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AutoStore Holdings Ltd. (AUTO.NO)

Q3 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 Q3 2022 Presentation. My name is Hiva Ghiri, and I am the Investor Relations Officer at AutoStore. And I'm pleased to host our presentation from Oslo, Norway. I'm joined by members of the executive management team, including Karl Johan Lier, AutoStore's President and CEO; Bent Skisaker, Chief Financial Officer; and Mats Hovland Vikse, Chief Revenue Officer. Karl Johan, Mats, and Bent will provide an update on the business and discuss the third quarter and year-to-date results.

As a reminder, all financials are stated in US dollars. Management's discussion will be followed by a Q&A session from our participants here in the auditorium, as well as on the web. For webcast participants, please submit your questions at any time. We will conclude the session today with some final remarks from Karl Johan.

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

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

Thank you, Hiva. If you go to the next slide. Next slide, please. Yeah. Good morning, and thank you for joining us today for a review of quarter three 2022 results. Let me begin by saying that we are very proud of the performance delivered by the AutoStore team. We delivered yet another excellent quarter with revenue growth of 74% even as we left our prior-year quarter of 95% growth. If we ought to take currency effects into consideration, we would have recorded growth of 86% compared to quarter three 2021.

Despite the volatility and uncertainty of economic market conditions, we have been able to maintain a strong growth rate throughout the year, demonstrating the resilience of our business model and the value that our customers derive from our technologies. In this quarter, we reported an adjusted EBITDA margin of 37%, with a year-over-year decrease, primarily due to continued pricing pressure for grid parts and other key components.

As a reminder, we have already implemented pricing actions to mitigate rising costs. Our price increase was introduced in quarter four 2021 and will start to benefit margins in quarter four 2022, and a surcharge implemented at the end of quarter one 2022 will be phased in beginning of 2023. It takes some time to see the full benefit of these actions due to the time lag between order intake and project delivery.

When cost and revenues are recognized in our P&L, they must first work through existing orders in our backlog that are in – put at previous pricing and cost levels. While we are not happy with our margins, we believe the third quarter represent a floor, and that we have a path to return to historical adjusted EBITDA margins, and Bent will provide more detail on that later in the presentation.

Moving on to our order intake. We saw continuing strength with Q3 orders of $155 million, an increase of 11% compared to the same period last year. Considering that the order transitioning to shorter lead times and the negative effects impact, this is a solid figure. As we mentioned in our previous earnings presentation, from the beginning of the year through the second quarter, our average lead time decreased from 35 weeks to less than 20 weeks.

Our focus on operational excellence, including managing our supply chain, helped us reduce lead times as we diversified our supplier base. Optimized inventory, improved collaboration, and increased visibility with suppliers, including doubling our aluminum capacity in the last 12 months. The significant work on supply chain also results in a more resilient AutoStore to support growth in 2022 and 2023.

Our team is continually focused on operational excellence and we are very pleased with our improved ability to offer faster delivery times for customers by strengthening the resiliency of our sourcing. The significant drop in lead time now allows customers to place their orders closer to delivery, which is fantastic. But it had a temporary impact on delaying some orders as customers take advantage of shorter lead times. We are therefore very pleased with the strength of order intake during the quarter.

At the end of the quarter, our order backlog was $470 million, up 37% over last year. We are confident in our underlying growth powered by solid demand across regions and markets under those categories. We're able to reaffirm our guidance ranges for full year 2022 and 2023.

On the operational highlights. As I just mentioned, price increases and surcharges have already been introduced as the inflation environment persists. We have announced an additional net price increase of 5%, which includes a general price increase partially offset by a reduction in surcharge. Taking effect on new orders starting in January 2023.

During the quarter and in November, we have launched several new commercial offerings, which include a pay-per-pick revenue model which represents our recurring revenue model for us, and a more flexible financing alternative for the customer. And we are in dialogue with many more potential customers on this revenue model. Mats will talk more about this in more detail later in the presentation.

I'm also very excited about our pilot and first order for our new multi-temperature zone grid that we have been developing at our innovation hub for some time, while multi-temperature zone grid also includes frozen capabilities, promising excellent growth opportunities in the grocery sector. Furthermore, we have released our PickUpPort enabling pickup directly from the AutoStore system and Unify Analytics, which is a cloud-based service and data platform that automates the collection and analyzes of real-time AutoStore data. Mats will also talk more about this later in the presentations.

To meet our growth targets, we are continuing to expand with our assembly facility in Thailand. The facility is expected to be online in the second half of 2023 to enable access to new suppliers and then shall close proximity to customers. In addition, it provides flexibility and reduces our dependency on European supplies. Also during the quarter, we reached an important achievement for AutoStore by passing the milestone of selling 1,000 system globally. This is a remarkable achievement and firmly establishes our position as the market leader of cubic storage automation.

Finally, there are several other noteworthy development to highlight. First, our distribution partner StrongPoint has expanded its reach to include the UK and Ireland in addition to its previous territories in the Nordic and Baltic countries. Additionally, Fives Group is going to expand beyond Southern Europe to now include Japan. And partner SmartLog is now also going to cover Middle East in addition to LatAm.

Next, we continue to make great progress towards our strategic goals despite current uncertain market conditions. Revenue growth trend, order intake pace, and operational efficiencies support the 2022 guidance and continued strong growth in 2023.

Mats, I hand over to you to provide more flavor.

Mats Hovland Vikse

Chief Revenue Officer, AutoStore Holdings Ltd.

So, if you go to the next page, please, and let me start today with an overview of AutoStore for those of you that are new to our story. So, let's take a step back and look at some of our unique attributes and accomplishments in numbers. We have now sold more than 1,000 installations and over 40,000 robots, and that's in over 40 countries. We have an efficient go-to-market model where we sell through a network of currently 22 distribution partners with more than 2,000 certified sales representatives.

We have a scaled global platform with a strong blue-chip customer base, and we have sold to more than 600 end customers. And our lean and efficient business model has resulted in superior financial profile with high growth approximately 50% CAGR since 2010 and 80% growth last year. We have high margins with EBITDA margins of around 50% in recent years and high cash conversion above 80%.

So, if you go to the next page, we are operating in what's a large and underpenetrated market for warehouse automation. The total addressable market is huge and still has very low penetration rates. We believe that only around 15% to 20% of warehouses are automated globally. And what's driving penetration here is megatrends that all of you know very well. You have the shift to e-commerce and also the fact that we as consumers are getting more and more demanding. And then on top of that, companies globally are now looking more and more to solutions that reduce labor dependencies and improve the overall supply chain.

When we look at our current customer portfolio, we see that we've only scratched the surface and that there is tremendous opportunity for us. Looking at our current customer base, we have a lot of growth opportunities. If you take our top 10 customers alone, we estimate that we have less than 5% average penetration, and that's with customers that has already invested. We are also optimistic about the new opportunities that are unlocked by our strategic initiatives and product enhancements, like the frozen temperature capabilities and our new pay-per-pick offering, which I will get back to later.

If you go to the next page. And as I mentioned on the previous page, the long-term growth of the automation market is supported by global secular megatrends and will continue to drive automation adoption with AutoStore growth. Economic challenges such as labor constraints and inflation, is just coupled with consumer preferences for same day delivery just reinforce the value of our technology. And we can help our customers reduce costs, become more efficient, and we deliver an ROI of one to three years.

While AutoStore is not immune to the capital cycle, we remain very optimistic about our long-term growth opportunity and now our ability to help companies in all types of end markets, drive efficiencies and meet today's challenges.

If you go to the next slides, let us now discuss some of the value proposition that we deliver to our customers, how we're addressing the aspects that customers value the most. And throughput is very important as our customers need to be able to meet consumer demand for fast delivery as our customers need to be able to handle big volumes.

Today, we're able to achieve up to 650 picks per hour per port and more than 20,000 picks per hour per grid, and you can have multiple grids within a distribution center. We reached this throughput level in 2020 when we introduced the Router software, and this is what really has enabled us to enter the high throughput market. Space efficiency is also key when customers calculate their payback, and we offered the densest solution available in the market. And modularity is also important, especially if you want to utilize existing real estate.

AutoStore is able to fit virtually any type of warehouse layout. And our customers can easily expand the solution as they grow, enabling them to right-size from the start. And then you have a reliability. AutoStore has, on average across all of its systems, a best-in-class uptime of 99.7%, and there is no single point of failure. And being able to deliver performance consistently without downtime is critical for operators. And all of these features, together with the low payback time, drives market share growth for us.

If you go to the next page then. Along with reaching the milestone of 1,000 systems sold globally, we have achieved an average compound annual revenue growth rate of more than 50% for more than 10 years through a variety of business cycles and periods of economic strength and weaknesses. And the uncertainties facing today's global economy are widely acknowledged. However, we believe that in the medium term, we can grow revenue by approximately two to three times the growth rate of the broader warehouse automation market, i.e. gaining shares. We continue to benefit from an underpenetrated cubic storage market that is both massive and rapidly expanding. And given the current market growth rate estimates, this implies a future CAGR for AutoStore of approximately 40%.

If you can go to next page, and looking at how we are navigating and progressing in respect to our own strategic ambitions, I'm pleased to say that we're on plan. On the first one, we have seen strong growth in this key focus areas, and year-to-date, our revenues have seen growth of 128% versus the prior year period.

When it comes to the fulfilment platform with the WMS, we continue to grow our pipeline of large, high-quality customers that we expect to convert to revenues in 2023. Also, we are introducing the new pay-per-pick revenue model, which both will enable us to increase our recurring revenue share, but also provide a more flexible financing solution for our customers, as the upfront CapEx is significantly reduced, and I will provide more details on that shortly.

And as previously mentioned, we've made a lot of progress on product innovation. We have received our first order for our multi-temperature zone grid, which means the – meets the increasing demand of grocery retailers to automate their e-grocery fulfillment services. Also, we have launched our new Unify Analytics cloud-based service and data platform. We have always collected data from our sites, to help us improve our technology. But this platform now also gives real-time visibility and data, that helps our customers to drive operational efficiency, and to better utilize our technology.

A group of customers has already used the platform for a while, and now, it's available for all existing and new customers. Furthermore, we're also launching our PickUpPort, which is the first consumer-facing workstation offered by AutoStore. With this port, anyone can interact with our cube technology without any training. And what this enables is new shopping experiences, where a consumer can pick up an order directly from the AutoStore system without any associates involved.

With this in place, maybe in the future you can find products available in an AutoStore near you and pick it up whenever you want. And this here can help form the future of retail.

I've also talked to you about our APAC and North America expansion before, and I'm pleased to say that we're tracking according to plan. We have been growing our sales organization, including business development managers, partner managers and partners 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 115% in APAC and 82% in North America. And our current order backlog supports strong full year growth.

Also, to support the operations to meet our growth targets, we are continuing to expand with our new assembly facility in Thailand, which is expected to be online in the second half of 2023. And then, on the M&A side, we continuously evaluate potential targets, look for technologies that can enhance our offering, but we remain disciplined and opportunistic as before.

If you then go to the next page and as both Karl Johan and I have mentioned, we are now launching our new commercial model that provides recurring revenue with a pay-per-pick pricing structure. Under this alternative pricing model, the customer has a lower upfront investment cost, which basically only consists of the grid and infrastructure needed. This will then be combined with the pay-per-pick presentation fee that will drive recurring revenue for the store and our partners over time. We have introduced this option based on increasing customer demand, and we believe it offers potential for true incremental opportunities in the market, especially considering the current macro situation.

And in this model, the upfront CapEx will be reduced to roughly 20% to 40% of today's level, making it very attractive for some customers. The remaining value of the project will be captured through a recurring component based on a pay-per-pick mechanism to cover the costs of robots, ports, and software. But we would also like to emphasize that we're implementing and deploying this pricing model in a controlled manner. In the near term, we expect that most of our revenue will still be sold with the current upfront CapEx pricing.

And regarding the split with partners, enabling strong margins for our partners has been key and will continue to be a critical success factor to our commercial model. Because of this, it has been important for us to maintain the same type of split and attractivity for our partners. And there is no change to our distribution model strategy, which is key to deliver strong growth.

On the next page, as we've discussed each quarter since our IPO, product innovation is deeply ingrained in our culture. The grocery segment is one of our key focus areas, and our goal is to further expand within this retail space. Managing grocery retail supply chains comes with unique challenges and demands requiring specialized knowledge. And this multi-temperature grid is one of our latest innovations, and we're very excited to share this technology with our partners and customers.

The new grocery offering enables retailers now also to automate the frozen goods section and achieve next-level warehouse efficiency. It creates a better work environment for employees by decreasing the exposure to cold temperatures, as well as substantially decreasing energy costs. We have received our first order for a multi-temperature grid, which now also includes a frozen temperature zone which will be installed in first quarter of 2023 [ph] with delivery (00:20:09).

If you go to the next page, we have, as you've seen, a lot of initiatives going on that we expect will drive growth in the future, and our order intake and backlog in the third quarter is supportive. As Karl Johan mentioned earlier in the presentation, in Q3, we had an order intake of $155 million, representing 11% growth compared to the third quarter of 2021. And this is a solid number, especially considering that we're transitioning to shorter lead times and the negative FX impact. We ended the quarter with an order book of $470 million, an increase of 37% year-over-year, which provides good revenue visibility for rest of this year and next.

And with that, I'll hand it over to Bent who'll walk us through the numbers.

Bent Skisaker

Chief Financial Officer, AutoStore Holdings Ltd.

Thank you, Mats. So, now, let's look into the financial highlights, if you go to page 14. As Karl Johan and Mats already have stated, we delivered another strong quarter with 74% revenue growth year-on-year and adjusted EBITDA margin of 37%, 88% cash conversion, 11% growth in order intake year-on-year, and a 37% growth in the backlog.

So, on the next slide, I will go into more details. AutoStore reported revenues of $147 million in the third quarter of 2022, up by 74% from $85 million in the corresponding quarter last year. And as Karl Johan already mentioned, if you apply 2021 foreign exchange rates, the revenue growth would have been 86% in Q3.

If you look at year-to-date revenues, that increased by 86% to $436 million, from $234 million in the corresponding period last year. Year-to-date revenues was supported by strong growth in all regions, healthy demand from end markets, including omnichannel, 3PL and industrials, as well as a solid mix of high throughput MFC and standard systems. Again, if we apply 2021 FX rates on the year-to-date revenues, the growth would actually have been 99%.

And let's look into the trends in the geographies at the right-hand side here. Revenues in the EMEA region increased to $104 million in the third quarter, which was up 74% year-on-year. While EMEA continues to represent the majority of our revenues, we see that revenues in North America increased by 45% compared to a year ago, and revenues in APAC increased significantly by 164%. If you look at the year-to-date figures, EMEA grew by 85% compared to the corresponding period last year, while the North America region increased by 82% year-on-year. And, again, APAC region achieved revenue growth of significantly 115%. And this is a very satisfactory development.

Moving from revenues to gross profit and adjusted EBITDA on the next slide. We see that in the third quarter, gross profit ended at $80 million, up from $56 million in the same quarter last year. This corresponds to a gross margin of 54% in Q3, a decrease compared to a gross margin of 66% in Q3 last year.

Year-to-date 2022 gross profit ended at $251 million, up from $158 million in the same period last year. This corresponds to a gross margin of 58% year-to-date 2022, down from 67% in the corresponding period last year. As already has been mentioned, the decrease in gross margin was predominantly linked to continued high grid costs in 2022 and limited impact yet from pricing actions implemented.

Adjusted EBITDA was $55 million in Q3, representing an adjusted EBITDA margin of 37% compared to an adjusted EBITDA margin of 50% in Q3 2021. Year-to-date, 2022 adjusted EBITDA was $179 million, corresponding to an adjusted EBITDA margin of 41% versus $117 million and the corresponding adjusted EBITDA margin of 50% in the same period last year.

As we communicated in our Q2 presentation in August, we have continued to see additional pressure on margins in the second half. Q3 was significantly impacted by increased cost inflation, particularly related to grid costs. We expect this trend of margin pressure to gradually reverse from the next quarter onwards, as our initiatives that we have implemented are starting to come into effect.

I will on the next slide go a bit into more detail on the margin development and our pathway back to historical margin levels. As shown on the left here, based on the actions already implemented, the grid cost level on orders and the grid cost levels currently placed our pro forma gross margin for Q3 is 67%. We expect that Q3 gross margin represents the low point as we in the quarter are delivering on backlog with peak grid costs and old prices.

In Q4, we will start to see the positive impact as pricing actions are faced in for roughly half of the orders delivered. In Q1 2023, most projects will be with new prices, and hence, we expect gross margins to start improving in Q2, Q4 and further into Q1 2023. And in addition to the effects from price increases, we will, in Q1 2023, also start to benefit from reduced grid costs already secured on projects in the backlog.

If you go to the next slide, just want to reiterate that since we – since last year, have had significant cost related to various items, as the Ocado litigation and costs related to the IPO and option costs, we are providing a breakdown of the different costs that, to a very large extent, has a one-time character. Looking at Q3, there are two noteworthy adjustments, one relates to employee benefit expenses, which were reduced due to a reduction of the provision for social security tax on management options, following the reduced share price of the company as per 30th of September.

The other adjustment relates to litigation costs pertaining on the ongoing Ocado litigation. Adjusted EBITDA is an important supplemental measure, to give our investors the overall picture of operating activity, profit generation. For a 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 on the consolidated IFRS accounts. You will find additional information on adjusted EBITDA and the IFRS financial statements as a part of the APM section in the financial report on pages 28, 29, and 30.

And with that, I hand over the word to Karl Johan, which will walk us through the outlook.

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

Thank you, Bent. Next slide, please. As we have presented today, AutoStore operates in a fast growing market. Even though more and more warehouses are automated, only about 15% of the market is automated today, leaving plenty of space for our company's continued growth. We are operating in a more uncertain market today compared to 12 months ago. Nevertheless, underlying drivers of increased demand for automation remains intact. Solid demand across regions and markets and various categories in the third quarter reinforces our optimism about AutoStore's continued strong growth and performance. So, if we go to the outlook on the next slide.

We also reiterate our 2023 revenue of $700 million to $800 million. This is underpinned by our solid backlog, strong pipeline, and historical pipeline conversions. I would also like to point out that because of our revenue is project based by nature, large amount of revenue can fall into one particular quarter or the next. This is why we focus on annual revenue guidance and do not overly focus on the results in one particular quarter. We remain very confident in our growth trajectory over the long term.

While the current macro backdrop is uncertain, we believe we can grow revenue over the medium term by a factor of approximately 2 to 3 times the growth rate of the broader warehouse automation market. Given current market growth estimates, this implies an average annual growth rate of 40%.

We are confident in our ability to return to historical margin levels in 2023 through pricing and other mitigating actions and based on 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. Then I hand it over to you, Hiva, who will take us through the Q&A.

Hiva Ghiri

Vice President-Investor Relations, AutoStore Holdings Ltd.

Thank you, Karl Johan. You can just stay here. And, Mats and Bent, you can join me up here on stage. Let's start by taking some questions from the auditorium. And the mic so we can hear you. Eirik, you'll have the mic here.

QUESTION AND ANSWER SECTION

Eirik Rafdal Q

Analyst, Carnegie Investment Bank AB (Norway)

Perfect. Thank you. Eirik from Carnegie. A couple of questions for me. So, I was wondering if we could start actually a bit on the announced price increase. We saw maybe a bit of a pull forward on demand in Q4 last year when you announced the last price hike. Did you see any of this in this quarter?

Mats Hovland Vikse A

Chief Revenue Officer, AutoStore Holdings Ltd.

So, the announced price increase will take effect from 1st of January. So, there is still time to place orders with old prices.

Eirik Rafdal Q

Analyst, Carnegie Investment Bank AB (Norway)

Thanks. And then kind of a follow-up, how should we think about order momentum through the quarter? And also maybe some qualitative comments on how the first six weeks of Q4 has been?

Mats Hovland Vikse A

Chief Revenue Officer, AutoStore Holdings Ltd.

So, we delivered a strong third quarter with $155 million, and we've seen, more or less, the same type of activity level continuing into the fourth quarter. We're seeing that there is a lot of activity in the market when it comes to, kind of, pictures, customers, looking into and evaluating automation. However, as I said in the last quarter as well, there is some customers that want to spend more time making these decisions now versus how it's been the last couple of years.

Eirik Rafdal
Analyst, Carnegie Investment Bank AB (Norway)

Q

Perfect. Thank you. And a final one for me. Could you talk just a bit about the dynamics in the partner network? There has been some, kind of, you could say, conflicting data points there, some have been doing very well, some have not been doing as well. So, just a bit of, kind of, how the different partners are performing? And also, you've added quite an amount of partners over the last one or two years. Are they starting really to contribute materially on the order intake in this quarter? Is that more of a, kind of, upside for next year and beyond?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So, when you have 22 distribution partners, there will always be a mix of performance. But if you look at it over a longer time period, they're all performing well. When you look at the different types of partners, you have some partners that are maybe more exposed to the longer-term project execution risks, which typically will have a dynamic, where AutoStore is only a small portion of it. Whilst you have orders that are only focused on AutoStore type deliveries with less risk. So I would say that those partners have delivered very well, whilst others have had more challenging times.

When you look at the partners that we've added over the last couple of years, some has started to perform well but there is still a upside and a lot of available capacity for us to continue to grow with the network we have today.

Eirik Rafdal
Analyst, Carnegie Investment Bank AB (Norway)

Q

Perfect. Thank you.

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

A

Okay. I don't think we have any more questions from the auditorium, so I'll go over to the web questions. The first one is from George Featherstone from Bank of America. Thanks for the color on the moving pieces on the gross margin. In terms of how we should think about this for Q4, should we be assuming that you see the benefit of pro forma grid cost and price increase impacts as you outlined on the gross margin development slide? That's for you, Bent.

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.

A

As I provided on the slide and in the voice over, roughly half of the price increase effect will apply to Q4. When it comes to the effects of lower grid costs, we will see that first in – from Q1 2023.

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

A

And he has another question and I'll direct that to you, Mats. What was your share of orders from e-commerce customers in Q3?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So in Q3, we continued to see quite strong demand for, I would say, e-commerce and omnichannel fulfillment. So more than 50% of the orders was linked to e-commerce and omnichannel fulfillment capabilities.

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

A

And then he has a third question relating to pay-per-pick. Would you be – on the new pay-per-pick model, what would be the P&L in cash flow impact from the transition to this new model compared to your current model? What has been the uptake from customers so far and what do you see being the mix over at a time of pay-per-pick revenue at the group level?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

So, in terms of P&L and cash flow impact, we're seeing that, with the model, we would be cash neutral very quickly. And over time, this will be positive for margins, and we will make sure that when it starts to flow through our P&L, we will explain in detail how you should read it. In terms of initial demand, we are already discussing with multiple clients, but not signed yet, but strong initial demand.

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

A

Thank you, Mats. Another question for you. So, order intake is falling, yet guidance is reaffirmed. Can you please explain?

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

The reason for that is the strong backlog we have. So, as we explained in the last quarter, because of the strong backlog that we've built, the needed order intake, was actually lower. So, with the order intake we have this quarter, combined with the pipeline that we have of future orders, we feel very well above the guidance that we provided.

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

A

[indiscernible] (00:38:47) say that reduction in lead times clearly have an impact on order intake also.

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

A

Thank you, Karl Johan and Mats. Question regarding the regional sales. So, how much EU, US, and Asia? Bent, you went through that in the slides. So, this split – the regional split.

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.

A

Yeah.

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

A

So, roughly 70% being generated from Europe, 20% from North America, and the remaining from APAC, isn't that roughly...

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.
A

That's roughly, yeah.

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

Yeah. Then, if we continue with our questions. Another question on the EBITDA margin. You highlight that the historical EBITDA margins have been around 50% between 2018 and 2021. But the company is older than that. So, what is the historical EBITDA margin for the period of the company's existence?

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.
A

Before 2018?

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

Yes, I believe that's the question.

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.
A

Yeah. We haven't really disclosed the EBITDA levels before that.

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

No. But what we can say is that from 2015, 2016 audit has been on very – on that type of level.

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

So, we have a question from another – from [indiscernible] (00:40:24). You say that you report – in your report, you say that part of your order intake is based on verbal confirmation, not written contracts. How large of your $155 million of order intake is only verbal confirmations? Mats, maybe you can elaborate on that.

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

Yeah, I can. So maybe I'll start with the dynamics. The reason why we're able to do that is because of the partner distribution model, because our partners will receive the customer contract, and at that point we will know the details of the order and hence we're able to report that that's order intake and that's the verbal portion of it.

If you look at the backlog, typically that will be a 50/50 split as we see it today. But we have approximately 100% conversion of that backlog because of the dynamic that I just explained.

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

Thank you. So, we have a question, I think this was answered already, but it's regarding the 5% increase. The question is, will that replace aluminum surcharge? So, maybe you can just retake that, Bent.

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.

A

It will – that's the net effect of the price increase, and there will be a reduction of the surcharge from 30% to 20%.

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yes. So, we will say, gross price increase of 7.5%, surcharge reduced from 30% to 20%, which net gives you the 5%.

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

A

Great. I'm just looking through. There are similar questions. So, maybe one from [ph] Ben (00:42:12) at Morgan Stanley. Hi, guys. Please, could you just talk about customer acceptance on higher prices. Is this becoming more difficult now? That's his first question.

His second question is, on the new business model, is it cash neutral? You've already explained that. However, does this have a negative short-term margin effect i.e. lower margin before service revenue kicks in? So, maybe, Mats, you can start with the first.

Mats Hovland Vikse
Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yeah. So, on the first part, we've seen that with the price increases that we've done, our win rates has continued to be very, very high. We're still favorably priced versus competition, and deliver significantly higher ROIs. So, no, I would not say that the price increases has impacted our position in the market. And do you want to address the second part of the question?

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.

A

I think that was the pay-per-pick – yeah. I think Mats explained it well. Cash-wise, we will be cash neutral pretty – in a short time. Of course, depends on the contract and when it comes to the margins, will in the start be at the same level as we see today? So it will be rather an increase as we go along, yeah, further out in the years on the pay-per-pick contract. So the influence should be positive.

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

A

Thank you, Bent. We have a question FX. Please, could you provide FX, adjusted Q3 order intake and backlog at the end of Q3?

Bent Skisaker
Chief Financial Officer, AutoStore Holdings Ltd.

A

The Q3 order intake is at the current FX rates and the backlog would have some minor adjustments. If you adjusted it to the current FX rate but not material differences.

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

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Thank you. I think that sort of concludes the questions. So I think, Karl Johan, and this concludes the questions. Maybe you want to just end with some closing remarks.

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

Thank you. Okay. So I will end the meeting today with some key takeaways. Our team remains focused on our production and sourcing strategy to reduce dependencies on individual suppliers. The inventory optimization, redundancy, improve collaboration, and increased visibility with suppliers are part of our toolbox. These efforts significantly reduces – reduced lead times to 20 weeks in quality.

As mentioned several times already, we have taken the necessary actions to lift margins back to historical levels in 2023.

Third quarter order intake of $155 million, order backlog to $470 million, representing growth of 37% year-over-year. This highlights AutoStore's strong fundamentals, including solid demand across regions and markets and their host categories.

Thank you again for spending the morning with us. We look forward to providing you with future updates. Thank you.