Stellantis Full Year 2024 Guidance Update

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Operator: Hello, and welcome to the Stellantis Full Year 2024 Guidance Update. During the conference, your lines will be in listen-only. However, you will have the opportunity to ask questions at the end of the call by typing star one on your telephone keypad. Please do not exceed two questions per person.

I now give the floor to Mr Ed Ditmire, Head of Investor Relations, to begin this conference. Sir, the floor is yours.

Ed Ditmire: Thank you. And thank you everyone for joining the call on short notice. The purpose of this call today is to answer questions about the full year 2024 guidance update Stellantis issued today. Some other subjects that you would naturally be interested in, we won't be able to answer questions on, for example, detail about future management actions, 3Q financial results, etc..

I trust everyone will have read the press release where we adjusted our financial guidance for 2024, largely due to the costs of remediating significant operational headwinds in North America, in which we are determined not to exit 2024 with.

2024 represents a transition year, bridging two chapters: the first on merger integration from 2021 to 2023, on forming a new singular Stellantis that established critical industrial advantages; and the second, one of transformation, which very much kicks off with the 2024 launches of the transformational first Stellantis product wave, which will be felt from the second half of ’24 through 2026.

On an industry backdrop level, 2024 has become somewhat more challenging as the year progressed. Global volume forecasts are lower today than at the beginning of the period, and this has collided with a normalised inventories across the industry for the first time in four years, triggering downward inflection in pricing.

A series of downward revisions by peers makes clear the global pressures are impacting most, if not all. But as I'll get into now, this is only part of why we were compelled to lower the 2024 forecast.

On the Stellantis specific side, while we knew this year would bring new kinds of operational challenges, including unusual product gaps related to resetting our product portfolio to a handful of transformational multi-energy platforms, ultimately, we were heavily impacted in North America, our largest profit centre, by underperformance in the go-to-market disciplines including sales and marketing effectiveness, inventory management, which were largely of our own making, launch delays in Europe that were necessary to ensure strict quality standards, but which temporarily but materially reduced shipments of popular high volume new products.

We have a firm handle on each of these now with high confidence in moving past with milestone KPIs that are encouraging.

In the US, we have reduced inventory by at least 40,000 units in the second half to-date. And since we put in place a new incentive and marketing strategy at the beginning of August, we've delivered modest but consistent retail market share improvement.

Stellantis medium platform cars like the Peugeot 3008, 5008 and the first of the smart car platform, affordable BEV and ICE products, the C3 and X3, have now launched with extremely

healthy order books. More broadly, we remain on track to launch production of no fewer than 20 new products in 2024.

We know that if we execute well, we can do much better in 2025, even in a world that might generally be more difficult in the industry. We will be working from a stronger position in terms of product, with the full benefits of the second half '24 launches for full year 2025, with several gaps in the portfolio addressed and overall reach across the market at higher levels.

Upon expected completion of the inventory normalisation by year end, this will allow us to ship to our sales number for the first time in over a year, a substantial step up in revenues and profitability.

Now, let me talk about some financial specifics.

We're lowering our 2024 full-year AOI margin guidance from our double-digit ambition to between 5.5% and 7.0%, and reducing our industrial free cash flow guidance from positive to negative €5 billion to negative €10 billion.

Shipment volumes in the second half of the year will reflect reduced shipments of at least 200,000 units in North America compared to the second half of 2023, which represents an enlarged reduction, first, the 100,000 units we spoke about when we reported H1 2024 results in late July.

Because of this inventory reduction initiative, which is heavily weighted on the production and shipment side, third quarter global shipments will feature a larger decline than the 10% reduction reported in the first half of 2024 for the Group.

In terms of how we see the regional profitability shaping up for the full year 2024, North America and Europe should be in the mid-single digits, and we expect continued profitability in the mid-teens from our third engine markets collectively, albeit, at a lower rate than the prior year.

Moving now to industrial free cash flow. Our lower guidance represents the impact of a lower AOI projection itself, heavily driven by the inventory reduction initiatives we intend to complete by year end. It also reflects working capital headwinds due to lower production and shipment levels in H2, which impacts payables. We are confident we can drive significant working capital reduction in 2025, while we're while we're executing out of what we intend to be a lower inventory position.

I'd also like to add a comment on capital. Despite what we are now projecting to be a significantly negative industrial free cash flow, we expect to remain well within the targeted liquidity range of 25% to 30% of net revenue at the end of 2024.

And finally, on next steps in communication. Here's what's next in terms of how we'll be updating you on our progress. In early October, we will begin a practice of publishing the most recent quarter's consolidated shipment estimates to increase transparency and help the investment community better model the company. And then on 31st October, we will report our 3Q revenue, along with detail on our sales share and inventory dynamics. We expect to update the market as usual through management's public commentary during the fourth quarter as we work to finish our North American inventory initiatives by year end, before a full report on full year 2024 in February of 2025.

I'll now open the call to questions.

Questions and Answers

Operator: Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. And in the interest of time, we kindly ask you to limit yourself to two questions only. Thank you. We will now take our first question from Thomas Besson of Kepler Cheuvreux. Your line is open. Please go ahead.

Thomas Besson (Kepler Cheuvreux): Thank you very much. I'd like to start with your free cash flow, please. I mean, I think you had mentioned in H1, the number of working capital elements were temporary and should reverse. So, I mean, beyond the what's going to be missed at the operating level and maybe about €5 billion of payables missing. What explains the €13 billion or €14 billion drop from consensus pre-release to your new midpoint for cash burn? That’s the first question.

And the second, when I look at your AOI margin guide, you're now implying 2% for H2 at midpoint. Third engine alone in terms of contribution should bring to a sufficient absolute number to get there. So basically, can you help us reconcile that in terms of your North American and European figure? Knowing that the pitch so far was to say that you had industry-leading capability in terms of breakeven point your lowering shipments in North America substantially, but not by 40%. But still, you seem to be talking about being at breakeven or below in North America. So can you talk about that and confirm that the bulk of the remaining third of the warning, which is not North America, is mostly Europe? And give us some details of the shortfalls there? Thank you.

Ed Ditmire: Yeah. Thank you, Thomas. Let me take those one by one. First on the change in free cash flow guidance. I will confirm what you said that the largest part of the change in free cash flow guidance is the change in the adjusted operating income forecast. Nonetheless, there are some other factors that drive both the lower guidance and the substantial change from the 2023 free cash flow.

In terms of the change in guidance on free cash flow, it is true that we had elevated working capital headwinds in the first half of 2024. The expectation in the second half is that those working capital headwinds continue in approximately the same neighbourhood with some variation depending on exactly the pace of the inventory changes and things like that.

I think on a year-over-year basis, when we look at the big change in free cash flow, I think we have to recognise the very different dynamics on inventory in 2023 and 2024. In particular, ultimately there was a very substantial inventory build in 2023. The free cash flow also benefited in a favourable way from changes in sales incentive provisions, which, in 2024, the inventory reduction has impacts on working capital.

It also has unfavourable impacts on the sales incentive in that way. And so in that, I would say, there's a smaller part of the change and a more dramatic factor in the year-on-year change that accounts to those other free cash flow bridge items.

On the second item, was about the profitability. I think I should first tackle the topic of the breakeven point.

What we've said, publicly recently, and I'll just reiterate now, is that the breakeven point in 2024 is at or slightly under 50%. The company would like to be closer to a 40% level. And so there will be more work to be done to move things in that direction.

In terms of what the guidance implies for the regional profitability in the second half, I'll just take you back to what I said about the full year numbers, and I'm sure you'll be able to kind of infer from that.

We expect mid-single digit AOI margins in each of North America and enlarged Europe, and a number that's in the mid-single digits for the combined area of the – I'm sorry, mid-teens for the combined regions of the third engine.

Thomas Besson: Thank you, Ed.

Operator: Thank you. We'll now take our next question from Michael Jacks of Bank of America. Your line is open. Please go ahead.

Michael Jacks (Bank of America): Hi. Good afternoon, Ed. Thanks for the presentation. I have two questions. The first one is on pricing. How can we kind of get some confidence that pricing measures that are being taken now in the second half of the year, particularly in North America. And I mean, if we look at the North American bridge, I guess, to get to, I guess, almost a loss-making or if not a loss-making level in the second half of the year, that's the biggest delta that we see here is pricing. So how do we think about sort of the impact of one-time pricing measures on old model year stock versus kind of MSRP actions here that are probably going to carry over into next year? Is there any kind of colour you can give us on the pricing situation?

Ed Ditmire: Yeah.

Michael Jacks: And then the second I have is maybe sort of more administrative in nature. Getting a lot of feedback from clients, of course, that they would have liked to have gotten in front of management today or management have gotten in front of them. So was there any sort of reason why the decision was taken not to host a call with Natalie or Carlos for investors? Thank you.

Ed Ditmire: Yeah. So first, let me tackle the question on how the remediating actions and the inventory reduction plan in North America is being executed.

What I can tell you is that the overwhelming majority of the costs of that programme are associated with lower shipment volumes, and that it would be a relatively modest minority of the costs would be in lower pricing from increased incentives.

I think as we look a little bit longer term on pricing, we have made some changes within the portfolio around specific models, where appropriate. So advance notice has been given to the 2025 model years vehicles for the Jeep Grand Cherokee, the Compass and the Gladiator, that they will have lower MSRPs for the 2025 model years.

As that transition is farther down the line and incentives get normalised, of course, we would expect to see changes in the incentive strategies as well that would mitigate some of the impacts of that lower pricing. So continue to focus on careful calibration on pricing.

On the question on why we weren't able to have management available today to talk to you?

Ultimately, management wasn’t able to do an update call today due to prior commitments, but because we knew it was important to be as timely as possible, we wanted to move forward to quickly and efficiently answer many of the kinds of questions that we would talk about normally from the IR side.

You should expect thorough communication around the regular cadence, as we progress through the year on the various initiatives we're discussing today.

Michael Jacks: Thanks, Ed.

Operator: Thank you. And we'll now take our third question from Patrick Hummel of UBS. Your line is open. Please go ahead.

Patrick Hummel (UBS): Yeah. Hi. Good afternoon, Ed. One question for me remaining, actually, and that's regarding your capital allocation. Your dividend policy is clear. Now, obviously you have some balance sheet headroom with a comfortable net cash position to absorb a negative free cash flow, even in order of magnitude €5 billion to 10 billion. But nonetheless, I'm curious to hear your or management latest thoughts in terms of keeping a strong balance sheet versus honouring commitments on the dividend or share buyback in the future? Is there an updated thought process that you can share with us? Thank you.

Ed Ditmire: Yeah. What I can say is that, generally, I think it's too early in the year for the questions on capital return. I would say in terms of the dividend, the policy is clear, a 25% to 30% payout on net income. What I can tell you is that management at the June Investor Day did mention that they intended to move to the high end of that 25% to 30% range. We had been calibrated at 25% previously.

We also reduced the basic share count by, I think, close to 6% at as of the mid-year 2024 financial report. Each of these things bolsters how much the dividend per share can be on any given level of income.

I think, though, you should expect that later in the year at the usual time, management will address these things.

Patrick Hummel: Understood. Thank you very much, Ed.

Operator: Thank you. And we'll now move on to our fourth question from George Galliers of Goldman Sachs. Your line is open. Please go ahead.

George Galliers (Goldman Sachs): Yeah. Hi, Ed. And thanks for taking the questions. So the first question I just had was on the destock. Obviously now talking about volumes being down 200,000 units year-over-year in North America, how confident are you that that's the right number? I think at various points this year, Natalie has said she was comfortable with the inventory. Obviously, you've now taken a refreshed look at that. But what confidence can you give the market that 200,000 is the right number, and that you won't still be chasing further inventory reductions in 2025?

Second question I had was, in the release it mentioned increased competition from China. Can you just help explain what that is? Because I think when we look at the numbers, the Chinese competitive threat in Europe looks pretty negligible today, so not really clear why that's an issue for 2024. Thanks.

Ed Ditmire: Yeah. Let me take that one at a time. In terms of the inventory reduction initiatives in North America, what I would say is that the increase in the reduction of shipments of 100,000. What that represents is us changing the timeline on when we wanted to achieve the inventory normalisation. And so we had previously said that we wanted to get to the healthier place

sometime in the first quarter of 2025, and which is to say, 330,000 in US inventory, 100,000, down from where we were at mid-year.

And now what we've said is that we've taken steps to enlarge and accelerate that so that we would hit the same goal by the end of 2024, giving us a better opportunity to start 2025 in the most healthy and clean possible way.

The second question was on the increased Chinese competition. What I would say is that the Chinese competition in Europe by several measures continues to become more significant. I think, in 2024, the industry forecasts are that Chinese brands will be over 10% of EV volumes and that Chinese cars manufactured by all brands, including those sold by Western brands, would be closer to 20%. And so all of these, of course, bring elements of the high competitiveness of Chinese vehicles into there.

But more importantly, I think that we're also seeing rising competition in the third engine countries as well from Chinese players.

George Galliers: Thank you.

Operator: Thank you. And we'll now take our next question from Emmanuel Rosner of Wolfe. Your line is open. Please go ahead.

Emmanuel Rosner (Wolfe Research): Hi. Thanks for taking my question. The first question is, so with the actions you are mentioning today, you'll try to address the inventory situation in North America. But it seems like Stellantis still has a sell-through issue in North America, essentially sort of like a loss of market share, which may be potentially tied to price positioning. And so you called out some pricing actions on model year 2024. But is there anything more that you're planning to do on the pricing front beyond just like clearing the existing inventory so that it positions yourself well for 2025?

And then the second question is, your guidance still implies a deterioration of earnings from the third engine. And obviously you're talking about competition from China domestic. Is there any perspective that this should be – or any reason or levers why this would be getting better next year?

Ed Ditmire: Great. Thank you, Emmanuel, for the questions. On the first one on pricing in the North American market, what I would say is that in the first half of 2024, we did make many changes that reduced to relatively modest levels pricing differences in our lineup versus competitors.

So for example, the consumer-facing transaction price average across the entire portfolio in North America was at $2,000 to $2,400 per vehicle premium to the average of Ford or GM at the beginning of 2024. That number was reduced to just several hundred dollars by mid-year. And that was before the adjustments to the go-to-market strategy in the second half of 2024.

We do have higher incentives in the second half of 2024. I would say moderately higher. And we have made some decisions to lower the MSRP on three models to begin 2025, again, the Jeep Grand Cherokee, the Compass and the Gladiator. And I would say that while we don't believe that everything is optimised on pricing, we think that right now we're continuing to make small, disciplined adjustments, and we're seeing relatively encouraging results.

We're seeing something that would represent small, but we think sustainable improvement in our retail market share in each of the August and September month to-date periods. And then I think we're going to have a broader opportunity to increase our share as we add new products that are in segments that we don't occupy today in the coming quarters. For example, the EV segment in North America is approximately 1.7M vehicles per year, and we have several models addressing that segment coming to market beginning in the fourth quarter.

We also will be replenishing the Dodge Charger two and four door market in the quarters to come. And then very importantly, in the second half of 2025, we'll be re-entering the midsize SUV segment in North America, which is the largest single vehicle segment today. And so I think we're encouraged to see stabilisation in the existing end market vehicles and looking to take a more of a step forward through the portfolio expansion in the quarters to come.

And then your second question, could you repeat the question on the third engine or China's impact there?

Emmanuel Rosner: Yeah, I was just curious, in terms of what you're seeing there, I think your comments suggest some increased competition from Chinese products. Maybe some pressure on profitability. Is that the right read already in the second half? And then any reason why this shouldn't continue into next year?

Ed Ditmire: I think directionally, we recognise that China is playing a bigger role in many regions of the world. I think in the near term, where they're making the most progress is probably the area where the lightest, which is in the Asia Pacific region, where we generate relatively little of our sales. We would recognise, though, that there's clear moves on their part to grow in Middle East Africa, where we're also growing and also in South America, where we have a strong leadership position.

But these areas of our business, even with this element of an China competition, where we continue to expect our highest growth and margins.

Emmanuel Rosner: Thank you.

Operator: Thank you. And we'll now take our next question from Henning Cosman of Barclays. Your line is open. Please go ahead.

Henning Cosman (Barclays): Yeah. Thanks also from me, Ed, for taking the question and doing the call. I think my question has a bit of an overlap with George's, but I'll ask it anyway. The 330,000 unit inventory. It strikes me that that's regardless of the timing, it's the same level that you had indicated previously as a good level. However, the cut in free cash flow and margin in the second half would appear relatively outsized, considering that the absolute level doesn't change. So I appreciate you're now saying the target was previously for the end of the first quarter. But is that really the only reason? Is it the timing? Would we otherwise have expected another equivalent of sort of US$4 billion AOI headwinds in connection with the further inventory reduction in the first quarter? That's my first question, please.

Ed Ditmire: Yeah. What I would say is that, first of all, it's not simply an inventory reduction. They're working to improve the competitiveness in the US market, going back to Emmanuel's question, etc. And so there's efforts on that front. At the same time, we are also acknowledging that the revenue view and the profitability outside of the US is specifically in Europe is a little bit lower than where we were in the initial guidance.

And so, for example, we have had some delays in product launches, which have contributed to that.

Henning Cosman: Thank you. So just on that latter point, if I can confirm, did you say mid-single digit margin for the full year for North America, Europe and mid-teens for the third engine? Was it for the full year?

Ed Ditmire: That's right.

Henning Cosman: Okay. Thank you very much.

Operator: Thank you. And we'll now take our next question from Daniel Roeska of Bernstein. Your line is open. Please go ahead.

Daniel Roeska (Bernstein): Hi, Ed. Good morning, good afternoon. Look, two again for me. One, you talked a bit about pricing discipline and then gaining share and lower pricing and MSRP changes. Part of the success here was for the sector overall to be a little bit more disciplined and not quite as loose on price. And now what proof points would you say should investors look for in upcoming months and quarters that we're not returning to kind of the autos of 2010 cycle, but that kind of discipline and pricing discipline is still really high on Carlos and Natalie's mind?

And then secondly, we've heard from you and the team about the amazing products coming in the US. And of course, there were some launch delays. But again, in that same vein, right, apparently the pricing was too high. And so where does that sit in terms of product competitiveness? And again, what should investors be looking out for to gain confidence that the product is competitive enough? And we're not just talking about market share gains at the expense of pricing?

Ed Ditmire: Yeah. Great question, Dan. Dan, I think kind of taking us back to the Stellantis philosophy on pricing, I think generally when we – reflecting the quality of our brands, I think we want to occupy a positioning anywhere from the middle to the upper half of the pricing spectrum within any of the categories that we operate in, I would say, overwhelmingly, I think in the – that does not mean that we don't have to make adjustments based on how the market is trending, based on the competitive backdrop.

And in this case, I think, what we're doing is ensuring that we can maintain strong price discipline while making sure that we haven't – that we don't have MSRPs, for example, that preclude customers from evaluating the product and understanding our incentives and things that lead to the bottom line pricing, etc..

And so, for example, in the case of the models where we're adjusting MSRP in North America, we're likely to be going to a combination of lower MSRPs and lower incentives in a way that we think makes the purchase funnel more effective by making it more clear where the bottom line affordability of the vehicles are.

And so ultimately, I think the real proof point is, Dan, that we're one of the highest ASPs in North America right now, and I think we intend to remain at that best end of the spectrum. We won't always be number one, but I think we're going to remain at that relatively high ASP quadrant of the North American market.

Daniel Roeska: Okay.

Operator: Thank you. And we'll now take our last question from Tom Narayan of RBC. Your line is open. Please go ahead.

Tom Narayan (RBC): Thanks, Ed. And apologies if my phone's reception isn't so good. But I know you kind of answered this already. But would love to just hear any colour behind the specific decision timing-wise on the 200,000 cut versus 100,000. Was it something you saw literally within the past few days or weeks? Folks would just love to hear a little more on just the timing of the decision.

And then the next one, and I can't talk on 2025. I just wanted to confirm that previous comments like CO2 compliance in Europe, you're confident in not needing, because obviously some of the commentary today is regarding Europe. So just regarding CO2 compliance in Europe, that that's still consistent with what you've been saying? Thanks.

Ed Ditmire: Yeah. So on the first, I think on the timing of enlarging the inventory reduction initiative in 2024. I think that that was based on when specific actions were taken to pursue the 330,000 unit inventory target to increase the certainty that we could get there sooner rather than later by the end of the fourth quarter. Those decisions on changes to production schedules to support that execution were made very recently. And so following on that, that led to a change in our forecasts and the notice of adjusting our guidance.

I think in terms of the – what you're referring to is the fact that Stellantis is relatively well positioned against the very steep rise in compliance requirements on emissions next year. I think the things that go into that is unchanged, which is to say that our ICE engines are relatively efficient versus the industry norms.

The second thing that's important is that we have a broad expansion of the LEV and BEV offering for model year 2025. In particular at mid-year, we launched the new generation of Peugeot 3008, 5008 and the Opel Grandlands. Each of those now brings an EV variant of those popular vehicles for the first time ever.

And then in the second half, we are launching and ramping, the low priced, smart car based B-segment vehicles, which include the first European made BEVs that will sell for under €25,000, some quite a bit below €25,000. And so, we have the expanded offering that can contribute to ramping our EV sales very materially in 2025.

Tom Narayan: Okay. Thank you.

Ed Ditmire: Yeah. Guys, thank you. At this point, I want to thank everyone for doing the call on short notice. We are working very hard to set ourselves up for a stronger 2025, and very much appreciate the time you spend following the story at a very interesting point in our journey.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.