



Stellantis Investor Day – June 13, 2024 Transcript

What Drives Stellantis' Edge

Introducer:

Please welcome Ed Ditmire, Senior Vice President, Investor Relations.

Ed Ditmire:

Good morning everyone, and welcome to the Stellantis 2024 Investor Day. Special thanks to those here with us in person at the Chrysler Technical Center in Auburn Hills, Michigan, especially those that traveled long distances to get here. We're also excited to have those of you joining us virtually from around the world. We appreciate you tuning in to review the Stellantis story at such an interesting point of time. We have a really broad representation of our management you'll hear from today. You'll hear not only from our CEO, Carlos Tavares and CFO, Natalie Knight, but chief operating officers from our three most profitable regions, CEOs of three of our largest brands and EVPs leading three critical functions. In terms of logistics, we'll take a 15 minute break mid-morning and after the presentations are fully complete, we'll open things up for Q&A before ending around 12:00 PM. Today's presentation materials have been posted on our investor relations website.

And I want to point out that any forward-looking statements we might make during today's call are subject to the risks and uncertainties mentioned in the safe harbor statement included in our presentation and available on the IR website. So what are you going to hear today? Four things should become very clear. Stellantis is highly differentiated, helping it better address today's critical challenges. Standout flexibility, especially multi-energy capabilities enable profitable delivery against a wide variety of scenarios. The company is addressing important 2024 challenges head on and Stellantis is committed to strong capital returns. Now let's kick off with a short video making clear who we are and the progress we've begun to make in the first three years since the formation of Stellantis before turning things over to CEO Carlos Tavares. Thank you.

Introducer:

Please welcome Carlos Tavares, Chief Executive Officer, Stellantis.

Carlos Tavares:

Good morning, good afternoon to you all. What a terrific moment we are going through. We have ahead of us a world of opportunities. And the more we see change, the more we see opportunities, the more

we see challenges and headwinds, the more excited we are. And this is the reason why today we are so excited about hosting this event. We are going to show to you what we are doing today, what we are doing for the future. You'll feel the power of Stellantis. You will feel the brains of Stellantis. You will feel the leadership of Stellantis. So I would like to address in this introduction three different themes. The first one is to share with you where we think the industry is going. It's not about us, it's about the industry. What do we think is going to happen next and what is going to be the environment in which we will have to operate?

Second part will be about explaining to you why do we think that the differentiators of Stellantis are going to make Stellantis win? I use the word Darwinian. For some people it looks a little bit gloomy. It just means change. Change is there, change is now on. And as we believe we have strong differentiators, we are going to use those differentiators to win in a changing environment. And this is of course for us extremely exciting to be demonstrating that we are preparing to leverage those differentiators. And last but not least, of course, we will address some of the 2024 headwinds and challenges that we are now working on because we anticipate that you have significant questions on that matter. So let's move on and let's just consider that we will address those three topics. And we start with what's going on on the industry, what is going to happen and how should we be prepared to face this change.

Up to now, we used to say that in our industry we had a certain number of success factors that everybody needed to deliver. Global scale of course leadership in significant markets, good brands, trusted brands, and of course great products. And I understand that yesterday you had the opportunity to test drive some of those products. I hope that you had fun as much as we have fun when we create, develop and manufacture those products. So that's the historical stuff. That's what everybody needs to have to be getting the foundation to compete. But what is coming now in terms of disruption is additional things. Starting with customer expectations. It's quite clear and I will detail that we have a wide variation of customer expectations. They become larger, those expectations, they become more fragmented, more differentiated in function of the segmentation of the market. And this is going to represent a significant disruption compared to what we have been seeing over the last few years.

Of course, we have the electrification mandate. The electrification mandates become a very important part of this industry as we see dogmatic, pragmatic positions, accelerations, slowdowns, changes of direction. So the EV mandates, the electrification mandate is going to become a significant disruption of our industry. We have of course the rise of China. It's important to recognize that against March 2022, when we presented to you the therefore 2030 plan, it is fair to recognize altogether that the offensive of the Chinese brands has become much bigger than what we expected only three or four years ago. So how do we adapt to that reality? How do we face that challenge is a disruptive factor. Last but not least, the fact that the world is going fragmented and that is very important for our company as we have, we believe, strong differentiators that will give us a better capability to adapt to a fragmented wall.

So on the right hand side of this slide, you see some disruptors that come in addition to the usual success factors that we have been dealing with over the last few years. So let's talk about the customer demands, and recognize that first of all, what is obvious to all of you and all of us is that affordability is a very strong, if not the most important demand, for zero emission mobility from our customers. Zero emission mobility that is not affordable will not make it. It'll not make it because we need the support of the middle classes to solve the zero emission mobility padding. And for that to happen that mobility needs to be affordable. This is one of the big disruptors that we have ahead of us. Then on terms of customer base, we see that we have clearly two different directions. We have one direction, which is about making our cars more comfortable and more simple, which is more related to the aging part of our customer base.

And on the other side we have the digital natives, younger generation who are looking for apps and multi-model solutions. So two very different directions that we need to face. And last but not least in terms of echo cautiousness, we see that the diversity in terms of expectations, the diversity in terms of speed, the diversity in terms of regulations are becoming higher by the day. So those three factors just represent the demonstration that we will have to adapt to those differences. We'll have to consider that one size cannot fit all. It'll not fit all the customers, it'll not fit all the markets, it'll not fit all the technologies. So we need to adapt this reality, which means making sure that the technology that we are developing and that we are embracing is able to bring solutions and not only the technology, but also the positioning of our brands. In a world that becomes fragmented in a customer segmentation that is asking for different solutions, meeting different kinds of needs.

The fact that we have 14 brands, not to say 15 with Leapmotor, is obviously a significant differentiator for our company, but this is about the market. So let me move on to electrification. In terms of electrification, what is quite clear is that we have to adapt to a world that we can hardly predict. So if we cannot predict the world, then we need to be very agile to adjust our roadmap and the course of action to the reality that we are facing. That means flexibility. That means flexibility. That means that when we made the choice three or four years ago when we created Stellantis to go on a multi-energy platform strategy. At that point in time we were criticized. I still remember. And now you see why it made sense to go on a multi-energy platform strategy because then you can adapt to these realities that you cannot predict.

In addition to that, the multi-energy platform strategy gives you the capability to be very flexible in manufacturing as you are putting the BVs, the PHEVs, the ICEs of the world on the same manufacturing line. So you can adjust to the market mix faster in a more efficient way along the course of your business plan. So multi-energy platforms, flexible manufacturing, this is again the recognition that the world is not moving at the same pace. The world is not accepting the same solutions because of affordability, because of the sensitivity of the different societies in which we operate. And then we have China. China is of course becoming a very important part of our business and everything that comes from China has an impact. Needless to say that we'll have the opportunity to discuss about the tariffs not only in the US but also in Europe.

What is clear is that we don't want to be defensive. Our strategy that remains an asset light strategy is about making sure that we are ourselves offensive and surfing the wave of the Chinese offensive. And this is exactly what we have done. We recognize that they have a 30% cost competitive edge against the western world. We recognize that they have done a fantastic work in terms of EE architecture based solutions. And this is exactly where we see the benefit of one of our major differentiators against some of our competitors. And finally, if we keep on describing the industry, we see that this nice word of deglobalization, such a soft word, to say that in fact the world is fragmented and getting more and more fragmented by the day. So if it is fragmented, you need to be a local hero. You need to be inside of each bubble and play a leading role inside of that bubble, which means you need to be local in the major markets and you need to leverage on a global basis your assets, your technologies and your developments, which is all about efficiency and effectiveness.

So we understand that the world is becoming more fragmented. We understand that inside of each of those bubbles we need to operate with local solutions that are best in class within that kind of framing. So if I conclude on this first part, which is about where is the market going, I would say that on the left-hand side of this slide, you have the traditional success factors, historical success factors, which of course I'm not going to comment because you know them very well. On the right-hand side though you have additional must-haves that any company that wants to compete in this industry needs to develop. And it's about agile strategy. It's about having a long-term strategy, like therefore 2030. But at the same time being able to go around the roadblocks, making sure that you are agile and you can steer the boat

at the speed that the events are imposing on you, which means also rapid execution of those direction changes.

You need to have the right products, the right brands, to be bringing local heroes in those bubbles. Of course you need to manage profitably all the different powertrains and technologies that bring an answer to local needs. And this is of course looking at those businesses on a regional basis. You need to be totally cost competitive at the highest level without cost competitiveness, we will not be able to face the Chinese offensive because they are setting the bar. And I can read here or there questions about where are we in terms of cost-cutting, are we on the limits or not? Well, it is the same thing as asking do we have limits to our imagination? Do we have limits to our brains? At Stellantis, we keep on challenging ourselves every single day, every single minute on what kind of solutions can we find, how collective answers we can bring to the challenges that we are facing?

So in terms of bringing new ideas to break paradigms and face the competition, Stellantis is obviously bringing a breath of fresh air. And we are unapologetic. I repeat, we are unapologetic about the fact that we trust the brains of our people. We trust their scientific education, we trust their capability to bring solutions on a collective approach. We have one of our four values which is about winning together. And this is how we see it. We have a challenge out there. We are going to face the challenge by looking for elite cost competitiveness, and of course we will deliver on software, as you have seen yesterday, and we will deliver on services. So moving forward, now that I have shared with you some of our thoughts about where this industry is going and what are the new must haves in terms of succeeding in this changing environment, I would like to share with you some of the differentiators of Stellantis.

On this slide you have nine differentiators, and you have three major pillars. You have a first pillar on the left, which is about the strong core of this company. We have the biggest and most exciting portfolio of brands of the industry. We have a very strong presence in two major markets like North America and in large Europe. We have a third engine which is already competing for being the second most profitable region of the company with the Middle East and Africa, Latin America and India, Asia Pacific. And we have a highly flexible multi energy approach to this changing environment. So that's the left column. Those are some of the fundamentals of our differentiators. On the middle we have what we would call above average profitability metrics. We are certainly the leaders in the commercial vehicle business. We are capable of delivering on our commitments with the double digits AY margin. And we know that we have the best in class efficiency of our R&D and CapEx expenses compared to the other guys.

That's the middle pillar. And the third pillar on the right, it's about the critical speed and agility with some best in class sourcing strategies that will be presented to you today. We believe that we are leading this best in class country sourcing strategy. This is going to be a big differentiator, doesn't make us always popular, but this is what it takes to compete with the Chinese car makers. It is also very clear that we have a unique strategy asset, light strategy for China that is from our perspective, much more robust than many of our competitors. So with those three pillars, we believe that we have nine strong differentiators that gives Stellantis a unique opportunity to be one of the winners if not the winner of this fast changing period. So let me only comment three of them and let me start with the portfolio of iconic and innovative brands.

What we know is that in a fragmented world, having local heroes is a fundamental success factor. Think about what Jeep represents in the US for the 23rd consecutive year, Jeep has been considered the most patriotic US brand ahead of some well-known drink brands. You see what I mean? You see what I mean? Good. So we are with me. Thank you. So Jeep, think about Fiat in Italy, think about Peugeot in France, think about RAM in the US. So you see having local heroes in a fragmental world is bringing you the capability to perform inside of the bubble. And of course you need to perform inside of the bubble by bringing the appropriate assets, platforms, EE architecture, drive trains, battery cells. So Stellantis is

providing this huge array of technologies and we have 14 brands to have inside of the bubbles, the local heroes using the platforms, the technology to perform and meet customer expectations. Not only we have those 14 if not 15 brands, including the local heroes in the most important markets, but we also have the capability to cover all the price bands of the market. Starting with the mobility devices like the Citroen Ami or the Fiat Topolino, up to the most sophisticated Maseratis, the Folgore versions. We cover the whole price band of the market, which means that we are able to compete with specific solutions in each of those price bands, which of course represents a very significant competitive edge. We are not about saying that we cannot compete in that area of the market because you don't have the right brand, the right cost competitiveness, the right attributes and the right capability to cover the price band profitably.

We have that. We have of course to organize, we have to make sure that we go to market in an efficient manner. But certainly the brand portfolio, which has been presented by some as being a handicap, appears to be in a fragmented world the major success factor to operate inside of the bubble with trusted brands that people want to buy. This is an important differentiator. The second one I would like to comment is about the commercial vehicle business. And if you look at this slide, this slide says it all.

This slide says it all. We have the largest, the most exciting, the most powerful product portfolio for CVs in the world. This is absolutely an outstanding asset. It is more than one third of our business footprint. It is accretive, means more profitable than the average of Stellantis. It's pulling Stellantis up. It is less exposed to disruption because it's more about the fundamentals of this specific kind of customers. And as you can see, we are number one in Europe, we're number one in Latin America. We are number one in Africa Middle East. We are number three in North America. We are of course number one in the BEV part of this market, which is expected to be the final destination for this kind of product. None of us can imagine that people will keep on delivering goods inside of the urban areas if the delivery tool is not zero emission.

And we are the leaders of the BEV commercial vehicle market. We are fighting and racing for leadership on a worldwide basis and we intend to win that race within the course of this therefore 2030 plan. And last but not least, let me talk about China, because it's a topic on which you have asked me many questions during our roadshows. First of all, it is important for you to understand that as we took 21% of Leapmotor who appears to be the number three NEV startup in China, so competing on the most edgy part of the NEV market in China, we also understand that there is a very strong appetite for that company to grow overseas. They have the products, that is unquestionable. We have driven those products. We look at the technology, they are on the edge in terms of technology, in terms of product, and they have significant capability to export given their manufacturing capacities.

They have a cost competitiveness, which is at the best level of the Chinese automotive industry. I can confirm the 30%. And we have created an export company called Leapmotors International that we own 51%. And all the exports of Leapmotor cars outside of China will be made through that Leapmotors international company that we control. Which means we have a financial interest in growing that business outside of China while they will take care of China as it is a very specific environment. So at the end of the day, what are we saying here? We are saying that we are going to leverage their own cost competitiveness. We are going to leverage their own technology mastering, namely in electric powertrains and everything that relates to connectivity.

And we are going to leverage this to our benefit through the export company. It's interesting because we are in a very fast changing environment. And one thing I can share with you, which is I think interesting for you to know. When we discuss about which cars we are going to bring to Europe as a starter and the other regions, as we have announced in China a few weeks ago, we have already pre-decided which of those cars would be assembled in our plants outside of China.

Which means when you look at the business case of saying this product could go to that market, that market, that market, and of course in all of those markets we have plants, we have already pre-decided from which level of tariffs we go CKD, and below that level of tariff we go CBU. It is already decided. We don't have to wait for the tariffs to appear. We have an index which gives you above this level of tariffs to go CKD to that plant with this car, below this level of tariffs stay CBU. So we are not waiting for things to happen and fall on our face. We're trying to anticipate what is going on in the world. And this is certainly one of the big differentiators we have against some of our competitors. While they are under pressure in the Chinese market with local competition where many of them are either too big or making red ink, which makes their life difficult, we are anticipating and leveraging the power of the Chinese industry to our benefit through this partnership, which is going very well.

So those are some of the differentiators. I wanted just to comment three on those nine so that you can have a glimpse. But most of those differentiators on that nine box slide will be presented by the members of the top leadership team of Stellantis today. So you'll see today how we are using those differentiators to make our company win. If I move now to the 2024 challenges, I would say that '24 is a year of transition. It's a year where, as I announced to you many times, we are starting a powerful electrification offensive in the US market. And we see that this electrification is of course going to absorb many of our resources in 2024. So it's a year where we prepare and we execute the first part of this offensive and you'll see the products in the second half of '24. They will come.

And of course we are very busy preparing all of those outstanding products. So we see that the global market will possibly be growing, but very slow growth, limited growth globally. There is no more significant industry supply limitation. We see that the price sensitivity is becoming higher and higher, mostly in the western world, but not only. And of course we see that the EV ramp up is quite volatile across the western markets. We expect that for Stellantis who will have a moderately decline of our share in North America as we prepare for the launch of the new products that will bring us back to the right position. We consider that Europe is now stabilized even though we are always trying to do better, but it's now stabilized. And we see that our third engine, as we told you a couple of years ago, the third engine is now fighting to be P2 in the ranking of profitability of our company.

Which means that our company today has three engines, North America, Europe, and the combination of Latin America, Africa Middle East, and India Asia Pacific. This company has three engines of course, which represents a significant de-risking of our business against what is going on in the world. In terms of profitability, we see that there will be headwinds in the US and Europe, mostly driven by the competitiveness of the market, but not only. Also about the hesitations that we see. What we see right now in Europe is clearly demonstrating that Europe is fragmented, not going in the same direction in terms of automotive thinking. It's quite obvious. You just have to look at the PRs that were sent out yesterday when we heard about the first tariffs that will happen in Europe against the Chinese imports. It's quite obvious we see that last year in H1 2023 we could benefit from very, very supportive market conditions still benefiting from the backlog of the semiconductor supply crisis.

And that has disappeared this year and we consider that with our double digit AY margins that we committed to you within the therefore 2030 plan. We'll continue to be among the leaders of this market in terms of profitability. So in a nutshell, we would like today, and I would like today, to confirm that our commitment to deliver a double digits AY margin is intact. It is good for you to know despite all the things that are ongoing. If I look at North America, which is one of our headwinds or challenges for 2024, the situation is quite clear. We have to fix a problem in manufacturing. Manufacturing has been difficult in a couple of our US plants, mostly.

Mexico is okay. In US, we have a couple of plants that are not operating as they should and we have to fix that. We also see that we are not sophisticated enough in the go-to market strategies, in terms of

marketing. And we spent the whole day yesterday working on that dimension, which is how to be more sophisticated in the way to go to market, more efficient in terms of managing the purchase funnel and putting the money where the money has a meaning in terms of closing the deals. That's clear. That's the second one. The third one is that we are reinforcing our talent pool in North America. We...

PART 1 OF 7 ENDS [00:35:04]

Carlos Tavares:

... forcing our talent pool in North America, where we still have a certain number of key positions that need to be filled. Not many, two, most of it it's two, but we will continue to reinforce our talent pool in North America to be able to compete with the best. So we will continue to manage our inventories, but of course make sure that we can bring back profitable share as we are working on those areas.

If I talk about the LEV and the BEV mix, which of course represents a significant amount of uncertainties. The only way to be comfortable about the LEV and the BEV myth is to meet two conditions. The first condition is never put yourself in trouble from a compliance standpoint. We have no intention to pay fines and we have no intention to buy credits.

When we pay fines we destroy value. So we intend to be fully compliant, because we don't want to destroy value, we don't want to waste your money. And we have no intention to buy credits, because when you buy credits you become weaker and your competitors become stronger. Which of course is not what you expect from us.

On those two dimensions, we have exactly what we need and we are executing. And it's going to happen this year. So we are putting a strong focus, and to a certain extent some pressure, in the company to make sure that we get things done properly.

We are doing it in a very rigorous way, in a very professional way, but this is the year where those electrified products, which are going to be best in class, and I can tell you they are going to be best in class, are going to come up.

Let me just give you an example which is already out there, that was presented by the Jeep run CEO a couple of weeks ago, the Wagoneer S.

Look at the metrics of the Wagoneer S. If you look at the metrics as an engineer, you will obviously conclude that that product is best in class. Which brings to you a very relevant information, which is the credibility of our technology, and the fact that now we are able to blend the credibility of our electrified technology with what we do best, which means great appealing products. And this is important for you to understand.

So that's point number one. Point number one is don't put yourself in trouble in fines or weakening your opposition against your competitors through the purchase of credits. That is in the strategy, is being executed.

The second thing is we need to make sure that we accelerate the per unit margin convergence between electrified products and ICEs. This per unit margin convergence is the key success factor to be able to digest the bumps that we are going to find on the road on the pace of electrification in the different regions.

I must say that we are progressing well in Europe, we are quite advanced and things are moving. And we are now accelerating in North America on that direction. Which means that, don't be surprised, we are going to ask a lot to our partners, but never more than what we do for ourselves.

Everything we ask to our partners is generally speaking less than what we do inside of our own plants, which gives us the moral authority to ask for that contribution because it is what the society is expecting from us.

So we are working on reducing those per unit margin gaps. We are well on our way in Europe, not as advanced in NA, but we will continue to work and bring that to completion in the next couple of years.

If I finish with a product offering. It's quite also obvious that when we made the decision two and a half years ago to systematically protect an important amount of energy storage in our BEVs, which was a big debate inside of our company, healthy debate. And we decided that we would address first the range anxiety by putting significant battery packs in our vehicles to store significant amount of energy.

Well, that appears today to be the right call. Why? Because all the western world is late in terms of setting the right infrastructure. With a very limited number of exceptions, the western world is late in setting up the charging infrastructure across our western markets. Which means that range anxiety is still a very significant expectation, with affordability, of our customers.

And this is the reason why we will continue to address that range anxiety, until the charging network density reaches a level where the customer say, "Yes, I can see enough charging spots, so I'm okay to have a lower energy storage in my car."

The other thing is that as we are transitioning from the old world to the new world, and as the hesitations in some areas, in some regulations are now going to appear, because of the political uncertainty that has been created on the affordability. We see that any region of the world where the affordability was disregarded, we have now political tensions that address social unrest on this matter.

And it is easy, just have to look at what happened during the European Parliament elections. You see clearly that the countries that did not address the question of affordability, the question of convenience through the infrastructure, are now struggling and hesitating. Because the social pressure and the middle class expectations are not met, and therefore they put their political leaders under pressure.

So this transition is going to be somewhere difficult transition in terms of piling up the old world with the new world. Because in our big companies if you simply pile up the two worlds, instead of transforming the old world into a new world, you create a peak that eventually your organization will not be able to digest.

So how did we address this? Very simply. In three years we reduced by 75%, seven five percent, the complexity of our products counted in number of parts. 75% down in three years.

I can tell you it was not a walk in the park, not everybody was smiling on those meetings. But this is the contribution that you must have if you have to digest a transition period where you pile up the old world and the new world. And Stellantis is ready for that. This is what makes us smile, I think we are fit for this transition.

So to conclude this introduction, I just would like to tell you two very basic things, and this is perhaps the most important part that you would like to hear from me. Point number one, cash generation and balance sheet of Stellantis enable uninterrupted strong capital returns.

Our mindset has not changed from everything we have told you over the last couple of years. Once we set the floor based on a COVID stress test, the money we don't use we give it back to you. It's very simple, but we have ideas.

The second thing is that we are absolutely on track to deliver the €7.7 billion of record amounts in dividends and stock buybacks in 2024. So at Stellantis we deliver, and you can count on us.

Thank you.