Stellantis Investor Day – June 13, 2024
Transcript

Financial Review and Capital Update

Speaker 2:

Please welcome Natalie Knight, Chief Financial Officer.

Natalie Knight:

So, you've heard a lot of different things today from our team, and I'm excited because I get to in many ways bring it all home. My goal today is really to show you three things. First, what I want to do is I want to take all the things you've heard from our various speakers and tie them into how we're thinking about our financial outlook for 2024.

Second, I want to spend some time talking about our capital plan, because I think this is a topic people really appreciate from our company, but maybe don't understand the thinking behind how we're approaching it every day. And lastly, what I want to do is tell you why we believe this translates to a great TSR story for our company today and going forward.

So let's start then with this 2024 and the focus on execution. You've heard Carlos say this is a year of transition and there were three key topics that we discussed where we said these are different than what we're seeing just out in the marketplace.

One of those is North America. When we look at North America, this is a spot where we know that success is going to be about how do we optimize the inventories? How do we calibrate pricing? How do we get the product mix right? How do we make sure that our go-to-market, our marketing discipline is where it should be? And always focus on cost.

Second topic you see on this page is what's going on in terms of the Lev/Bev revolution and how that's impacting us. And this is something by the end of the year, you're going to see that 15% of our products or group revenues are coming from Lev and Bev even higher in Europe. And it's something that, it's a great opportunity, but it also means that we've got to master the profitability on those products. We have to figure out how we work with changing regulations and how we best leverage the multi-energy platforms that we've got going forward.

Now I add that in addition, we've also got this once in a lifetime, once in a generation change in what's happening with our product portfolio. And that is a big deal for us as a company. You heard in the first quarter that it's something where we've got to get the manufacturing and the production schedules all right. We need to make sure that we also are managing our way through what are either discontinued or soon to be discontinued products as we make this big move forward.

So what we also wanted to do today is reiterate our guidance for 2024. And while it's not an earnings call or anything like that, I think we've been very clear in terms of what it means for 2024 in the first half. And here what we've said is that we know our revenues, our AOI, our free cash flow are going to be lower than where they were in last year. But we've also said that Q2 is going to show sequential improvement on the revenue side, that for the first half we're expecting an AOI margin of between 10 and 11%, and that free cash flow is going to be visibly lower than where it was a year ago. And that basically has to do with the AOI development that we've talked about as well as a shift in terms of our R&D. We have front loaded it in 2024 because of all those great product launches that we have coming in the second half. And that's something that will be very visible.

Let me also talk about our capital return and that's something that's very important to us as well. When you look at the capital return, we are very much on track with the 7.7 billion that we have called out as one of our big priorities for this year. And I think it's a great opportunity for us to continue to deliver to the market. So let me take then not only what do we have for this first half, but give you a little more color on the second half because I think this is the spot where it's early days, and I'm sure we'll have more detail as we get closer. But just to give you some ideas in terms of our thinking here.

First area is revenue. And when we look at the revenue side, what you see is there's two things that if we get them right, we're really ready to take advantage of some other opportunities in the second half. And those two things are inventories, we've talked about it, and I think what you saw in the first quarter is that we were really the only big OEM to actually sequentially improve our inventories versus where they had been at the end of the year.

You heard Zarlenga talk today about what we're doing in terms of the U. S. And trying to be focused more in inventories as we think about how do we improve our position. And this is a spot where it may not be linear every quarter across the year, but where we do feel there is important progress that we're making in terms of not only the levels but the quality of inventory that will help our revenues as we go forward.

In addition to that, the other key thing that we've got to get right is this go-to-market effectiveness. In every single market, we know that we've got great products, that we have got a great distribution set up, but there are places when it comes to how do we sell, market and really get those products to customers in a new post-COVID, post-semiconductor crisis world that we can be better and stronger. And those are things we're very focused on. I think you've heard some really cool examples from my colleagues today.

If we get those things right, then we're ready for this unique period which is coming in the second half. And that is new products coming to market. And here we've got a pretty cool statistic that you'll see in the second half, 15 to 20% of our revenues we're expecting to come from products that are coming this year to market. That's from below 10% in the first half. So really a momentum changing. And don't forget that'll grow even more in '25.

Let me also talk about what's going on the cost side because on the cost side, raw materials are turning out to be something that's more positive than what we expected at the beginning of the year. I think we're going to have about 200 million of incremental upside in the second half versus the first half. And that's driven by real improvements that are coming on the EV raw material side as well as steel.

When we look at headcount reductions, this is another spot where I see about 200 million of incremental opportunity. This is something we focus on every year and we always have a second half waiting. So that's a number I feel very convinced about in terms of the track record we've delivered on so far.

And on the logistics restructuring, you heard Maxim talk about how we're internalizing our outbound logistics. That's going to be something that is about 25% logistics savings for Europe in the second half. And for the group it's about a hundred million that you'll already see this year. So this is something that I think does have a nice benefit for us in the year.

And the last one is, let's look at cash flow because I know that's a hot topic. And when we think about cash flow, this is a spot where we are going to be visibly better in the second half and first. Now the first key is how do we strengthen our operational performance? When that happens, that drives a lot of great things for the business. But you'll also see improving working capital dynamics in the second half of the year and lower R&D and CapEx as I had mentioned.

So what I'd like to do now is spend just a moment talking about our capital plan. You've got an idea of how '24 looks, so how are we powering the business that makes sure we're ready for success as we go forward? And here we've got a very strong capital story. It's something where our goal is about getting four things right. And if we do those as a company, then I think we win when it comes to our capital deployment. And this is something where the story is all about how we are on the one hand managing what really matters when it comes to capital, what are our critical things we've got to get right? How do we generate so we've got a consistent flow of things coming into the machine? And then how do we deploy that, either one in the business and then two, distributing it to our shareholders?

So let me start with how we think about the balance sheet because the balance sheet, our financial position, I like to think of it as the chassis of the group. It's the framework, the financials behind what really drives the structure of our organization. And if we do this right, there's two things we have to get. On the one side we start a little defensively, and this is a spot where we say we need to be ready for every adverse condition that comes across the cycle. You know we want to have double-digit AOI across the cycle, but we've seen a couple times in the last 20 years much bigger waves in this industry, and we need to be ready for those.

Similarly, on the working capital side, this is a spot where today we know our working capital is a negative position, and we're working to get it positive, to a neutral position, excuse me. And when we move from this position, it's something that helps us in terms of also-

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Natalie Knight:

... position. It's something that helps us in terms of also being ready for the rainy days, so that as you see that mismatch of receivables and payables, we're in a spot where we can use those to our advantage and not have that penalize us. But it's not just about being ready for a rainy day. It's also about how do we get things right when it comes to all the growth opportunities that we have. And our goal here is that we want to be ready, on the one hand for electrification. We've told you 50 billion euros that we're going to be spending in the next decade in terms of making sure we get all of those future-focused things, right? In addition to that, you heard about the third engine today, and that's something that we want to invest in because we believe there's big growth opportunities. We can think about the spaces we have to catch up, like the FINCO in North America, or how do we grow in strategic M&A like we've been able to do with Leapmotors in the last year.

These are all things that when we get them right, create some exciting opportunities for us as we go forward. But what's very, very important is that we tell you today one of these things that I think has always been implicit to us, but I want to make it very explicit, which is when we do those things, we protect the core, we build for the future, then everything that we have, we want to be looking at returning that excess cash to our shareholders. So, if that's the philosophy, then how do we see that come to life? And what it's all about is having an efficient liquidity setup. And what you see is we know this is an area where today, I think we've gotten to a spot that we believe we've got a good absolute level in terms of the liquidity we have as a business.

We're comfortable that we're in a spot, where on the one hand we can deal with short-term volatility, but on the other hand, we have everything we need to service our medium-term organic needs as well as our top-line growth. So if we look at this in terms of what does it mean from a medium- term point of view, our goal is really to take this liquidity position and move to a 25 to 30% number when we look at this as a percent of our revenues. And this available industrial liquidity is something that is going to be able to show us as a direct correlation with revenue growth as we move forward and the shareholder renumeration. And at the same time, I think it's also much more oriented to what we see as our competitor levels in the industry. So if we've got this idea of how we want to approach it, what that level looks like, what I'd also like to do is say; I want to give you confidence that we do have everything we need to keep fueling this machine in terms of how we think about the capital in the group.

There's two things that are pretty famous for at our company. One is if you look at what's happening on AOI margins and what's happening in terms of our free cash flow. And on the AOI, this is a spot where we already have a podium position where we have got a one-of-a-kind commitment in this industry that says we want to be above 10% across every cycle. And I think this is sustainable because we've got very strong position in the profitable North American market. We're growing our presence in the third engine where it's got very strong profitability. We're leading in almost all the markets when it comes to CVs, and that's also something accretive for our business. And we're getting big learnings from things like Leapmotors as well. And those are all things that provide us with opportunities to grow and strengthen that AOI. On the free cash flow side, this is one where in 2023 we were number one.

When you look at the reported OEMs who are providing the information, and it is a spot where there is more period to period volatility than you see in AOI, but it's something where I'm absolutely convinced that we have plenty of scope for continuing to outperform over the medium and longer term. So we got the fuel. What do we do with it? Now we look at what's important in terms of how we deploy our capital. And this is something where it is a key component of our capital strategy and this is what helps us ensure the sustainability over time. So what we're thinking about here is really how do we flip the paradigm when it comes to spend our CAPEX and R&D? Now what you know is if you look at the last three years, we've spent about two-thirds of our money when it came to R&D and CAPEX on ice vehicles and what I call the other core investments.

So quality, cost reduction, maintenance of existing facilities, and those are things that have been really core to how we do things. But as we move forward, you're going to see us have almost 60% of our spend really focused on those future focused items, whether it's multi-energy platforms, software, ADAS, that are the things that are going to drive that growth everybody's been talking about today. So it's great that we are going to spend the money there. I think that is the right place to be doing it. But I also want to tell you how we're doing it is going to make sense as well. We're looking at these multi-energy platforms. We've talked about it a lot today. But these are important because what it allows us to do is really have something that is unique versus our peers. It's a spot where we are able, of course, to be cheaper.

But on the other hand, it also allows us to be ready for varied customer demand scenarios. We can optimize our capacity, limit the risk when we're under utilizing our portfolio of assets. But the big call-out here is we're going to be having 90% of our product on these platforms. If I look at our peers, I can find one who's aiming for two-thirds of the big guys. Most of them are chasing for 50%. So this is a spot where we have made a big bet, and I think this big bet is going to be something that pays off for us in spades. And it's not just multi-energy. We're also being smart about what do we do on the Reskin and derivative front. This is a spot that I think historically was thought of as a little bit the bad boy of are you recycling things and how do you think about it?

But at a company like ours where we have 14 brands that are across different geographies that have different customer needs in mind, this is a real unique opportunity. And you see here the Jeep Avenger, which is where it all started, and we'll see that again in just a moment, but all the products we've been able to bring this across and the magic here is about how do you take a core product, then you add what are those design and handling elements that make it very unique? And that's why we've shown you kind of the front and the side is these all feel very unique and special to our customers. But it's something that provides a USP for us. And again, when you look here, we're going to have 60% of our products coming from Reskins and derivatives. And when we see that of our competitors, it's only about 40%.

Now why does that matter? When you look at a reskin, you save about a third of the cost, about 20% of the development time when we go to derivatives, and those are things like your convertibles, hatchbacks station wagons, then it goes up to two thirds. So these are real opportunities for us to create commercial advantages for our business at something that changes the mold. And it doesn't stop here either. If you look at how else are we thinking about this, we're really looking at how do we deploy efficiently across all of those big topics. So first, you see here what's happening on the sourcing footprint. You heard Maxime say he's going for 80% by 2028 in best cost countries. Ned could have told you he's already got 90% of the outsourced engineering that we do is coming from best cost country.

This is a spot where we are really trying to utilize one, what's close to some of our growing markets? Where do we have agility in terms of our partners, but also something that drives great opportunity for us? The complexity, you heard Carlos talk about that at the beginning of the day, 50%, 75% of our components really driving and change and bringing those to something where we've been able to reduce them in the last three years. And when I look at verticalization, let's not forget that one either because that's a spot where I think we need to be brave as we go forward. And we're thinking there about everywhere where it matters When we have a strict make or buy policy, we're verticalizing joint ventures when it makes sense. You've seen things like Leapmotors where we see lots of opportunity to continue to collaborate. And what we do here is we put a very strict project scoring in place and it's simple. If we can do it easier, faster, better ourselves, we do.

And if we don't, we look at how do we partner so that we're really able to be good stewards of not only what's the profitability, but what's the capital requirement to make that happen? And I tell all of this story because for us it's about how do we change this narrative. In the industry that used to be if you want to create a new vehicle, you're going to spend a billion euro. We don't believe that's true. And if you look at how we spend it, this is a chart I'm really proud of because it's not just how are we 30% better than our peers, but why? And you see here across all of the narratives, whether it's what we spend on a total level as a percent of sales, whether you look at it in terms of the R&D as a total number, when we look at it here on the spend per car developed or the spend per car sold, these are spots where in all of these areas we're number one, we're top quartile in all of these areas.

And it's something we're committed to because we believe that if we do these things right, it drives not only value for us but also for the customer in terms of really making sure we're smart about how we're spending our money. So not only do we spend it well internally, but I hope what this means is we've got a quasi-flywheel where we're looking at what are the opportunities that we can spin out to you also in terms of as our investors and our shareholders externally. And what I'd say here is if you look at what we're doing in terms of distribution, first, let's be proud of what we've done so far. The quantum is impressive with almost 8 billion this year. If you look at the total return yield, it's 11% based on where we were at the beginning of the market cap. If you look at the direction of travel, this is something where we're three times what the S&P is doing. And honestly, we believe this is a conservative and very sustainable payout ratio. So when we look at what's happening on the dividend in particular, the dividend is one where we're very proud of the 1.55 that we paid out this year or $1.65 for our US investors.

But this is a 7% yield and it's something that is a great number. We know across the industry. It's 25% if we look at the income of the prior period, but it's also at the low end of the 25 to 30% range that we've called out. And our goal really is, as we move forward, to say how do we make that dividend more stable? Look at it as a rising level over time and for 2025, so based on this year's results, we are saying today that we are going to take that number and make it something where it's going up and it's going to be at the higher end of the range. This is something that I think hopefully will give people a little confidence that as we are in perhaps more adverse situation in the short term and some of the earnings topics, it's a place where we're able to offset this in terms of what we do.

Everything from our dividend yield. Buybacks are of course also important for us as an organization. And this is a spot where my message to you today is really pretty simple. Just expect buybacks to be part of the future. It's not just something that we've done one year and two year. We have done this very thoughtfully and it's something that is and will continue to be part of how we think about capital returns going forward. They're really important to us because they're flexible. They give us an ability to look at markets when things are... They're great opportunities like our valuation these days. And it's also a spot where at the same time we improve our EPS through that share count reduction.

So, I take those messages and I look at, well, what does that mean for us? It also means that we've got, I think a really strong track record in terms of how that ties to TSR for the group. And our TSR for the group is something where you see a big track record. We're 50% above what we've seen for the market, if we look at it just since the end of 2021 when we started having dividends. But it's also three times above where the S&P is and it's a place where going forward we've got great... We see even further opportunity. This is a spot where we think there's the ability on what we're doing with the capital side almost by itself to deliver close to double digit returns. And you add that to the two big material things that are what we care about, and that's what are we doing in terms of the business and what can we drive there in terms of improvement, but also what can we do on the valuation side where we think there's some catch up for our business to do?

And when we combine those things together, that's why we are very confident in terms of the big TSR opportunity ahead. It's a spot where we know we're below average versus our peers and we want to make the most of that advantage as we go forward.

That's it for me. I get to wrap things up just by repeating those three key messages for you, which is; first, we are laser focused on the challenges of 2024 and what it's going to take to improve the dynamics and really start to show you that it's not just a transition year, but what's coming out on the other side of it. Second, we have a very holistic capital plan, and this is something that it's supported by our strong business model. It allows us to invest in an efficient way and it drives the tangible and what we believe are growing results for shareholders over time. That's all I've got for you. I'm excited now to hand over to Carlos who will wrap things up for us. Please welcome back Carlos Tavares.