Stellantis Q4 2024 Shipments Pre-Close Call

Thursday, January 16, 2025

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Operator: Hello and welcome to the Stellantis Q4 2024 Shipments Pre-close Call. 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 one question per person, and if necessary, an additional one. I now give the floor to Mr Ed Ditmire, Head of Investor Relations, to begin this conference. Sir, the floor is yours.

Ed Ditmire: Welcome, everyone, on behalf of the Stellantis IR team. I'm Ed Ditmire, global Head of IR, and thank you for joining us today in this pre-close call, related specifically to Stellantis Q4 2024 shipments release. This call is intended as a way for the Stellantis IR team to efficiently review, on a quarterly basis, already public but important management commentary and other company disclosures to best ensure you have all the information you need to stay informed. We will not be using this call to introduce any new or modify any existing financial guidance, and our guidance is unchanged from the most recent September 2024 update. Our discussion today should be largely confined to dynamics of the fourth quarter and other periods of 2024.

I remind you that our full year 2024 results call has been scheduled and will take place on 26th February, at 14.00 Central European Time, 13.00 London time and 08.00 Eastern Time, with Stellantis Executive Chairman John Elkann and CFO Doug Ostermann. This will be the proper forum to discuss many other topics.

I'll kick off with about ten minutes of prepared commentary on this call, and then we'll open it up for Q&A and take as many questions as we can in the context of an approximately half-hour call. A transcript of the call will be posted on the Stellantis Investor Relations website within 24 hours of this call.

I'm going to cover three topics in my prepared remarks. First, I'm going to review the consolidated shipment data for the fourth quarter of 2024, which we published earlier today, and which is available on the IR website. Second, I'll review, in general manner, some other business dynamics and items. And lastly, I'll sum up the capital return activity over the period. With that, let's get started.

During Q4, our global consolidated shipments to customers were about 1.4 million units, down 9% year-over-year, with the decline moderating significantly versus the prior Q3 2024 period and converging a bit on the less negative sales statistics of -5% year-over-year as we completed inventory reduction actions and made some progress launching new products on our next generation multi-energy platforms.

Now let's look at the regions individually. In North America, Q4 shipments of 295,000 declined 115,000 year-over-year, a moderation from the 170,000 unit decline in the prior period, due mainly to moving past the very challenging Q3 2023 comp, a period where we were bolstering stocks ahead of the September 2023 expiration of North American labour contracts. Obviously, 115,000 decline is still very tough, but let's discuss what drove that.

In the fourth quarter of 2024, total inventories in North America declined 90,000 units, with another 30,000 units explained by declines in the Dodge muscle car franchise, where the company began shipments of the first BEV two-door model in December, but where volumes are much lower than the 40,000 units of two and four-door ICE Challengers and Chargers that shipped in the fourth quarter of 2023, a period where the Company was purposely building inventories in those products ahead of its nearly year-long 2024 production hiatus.

Over the course of 2025, additional Charger models will come to market, including ICE SixPack models as well as four-doors, and so we expect a ramp in shipments as the year progresses. Importantly, during the fourth quarter of 2024, we achieved our objectives to reduce dealer inventories in the United States, which fell by almost 75,000 units over the course of the Q4, passing the 330,000 objective in mid-November and ending the year at around 305,000 units, setting ourselves up in a much better place to begin 2025.

Turning to Europe, Q4 shipments of 693,000 were 6%, or 44,000, lower year-over-year. When looking at the drivers of the change, it's important to recognise that the prior year Q4 shipment number reflected around 85,000 units of European inventory build, in part a consequence of reduced BEV incentives in Germany, which, in combination with the fact that in the fourth quarter of 2024 we are still quite a work in progress in terms of launching the new B-segment Smart Car platform products, created a difficult comparison.

An important highlight in the period was that almost 50,000 units of the Citroen C3 and e-C3 shipped during the first full quarter of production, which included both BEV and ICE manual transmission variants. The MHEV automatic ICE variant begins production in early 2025, and three other Smart Car B-segment sisters, the C3 Aircross, the Opel Frontera and the Fiat Grande Panda, are expected to join the C3 in the coming months.

There was a slight decline in European inventories sequentially in Q4 2024, and we're continuing to see very tight inventory management after the concerted stock reduction efforts of the first half of 2024 in Europe.

In Stellantis's 'Third Engine', shipments grew by 5%, driven by a 12% increase in South America, a stable Middle East and Africa more than offsetting declines in the much smaller China, India and Asia-Pacific. South American shipments are supported by a stronger industry demand in all main markets, and an ongoing production recovery following the Rio Grande do Sul flooding. Middle East, Africa shipments were stable year-over-year, reflecting improvement in each of Turkey, Morocco, Egypt and Tunisia, which collectively were almost entirely offset by the impact of import restrictions in Algeria, where we consequently saw lower year-on-year figures. We're taking steps to increase local production in Algeria.

Maserati shipments remain meaningfully lower year-over-year. Maserati is and will be working with a significantly reduced product portfolio for the near term.

Let me talk briefly on some other drivers of revenue change outside of the shipment figures. First, on pricing, recall we had a modest nominal positive figure in H1 2024 as the third engine dynamics offset softness in Europe. But in the second half, the substantial pricing headwinds in North America will certainly, both full year and second half, see net negative on pricing at the group level. On the Q3 revenue and shipments update, we talked about North American pricing being down around 5% in the third quarter, and European pricing, which had been -3% in the first half, improving to -1%. Extrapolating these Q3 figures to the entire H2 would see pricing headwinds in North America approaching €2 billion, and in Europe it would be a more nominal negative. The combination of South America and Middle East and Africa in H1 was a positive €1.5 billion in pricing, and we could see this moderate some in the H2.

FX at the revenue bridge level remained a headwind in H2. Recall that the Q3 figure was -€1 billion, with Q3 year to date at -€3 billion. In the fourth quarter, currency remains poised to be a headwind, in particular due to the changes in the value of the Brazilian real and Turkish lira compared to the prior year.

Mix on a Group level will remain a bridge negative in H2 due to product trim as well as geographic factors.

A question we receive very often is how to think about where we might end up within the relatively wide guidance range of 5.5 to 7% on AOI and -€5 billion to -€10 billion on industrial free cash flow. And while I'm not able to give an update that narrows that range, I think it could be helpful to remind everyone of our CFO's commentary on the subject, both in late October at the Q3 shipment and revenue update, as well as in December when he spoke at the Goldman Sachs Automotive Conference. Doug spoke about the wide range being very valuable to the company as it considered actions it could take that would set itself up for better performance in 2025 and beyond.

And I can point to several things the management team did on this that were very transparent. For example, North American pricing was repositioned at the bottom line level, with customer-facing transaction prices finishing the year at least $1,500 per car below our three-year average after entering 2024, with at least $2,000 per car in premium versus the same average. A second item would be the very strong inventory reduction in North America and at US dealers in particular, where we delivered well past our objectives. And the third item would be some of the actions taken to adjust the sequence of launches in certain model lines to reflect shifting customer preferences. For example, the decision to launch the Ram Ramcharger range-extender pickup ahead of the Ram REV BEV pickup, and actions to bring the ICE Charger models to market more closely after the initial BEV version. I expect John and Doug will share more examples of this in February at the call.

Moving below the AOI line, I don't have any information on restructuring and other one-time charges at this time, reflecting how early we are in the quarter and process versus our reporting date in late February.

And then lastly, on capital, as disclosed at the Q3 update, Stellantis completed the €3.0 billion open market buyback programme in the first week in October, with €1 billion completed in the second half. Average fully diluted shares should be 4 to 5% lower for the full year 2024 period versus the 2023 number of €3.132 billion.

In closing, thank you all for your attention. We'll now move to the Q&A portion of the call. Please keep questions limited to today's focus areas, i.e. the 4Q in 2024, as all others will be appropriate for the full year release on 26th February.

Questions and Answers

Operator: Thank you, sir. As a reminder, if you would like to ask a question, please press star one on your telephone keypad. If you change your mind and want to withdraw your question, please press star two. And please ensure your lines are unmuted locally as you will be prompted when to ask your question. The first question comes from the line of Patrick Hammond from UBS. Please go ahead.

Patrick Hummel (UBS): Thank you. Operator. Good afternoon, Ed, and thanks for doing this call. My question would be a follow-up to your comments on the product mix. Can you be a bit more specific on the product mix situation in North America, given the moving parts we had there with temporary non-availability of product, the ramp of the BEV model? So any additional colour for product mix in Q4 and North America will be appreciated.

And if I may, it's tied into the launch of the EV models in Europe. You mentioned the B-segment cars that are coming slowly but steadily. How should we view that CO2 pooling agreement? I know that's a little bit leaving the territory of Q4, but nonetheless, I want to tie it into that ramp-up question. I'm wondering because obviously, under your previous CEO, it was not a plan to sign any pooling agreement, and the focus was on organic compliance. Is this because you just have a slower ramp-up curve on those B-segment BEVs in Europe, or is it because it's a financially advantageous solution for Stellantis? Thank you.

Ed Ditmire: Yeah, thanks for the questions. I'll address first in terms of product mix, I think that a lot of the product mix that we're seeing globally in terms of the trends would be a lower trim mix would be the headwind. I think that at the AOI level, there's also, generally, a rise in hybrid and electrified vehicles in terms of some mix factors there as well. Certainly the lower mix of North American vehicles on a geographic basis is very important.

Shifting to the CO2 pooling agreement, what I would say is that the very affordable new B-segment cars, including EV variants, absolutely are going to have a huge impact and play a huge part in our compliance strategy in 2025. And so I think that that's not going to be any particularly important issue in terms of whether those vehicles launch at the beginning of 2025 or if they had launched in the second half of 2024. I think by the time we get further in the year, everything will be pretty caught up there, and we have great expectations about those cars being well received.

In terms of the pooling, what I would say is we remain confident in our personal vehicle fleet in having an ability to support dramatically higher EV mix and to reach compliance, as we did with the EV mandate in the UK in 2024. I think that the pooling adds a small measure of safety in terms of that approach. I would say the LCV side, which is subject to a separate and compliance standard, is much more challenging, just given the penetration rate of EV vans. And so even though we have a fantastic competitive position and a dominant share of those vehicles, that is something that remains a very tough challenge and where I think there's quite a bit of public dialogue and where I think much needs to be considered as we move forward.

Patrick Hummel: Got it. Appreciate the colour. Thanks Ed.

Operator: The next question comes from the line of George Galliers from Goldman Sachs. Please go ahead.

George Galliers (Goldman Sachs): Yeah. Hi, Ed, thanks for hosting the call. I had two questions. The first was, I just wanted a quick clarification. Did you say that the inventory in Europe reduced sequentially? And if you did, I don't know if you could provide any kind of insight, either in terms of absolute units or percentage.

The second question I had was just with respect to North America. Obviously the North American share remains under pressure, and I think we know why that is. Could you just remind us, when do the new smaller and mid-size crossovers and SUVs go into production? Thank you.

Ed Ditmire: Yeah. So on the first question on European inventories, I would say there was a relatively nominal reduction in total inventory in Europe in the fourth quarter compared to the end of the third quarter. That, I would say the reduction was more profound on the OEM level. In terms of, in the North American market, you're right to say that the replacement for the Jeep Cherokee is a very important part of how we have opportunities to improve our market share. At the LA Auto Show recently, Jeep had, and North American had Antonio Filosa, I believe, said that the midsize Jeep, the replacement for the Cherokee, will start production in the third quarter of 2025 and be in market in the fourth quarter of 2025.

George Galliers: Great. Thank you.

Operator: The next question comes from the line of Michael Jacks from Bank of America. Please go ahead. Michael Jacks has just pulled out of the queue. The next question comes from the line of Thomas Besson from Kepler Cheuvreux. Please go ahead.

Thomas Besson (Kepler Cheuvreux): Thank you very much, Ed, for hosting the call. Two questions please. Can you talk about your order bank in Europe and give us a feel of whether we could hope Stellantis momentum, in terms of volumes, is going to approach market development as you ramp up some of the platforms that had difficulties last year? That's the first question.

And second question, which I guess you're probably not going to be willing to answer, but I'm going to give it a try still. Could you give us an update on the new CEO selection process and the timing of the announcements, please?

Ed Ditmire: Tom, I had a little bit of a bad connection during the first part of your question. I think that you asked for an update on the European or the health of the European order bank.

Thomas Besson: That's correct.

Ed Ditmire: And then I heard your question for... Okay. And so in general there, I don't think that there's been no major changes in the health of that order bank compared to the prior third quarter. What I would say is that some of the major product launches, in particular, these B-segment products that are built on the Smart Car platform, these three sisters to the Citroen C3, they are set to begin production in the first quarter of 2025. I believe that their order books have not fully opened yet. And so there's a little bit of dynamic that we're, I think just a few weeks before that important milestone in terms of the order development.

The question on the CEO search, there, I'll repeat what we said in the fourth quarter of 2024, which was that the board started the search in the third quarter of 2024 and progressed to the point where it feels very confident that it will be in position to appoint a new CEO in the first half of 2025.

Thomas Besson: Thanks, Ed.

Operator: The next question comes from the line of Jose Asumendi from JP Morgan. Please go ahead.

Jose Asumendi (JP Morgan): Thank you very much. Ed, a couple of questions the comments on currency impact on revenues, please, the year-to-date and then Q4. Any assumptions there?

And the second question, can you please remind us, please, of the working capital the recent comments, in terms of the guidance for the year, working capital outflow for 2024? Thank you.

Ed Ditmire: Jose, I'm having a bit of an audio quality problem there.

Jose Asumendi: Working capital outflow, 2024, if you could remind us, please, of the outflow of working capital. And second, currency impact on revenues, the comments you provided before, I didn't catch them acoustically. Thank you.

Operator: Please stay connected while we try to reconnect the line with Mr Ditmire. Thanks for your patience.

Ed Ditmire: I'm back on the line.

Operator: Mr Ditmire, the floor is yours.

Ed Ditmire: Okay. Sorry, everyone, I lost my connection for a moment. Jose, apologies if you've already repeated your question, but could I ask you to say it one more time?

Jose Asumendi: No worries. Yeah, yeah, no worries, no worries. Working capital outflow guidance 2024. And second, can you please repeat the comments on currency impact on revenues for the year?

Ed Ditmire: Yeah. So on the first question, on the cash flows, of course, within the context of our -€5 billion to -€10 billion free cash flow guidance, I think that a central scenario, in that sense, would be that we would have working capital headwinds for the full year that approximately double what we saw in the first half of the year, which was a -€4.2 billion headwind, I believe.

Your question on pricing, I think that the 3Q experience is a good proxy for the second half. And in that 3Q, I think what we saw was [inaudible] in North American market on pricing, -1%[inaudible] In Europe, and then, a modest positive in the Third Engine. And so that would - I think in the third quarter, our FX headwinds were something approaching 2%.

Operator: Thank you. The next question comes from the line of Harald Hendrikse from Citigroup. Please go ahead.

Harald Hendrikse (Citigroup): Yes. Thank you for taking my question, and thanks for hosting this, Ed, it's always very useful. I was going to ask on the pricing, but I think you've just answered that. Just a clarification, really. Listening to you, it sounds like you were saying to us that some of the actions specifically with regard to North American pricing and inventory in the fourth quarter was maybe even more ambitious than you had already previously targeted, which then suggests to me that on the EBIT side, it would be correct to be maybe a little bit lower in the range, and on the free cash flow side, given the inventory movements, maybe free cash and working capital a little bit less bad. Did I understand that correctly or am I taking the wrong message?

Ed Ditmire: Harald, I don't have anything to talk within the range of how you should take those comments. What I would say is that I think largely the kind of actions that the management team has been executing are largely anticipated and understood at the time that the guidance was updated in late September. And so no real additional commentary on that. But obviously, full respect for everyone on this call's very thoughtful research and analysis.

Harald Hendrikse: All right. Thank you.

Operator: This is the end of the Q&A session. I'll hand back to you, Mr Ditmire, for closing remarks.

Mr Ditmire, handing over to you for closing remarks.

We seem to have lost connection with Mr Ditmire. Thanks for staying connected and for your patience.

Thanks for staying connected while we're retrieving connection with Mr Ditmire.

Ed Ditmire: Okay. I'm back.

Operator: Mr Ditmire, the floor is back to you for closing remarks.

Ed Ditmire: Okay. Apologies, everyone, about the connection issues, but I want to thank everyone for your attention today. And of course, if you have any follow-up questions on the data we published today, forward them to the IR team, we'd be happy to see if we can help. Thank you everyone. Have a great day.

Operator: Thank you for joining today's call. You may now disconnect your lines.