

Montana Aerospace

Q&A

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Transcript

Speakers:

Michael Pistauer

Operator Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone phone now. If you wish to remove yourself from the questioning queue, you may press star followed by two. If you are using speaker equipment today, please lift the headset before making your selection.

Anyone who has a question may press star followed by one at this time. One moment for the first question please. And our first question comes from Virginia Montorsi with Bank of America.

Virginia Montorsi Hi, good afternoon everybody, I just had a quick question on energy. For clarification, have your costs so far tripled or quadrupled? Because I think in the slide there's a three dash four, so just wanted to clarify on that. And then could you help us understand a little bit how to think about 2023 for the energy costs? Do you still expect... Basically any call you can give on that and how to think about the development . Thank you very much.

Michael Pistauer Virginia thank you, hello. From our side, 2021 to 2022 it's about a tripling, a bit more than a tripling to be fair, almost 3.5x I would say to be exact, concerning our energy costs for the total year. Of course, the year is not yet finished and then we have to at the end on the energy costs, also need to deduct the subsidies we might get on those energy costs. But it's not yet clear in term of the states and the European Union did some activities in this respect. So it's between 3x and 3.5x depending on subsidies.

Virginia Montorsi Okay, thank you very much. And on next year?

Michael Pistauer I think, I answer differently, sorry to say. The most challenging topic is not high costs, but the volatility. If no one really knows what is happening today, the next day... If we have looked at the energy prices, which is more or less not something you can fix for a long period of time, in the meantime it's only on the spot market, the spot market in some weeks doubled or tripled within a day, and then going down again the day afterwards. This volatility is the hardest to-do.

We calculate with constantly high prices on energy, out of different reasons but I guess we can discuss it on a separate discussion point. And therefore in the meantime for most of our contracts two clauses concerning the energy costs. We calculate with over around 150€ per MWh for next year.

Virginia Montorsi Okay very clear, thank you very much.

Operator The next question comes from Ross Law with Berenburg.

Ross Law

Hi everyone, thanks for taking my questions. I've got three so I'll ask them one by one. The first one is on the margin, you've obviously today confirmed your guidance for the full year, but you've also specifically stated that the margin for the full year could be around 8%. That basically implies of course a very big step up in the margin in Q4, I think on your revenue guidance it implies 16%, and you've also said that you could beat that.

So I'm just wondering at that exit rate, what does that mean for 2023? How much of what you're doing in Q4 is one-off? And yes, in general if you could provide some colour on your expectations for either EBITDA and margin in 23, that's the first one.

Michael Pistauer

Thank you very much Ross, yes a good point, the one-offs, please let me explain once again, it's mostly subsidies which we have and subsidies we only partially know whether they are coming for sure or not within the fourth quarter already. But on the other hand they're one-offs in the fourth quarter, but we had the costs already nine months upfront. So that's why I won't see them too much as one-offs in this respect, so therefore not too much one-off out of it.

On the other hand, yes we have a one time immense impact out of the capacities this quarter, which we can generate out of the Sao Marco transaction. This will continue for the future, but not of course with this first let's say high rates we have for the first quarter 2024. So most of it I would say is continuous basis also for the future, and therefore we expect this next year on a I would say broader range between 130 and 150 million EUR of EBITDA.

Ross Law

Okay so you're confident with double digit margin next year?

Michael Pistauer

Yes.

Ross Law

Okay thanks. Second is on build rates. Obviously Boeing had their CMD last week and they published their updated assumptions, I'm just wondering if you've made any changes to your internal assumptions. I think the 737 rate that they put out for 2025 is slightly below where you were previously. So if you can give some colour on how that's impacted your assumptions but also the contracted sales basis as well, thanks.

Michael Pistauer

2023 is something different to answer than 2024/25. If we take a look at the next three years, look at all the guidance which is of course given by the OEMs mostly. Why is 2023 different? Never forget that we are part of aerostructures, so the prime structure of the aeroplane, so it's mostly the starting point. Usually they are increasing their lead times

which are over one year, if you're not in the business like we are, that we have it in a very integrated way.

So therefore the orders are out and therefore we can give quite exact numbers already from our side but we know quite exact what are the pull rates for us. What are the build rates, what has been delivered from Airbus or Boeing to the market, it might be slightly different. But we expect something that for instance for Boeing, they announced something like 38 build rate for 2023, we are slightly below. Mid-term they calculate and here we are in the around 50s, so what they plus minus also announce now, we know that they announce a couple of weeks or a month ago, 57 to be in 2025, which we always said, but we're not believing also the 60s, we never believed, we thought always there will be constraints on that point. So now 2025 we are almost plus minus with the 50, it's in the range of what they have in their guidance, for the 737 sorry.

For the other plane types, there is one which is I guess also for us very important as we have a good market share here, it's the 787. We've seen very low build rates this year, in between one and two. Boeing is pushing hard to increase it fast. We have definitely lower rates from what they announced, so in our calculation of financial guidance, almost half of it. I would wish to see the 10 announced, but we don't expect them in the years till 2025, we expect them lower.

A320 family, nothing changed to our last I would say guidance in this respect. We know that Airbus is trying hard to get to 75 by 2025, we have low 60s here. And for the next year we calculate also with higher 50s.

Ross Law

Great, thanks. Final question is just on debt, more specifically parent company MTC debt. So obviously we had the Varta profit warning a few weeks ago, so I'm just wondering what your internal assumptions are for MTC's leverage at year end, and obviously how that compares to the covenant at 3.85x times. And also, in this scenario that MTC would breach its covenant, what are the options available to the parent company? And how could that potentially impact Montana Aerospace? Thanks.

Michael Pistauer

Ross, thank you. And some which are maybe not that aware of this situation, let me shortly explain it, why it might have potential impact to our net debt. The outcome is as follows, the Varta, Montana Aerospace and also Aluflexpack, all three listed companies, have a majority shareholder which is MTC AG, our old parent company, holding in all the three companies more than 50% of the shares. They have their

own business also, some minority interests in some industries and real estate companies, but beside that one, no other segments.

And Montana Aerospace that was the youngest on the stock exchange of course, had in the past was financed by so called promissory notes, and those promissory notes were then... Had covenant criteria which are calculated on the MTC level and we have also a guarantee of the MTC AG concerning our financing.

So now what happens is and what Ross teased with this statement and question, is that Varta, our sister company, for everybody had an unexpected, after a very good year 2021, in the last weeks announced that they will not meet their consensus and guidance. And to be very fair, this has caused or is definitely something to look at very decent, but at the other hand it's also challenging for the covenant criteria of the MTC AG. Which could then indirectly potentially, a two times conjunctive, also impact Montana Aerospace.

And here I can tell you, that if I take the consensus of course, then we are far away from any covenant breach, by the year 2022 or 2023, if I take even a half of... I would say a quarter of the... Not even a... A low double digit amount of EBITDA from Varta, assuming they are not producing any or only negative EBITDA for the month since September... My calculation they are let's say straightforward then even in this case with the development of MTC, which has a very strong quarter for the fourth quarter, Aluflexpack and our performing, there won't be any breach of any covenant criteria.

Independent from that point, what if... Even if there would be a case, then it would call for the guarantee and then Montana Tech Components AG, would need to make whatever, do... To either pay off one of the... or Sell one or the other non-core business, the real estate. But in any case I guess that it's not the case concerning our simulations of any covenant structure we have calculated.

Nevertheless, we take this also as a starting point to achieve and I guess it's something we announced earlier than what was from our side announced, were also expected I guess from the market, to be cash positive and reducing heavily our net debt by the year's end and in the first quarter. And that's something we follow-up since then at this point quite heavily to make us all concerning our financial structure completely independent from any potential issues of the MTC.

Which then should be followed up by 2023, a clear cut also on any guarantees or whatever, and be independent from that point. Hopefully this answers your question. I know it's a bit complicated but hopefully it answers.

Ross Law

It does, thank you.

Operator

Next question comes from Aymeric Poulain with Kepler Cheuvreux.

Aymeric Poulain

Yes, good afternoon and thank you for taking my question. Just following up on this debt reduction process, in Q4 you mentioned the working capital having peaked, and so potentially with low capex and improved EBTIDA, that means you may even be closing in on a positive free cash-flow for debt reduction.

So what's the scale of the working capital reduction you would anticipate in Q4? Would it be mostly also from the inventory consumption as you build up excess inventory as a buffer throughout the year? Or will it be through some financial monetization of let's say trade receivable or other working capital? That's the first question.

And the second question is regarding the acquisition of Sao Marco. You said it didn't have an impact on sales in Q3, also you consolidated the consideration and the balance sheet in Q3. And I think you gave a guidance for the contribution of acquisitions to sales of about 150 million for the year, but if I look at the 120 million that you mentioned for the nine months, it doesn't look like Sao Marco does make a big contribution.

And again, it doesn't make a lot of sense to me, given the fact you said it should make a decent contribution to the EBITDA in Q4. So could you give us the exact contribution you would expect from Sao Marco in Q4?

Michael Pistauer

Yes of course. I start with the TWC if you allow me, the first question. Yes you're right, of course we expect a three digit million a year amount to reduce the TWC. The main impact is out of the inventory, you're correct, I don't have to tell you we have in the Q3 2022 for total Montana Aerospace, almost 400 million on inventory. Most of it is material but also work in progress, which is then... Or finished goods which is then delivered in the fourth quarter.

This is a decent high amount, extremely high amount to be fair, but was mostly strategically intended and also linked also to the ramp up partially and therefore does have an increase on that point. But of course by the years end there will also be some changes on receivables and payables but the main impact is coming out of the inventory and in total

we expect a three digit million EUR amount out of this impact, in comparison to what we see in the September results.

Concerning Sao Marco, we have to distinguish and not to get mixed up. We have had two transactions this year, the one is Asco in the field of aerostructures, which we consolidate since April, so since the second quarter 2022. We expected here a bit lower sales contribution for the total year, we said there was a run rate of around 50 million per quarter. We have to see right now on a good performance on sales, there's a run rate of around 60 million per quarter, so right now they stand up in the sales of the Q3 results for around 120 million on total sales. And it is going to increase by another good portion of around 40 million by the year's end. This is Asco.

Sao Marco, different, was closed in the end of September, so which means the full balance sheet is in but not the sales as with the consolidation date, it only starts with the sales consolidation. And here we expect for the total year Sao Marco is good on a standalone basis of around 80 million on total sales. So here we expect 20 million out of Sao Marco as a contribution for the last three months 2022. But please note that it's not including the sales number or our internal monetization of the capacities they have concerning recycling, which has a main EBITDA but not a sales impact, a massive EBITDA but not a sales impact.

But for the total year next year, we may calculate with Sao Marco out of this acquisition as at least 80 million on total sales. And out of the Asco transaction, a good portion of far over 200 million, more in the direction of 250 million.

Aymeric Poulain

Excellent, thank you.

Operator

Ladies and gentlemen, if you would like to ask a question, please press star one.

Michael Pistauer

I think there are no more questions. We wait for another minute for... Maybe let me shortly before we stop the call, once again give a bit of a picture of this industry we are in. And it's amazing how fast the consolidation process is taking place right now. We see it on a very intensive way, as never before we had the chance for so many attractive work packages offered by the OEMs... We see never as before so many companies not being able to supply our competitors in the different tier levels of the value chain.

The positive impact to find solutions concerning reduced value chain structures in the supply chain from the OEMs. And also concerning the cost level and the awkward

situation is that what we are still... In the last month was extremely challenging, annoying, frustrating, if you try to fix something like for instance, energy prices and the next day you see everything more or less pushed against the wall because the prices change.

But on the other hand, it helped in many areas to come from a customer driven market pricing to a supplier driven market pricing. This has a high impact from the market demand and therefore we're quite optimistic also besides it stays still challenging also for the future. That's from our side, then there's another question coming in, so maybe we...

Operator

Excuse me. Our next question comes from Beltran Palazuelo with DLTV.

Beltran Palazuelo

Hello, good afternoon Michael and Marc, and congratulations for solid results. Maybe a more philosophical question, it is good to see that we have confidence on FCF generation this quarter and your confidence on next year. Regarding of course sometimes markets are irrational, but overall strong work you're doing now operationally and commercially.

At some point is it on the cards when you have visibility on FCF generation next year and after next year, is a buyback, a little buyback to show confidence on your words and also to show the market that Montana is very disciplined on its capital allocation, not only buying companies, but also buying back your shares at huge discount?

Michael Pistauer

Hopefully I understood you correctly, so the confidence is keeping on for the year 2024 onwards and this year we are more or less fully booked for the year 2023/24/25, there's some capacity in some of the plants. At Asco we received today a good let's say received a good order in this case there. Free cashflow is the main impact we are focussing on for Q4 2022 and 2023 onwards, and want to stay for now on and forever, no I don't know, but at least for the period for the next years I can overlook, free cashflow positive and reducing constantly our net debt level. So I would say in a medium term period, we want to have a net debt level of less than 2.5x. And then I would see a good year net debt level of 2x, depending on I would say, the general worldwide situation, but definitely not more of it.

This is the one topic if at least what is on our long term or mid term intent with a free cash-flow positive business and our clear guidance we have the 1/3, 1/3, 1/3 regulation, which means one third pay-out ratio, one third capex for strategic projects and one third for reduction of debt.

And therefore, for the midterm I also want to have not only our

