name is Hiva Ghiri, and I'm the Investor Relations Officer at AutoStore. And I have the pleasure of hosting this presentation from Høyres Hus in Oslo, Norway. I'm joined by members of our executive team, including Karl Johan Lier, President and CEO; Bent Skisaker, CFO; and Mats Hovland Vikse, our Chief Revenue Officer.

In a few moments, Karl Johan, Mats, and Bent will provide you with an update on the business and discuss the second quarter and first half 2022 results. This will be followed by a question-and-answer session from our participants here in the room as well as from our web audience. So, please start submitting your questions. We will conclude the session with some final remarks by Karl Johan.

And with that, Karl Johan, I will hand over the word to you.

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

Thank you, Hiva. So, good morning, and thank you for joining us today to hear about our quarter two 2022 and the first half year result. I'm very proud with the team's performance. Despite current market conditions, including inflationary pressure and higher interest rates, the team delivered another strong quarter with revenue growth of about 90%.

In this quarter, we reported an adjusted EBITDA margin of 42%. The year-over-year decrease can primarily be linked to continued price pressure on key components, particularly grid parts. Due to the time lag between order intake and project delivery, the effect of these prices on margins take some time to materialize.

So this is expected to continue for some months as we execute on the backlog with old pricing and cost levels. However, as you may remember, we already have mitigated action in place, including a temporary surcharge which we implemented at the end of quarter one 2022, and a price increase which we introduced in quarter four 2021. Collectively, these efforts are expected to improve margins and bring us back to historical adjusted EBITDA level margins in 2023. Bent will provide a more detailed overview later in the presentation.

Moving on to our order intake, we delivered an order intake of $161.3 million in quarter two, representing a stable development compared to same period last year. This was very much driven by a reduction in lead times. We have gone down from roughly 35 weeks at the start of the year to 20 weeks at the end of the quarter. Consequently, customers are able to place their orders closer to delivery and as such the order intake growth is temporarily impacted.

At the end of the quarter, our order backlog was $477.6 million, representing a year-over-year increase of 66.1%. This is emphasizing also strong ongoing underlying growth powered by solid demand across regions, end markets and various categories.

And it confirms our 2022 revenue guidance of $550 million to $600 million. Together with a strong project pipeline, the backlog justifies early 2023 revenue estimates of between $700 million and $800 million. We will come back to our revenue expectations later. As I mentioned, we have achieved significant improvement on lead times which are now around 20 weeks. We are proud of this development which improves the offering to our customers and our competitive position.

This is a result of our operations team who have focused production and sourcing strategy, which included diversifying our supplier base, inventory optimization, improved collaboration and increased visibility with suppliers as part of our deals books. We are in a position where we have added more suppliers in the supply chain. On aluminum, we have doubled our capacity in the last 12 months and added capacity in Europe and APAC.

On components, we're actively sourcing from several sources. The significant work on the supply chain also provides a more resilient AutoStore and will accommodate the growth in 2022 and 2023. This is also part of why we are so comfortable on 2023, and our ability to deliver on the growth with solid volumes.

With regard to the litigation process, nothing material happened since we last met. We have now appealed the ITC decision in the US Court of Appeals. And as for the UK trial, this was heard in March/April of 2022. We are waiting for a decision which we expect it will come in quarter three. Given that we are approaching the end of the quarter, it is fair to adjust expectations to quarter three/quarter four. As you know, this is something we cannot control, but we will, of course, provide you with an update once we have more information.

We have a growing team of world-class talent. During the quarter, we hired 62 new employees across several key functions and geographies, and we expanded our footprint in Asia with a new sales office in Singapore. All-in-all despite the current market conditions, we made great progress during the first half of 2022. The revenue growth, order intake, and operational efficiencies support 2022 guidance and continued growth in 2023, which Mats will comment on in more detail.

So, Mats, I hand the word over to you to provide more flavor on the latest development.

Mats Hovland Vikse

Chief Revenue Officer, AutoStore Holdings Ltd.

Thanks, Karl Johan. So, AutoStore, we operate in a market where only 15% to 20% of warehouses globally are automated today and where there're high expected growth rates for fast-growing cubic storage. And although e-commerce retailers have experienced a slowdown in 2022 so far compared to the acceleration that we saw following COVID, we expect e-commerce and omni-channel to continue to grow strongly in the long term.

We believe that the fundamentals driving this market remains intact, and key drivers such as changes in customer demand where we, as consumers, still enjoy buying online and continue to expect our orders to be served fast and precise, you have labor challenges where both shortages and wage inflation is just strengthening the business case for automation and AutoStore and, maybe now more than ever, energy efficiency gains and demand for high-density warehousing. And all of this is just expected to continue to drive adoption of automation and, hence, also growth for AutoStore.

And, now, looking at how we're navigating and progressing in respect to our own strategic ambitions, I'm pleased to say that we're on plan. We've seen strong growth in our key focus areas. We've seen 208% revenue growth year-over-year for MFC and 320% in high throughput. When it comes to our fulfillment platform with the WMS, we have developed a pipeline of high-quality customers that we expect to convert to revenues in 2023. Meanwhile, we're delivering very well to our existing customers, such as Pepsi, who has now placed orders and committed to additional sites based on the success so far.

We will also launch our pay-per-pick revenue model, which will enable us to, one, increase our recurring revenue share, and also provide a more flexible financing solutions for our customers as the up-front CapEx is significantly reduced. On R&D and innovation, we've also made a good progress this year, both on hardware and software. We introduced our R5+ robot, where we've seen good uptake with several orders received, delivered, in backlog, and in pipeline. Also, we're now in the final phase of launching our frozen capabilities, which will be important to better accommodate our growing grocery customer base.

Our expansion plans in APAC and North America is also according to plan. We are growing our sales organization, including BDMs and partner managers in US, Australia, Japan and Singapore to ensure that we're well-positioned for future growth. Year-to-date, we've seen sales growth of 83% in APAC and 98% in North America, and our current order backlog supports strong full-year growth.

When it comes to operations, we've now shortlisted two locations for a new assembly facility in APAC, with the expectation of having the new site ready in the first half of 2023 and operational in the second half. This will give us access to a new supplier base and ensure a closer proximity to our customers. On the M&A side, we're continuously monitoring the market and look for technologies that can enhance our offering, and we remain opportunistic as before.

And then to continue on the operations side, we've had a stable and strong supply chain for many years. However, more recently, we have also experienced a lot of pressure, which for us primarily has been related to aluminum and key components for our robots such as PCBAs. As we mentioned during our Capital Markets Day, for those of you who listened in, we have been working to strengthen that part of our organization. And this year, we hired a new COO, Israel Salvador, who during the last months has worked on diversifying our supplier base and increasing capacity, and we have generally added more suppliers to our network. And on aluminum, we have doubled our capacity during the last 12 months.

On the component side, we're actively sourcing from several sources and if needed, we're also redesigning and increasing inventory. At present, we've secured capacity on grids for 2023 and we are very comfortable in our ability to source other key components to deliver on our growth ambitions.

So, as a result of all of the good work that has been done by our operations team, we've now been able to reduce our lead times significantly from 35 weeks at peak in Q4 of 2021 to 20 weeks as of the end of this quarter. With these lead time levels, which are close to what we've had historically, customers can now place orders closer to when they need delivery, which temporarily impact growth and order intake. However, with the solid order intake that we've delivered this quarter and our strong backlog, we are very confident in reaching our revenue growth ambitions, and I will come back to this shortly.

But before I do so, let me walk you through our Q2 results. We reported a solid order intake of $161.3 million, which represent a stable year-over-year growth. And we ended the quarter with an order book of $478 million, which is up 66% year-over-year. And this order backlog provides significant revenue visibility for the balance of the year.

So, if you then look at the left-hand side of this page, you'll see that the confidence we have in 2022 is supported by the fact that this year constitutes of revenues as per the first half of this year and the part of our order book with estimated delivery in the second half of this year.

If we then move to the right-hand side of the page, we're now also able to provide an estimate for 2023 of $700 million to $800 million based on our strong backlog and pipeline. And going into 2023, we expect that roughly $200 million of our current backlog will still be delivered. This represents roughly 25% backlog coverage already as of today, which is significantly higher than the 19% and 6% that we had this time of the year for 2022 and 2021, respectively.

Taking then into account the $50 million from recurring revenue streams such as software and spares, that means that we require $500 million to $550 million to come from our pipeline of projects. If you look at the pipeline size that we have today, this implies a conversion rate of roughly 11%, which is 2-percentage-point lower than what we've realized over the last two years.

So, if we then think about where we need to be by the end of this year. We would need to have 50% to 60% backlog coverage going into 2023 if we base ourselves on the historical coverage levels, coverage levels that we've had with the current lead times of roughly 20 weeks. If we then calculate the required order intake that we then need in the second half of this year to be on track to the 2023 midpoint estimate of $750 million, we would need a flattish to lower order intake. So all in all, we are feeling confident in our ability to continue our strong growth, and we are well positioned to do so with the strong backlog and pipeline that we currently have.

And before handing over to Bent for the financials, I would like to just finish off by making a couple of points. So first of all, we've delivered a first half of 2022 with revenue growth over 90% year-over-year proving really our ability to deliver even in a pressured market environment. While it is still early days, we are comfortable providing a view of 2023 growth outlook given our strong backlog and pipeline.

Secondly, I also want to take this opportunity to show a video that just highlights how AutoStore is used to create true omni-channel order fulfillment and how our focus on MFC is redefining retail. Through our partner Bastian Solutions, the sporting goods retailer Decathlon in Canada has now gone live within AutoStore within one of their stores. And their customers are now able to watch our robots in actions as they service both e-commerce and fulfill in-store requests through a whole new shopping experience.

[Video Presentation] (00:00:15:41-00:16:41)

I hope that provides a glimpse into how we see automation really enhancing the retail experience for customers and how to build out true omni fulfillment capabilities. So with that, I'll hand over to you, Bent, to walk us through the numbers.

Bent Skisaker

Chief Financial Officer, AutoStore Holdings Ltd.

Thank you, Mats. I will move into slide 12, where I'll going through the financials. So as Karl Johan and Mats already have stated, we delivered another strong quarter with revenues of $165.6 million and an adjusted EBITDA margin of 42%. Our order intake was solid at $161.3 million, representing flat year-on-year development, which brought backlog to $477 million, up 66% year-on-year.

So, going into more details on the revenue, I will go to the next slide which underlines the growth journey we are on. As I just said, AutoStore reported revenues of $165.6 million in the second quarter of 2022, which is up 94% from $85.5 million in the corresponding quarter last year.

The development was driven by the underlying drivers Mats mentioned previously, including changes in consumer demand, labor shortages, energy efficiency gains, and demand for high density warehousing, which all are factors expected to drive adoption of automation, and as such, growth for AutoStore.

The adjusted EBITDA in the second quarter ended at $69.5 million corresponding to an adjusted EBITDA margin of 42%. In the first half of 2022, adjusted EBITDA was $123.7 million, corresponding to an adjusted EBITDA margin of 42.8%. The EBITDA margin was significantly impacted by increased cost inflation, particularly related to grid costs.

So on that note, as also Karl Johan mentioned, I will, on the next slide, go a bit more in detail on the margin development and our pathway back to historical margin levels. The dynamics are like this. When we get a customer order, we also order the grid parts and thus fix the cost of those. And then, there is a time lag to when the project is delivered to our customer and when revenues and cost of goods sold are realized in our income statement.

From the second quarter 2021 to the first quarter 2022, we see here on the left that the realized grid costs impacted our margins negatively by 6 percentage points. Increased realized grid costs continued to impact us further now in the second quarter. And due to the time lag effect, just explained, we anticipate further pressure on margins in the second half of 2022.

However, as previously communicated, we already have mitigating actions in place to address the margin pressure, including a price increase and a temporary aluminum surcharge, which are expected to lift margins back to historical levels. Due to the time lag between order intake and project delivery, the full impact of the measures will be seen in 2023, when projects with more favorable cost and pricing levels move from backlog to realized revenue. We already have a backlog which of course includes the price increases and where grids are ordered at more favorable price levels. And as seen on the right here, the second quarter 2022 pro forma adjusted EBITDA margin, when we include the price increases and the grid costs as of August 2022, would be around 50%.

So to sum up the takeaway from this slide, the price increase, aluminum surcharge, and grid cost at current levels combined are expected to drive margins back to historical adjusted EBITDA margin levels in 2023.

Moving to the geographies. The revenue in the EMEA region increased to $96 million in the second quarter of 2022, which is up by 66% year-on-year. Revenue in the North American region increased by 209% to $65.5 million, while the APAC region reported revenues in the quarter of $4.3 million compared to $6.6 million in the second quarter 2021. However, the order backlog supports strong full year growth in the APAC region in 2022.

If you look at the first half, revenue growth was led by the EMEA region, which achieved an increase of 91.5% compared to the corresponding period in 2021. And in the first half of 2022, revenue in the North American region increased by 98% year-on-year, while here also in this period, the APAC region achieved revenue growth of 83.4%.

As we see here on the left, the order intake was stable at $161.3 million in the second quarter compared to $161 million in the second quarter 2021. This flat development was driven partly by the prevailing market conditions and partly by shorter lead times, as Karl Johan and Mats already addressed. In the first half of 2022, the order intake increased by 14% to $322 million. The order backlog increased to $477 million at the end of the second quarter of 2022 compared to $288 million at the same time last year, representing a year-on-year growth of 66%.

So, to repeat what Mats already has elaborated on, the order backlog level provides significant revenue visibility for 2022 and a very good basis for further growth in 2023.

Since we, last year, have had significant costs related to various items as the Ocado litigation costs related to the IPO and option costs, we are providing a breakdown of the different costs to a very – that to a very large extent has a onetime character.

Looking at the second quarter, there are two noteworthy adjustments. One relates to employee benefit expenses, which were significantly reduced due to a reduction of the provision for social security tax on management options following the reduced share price of the company. The other adjustment relates to litigation costs pertaining to the ongoing Ocado litigation.

The adjusted EBITDA is also an important supplemental measure for our investors to get the overall picture of profit generation in our operating activities. For the full P&L, balance sheet and cash flow, please see the full board of director's report, which we announced at 6 o'clock CEST this morning, providing an in-depth discussion on the consolidated IFRS accounts. Note that adjusted EBITDA is an alternative performance measure and that you will find additional information to the IFRS financial statements as a part of the APM section in the financial report on page 27, 28 and 29.

So, to summarize the second quarter, we delivered another strong period with revenues of $165.6 million and ended the quarter with a solid order backlog of $477 million, which provides great confidence in our 2022 guidance and continued growth in 2023. On margins, we anticipate further pressure in the second half of 2022 as increased grid part costs are realized. We have taken actions which expects lifted margins back towards historical levels and the full impact of the measures will be seen in 2023, when projects with more favorable cost and pricing levels move to backlog to realized revenue.

So with that, I hand the word back to you, Karl Johan, to walk us through the outlook.

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

Thank you, Bent. As we have presented today, [ph] we are in a (00:27:22) growing market. Even though more and more warehouse is automated, only about 15% of the market is automated today, and that leaves plenty of space for growth and increased demand for automation.

We are operating in a more uncertain market today compared to 12 months ago. Nevertheless, the underlying drivers remain intact. The continued growth and performance in the quarter highlights the momentum for AutoStore, with solid demand across regions, end markets, and warehouse categories.

As we have mentioned several times today, we reiterate our growth outlook for 2022 of $550 million to $600 million, and we are comfortable to present an early 2023 revenue ambition of between $700 million and $800 million, which is underpinned by our solid backlog, strong pipeline, and historical pipeline conversion.

Furthermore, we continue to believe that 40% medium-term growth over the next few years remain realistic, but that provides that the market experience a market growth rate of approximately 15%. We are confident in our ability to return to historical margin levels in 2023 given our mitigation actions, including the price increases, and based on the current grid cost levels. And, as we say in AutoStore, the best is yet to come. The journey has just begun.

So, thank you for participating this morning and we are now open up for questions. I hand the word over to you, Hiva, who will take us through the Q&A.

QUESTION AND ANSWER SECTION

Hiva Ghiri A

Vice President-Investor Relations, AutoStore Holdings Ltd.

Thank you, Karl Johan. Let's see if we have any questions from our audience. Perhaps, Bent, [ph] Mats (00:29:16) can come up. Eirik, you have a question? Let's see. There you go.

Eirik Rafdal Q

Analyst, Carnegie Investment Bank AB (Norway)

Thank you. Eirik from Carnegie. Thank you for taking my questions. I got a couple. If we start with the needed pipeline conversion of around 11% to implicitly meet the target for next year, if I go backwards there, that indicates a pipeline of approximately $4.7 billion and that's around the same levels as what you showed at the CMD earlier this year. I was just wondering if you're just being a bit cautious there and then kind of what your outlook is for the pipeline growth as well for the rest of the year?

Mats Hovland Vikse A

Chief Revenue Officer, AutoStore Holdings Ltd.

So we've seen continued pipeline growth and we expect that to also continue as we see more and more companies globally are looking into automation. But as you said, 11% conversion is what we've assumed versus a 13% conversion over the last couple of years.

Eirik Rafdal Q

Analyst, Carnegie Investment Bank AB (Norway)

Thank you. And my second question is, it looks like you've done a tremendous job internally as well on the supply chain side. Are other kind of competing technologies seeing the same reduction as you guys are in lead times and if not, is the reduction you are seeing making you more competitive towards competing technologies?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.
A

So historically, we've always had quite significantly lower delivery times than any other competitor in this market. So now that we're back to historical levels, that competitive advantage is still there.

Eirik Rafdal
Analyst, Carnegie Investment Bank AB (Norway)
Q

Thanks. And just one final one for me. Would it be possible, and you might have had it in the report, but to give a split on the revenue and/or order intake between existing customers and new customers in the quarter?

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.
A

The split is, as we have said or not said before but as we have referred to before, approximately 50%.

Eirik Rafdal
Analyst, Carnegie Investment Bank AB (Norway)
Q

Perfect. Thank you.

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

Thank you, Eirik. Any other questions from the audience?

Frank Maaø
Analyst, DNB Bank ASA
Q

Good morning. Frank Maaø from DNB. Just a question on the order entry, if you can say a few words about any trends you can see there with regards to potentially some e-commerce customers pulling back or delaying orders due to perhaps some of the pressures that that industry has been facing during the recent months.

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.
A

Yes. I think the order intake that we're delivering this quarter is very strong, but it's definitely a more mixed environment out there. So, I would say, there is probably three different types of customers now. You have those that can continue to invest and build capabilities to continue to win in the market. Then, you have those that do all the pre-work, do the designs, get the quotes in, but then decide to wait a bit to make the final decisions. And then you have those [ph] that are kind of (00:32:33) swamped in operational challenges and kind of keeps things on hold.

I would say with the order intake that we've delivered, we show that there is still a lot of companies in the first bucket and that we have been able to develop a quite diversified and broad coverage in our pipeline, but it's more mixed. When you look to our backlog, we have not had any cancellations or meaningful postponements. So, those that we have secured, they execute as planned.

Karl Johan Lier
President & Chief Executive Officer, AutoStore Holdings Ltd.

A

And I think it's fair to say also that the activity levels, when you look at the pipeline, is very high. So, still a very high activity, but that can take some more time for some customers to take these issues.

Frank Maaø
Analyst, DNB Bank ASA

Q

Thank you.

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

A

Thank you. Any other questions? So, no more questions from the room. I think then we'll look at our Web audience and their questions. So we have a question and I think this is for you Mats. What's the reason for the non-growth in Asia?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So, [ph] I was – (00:33:46) growing 83% year-to-date is pretty strong growth. But, of course, when you're growing that fast and also growing from a low base, some lumpiness between quarters is expected. But if you take into account the backlog that we have, we will see strong full year growth in Asia.

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

A

Thank you. And then could you say something about the project we have with the [ph] PEO (00:34:10) and how that's going?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yeah. So [ph] PEO (00:34:13) just for context is one of many strategic initiatives that we have and with [ph] PEO (00:34:19) we intend to increase our addressable market through opening up automation for also the SMB part of the market which is currently unaddressed. So we continue to validate the concept with more and more customers and we're working towards a potential release during next year.

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

A

Thank you, Mats. A question for you, Bent. Can you please elaborate a bit on the second half of 2022 margin expectation? Do you expect the second half margins to be lower than the first half of this year?

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.

A

As I showed you in the detail, the margin development bridge, we have seen strong pressure on the gross margin and on the EBITDA margin due to the cost level of grid parts. That pressure we saw continued in the second quarter and we will see some continued pressure, further pressure in the second half.

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

A

Thank you. Now, back maybe to you, Mats and Karl Johan. So first, congratulations on a decent order intake in Q2, given what we see from your peers. So the first question is, could you comment on how the order intake has developed through the quarter? And then there is a second question. Could you give us some color on how the orders developed in different geographies, i.e., EMEA, North America, and APAC?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yes. So, no kind of clear signals on timing within the quarter. We saw orders come in early through the middle and also towards the end of the quarter. And in terms of regional development, we've also seen orders come in across all regions. So, no clear skewness towards any specific regions either.

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

A

Thank you. Let's see. Another question here. The midpoint of your revenue guidance implies 30% growth in 2023 from $575 million to $750 million. Why specifically is this lower than the 40% medium term growth rate? Is it low – is it a slower market? Recession fears? Or customers booking more in 2022 at the expense of 2023?

Karl Johan Lier
President & Chief Executive Officer, AutoStore Holdings Ltd.

A

I can start and then you can. I think we have always said that we have expectation of a medium growth target of 40%. But we have also said that there will be lumpiness between quarters and lumpiness between years. And in a market where, as we see now, it takes more time really to close orders. This is not a surprise really. We saw the same in the beginning of the pandemic in 2020. We didn't have any growth in 2020. We took that back in 2021-2022 with 80% growth yearly, approximately. So, this is not a surprise. And I will say with the market we see now, an expectation of between more than 30% growth I think is very, very strong.

Any comments from you?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

No. That's right.

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

A

Okay. Mats, you say that the first half of 2022 revenue growth from MFC and high throughput was 208% and 320%, respectively. Could you please provide us with the absolute figures, i.e., what were the revenues in dollar terms?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yeah. So, without being too specific on it, those two combined were north of $100 million. And if you think about the split, we had slightly more in high throughput than what we had in MFC.

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

A

Thank you. One question here, and I think that can be addressed by you also, Mats. Should we expect book-to-bill ratio below 1 times for the rest of 2022? And then next question is, when do we need to see a recovery in new orders in order to support growth in 2024?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So, as I mentioned, given the strong backlog that we have at present, the order intake needed for the second half of the year can be kind of flat to downward trending, but still keep us on target for 2023. But obviously, in order to continue growing, according to our guidance in 2024, we would need to see order intake come up during 2023.

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

A

Wonderful. On the topic of order intake and the dynamics, we have a question. Could you please elaborate a bit further why the significant reduced lead times led to lower order intake? And then, should the backlog be rather driven by client's investment decision into warehouse automation and shorter delivery times should mean that the systems are delivered faster after final investment decisions as a result of AutoStore realizes revenues faster? Don't understand why clients should delay their orders because of shorter delivery times.

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So typically what we've seen is that we received the order pretty close to our current lead times because it's kind of less risky for the customer just to wait with placing the orders. So, the dynamic we get is that customers now start placing orders later than what they need to do with long delivery times. And hence, our backlog coverage is for a shorter period of time than what we've seen now in the period where we've had long lead times.

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

A

Thank you, Mats. And then there's a question about Pepsi, and if that's a new client or new customers of ours.

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So, it's not a new customer of ours for this quarter, but it's a client where we've had success both with our hardware and with our software. And as a result of that, they're now committing to additional sites with us.

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

A

Thank you. Back to the order intake. Order intake in Q1 2022 and Q2 2022 have been around $160 million for each quarter. Should we expect similar levels for the second half?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yes, I think I'd refer back to the answer that I just provided.

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

A

Let's see if we have more questions. We have a question on the frozen technology. Any progress on ability to handle different temperature zones and hence compete more efficiently in the grocery segment? Is the investments hurting margins currently?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So, when we have the frozen capability ready for market, we will be able to then have all the temperature zones. So, we do ambient, we do chill today, and we're soon doing frozen. And what's quite unique with the cube concept is that we can then consolidate across these different zones, hence create great advantages for the retailers.

What we're seeing in the market today, however, is that it's not really impacting our competitiveness as of today because we are able to provide comfort that we are delivering those capabilities now in the short term. Do you want to comment on that, Bent?

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.

A

Oh, no. No, I think that was a good coverage, yeah. But, of course, the cost level, that is covered by [indiscernible] (00:42:42) R&D spend. So, we've talked a lot about that we're spending sufficient resources in R&D, and that goes partly into our P&L and also partly into the CapEx. But that's part of our normal operations.

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

A

Thank you, Bent. Then we have one final question from the web audience. Orders that are placed today now, will they be delivered in Q1 or Q2 next year? Back to the lead times.

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yeah. So, it's obviously a mix. But orders placed today we're able to deliver on a 20-week notice and some place orders earlier, some follow the 20 weeks.

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

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Great. I think this concludes at least the questions from our web audience. Let me check if there is any questions from our audience here in the room. None.

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

So with that, Karl Johan, some final remarks from you.

Karl Johan Lier
President & Chief Executive Officer, AutoStore Holdings Ltd.

Yeah. Thank you. So, some key takeaways. Our team remains focused on our production and sourcing strategy of reducing dependencies on individual suppliers with inventory optimization, redundancy, improved collaboration, and increased visibility with suppliers as part of our toolbox. These efforts have resulted in significant lead time reduction down to 20 weeks. We have also taken the necessary action to lift margins back to historic levels albeit some delayed impact to 2023 as projects with more favorable cost and pricing levels move from backlog to realized revenue.

Since grid parts and key components order at peak levels still are in backlog, we still will experience pressure on margins in the second half of 2022. The order intake in the second quarter was $161.3 million, representing stable development compared to the same period last year. This partly reflect prevailing market conditions and partly the transitional impact of shorter lead times as customers place order closer to delivery.

The order backlog of $477.6 million is up 66.1% year-on-year and emphasizes AutoStore's strong ongoing underlying growth, powered by solid demand across regions, end markets and various categories. And it confirms our 2022 revenue guidance of between $550 million to $600 million. And together with our strong project pipeline, the backlog justifies early 2022 revenue estimates of between $700 million to $800 million. Our medium growth rate of 40% remains realistic, subject to continued market growth of 15%.

And, with that, I thank you again for spending the morning with us, and we look forward to seeing you for the quarter three results next time. Thank you.