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AutoStore Holdings Ltd. (AUTO.NO)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

Good morning and welcome to AutoStore's Second Quarter 2024 presentation. My name is Hiva Flåskjer and I will be moderating this webcast. As usual, I'm joined by two members of our executive management team, Mats Hovland Vikse, AutoStore's CEO, and Paul Harrison, AutoStore's CFO.

We would like to remind you of the disclaimer with regards to forward-looking statements. It can be read here at your own convenience.

Moving on to the agenda. Mats and Paul will present the quarter's operational and financial development. And as usual, all financials are stated in US dollars. We will host a Q&A session right after the prepared presentation. As always, you will be able to post written questions in the webcast player starting now. Similar to the previous quarter, you are also provided with an opportunity to log on the webcast via the Teams link and ask your questions verbally directly to the management by using the Raise Hand feature in the Teams. The Teams link is available on our IR website and in the invitation distributed as a stock exchange release a week ago. After the Q&A, Mats will round off with some final remarks.

And with that, I will hand over the words to Mats.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

Thank you, Hiva.

So, looking at the highlights of this quarter, we report 12% sequential improvement in revenue with $154 million, driven by EMEA and North America which was as planned and communicated in the previous quarter. Our order intake was $141 million, representing an increase of 3.4% compared to last year and a decrease of 23% compared to the strong first quarter of this year. As we've talked about several times in the past, there will be variations from quarter-to-quarter. The current challenging market environment also has an effect on the numbers. But more fundamentally, looking at the first half-year development and eliminating the quarterly fluctuations, order intake grew by 8% year-over-year to $324 million.

Moving then to the profitability of the business, the Q2 gross margin was above 73%, which represents the eighth consecutive quarter of gross margin improvement. And Paul will provide more details to this later in the presentation. We maintained our adjusted EBITDA margin of 49%, which is on par with the same period last year and an increase of 300 basis points versus the first quarter of this year. On our side, we continue to invest into the right areas of the business, such as sales and R&D.

Moving then to the operational highlights, we recently announced that we have strengthened our leadership team. And I'm thrilled to say that Parth Joshi has joined our team as the new CPO. He brings extensive global experience from high-tech and high-growth companies such as Cisco and Eaton, and I'm very excited to have him as part of the team.

In addition to that, we announced the transition of Carlos Fernandez, who's been with AutoStore for over 13 years, to the newly created role of Chief Solutions Officer. This will see him build out a solutions teams that will support our partners and customers more robustly, especially as we see an increasing demand for high throughput solutions where integration with other technologies is even more important.

Now, I also want to spend some time sharing what we're seeing in the market today and share some of my reflections around that. Fundamentally, the potential of warehouse automation market remains huge with the secular growth drivers remaining intact. In addition to that, the particular tailwind that drives the need for high-density rapid retrieval solutions like ours is especially compelling. So, what are we observing at present? Warehouse automation penetration continues to grow, albeit at a slower pace compared to two years ago. If you look at market studies such as Interact Analysis, you will see that the annual global automated storage revenues declined in 2023 from the 2022 peak levels, and that those same studies now indicate that this trend continues into 2024. This is also consistent with what we've been experiencing in the market where the situation has been largely the same as we experienced throughout 2023.

A particular feature we observed are longer evaluation cycles and to elaborate on that, we see that this slowdown comes from the combination of, one, more opportunities remain open which means that customers are just spending more time getting to a conclusion; and two, customers defer automation and remain manual for now. In addition to that, our product mix is deliberately shifting more towards the large and attractive high throughput segment projects which, on average, just takes longer time to convert versus the standard projects. The natural effect of this is that the backlog conversion takes longer.

And what I shared with you now is consistent with the many conversations I have both with small and large customers across all of our main regions and industries. Without exception, they all emphasize their continued commitment to automation of their warehouse solutions, so that has not changed; neither has our ability to compete. Our win rate remains unchanged and at a high level despite an expected increase in competition. Numbers-wise, the value of the pipeline is at its highest level ever, and the pitched proportion of that pipeline has increased 90% over the past two years. This tells me that we're tracking in the right direction and that we are investing in the right areas.

But let's be very clear. Whilst I've explained what is happening in the market, we are not satisfied with the current growth levels. Short-term, we are working even more closely with our partners and using our commercial toolbox to speed up conversion times. For example, we're intensifying our engagement with partners both strategically and on a project-by-project basis. In addition to that, we continue to invest in our market-facing activities such as business development and marketing which have demonstrated strong ROI. At the same time, our strategy is long-term-oriented and we're investing into the business and taking actions to advance our position, both when it comes to our product offering and go-to-market model. And we will talk much more about that in our upcoming Capital Markets Day.

So, moving on, this well-known slide very efficiently summarizes our strong position and why the business is so attractive. We've now delivered roughly 1,550 systems with 70,000 robots in 57 countries. We just added the Philippines, Paraguay and Puerto Rico. We have about 1,100 unique customers compared to 900 customers a year ago. And within the cubic storage space, we are the only player with such a significant installed base providing us with great advantages. Not only is it a real proof of strength of our solutions but it also represents a big base of satisfied customers to expand our relationship with. And let me also reiterate that our research shows that only around 20% of the market for warehouse automation is currently penetrated. That's a tremendous opportunity and we are positioned for strong growth in the future. First of all, the market opportunity is massive and we have a solution that can address all end markets and all system types with very attractive economics for the end customers.

To deliver on this, we have a highly efficient go-to-market model with a strong network of 23 integration partners around the world, which then are complemented by our business development and global account teams. And it is this efficient go-to-market model together with our highly standardized and scalable solution which is the foundation for the attractive and stable financial profile that you see on these slides. At the same time, we focus relentlessly on our customer-led product road map with around 300 colleagues in R&D driving continuous improvement, leveraging all data and insights from the large installed base that we have.

So, this is also a slide that you're familiar with. Here, we can see a small selection of our over 1,000 customers and you can see we have a wide customer portfolio. In Q2, more than half of our revenues came from existing customers which is a very strong reflection of customer satisfaction and our land and expand strategy. This area is particularly important when you consider that we've added around 500 new customers over the last two years. And looking at our data, that tells us that typically, over a two to three-year period, customers will return and invest further both in existing and new sites.

And as you know, we like to give you a real example of how we help our customers solve problems and improve their operations. This time, we're highlighting a US-based apparel customer, Cutter & Buck, which sells activewear. They particularly look to improve their picking process and delivery time to customers. With the AutoStore system, they're now able to offer same-day delivery to their customers. And you'll hear, picking is no longer a bottleneck. So, before Paul take us through the financials of this quarter, please have a look at this.

[Video Presentation] (00:09:55-00:12:42)

Paul Scott Harrison

Chief Financial Officer, AutoStore Holdings Ltd.

Thank you, Mats, and good morning.

Okay, let's move on to the financial highlights on the next slide. As you can see, there are some strong numbers on the slide but, at the same time, there are clearly some areas where we're doubling down to drive improvements, as Mats has discussed. In quarter two, we reported order intake of $141 million, representing an increase of 3% compared to last year and an increase of 8% for the first half of 2024 versus the same period last year. Looking at our revenues were $154 million, we see an improvement compared to the first quarter of this year, whilst they contracted 12% year-over-year. Our margins are very strong in the quarter, particularly driven by a high gross margin of 73%. Our adjusted EBITDA margin remained at 49%, on par with the same period last year.

So, on the next slide, I'll go into more details on the key financials. Looking at our Q2 revenues, as expected, we saw a sequential improvement this quarter with a higher level of high throughput business coming through compared to quarter one. On a year-over-year basis, revenues declined by 12%, reflecting the longer conversion from backlog to revenues that Mats has discussed. As we can see from the right-hand side of the slide which shows the geographical split, I'm pleased to highlight the strong sequential growth in North America, an important strategic market to us.

As you already seen, order intake was $140 million for quarter two, representing a 3% increase from quarter two 2023 and that sequential decline of 12%. Mats has talked already about some of the factors driving order intake. One additional observation I would share to underline Mats' point is to remind you that AutoStore is often just one part of the overall warehouse automation project. It is often combined with other technologies, including the construction of new warehouse facilities or the repurposing of brownfield sites. So, these projects, even for large global names, can be significant. However, an understandable caution to commit in this environment should not be confused with high conviction in our product. We're continuing to see strong demand from high throughput customers with these projects more than doubling compared to a year ago. These are larger projects. In addition, we saw a particularly strong performance in the industrial sector this quarter, which talks to the diversified range of end markets we serve. And at 30th of June 2024, our order backlog remained solid with no cancellations at $479 million.

Looking at gross profit and adjusted EBITDA, on the upper panel of this slide, you see that Q2 gross profit ended at $113 million which was an increase in absolute terms from the same quarter in 2023. In quarter two 2022, this corresponds to a gross margin of 73% compared to 68% in quarter one of 2023. So, you'll note that the gross margin for the quarter is once again at the highest level we've seen for some time. The quarter's margins was supported by product mix and, in particular, favorable raw materials costs. Our adjusted EBITDA margin was strong at 49%, sequentially up 300 basis points from 46%, driven by improved gross margin that I mentioned and also by strong cost control.

Now, we've talked today about the actions we are taking to drive growth in our business. As a reminder, Mats talked about investing in our market-facing activity such as business development and marketing. We're leveraging this strong and improved gross margin to fund this investment, which enables us continue – to continue to deliver high adjusted EBITDA margins.

Okay, now let's spend a couple of minutes highlighting our strong cash position. In the quarter, we had cash flow from operations of $16 million after making settlement payments of $32 million. Operating cash flow was negatively affected by increased receivables contributing to higher working capital. Now, this was expected due to shipments late in the quarter. But as a reminder, we have a 30 to 60-day standard payment terms with all of our partners. If I look at simplified cash flow conversion, which is calculated as adjusted EBITDA less CapEx investments, it's somewhat down year-on-year at 77% with CapEx growing year-on-year and lower adjusted EBITDA, but clearly still strong. To conclude, we end the quarter with a solid cash position of $269 million while we continue to invest in our future growth.

So, pooling everything you've heard this morning together, this slide summarizes our priorities and our expectations. We will continue to focus on products and technology development. And during 2024, we plan a strong series of product launches and improved functionalities. Look out for some interesting announcements this fall and also those that we'll be sharing with you at our forthcoming Capital Markets Day. And with an eye on short and long-term performance, we will invest in our market-facing activities. We will fund this by utilizing the improvements in gross margin, enabling us to maintain a high adjusted EBITDA margin. And as we've made clear, we expect these actions to drive growth and continue to gain market share.

So, with that, I'd like to pass back to Hiva, who's going to lead the Q&A.

QUESTION AND ANSWER SECTION

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

Thank you, Paul, and thank you, Mats. Let's move on to the Q&A, and let's start with questions from the Teams audience. And as a reminder, please raise your hand to ask questions. The first question comes from [ph] Amelia. Amelia (00:19:30), please, can you go ahead and unmute yourself and ask your question?

Q

Hi, good morning. My first question is about the backlog duration and how we should think about that in Q2 versus year-end 2023. I think the backlog is up around the $30 million. And is this representative for what we should expect as an increase in the second half or how should we think about growth in the second half of this year?

Paul Scott Harrison A
Chief Financial Officer, AutoStore Holdings Ltd.

Okay. So, I'll perhaps start off with the answer there. The backlog of duration is extended for the reasons we've talked about. Customers taking longer to make that final purchase commitment and indeed customers entering into multiyear commitments with us. I can think of an example recently in Asia where our customers entered into a multiyear commitment with us where around about 30% of that revenue will come out in the first year. So, we are seeing customers commit for longer to the business, which is clearly a good thing.

As to the second half of the year, what I would point to is the initiatives that Mats has talked about that I reiterated in my presentation that we're taking to drive revenue growth. And we do that, we expect to see sequential improvement in revenues as we go into the second half of the year. Now, we said that back in quarter one, we talked about the revenues being skewed to the second half of the year. The comment that I'll add now with the benefit of the passage of time is we do expect to see that most notably in quarter four of this year.

Q

Okay, thank you. That's helpful. And then, just a follow-up on gross margins. I'm just curious whether the step-up you've seen in this quarter as well as last quarter, what you expect for the remainder of the year?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

At the start of the year, I talked about gross margins in the late-60s and there was some caution in that statement resulting from the risk around geopolitical factors impacting commodity prices. But you've seen now for two quarters a strong gross margin in the early-70s. So, I think it is reasonable at this stage in the year to expect the gross margin for the full year to start with a 7 and be in the low-7s as well. And as I mentioned, it's that increase in gross margin which we're very pleased with that is going to fund the initiatives we've talked about to drive revenue growth.

Q

Thank you.

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

A

Moving on. [indiscernible] (00:22:25), would you like to ask your question, please unmute yourself.

Q

Good morning. [indiscernible] (00:22:32) from Bank of America, and thanks for taking my question. Only one from my side. Could you maybe explain to what extent and how you, from your side, can improve the delivery on the backlog that you have? Or do you feel like you're, on this path, more like fully in the hand of your customers and their decision of when they really want to commit to the project? Thank you.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, as we mentioned during the presentation, we have several initiatives in place, not only on the high-level strategic stuff but also on a project-by-project basis. So, we have, to a larger extent now, our people involved hand-in-hand with the partners on a project level, which gives us more insights and more opportunities to impact. However, as we've talked about in the past as well, this is a market that's going to be attractive for many, many years to come. So, our top priority is to sit together with our customers and support their timing so that we end up having good customer relationship and end up being partners with them for many, many years to come.

Q

Okay, thank you. And maybe then, as a follow-up, what gives you the conviction into the more, let's say, H2-weighted and now more like a Q4-weighted pick-up then? Do you already have good commitments from your customers and feedback that they will really commit to the projects in Q4?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, as I said, we are close to the projects that we have in our backlog. And with the timings that has been indicated for us and with the visibility we have, we do feel good about the second half and particularly Q4, as Paul mentioned.

Q

Okay, perfect. Thank you.

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

A

Thank you, [indiscernible] (00:24:19). Next one up is Petter. Please, go ahead and unmute yourself.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Q

Yeah. I had a question on the gross margin, but I think that was answered. So, just going back to Q1 actually. My understanding was that the start of Q2 had been fairly similar to what you saw in Q1. But clearly, the order intake weakened then. Did I misunderstand basically your message in Q1 or did orders somewhat softer later in the second quarter? Thank you.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, look, as we've talked about for a while, we've seen similar dynamics for several quarters now. And you're right, at the end of or in Q1 when we presented that, when we saw similar developments. However, with the dynamics that we are experiencing in the market now, combined with the fact that, underlying, we're a project-based business, you will see these types of fluctuations and with the market environment we're in, these fluctuations can be quite large. But as we've done quite consistently for several years now is saying that, on a quarter-over-quarter basis, there will be lumpiness. But if you look at the longer lines, for instance year-to-date, we're up 8%. So, you need to look at this in a larger time series than only individual quarters because we're impacted by these types of dynamics that we're seeing now.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Q

Perfect, thank you. And then, just a final question. You mentioned, sequential revenue improvement in H2 with more effect in Q4. How good visibility do you have on that? Could it be a scenario that when you enter Q4 that, suddenly, some of the customers are saying that we need to postpone this until the first half of 2025? Thank you. That was the final one.

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Yeah. Look, I think as Mats has said, we're able to talk to our partners on a project-by-project basis and update on expectations. And that's what informed the comment, the likely dates that customers are going to commit to the delivery of projects. But as we've tried to say today, this to your question is an uncertain market. Is it possible that some of those customers will defer? Yes, it is possible. But we are looking at this on a highly granular basis and taking actions, as Mats has noted, to stimulate that quarter three and four growth.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA
Q

Okay. Thank you.

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

Thank you, Petter. And moving on, Kristian, can you please mute yourself and ask your question?

Kristian Spetalen
Analyst, Arctic Securities AS
Q

Yes, thank you. So, how should we think about the postponements you cited last year when you took down the revenue guidance in, I think, it was the third quarter in which projects where you cited some delays from H2 2023 to 2024? Are these being delivered now or are we still waiting? Are these customers still waiting per se?

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

So, the average age within the backlog has, obviously, increased. However, the projects that we were intended to ship last year has, to a large extent, either been shipped or in the process of shipping. But there is kind of a shift and the dynamic backlog. But of course, the underlying dynamic remains largely the same this year as we also saw last year. But as I've talked about, as Paul just talked about, we're deeply involved in these projects so we have a granular view on a project-by-project basis.

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.
A

And just to emphasize, if I may. Whilst timing, as we have discussed quite a bit this morning, is hard to predict, what we are not seeing are cancellations of orders.

Kristian Spetalen
Analyst, Arctic Securities AS
Q

Okay, thanks. Okay. So, I guess, that's kind of most – kind of disappointment now as you said four months ago that you would grow on a full-year basis and that 80% of the order intake is set for delivery for 2024. So, I guess that those orders in Q1 are kind of where we see most delays and maybe from Q4 last year?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.
A

Look, that's fair. And as you've also seen and we referred to in the presentation, we've also seen sort of external market studies such as Interact to downgrade their view on 2024 as well. So, the experience we're sharing with you is consistent with those studies, with 2024 taking on much more of the characteristics of the tough 2023.

Kristian Spetalen
Analyst, Arctic Securities AS
Q

Yeah, I see. And then, you're investing quite heavily with 20% OpEx growth with revenues down. Will you preserve margins going forward or are you kind of thinking longer-term here?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Well, we always think longer-term, that's quite right. But at the same time, as we've tried to stress today, we are also thinking about taking actions to drive short-term performance as well. Now, what we benefit from here is that strong improvement in our gross margin, and it's that improvement that we're investing into these initiatives to drive growth. Therefore, I expect to continue to report those high adjusted EBITDA margins.

Kristian Spetalen
Analyst, Arctic Securities AS

Q

Yeah, thanks. And then, last one for me...

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

Let me just...

Kristian Spetalen
Analyst, Arctic Securities AS

Q

Yes, sorry.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

Sorry, let me just add some color based on your past couple of questions. So, of the investments that we've been doing into especially the market-facing activities has been showing good results. And this is a market that's still just in the early innings of disruption. And when you look at the pipeline growth, the customer access that we have and the proportion of that pipeline that has been pitched, we're seeing very strong underlying demand growth which is what we can influence within the four walls of the company. What we are seeing though is that the conversion of those orders are going down for the reasons that I talked about during the presentation. But in the medium to long-term view, the results that we're getting in, being closer to the customer, increasing the pipeline, getting more deals in front of those customers are showing very, very good signs. But short-term, backlog conversion timing is more challenging to predict than what it's been in the past.

Kristian Spetalen
Analyst, Arctic Securities AS

Q

Thank you for the clarification. And then, last question, a bit unrelated to this. But on the Capital Markets Day in September, should we expect any financial targets to be presented or will it be mostly product and company-centric?

Kristian Spetalen
Analyst, Arctic Securities AS

Q

Well, there'll be a lot of content on that day. But yes, you can expect me to talk about the financial envelope within which we think you should think about and model the business over the medium-term.

Kristian Spetalen
Analyst, Arctic Securities AS

Q

Thanks a lot.

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

A

Thank you, Kristian. Timothy, I think you're up next. If you could please unmute yourself and ask your question.

Timothy Lee
Analyst, Barclays Capital Securities Ltd.

Q

Hi, thanks for taking my questions. So, I just want to understand a bit more about the order intake momentum in the second quarter. How is the run rate or like a development [ph] booked (00:32:02) second quarter? And how's the momentum going into the third quarter?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Sorry, I missed the very start of your question, Timothy. I beg your pardon?

Timothy Lee
Analyst, Barclays Capital Securities Ltd.

Q

Sorry. I'm just trying to understand about the dynamics of the order intake in the second quarter. And how's that run rate when we exited the second quarter? And how's the momentum developments in the third quarter?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Okay, thank you. Look, I think I'm going to sort of repeat a comment Mats made a few moments ago. To describe a run – it is a run rate. To characterize it as a run rate at the minute would be to belie the lumpiness that we have talked about in securing orders. And that's why whilst we saw that promising start to quarter two, clearly over the balance of the quarter, we didn't see as stronger performance. So, I don't think at the moment, it would be fair to characterize order intake is having a very clear run rate.

Timothy Lee
Analyst, Barclays Capital Securities Ltd.

Q

Understood, understood. And a small question on my side. Is the first one but, in terms of the revenue from the rendering of services in the quarter, it's negative $0.2 million. So, it's small but I just want to understand a bit about why it is a negative number?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

On the service revenues in the quarter, did you say?

Timothy Lee
Analyst, Barclays Capital Securities Ltd.

Q

Yes, correct.

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

I would need to come back to you on that one, actually. It is, as you say, a relatively small number. Let me double check that and come back to you, please.

Timothy Lee
Analyst, Barclays Capital Securities Ltd.

Q

Yeah, yeah. No problem, yeah. That's all the questions I have. Thank you very much.

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

A

Thank you, Timothy. Toby, I think you're up next, so if you could unmute yourself.

Toby Ogg
Analyst, JPMorgan Cazenove Limited

Q

Yeah. Hey, good morning and thanks for the questions. May a couple from me. Maybe just firstly, just on the CapEx, looks like that's been trending around 10% of sales year-to-date. Is this the new sort of run rate we should be thinking about going forward on the CapEx? And where is that CapEx being spent?

And then, just secondly, just on the competition. Mats, I think you made a reference to more competition. Could you just give a bit more detail around where that competition is coming from, so what it looks like and how intense it is? Thank you.

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Toby, I'll go first on the CapEx. And you're right, it's a little bit higher this quarter at the 10% level. I continue to think that you should consider a more normal number 8% against a normal revenue context. It's spiked up a little bit this quarter because we've seen the completion in the quarter of the facility in Thailand and indeed a new facility in the US, so that's created a little bit of a spike. But actually, when you look at the R&D element of our CapEx, it's actually at a very steady proportion quarter – sequentially, quarter-over-quarter. So, no, I think longer-term, continue to think about it as slightly below those levels.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

And on the competition side, we've seen new entrants come in over the past few years. There is nothing now that has changed that situation but, obviously, it's more players operating now than what it was a few years ago. However, our competitive strength has remained the same throughout that period and continues to be very, very strong, which is then evidenced again by our high win rates and also through the performance on gross margin. So, if you look at it, our largest competitor remains manual handling with still only around 20% of warehouses being automated. That's the key conversation we're having with customers. How do you move from a manual operation into an automated operation?

Toby Ogg
Analyst, JPMorgan Cazenove Limited

Q

Great. Thanks a lot.

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

A

Thank you, Toby. Moving on to Luke. Luke, if you could be so kind and unmute yourself. Thank you.

Lucas Ferhani
Analyst, Jefferies International Ltd.

Q

Sorry, would that be me? Lucas.

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

A

Sorry, Lucas. Sorry, my bad. [indiscernible] (00:36:42)

Lucas Ferhani
Analyst, Jefferies International Ltd.

Q

No worries. No worries. I wasn't pretty sure. Thanks for the time. I just also wanted to come back on the investments. I'm trying to understand how you can really drive growth with the additional investments. As you said, the value proposition is strong. The customer feedback is good. And so, it does seem like it's more of a waiting game for kind of maybe the macro interest rates to improve. And obviously, you're kind of investing a lot more as your top line is more challenged. Obviously, the gross margin is still high so you're able to do that. But I'm just wondering whether you really going to be able to drive growth if, let's say, the macro interest rate environment doesn't change?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

It's a good question, Lucas. But look, when you look at it, the investments that we've made has enabled us to grow our pipeline and increase the pitched proportion of that pipeline. For us, the growth formula is a lot about seeing more of the market and getting access to more and more customers, as I've talked about several times now. It's an early-stage market. And for us, if we're able to gain market access and get access to more and more customers whilst maintaining those high win rates, that will equal growth also in an environment where customers are more cautious. But most importantly, it's about gaining market access.

Lucas Ferhani
Analyst, Jefferies International Ltd.

Q

Perfect, thank you. And just on, again, the debate on revenues this year. I mean, is there a change at all in the view you had in Q1 after having seen kind of H1? Does that change a bit what you see for the full year on achievable revenues or let's say the weight of H2 versus H1 is just as you saw before? And the past three year was about 50%. If you look at 2020, it was closer to 44%. So, that could still be something that's coming. But I'm just wondering if maybe H1 makes you doubt slightly a bit more maybe what you can deliver on the full year now?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

I think the comment we made at Q1 about a skew to H2 this year remains to the update really for you today having done the deep dive into our backlog is that we expect to see that much more biased towards quarter four. But clearly, as we have said, just stepping back and as external commentators have said as well, this is proving to be once again a tough year; whereas a few months ago, there was a stronger sense of optimism about 2024. So, it is proving to be a tougher year than I think was expected six months ago.

Lucas Ferhani
Analyst, Jefferies International Ltd.

Q

That's it. Thank you.

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

A

Thank you, Lucas. Now, let's try with Luke from Morgan Stanley. Luke, if you can unmute yourself if you still have a question.

Maybe, Luke, we'll take your question later on. Moving on to Eirik.

Eirik Rafdal
Analyst, Carnegie AS

Q

Yes, good morning. Thank you for taking my questions. I got two, one for Mats and one for Paul. If I can start with the one to Mats. You talked about the win rate that remains roughly the same. Could you just share some color on the different win rates between high throughput and standard warehouses? And it sounds kind of as if you're gaining traction and you've done over time in high throughput. Does kind of overall flat win rate imply that you're winning less in standard warehouse or kind of how should we think about both focus there and relative competitiveness?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

Yeah. We are seeing growth in the high throughput segment. And I think the installed base that we're developing in that market verifies our position to also compete there. Again, the growth formula within high throughput is to gain access to those projects, too. So, to a large extent, we're winning the projects that we're starting to see. But the efforts is more around seeing more and more projects, and that's what we're focusing on. So, look, it's still early days for us. We're winning share in that market. And I think as we gain access and apply those win rates there, we will see growth. But for us, it's more about seeing that market because, historically, we've been mainly viewed as a winner within that standard segment. So, we need to create ourselves that access in high throughput as well.

Eirik Rafdal
Analyst, Carnegie AS

Q

That's very clear. Thanks, Mats. And one for you as well, Paul. Kind of given where the stock is trading and also your cash position, I know you talked about in the presentation, what are your thoughts on potential buybacks?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Good question, Eirik. Very fair question. I think firstly, the priorities for use of cash are, one, obviously, always start with organic investment into the business. Two, we have talked in the past and continue to consider inorganic opportunities. And then, you are quite right to say that none of those and neither of those are necessarily mutually exclusive with considering some form of return of cash. And for those of you who have known me for a while, you know that in previous companies, that is something I have actively pursued. So, no decision has been made by the board at this stage. But rest assured, your question is on our agenda, Eirik, and we'll say more in due course.

Eirik Rafdal
Analyst, Carnegie AS

Q

Perfect. Thanks, Paul. And thanks, Mats and Hiva.

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

A

Thank you, Eirik. Then, moving on to [ph] Samir (00:42:28), if you could please unmute yourself.

Q

Yeah, hi. Thanks for taking my question. Just wanted to check on the pipeline, which I think is still growing. Just want to understand at what point you consider it as part of your pipeline, is it pre-sales or early discussions? And let's say, if discussions have stalled for months, they're taken out of your pipeline or still is it still there? Thanks.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, we include a project within our pipeline when there is a concrete project being talked about, i.e. a concrete warehouse that either is to be retrofitted or is to be built. If the decision of the customer is that they're going to stay manual for a while, we take it out of the pipeline. So, if you look at the longer time horizon, we have many examples of situations where we've taken a customer out of pipeline and they've come back a couple of years later when they're ready to invest in automation.

Q

Yeah. I think that's clear. Thanks.

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

A

Thank you. Let me check if there are any more hands raised. Luke, do you want to try a third time? See if you can unmute yourself?

Luke Holbrook
Analyst, Morgan Stanley & Co. International Plc

Q

Hello? Can you hear me now?

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

A

Yes, Luke, we can.

Luke Holbrook
Analyst, Morgan Stanley & Co. International Plc

Q

Super sorry. Sorry about that. And my question is just on your adjusted EBITDA margin which remains quite high. I'm just wondering how we should think about the future investment in your engineer base because it does remain quite lean, particularly against one of your competitors that are doing things like automating and picking, more automating on the outbound. I'm just wondering how comfortable we should be at or whether you believe there should be an investment over the medium-term in that engineer base? Thank you.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, first of all, through the partner model that we operate, we have a broad engineering team that looks at these adjacencies and that enables us to integrate both inbound and outbound processes with the best-of-breed technologies that exist in the market. But of course, we've also said that we have an active look on the adjacencies that exist out there and do continuous make by partner evaluations. So, it's definitely on our agenda.

Luke Holbrook
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. So, just following up from the previous question that talked on share buyback. I'm just wondering how we should think about capital allocation going forwards, where your priorities are in terms of investment in the core technology versus distribution back to the shareholders and the share buyback or...

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Yeah. So, our priorities, as I said, do remain first and foremost organic. Cash flow supporting the development of the business for the long-term. There is an inorganic potential as well. But as I said, neither of those necessarily sit at a mutually exclusive to returns of cash. We just haven't reached a firm conclusion on that as a board that I can share with you at this stage.

Luke Holbrook
Analyst, Morgan Stanley & Co. International Plc

Q

Understood. Thank you very much.

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

A

Thank you, Luke. I do believe that that concludes the questions from the Teams audience. Unless [ph] Samir (00:45:40) have another question. If so, please unmute yourself.

Q

No, no. Yeah. No question. That's just a legacy hand, sorry.

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

A

Fantastic. Then, I think actually, that then concludes the Teams questions. We have received some written questions. Most of them have been answered already. But I do think there is one from [ph] Anil Patel (00:46:04). Could you talk about the relative strength of the demand between high throughput systems versus smaller systems where price may not – may be more of a factor? Have there been any changes in the competitive dynamics there?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, as I mentioned, we have seen a lot of increase in demand on a pipeline basis, on a pitched basis in the high throughput segment. But of course, standard segment has remained our strength. We've also, ourselves, released new products that help us compete even more effectively on the smaller systems with the Pio system that we have.

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

A

Thank you. There's a question from Øyvind Mossige. Do you still have orders received in 2022 and 2021 in your backlog? If yes, how much in percentage?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

I'm not aware of any significant orders taking that far back.

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

Yeah. And I think that is actually the questions that we didn't answer previously. So, that concludes the Q&A session for Q2 2024. And I'll hand over the word to Mats for some final remarks.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

Thanks a lot, Hiva.

So, first of all, I want to say thank you for spending time with us today. And there are some key takeaways that I want you to take home. So, let me summarize some of those points.

First of all, we are the pioneer and global leader in cubic storage, and we operate in a market that's still in its early stages of development. Even though more and more warehouses are automated, still only around 20% of warehouses globally are automated today, leaving plenty of space for growth. Within this market, we have a leading technology and a proven growth strategy with an efficient and scalable go-to-market model. And last, all of this has enabled a long track record of delivering strong revenue and growth at high margins. So, we are very excited and optimistic about our future and remain confident in our ability to continue delivering strong profitable growth.

And before we end, I would like to take this opportunity to warmly welcome you to our 2024 Capital Markets Day, which will take place on 18 September in Manchester in the UK. There, you'll get a chance to get a campus tour of the largest multi-tenant AutoStore facility which picks more than 65 million units per year. You will also be able to hear from THG's COO, John Gallemore. And in addition to THG, you will also have the opportunity to hear from Mark Urban, who is the Chief Supply Chain Officer at Best Buy, and learn more about how the investments in AutoStore helped revolutionize their supply chain network.

Finally, you'll also, of course, hear from our management team who will...

[Abrupt End]