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AutoStore Holdings Ltd. (AUTO.NO)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

Good morning, and thank you for joining the presentation of the third quarter 2021 financial results for AutoStore. For your presentation also, no fire drill has been planned, and note that the fire exits are clearly marked at the various entry points of the venue. So, please, please fill up your morning coffee and welcome to spending time with me, Karl Johan Lier, the CEO of AutoStore; our CFO, Bent Skisaker; and our Chief Revenue Officer, Mats Hovland Vikse.

We will open the floor for questions after the presentation, so please start submitting questions for those of you present online. And for those in the audience, please see – wait for the microphone, and we welcome you presenting yourself.

Okay. I'm very proud with the quarter three performance by the team, which delivered another strong quarter with our revenue growth of 95% and adjusted EBITDA margin of 50%, in addition to an impressive order intake of \$140 million, bringing our order backlog to exceed \$340 million. This provides us with confidence in our outlook for the full year end 2022.

Also, we had the pleasure of announcing StrongPoint and Fives to our partner network. StrongPoint will increase our market access and relevance in the grocery MFC in the Nordics, and Fives has a strong presence and market position in Southern Europe. All-in-all, we made strong progress during quarter three, but for now, let us dive into operational development.

AutoStore continues to benefit from a huge underpenetrated market with high expected growth rates for fast cubic storage. During quarter three, we continued to see pressure on warehouse costs and productivity, continued e-commerce growth, and labor shortages, all of which are strong drivers for market.

[ph] As always (02:12) in AutoStore, we continue to gain market share in what is already a fast growing and attractive market. In addition, we continue to invest heavily into R&D and further develop our technological

leadership. An important part of our strategy is to continue to expand our geographical footprint by adding additional business development managers and new partners to our network. By adding StrongPoint and Fives to our network during the quarter, we continue to drive increased market access and expand our platform for growth going forward.

During quarter three, we have sold more than 100 new systems across all regions and have wide variety of end markets. We have sold systems in the Standard segment, which has been our historical stronghold, in the MFC segment, which is an important growth area and in High Throughput enabled by our increased performance capabilities. Expanding the installed base is important as we continue to drive growth into significantly underpenetrated market.

Lastly, before handing over the presentation to Mats, we continue to launch several R&D initiatives to advance our technological leadership. This is important. Just remember where we came from. A long time ago, I was the CFO in the Hatteland Group, one of the major component distributors in the Nordic. We were growing very fast. There had been a new distribution center and only after a couple of months, my boss come to me and said that he needed to expand the distribution center.

I was the CFO, so I told him we didn't have the money to do that. But then our Technical Director, Ingvar Hognaland, came in one morning and said that he had an idea. And the question he had was what do we see most of in our warehouse. And the answer to that is what you see most of in our warehouse is air. So, Ingvar's conclusion was clear. We need to get rid of the air. The idea was to cube with no air between the bins. We saw the potential in the idea and started to work on a prototype. And the rest is history.

Fast forward, this [indiscernible] (04:25) innovation to the core of our DNA. This quarter I would like to highlight the Innovation Hub, which is fitted with a combination of our robotic technology and infrastructure for supply chain and retail facilities that cannot be found anywhere else in the world. I had the pleasure of welcoming former Prime Minister, Erna Solberg, to officially open the hub where we among other showcased our capabilities with frozen products for MFCs. This obviously bringing growth opportunities and relevance to the global grocery industry.

In addition, we launched Carousel Port 4.0, which is a redesign of the top selling Carousel Port with new features and benefits for improved order fulfillment in evolving warehouses. I'm looking forward to welcome you all to our Innovation Hub. But in the meantime, please visit autostoresystem.com for additional information and content to our products and systems.

Since we recently have added over 10,000 shareholders and many today is watching their first AutoStore presentation, we have today added an intro to AutoStore and our strategy. Mats is going to lead the section. But first, let's play a video and please remember to fill your breakfast cup of coffee.

[Video Presentation] (05:41-06:44)

Mats Hovland Vikse

Chief Revenue Officer, AutoStore Holdings Ltd.

Thanks, Karl Johan. Hi, everyone. My name is Mats Hovland Vikse. I'm the Chief Revenue Officer in AutoStore. And as you can see from the video here, it's not without reason that we're truly excited to present our technology and our strategy to you here today. But before going into that, I'll say that the numbers that we show on this page is really the result of 20 years of hard work. And as you can see here, we've now sold 770 installations in more than 35 countries, and more than 25,000 robots are today operating all around the world.

We have a real scaled global platform, a strong blue chip customer base and a large network of distribution partners. If you look at it, a large part of our revenues are coming from our existing customers as they continue to come back and buy more based on the superior experience they have with our system. And what this means for us is that we have been able to build a superior financial profile with high growth, high margins and high cash conversion. However, we're in a very good position and we're only in the start of our journey and we see massive potential going forward.

If you look at this page here, you'll see that we are playing in what's a \$230 billion market for what we call automated storage and retrieval systems or ASRS. And this is a market that's still in its very early innings of disruption. As of today, the market we service, roughly \$5 billion, and it's growing fast at a 15% CAGR. And this serves a market that still has very, very low penetration rates and, as I said, we're still in the beginning of our growth journey.

And what's driving penetration here, our large secular megatrends like e-commerce, changing consumer demands and automation penetration in general. And what this whole shift over to e-commerce and these megatrends are doing is that they are creating new types of challenges and new types of needs that ultimately will need automation. And I think as we show here on this page, this white space is just massive. In addition to that, with our flexible solution, we are able to address virtually every part of that market, regardless of whether the customers wants the small micro fulfillment centers that are close to the consumers, or if they want the large, centralized distribution centers, and basically we can also deliver everything in between.

Going into the next page here, I'll show you more about how we exactly address that market. And we have a unique and lean business model with all sales going through a network of distribution partners, and this network area has a global reach. This model allows us to scale very effectively around the globe, driving more sales together with the growing installed base. And today's network represent more than 1,500 sales representatives working out there with AutoStore every day in the market. In addition to this network, we are building out our own sales force, with business development managers who creates leads, generate awareness and develop opportunities that we then hand over to that partner network. And I think that this combination with our business development managers and these partners create a very strong push into the market. But on top of that, we're able to create this flywheel effect from the result that our end customers are on top of that, requesting AutoStore due to our strong KPIs.

And what this means is that we have been able to build an exceptionally diversified blue chip customer base across all key verticals and with a significant exposure to e-commerce, which is a key growth driver for us in AutoStore. The breadth of customers across all of these key verticals, I think is really an evidence of our ability to serve all types of customers and over time, automate all the global commerce. We have a flexible solution consisting of Standard modules that will work across all segments.

But our solutions that does not only represent the superior solutions on these customer KPI served, it's also the most efficient and sustainable solution for warehousing. Sustainability is becoming an increasingly important factor which guides both customer behavior and ultimately then buying patterns. And I think these ESG metrics, there they speak for themselves. And as one example, 10 of our robots use approximately as much power as one vacuum cleaner, which means that the power consumption of the robots in an average AutoStore system is on par with the power consumption for five vacuum cleaners. And this power consumption here compare it to competing solutions, is next to none.

In addition to that, the density of our solution can reduce needed space with up to 75% compared to traditional warehousing systems. So as a company, we have a dedicated commitment to be a leader in sustainability, and we look forward to continue to report on this as we launched our 2021 ESG report.

But I'll finish up by – in the same way that I started in saying that the best is yet to come. And we see very, very strong growth ahead of us. So firstly, we are in a market that is expected to grow strongly for decades to come. And we have strong visibility supporting the growth plans in the coming years. In addition to that, cube storage, which is the segment that we dominate and that we have created, is supported by several secular megatrends, bringing stronger growth to our parts of the market. And on top of that, as we see on this page, there are various initiatives within AutoStore that will drive further value creation and more growth going forward. So, all of these opportunities for growth will support the journey that we have in front of us.

And with that, I'll give the word to Bent, who will take us through the Q3 financial performance.

Bent Skisaker

Chief Financial Officer, AutoStore Holdings Ltd.

Thank you, Mats. Going into the financials, I move to slide 17. As Karl Johan already has stated, we delivered another strong quarter, with a revenue growth of 95%. We delivered an adjusted EBITDA margin of 50% and an impressive order intake of \$140 million, which brings our order backlog to exceed \$340 million. And we also continued to deliver strong cash conversion of 83%.

Going into more details on the revenue, I go to the next slide, which underlines the growth journey we're on. AutoStore reported revenue in the third quarter of 2021 of \$85 million, up from \$43 million in the corresponding quarter last year. So, we continue to benefit from a huge underpenetrated market with high expected growth rates for fast cubic storage, which is driven by a strong macro backdrop of pressure on warehouse costs and productivity, the rapid e-commerce growth and labor shortages. Looking at the adjusted EBITDA, it's ended at \$42 million in the quarter, up from \$23 million last year, and a corresponding to an EBITDA margin of 50%. I will address some EBITDA adjustments shortly.

Moving to the geographies, the revenue in EMEA increased by 95% in the third quarter, representing a share of 70% of total revenues. We have ramped up our North American expansion efforts in 2021, contributing to a revenue increase in the third quarter from \$9 million last year to \$20 million this year, representing a growth of 124%. Further, we've also ramped up the APAC expansion in 2021, and we have added Asetec, SoftBank Robotics and Samsung to our partner network, providing a strong platform for growth and expansion.

If you look below this, we have seen that MFC and High Throughput applications, which are important strategic growth areas for us, has grown for close to nothing last year to a meaningful share of our Q3 revenues. The increase in MFC and High Throughput is closely related to the group's growth strategy. The most important part of our financial reporting today is our order intake and order backlog, which strongly support our reiteration of the 2021 and 2022 outlook. In short, the order intake grew by 177% from \$50 million in the third quarter of 2020 to \$140 million in the third quarter this year. Order backlog increased to \$342 million at the end of Q3 this year, compared to \$129 million at the end of the corresponding period in 2020, which represents a growth year-over-year of 166%.

The significant growth in order intake is mainly driven by a shift and acceleration in the e-commerce penetration, which subsequently has increased the demand for efficient and automated logistic solutions. As you know, we have also had significant costs related to various topics as the Ocado litigation and costs related to the preparation of the IPO and the IPO itself.

Consequently, we are providing a breakdown of the different costs that to a large extent has a onetime character. The adjusted EBITDA is also an important supplemental measure for investors to get the overall picture of profit generation in our operating activities.

For the full P&L, balance sheet and cash flow, please see the full board of directors' report, which we announced at the 6:00 CET this morning, providing an in-depth discussion on consolidated IFRS accounts. Note that adjusted EBITDA is an alternative performance measure and that you will find additional information to the IFRS financial statements as a part of the APM section in the financial report on page 28 and 29.

So, to summarize the third quarter, we delivered another strong quarter with a revenue growth of 95% and adjusted EBITDA margin of 50% and an impressive order intake of \$140 million. So, thank you for spending this morning with us in AutoStore and I will give the podium back to Karl Johan who will wrap up the presentation and lead the Q&A session. Thank you.

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

Thank you, Bent. As we have presented today, we are on a fast growing market, even though more and more warehouses are automated, only about [ph] 15% (19:14) of the market is automated today, leaving plenty of space for growth and increased demand for automation.

In addition, AutoStore is an investment into global megatrends, significant growth in e-commerce is shaping the industry, and so, shaping the requirements for fulfillment solution. Approximately 70% of our customers today are involved into e-commerce, and we expect e-commerce to continue to fuel growth.

In our view, the demand for automation across the supply chain will continue to increase to enable new ways of fulfillment and reduce the dependency on manual labor. Changing customer demands and increased focus on sustainability will also drive AutoStore's growth.

We are confident in our ability to deliver solution to sustain the revenue growth guided on despite the current tight situation for certain parts and materials which also we are facing. This situation will have some short-term impact on margins, but I'm not overly concerned about the supply chain impact on AutoStore going into 2022.

The key takeaways from this presentation is that we are on track towards the goal of what we're planning for the company and delivered a very strong third quarter 2021 with 95% growth, solid margins and an impressive order book.

That also concludes our third quarter financial presentation where we are reiterating our outlook from the IPO process of revenues in 2021 of approximately \$300 million growing to over \$500 million in 2022. And as we always say in AutoStore, the best is yet to come, the journey has just begun.

Thank you for participating this morning and we are now open up for questions.

QUESTION AND ANSWER SECTION

Q

Thank you. [indiscernible] (21:12) from Carnegie. A couple from me. I'll do them one by one. Your full year guidance implies quite the drop in revenue from Q3 to Q4 of this year. Last year, it seems like revenue was up quite a bit from Q3 to Q4. Could you just help us understand a bit if there are some seasonality effects there, some timings, et cetera?

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

A

There is always seasonality effects in this business. So, this is big projects and the income will really depend very much on where you are in the process of several big projects. So, that's a normal situation you will see with AutoStore, that the turnover will go up and the change, up and down and change from quarter-to-quarter, really. The most important to look at is really the overall growth year-by-year, and this year, we will grow more than 70% and we are also guiding on the same growth really close to for next year.

Q

Perfect. Thanks. And another one as well, another very strong quarter on the order intake side. Could you be a bit more – or give a bit more color on the geographical split type of warehouses, MFCs versus Standard versus High Throughput, any additional color there?

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

A

Yeah. I think maybe Mats can elaborate on that.

Mats Hovland Vikse

Chief Revenue Officer, AutoStore Holdings Ltd.

A

Sure. So, I think to start with the segments, we're going one year back, we were mainly delivering into the Standard segment, which has been the historical stronghold of AutoStore. If you look at the third quarter now, I think one-third of our volumes are coming from MFCs and High Throughput, where we've made strong progress across really all regions. If you look at the regional performance, I'll say that Europe continues to deliver very strongly. We're seeing growth in North America, and in APAC, we see very strong growth potential going forward, as we've built a solid platform for growth there during 2021, through both adding additional partners, building out the BDM function and seeing general demand increase in APAC. So, feeling very good about that for 2022.

Q

Thanks. And a final one for me, I guess, other people have questions here as well. And a bit on, kind of, the cost structure and the business model, where we see gross margins dropping quite a bit on a year-over-year basis but still EBITDA margins holding up pretty well. Could you just talk a bit about the flexibility in the OpEx space and kind of those costs and what makes those – that OpEx space so flexible?

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

A

We have a very lean business model that all sales is coming through a network of partners. That means that we can scale effectively around the globe with a limited investment into the organization compared to the growth that we are driving. So, what you will see is that over time when we grow, you will see a normal and operational leverage that we can count on. But we also clearly invest heavily into R&D to be sure that we continue to stay in front technologically. So, margin is of course impacted in general by the situation in the world at the moment on the supply side. But even though that is the situation, we have been able to continue to drive strong margins.

Q

Thank you. [indiscernible] (24:44) ABG. So, only one question from us that is regarding the order book. What is the expected timeline execution on the order backlog and has that changed recently? Thank you.

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

A

You can probably elaborate on that, Mats, and then we can add on.

Mats Hovland Vikse

Chief Revenue Officer, AutoStore Holdings Ltd.

A

Yeah. So typically, there will always be a range, but I think the majority of that backlog will convert, say, over next 6 to 12 months. If you look at the dynamics of that backlog, we've definitely seen lead times going up compared to last year. So, there is some impact from that as well.

Frank Maaø

Analyst, DNB Bank ASA (Broker)

Q

Yes. Hi. I'm Frank from DNB, Frank Maaø, and I got a question regarding the MFC trend. If you could please give some breakdown as to what verticals you see dominating in your MFC business and order book going forward. Do you see, for instance, any particular trend within grocery or geographies to see that or is it more to consumer electronics and so on?

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

A

I can start and then you can elaborate. So, generally, we see strong momentum in the MFC segment. I would say grocery is an important segment for this type of applications. The pandemic has really accelerated e-commerce growth in – for the grocery companies and that really opened up that they need to evaluate new ways of fulfillment. And automation is the clear path to go in that connection. So, I would say grocery very important, but also we will see as we see that this will also go to other segments going forward. And anything you will add, Mats?

Mats Hovland Vikse

Chief Revenue Officer, AutoStore Holdings Ltd.

A

Definitely grocery is the key one, still a small part of the market, but I expect it to grow fast in the coming years. But we've also now seen other verticals applying the same type of fulfillment strategy. And you've seen over the coming – the last weeks and months that both Decathlon in Canada and IKEA in Zagreb has announced

AutoStore Systems with that type of fulfillment strategy. So, we're definitely seeing it appear in other verticals as well, so exciting area for sure.

A

If there are no other questions from the audience here, we have one topic online that has not been addressed yet and that is going into Q4, how do you see the litigation costs?

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

A

Yeah. We expect that the litigation will continue. We expect the litigation cost to continue also in quarter four, probably slightly below what we see in quarter three. But we expect that to continue for a period of time, for sure. Anything you will add, Bent?

Bent Skisaker

Chief Financial Officer, AutoStore Holdings Ltd.

A

No. No. I agree. It's – just reiterate what Karl Johan just said. It will continue for some time, but in the fourth quarter it will not be at the same level as Q3.

A

There are – one question here in the front. Just a second.

Q

[indiscernible] (28:14) no slides or comments on cash flow, would expect that from – now we have top five market caps on [indiscernible] (28:25). Also, when we learnt about the story in – during the IPO process, we were looking at the pipeline, that you – we're looking at both historically and going forward as an early item into the order book. Will that be part of the material or is it part of the material that I can dig into it going back to the reporting after this, how will you do that going forward? Thank you.

Bent Skisaker

Chief Financial Officer, AutoStore Holdings Ltd.

A

First, on the cash flow, we will report on the cash conversion, which is still very strong. When it comes to the pipeline, we will give an update of that on an annual basis and some quarter-to-quarter basis, it will be quite some fluctuation.

A

If there is no other questions from the audience here. Just leave it to Karl Johan to wrap it up.

Karl Johan Lier

President & Chief Executive Officer, AutoStore Holdings Ltd.

Thank you. That concludes our third quarter presentation. We look forward to welcome you to – back to our fourth quarter presentation, the 17th of February 2022. Thank you very much.

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