14-Feb-2024

AutoStore Holdings Ltd. (AUTO.NO)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

Good morning and welcome to AutoStore's Fourth Quarter 2023 presentation. My name is Jo Christian Lund-Steigedal, and I'm glad to be here serving as an Investor Relation Officer at AutoStore, while Hiva Flåskjer is on maternity leave. As usual, I'm joined by the two members of our executive team, Mats Hovland Vikse, the CEO; and Paul Harrison, the CFO.

As usual, we would like to remind you of our disclaimer with regards to forward-looking statements. You can read here at your convenience.

Moving on to our agenda, Mats and Paul will provide you with an update on the business and discuss the fourth quarter results. As a quick reminder, all the financials in the presentation are stated in US dollars. The presentation will be followed by Q&A session, with participants joining via the earnings call and the webcast. And for those of you who are participating on the webcast and ask questions there, you can submit your questions through the webcast player at any time. We will conclude the session today with some final remarks by the CEO.

And, with that, Mats, the word is yours.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

Thank you, Christian. And, as you can see on this page, our performance was strong in fourth quarter. This is especially true when you consider that the broader market backdrop remains challenging. For 2023 as a whole, we grew our revenue by 11%, whereas the warehouse automation market in total declined. In the fourth quarter of 2023, we achieved revenue of $176 million, an accelerated growth of around 20% compared to the same period in 2022.

This was slightly better than our guidance in November when we estimated full year revenue of around $640 million, implying $171 million for Q4. While accelerating revenue growth, we continue to deliver high gross margins, with 69% in Q4, up 8 percentage points compared to Q4 of 2022. This means that the full year gross margin was 67.8%, which is a high and we believe, sustainable level, and Paul will return to this shortly.

Similarly, we have an efficient and scalable business model, leading to strong EBITDA margin of 48%. Order intake has continued to develop positively and was in Q4 $164 million, up 8% sequentially and up 7% since Q4 of last year. This brought our backlog to $447 million, and around two-thirds of the order intake in Q4 was from new customers. However, existing customers still make up 45% of our total backlog, which is in line with the historical mix. While standard solutions remains our most significant source of revenue, I am particularly pleased to see strong growth in high throughput solutions, where we continued the positive trend in Q4.

Moving to the operational highlights and, as I mentioned in the Q3 presentation, we introduced a new price increase of net 3% in December. This was the result of us removing the grid surcharge completely and replacing it with a fixed general price increase. This price increase has been well absorbed and, at the same time, we did not see it generate any significant pull-forward effect. I would also like to highlight the fact that our Poland team has successfully ramped up production capacity. At the same time, our new facility in Thailand will be fully operational in Q2 of this year. And, all-in-all, this means that we will have production capacity that can support significant growth for many years to come, without having to do any material additional investments.

So, moving on, this slide here summarizes our strong position and why the business is so attractive. We have now delivered 1,400 systems, with almost 65,000 robots in 54 countries, and the observant viewer will notice that we've entered two new countries since last quarter: New Zealand and the Dominican Republic. And these are significant numbers, but remember that still only 20% of the market for warehouse automation is currently penetrated and that is a tremendous opportunity.

And we are positioned for strong growth in the future. We have a solution for virtually all end markets and all system types with very attractive economics for our end customers. Additionally, we have developed a strong network of 23 integration partners around the world, which are complemented by our business development and global account teams. And, all-in-all, this is the foundation for the attractive financial profile that you see.

We ended 2023 with revenues of $646 million. We are back to historical high margin levels, with profitability readily converting to cash. In 2023, free cash flow conversion was strong 83%, and this attractive financial profile is sustainable given our standardized solutions and highly scalable business model. At the same time, we focus relentlessly on our customer-led product roadmap, with some 300 colleagues in R&D, driving continuous performance improvement.

So, we believe passionately in the strength of our position in this market, but don't just take my word for it. I think you will be interested to see that we commissioned a Forrester study, where Forrester has characterized the typical AutoStore customer as a composite of five different real customer [ph] that (00:06:21) they interviewed, and this study can be downloaded on our website. It describes all the different inputs and cost drivers and draws a clear conclusion, which is that a typical AutoStore system, with an investment of around $5 million, provide a 79% ROI.

So, let's now reflect on our customer portfolio. We, today, count roughly 1,000 unique customers globally and we have included a small selection of them here on this page. And the key message, looking at this picture, is that we are very well diversified across a wide range of end markets. We support the e-commerce and omni-channel fulfillment across different end markets and, in addition, we serve markets like industrial, automotive and healthcare, and there are few warehouse automation projects that would not be well-served by the addition of an AutoStore system.

And, as usual, we would love to show you an example of a successful implementation of AutoStore and, this time, we highlight the industrial equipment distributor, SMC, who was reaching their capacity ceiling using legacy storage solutions, but was able to double their throughput in their new facility with an AutoStore solution provided by our partner, [ph] Bastian (00:07:40). And, on a higher level, I mean, this is a good example as to how we can serve very broad range, if not, all end markets. Automation of warehouses in the industrial space is also a segment that has proven more resilient throughout the recent quarters when we've seen that some e-commerce players has eased off their investments.

So, before Paul takes us through the financials of the quarters, please have a look at the SMC facility in Indiana, USA.

[Video Presentation] (00:08:10-00:10:32)

Paul Scott Harrison

Chief Financial Officer, AutoStore Holdings Ltd.

Thank you, Mats. Good morning. It's only my second quarter report for AutoStores (sic) [AutoStore] (00:10:40), I joined the business in October 2023. Since I joined, I've spent time getting to know the company. I've met a number of our clients and not least, our partners, but it's been a great experience. It's done nothing but support my initial conviction about the strength of AutoStore's proposition, the significant market potential and our strong and sustainable financial profile.

So, with that said, let's look at the financial highlights on the next slide. As Mats already stated, the quarter was strong, despite challenging market conditions. We're reporting a revenue of $176 million, a 68.5% gross margin and a 48% adjusted EBITDA margin. We're, once again, demonstrating the significant operating leverage, with high margins and very strong cash conversion. On the next slides, I'll go into more details on the key financials.

Let's start by looking at the order intake and backlog. As I observe, whilst the market remained challenging in 2023, we are consistently outperforming it. It is also good to see that we steadily improved sequential order intake over the last two quarters, ending in quarter four at $164 million. Whilst we live in an environment of high interest rates and elevated concerns, levels of uncertainty, we expect to see a cautious approach on the part of customers to CapEx investment. However, at the same time, we note that interest in our solution is very strong. Our pipeline is at an all-time high at $6.5 billion, which is 10% higher than at the end of 2022.

Looking at the order intake, the standard segment remains by far the most important, but the high throughput has grown strongly, as Mats noted earlier. In quarter four, EMEA saw a strong uptick in order uptake – intake, and North America remained strong.

If I look at the Industry segment, apparel and sports equipment picked up in the quarter after several weaker quarters. Industrials and 3PL remained firm. We closed 2023 with an order backlog of $447 million. We expect a high proportion of this, together with our first quarter order intake, to convert to revenue in 2024. Parts of subsequent quarters' order intakes will also convert to revenue in 2024, albeit at a declining rate as we progress through the year. This, combined with a stable to positive developments in order intake we have seen over several recent quarters, provides a good foundation for continued growth in 2024.

Now, with that said and reflecting on our learning in the business, I'd like to add that, when it comes to the distribution of absolute revenues between the quarters, it's important to bear in mind that we're a project-based business, and our business model implies some variability quarter-on-quarter in revenues and shipments, something to bear in mind.

Okay. Just staying with quarter four then, as expected and actually slightly above the recent guidance, revenues accelerated. We reached $176 million, which is 20% higher than quarter four last year. This brought our total revenue for 2023 to $646 million, up 11% year-over-year. This is a strong achievement given the market backdrop that Mats has discussed.

We saw, once again, that two-thirds of revenue this quarter came from new customers. Revenue is particularly boosted by high throughput installations within the apparel and sports sectors across Europe and the US. The right-hand chart of the slide shows the geographical split. We see that EMEA came back strongly in quarter four, with North America also continuing to perform well.

Moving on from revenues to gross profit and adjusted EBITDA, on the upper panel of this slide, you see that quarter four gross profit ended at $121 million, up from [ph] $80 million (00:15:11) in the same quarter in 2022. This corresponds to a gross margin of 69% in the fourth quarter, compared to 61% in the fourth quarter of 2022. In line with our comments in the previous quarters, our gross margin gradually improved to a sustainable and high level. Adjusted EBITDA, on the lower pane on the left side, remains similarly very strong.

Now, I'm conscious that we use this word sustainable to refer to gross margin often, but why is this? I think it's worth reflecting on the following characteristics of our business when we think about this word, sustainable. First, our standardized product set, with a very limited number of modules. Whilst the customer can increase the size of its installation and benefit from that ability to scale, the products they buy are highly standardized, namely the grid and the robots. We don't create bespoke solutions and we sell them on standard consistent terms.

Secondly, we sell through our partner channel. It's that channel that enables us to reach all key markets, allowing us to keep our direct sales and marketing resources in check. Third, as you know, we've invested significantly in broadening our supply and manufacturing bases. We have no single point dependencies in our production chain. And then, fourthly, finally, we remain disciplined operators. We're focused on adding resources that truly drive customer value in areas such as R&D and in field sales presence.

As you note on the slide, adjusted EBITDA was $84 million in the fourth quarter, representing an EBITDA margin of 48%. This represents a margin improvement of 8 percentage points versus the corresponding period last year.

Okay. Let's turn now to our strong cash flow conversion. In the quarter, we had cash flow from operations of $80 million, as you can see, in the yellow pillar on the waterfall. Operating cash flow, as reported, was $12.6 million. This was positive despite settlement payments of $31 million, which will feature for another six quarters, tax payments of $90 million, and working capital charges of $17 million, driven by the fact that a large part of our shipments were made late in the quarter.

Our CapEx investments of $10 million were at a normal level, and we had interest payments of around $11 million, leading to a very strong closing cash balance of $253 million.

Since we've now started our new fiscal year, let me highlight some of our priorities. The key elements for us continue to be to deliver strong growth through focus on innovation, market outreach and efficiency, both for our customers and in our internal processes. During 2023, we've made a significant progress in terms of product launches and new technologies, most of which increased throughput, reduced costs or, in other ways, enhances the efficiency of the cube and the environment around it. The R5 Pro robot has, for example, significantly increased throughput for large warehouses with multiple shifts. The same goes for the AutoStore Router software updates we delivered during the year.

In 2024, our key focus continues to be the enhancement of the performance of the cube. We will also further support our partner network in 2023. We increased our business development management team, seeing great results. In 2024, we will further build on the success of BDMs, having also established a team of global account managers, tasked with working even closer and on a strategic level with a selection of large global customers. And then thirdly, we'll continue to drive operating efficiency. In 2023, we established industry-leading margin levels by leveraging those characteristics of our business that we've discussed this morning.

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

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

Thank you very much, Mats and Paul. And, for all of you on the webcast, please continue to submit questions in the webcast player. But, for now, we will open for questions from the phone line. So, please, operator, I'll hand it over to you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now start the question and answer session. [Operator Instructions] The first question will be from the line of [ph] Mark Luckey (00:20:27) from Citi. Please go ahead. Your line now will be unmuted.

Martin Wilkie
Analyst, Citi Research

Q

Thank you and good morning. It's Martin Wilkie from Citi. Thanks for taking my question. The main question I had was around the pipeline and how we should think about that in terms of the outlook for 2024. So, I appreciate you've not given a detailed guidance for this year, but just if you could frame, when you talk about the improving pipeline, just some numbers around how long it might have taken say two or three years ago to convert to firm orders? How you're seeing that now? Is it really driven by interest rates or is there something else? Just so that we have a bit of understanding as to how we could think about that pipeline converting into an order inflection. Thank you.

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

I have a couple of comments and Mats might add. We noted the overall pipeline – we noted the overall pipeline [indiscernible] (00:21:23). And I will observe that a higher proportion of the pipeline [indiscernible] (00:21:30). Now, we talked in 2023 about, and I've referenced it today, about customers taking a cautious approach to making CapEx commitments in this environment, in this macro environment. We don't expect that this will change for the time being. But, nonetheless, when we look at the pipe and we look at the projects that are in the pipe, we feel very good about the quality of it and its implications for 2024.

Martin Wilkie
Analyst, Citi Research

Q

[indiscernible] (00:22:04) ...watch in terms of what would trigger the conversion of the pipeline? And we also hear in other industries that had an interest rate, for example, I suspect that perhaps overly simplistic here, but do you sense there is something that could be a trigger or is it more just like a gradual improvement of the macro outlook or, I mean, internally, when we think about what drives that conversion, what factor do you think would accelerate that?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

There's no question that, in a tougher macro environment, where there are CapEx constraints, that decision-making around CapEx commitments has escalated – elevated up to board of director level, and that reflects the times we live in. If we do move to a more normalized macro, then one can establish regular – one can imagine, more regular and further sort of delegated approvals happening, and that should speed up the decision-making processes. But, I think, it's really important to note that there are no signs, whatsoever, that our strong proposition does not resonate well in this market across a wide variety of industries.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, what the pipeline developments is really telling is that we've seen that the interest level of AutoStore and the attractiveness of AutoStore has continued to increase also in 2023, both through the pipeline growth we've seen, but also the progress of projects that sits within that pipeline. So, as Paul mentioned, what we need to see is that confidence gradually returning to the market, which then will lead to a conversion of that pipeline.

Martin Wilkie
Analyst, Citi Research

Q

Thank you, Mats.

Operator: The next question will be from the line of Timothy Lee from Barclays. Please go ahead. Your line now will be unmuted.

Timothy Lee
Analyst, Barclays Capital Securities Ltd.

Q

Hi. Thanks for taking my questions. My first question would be about the guidance [indiscernible] (00:24:15) at this time you are not giving full year guidance for 2024. But can you just offer a bit more color on the direction, how you do you see the [indiscernible] (00:24:26-00:24:31) in terms of the order intake in the past few quarters? And will you be giving the guidance for full year sometime in the year, let's say, in the first quarter or the first half itself.

And, secondly, about the order momentum, as highlighted, we have seen sequential improvement again in the fourth quarter. How do you see the overall order momentum in the market right now? Is it going to expand [indiscernible] (00:24:56-00:25:03).

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Well, thank you for your question. Let me take me the first one about the guidance, and then pass it to Mats for your second question. Look, I think, to my comments in the presentation today, we've provided, I think, a full sort of explanation of the building blocks with which one can model AutoStore in 2024. I mentioned the strong backlog and together with the quarter one order intake, strong conversion to revenue in 2024 that typically falls in the 75% to 85% range of that conversion. And then, as I mentioned, it reduces as the quarters go on in a year. And we've also talked about the sustainability of gross margins and EBITDA margins.

So, I think, it seems clear to me how one would approach a modeling of this business and evident from the consensus, as I look at it, that is something the analyst community does well. So, that's why we haven't put an explicit guidance out there. And, of course, we will work, as we always do, with analysts on a one-to-one basis to have any discussions around the models that – the year models that you may like.

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

And, to address the second part of your question, we have seen the positive momentum continue also into this year. And, as we've talked about for a while, the leading indicators of the business has developed very positively, as shown in the pipeline and the maturity of the pipeline. But, of course, we're still in a macro environment that has uncertainty linked to it, and we're dependent on conversion to deliver a continued growth also into 2024.

Timothy Lee
Analyst, Barclays Capital Securities Ltd.

Q

Great. Thank you so much.

Operator: Thank you, Tim. As no one else has lined up for questions in this call, I will hand it back to the speakers for any written questions.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

Thank you very much. And we have a few more questions from the webcast. And so, what is the new level of annual revenue that your higher production capacity supports or, put differently, how much can revenue increase before you, once again, need to invest more in production capacity?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Yeah. It's a very good question and, as we noted in the presentation, we have our second facility in Thailand coming online early in 2024, and that capacity will support the business for the next several years without any step-change required. And then, a further point, just to reiterate it, is that we've also removed any other single points of dependencies in our supply chain.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

Thank you. Previously, you've talked about customers postponing orders or extending decision-making cycles. Can you give any more update on how you see that now? Is there any change versus what you saw at the Q3?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

I wonder if the questions come in ahead of some of the other answers we've given, but so nothing fresh to add there. I mean, we've talked about the sensitivity of the macro environment. And whilst that remains a challenging environment, we'd expect us continue to see this cautious approach to CapEx that we've talked about.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

Are there any new developments in the Amazon store at Long Island that you briefly mentioned the last time?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, as I mentioned last time, we have confirmed that relationship, and what I can say is that it is developing positively.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

There's one question on – one more about guiding. Any comments, further comments on the lack of guidance, and the way you see the market? Can you say anything about how the current backlog is distributed across the different quarters in addition to your intro on that?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

Yeah. I've talked there in a previous answer about the likely conversion of backlog into 2024, a 75% to 85% range typically. So, nothing to add to that.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

How are order trends faring into Q1 so far? And also, another question from same analyst, are you being impacted from – by the Gulf shipment delays?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

So, we've seen a good start in terms of the order intake to quarter one, albeit, I would naturally stress, it's the 14th of February. So, there's a way to go in the quarter, but a good start to the year. And, no, no disruptions to either deliveries or the supply chain as a result of any geopolitical factors.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

Thank you. And there's one question on sustainability. What are your priorities and objectives for that work for 2024?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, on sustainability, more broadly, we are in the process of setting ourselves the right targets. We have the sustainability reporting that we do and that provides more details, as such. But this is an area where we are very focused as a business and, in addition, the inherent advantages that our solution provides to a whole host of end customers in many different segments is impact that I'm proud of.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

There's one question here for Paul regarding free cash flow and, simplifying definition, how would you sort of comment on that, as that definition and the percentage you gave excludes things like the interest, and tax, and working capital? So, how would you comment on the free cash flow when you look at the reported number?

Paul Scott Harrison
Chief Financial Officer, AutoStore Holdings Ltd.

A

I think, all the components are there for anybody who wants to take it. There are different definition of cash generation are all there and for you to consider. But are – the measure that we've put for the 83% conversion has been our chosen measure, I believe, since this business IPO-ed. And, again, I think more fundamentally, it points to the very strong cash generation, no matter which level or which measure you choose for our business.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

Final question for now. How – do you have any comment on SoftBank's involvement with Symbotic?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

And so, Symbotic is a provider that predominantly provides solutions for a different segment of the warehouse than what we are doing for case handling, pallet handling, etcetera, but they're a very strong business that operates in a different segment of the market than what we are doing.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

A

And one final question now. How sustainable is the rebound you saw in EMEA in Q4 as you head into 2024? And how do you see your ability to continue to outgrow the markets going forwards?

Mats Hovland Vikse
Chief Executive Officer, AutoStore Holdings Ltd.

A

So, EMEA, overall continues to be a strong market for warehouse automation more broadly, and we expect that to continue, not only for 2024 but in the foreseeable future. And, in terms of our ability to outperform the market, I think we've proven over time that, as we gain access to new opportunities, we are gaining market share.

We've done so in very, very good times throughout COVID, and we've even done so in a more challenging market in 2023, where we delivered growth in a declining market. And, I think, that in itself speaks about the secular drivers towards AutoStore, relative to other form of automation as well. So, we feel very, very good about our ability to outgrow that market, and we feel very positive about the outlook of this market in a very, very long period of time.

Jo Christian Lund-Steigedal
Investor Relation Officer, AutoStore Holdings Ltd.

Thank you. And, on that note, we don't have any further questions. Obviously, we're available for questions later on phone or email.

But, with that, I'll pass back to Mats for his final remarks.

Mats Hovland Vikse

Chief Executive Officer, AutoStore Holdings Ltd.

Thank you. So, I would like to end this session just by calling out some key points. First, we are the pioneer and global leader of 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, we have a long track record of delivering strong revenue growth with high margins. And, for all of these reasons, we, at AutoStore, are both proud of what we have achieved, and what we are achieving in the current market conditions.

So, wrapping up, I'd like to reiterate the high activity we see in the market, with a strong pipeline and positive sequential development in order intake. The macroeconomic backdrop is uncertain but, for us, this uncertainty is confined to the timing of projects, and not the interest and appeal of our solution. So, we are very excited and optimistic about the future, and we remain confident in our ability to continue delivering strong, profitable growth.

So, thanks again for joining us this morning, and we look forward to providing you with future updates.