

Montana Aerospace AG
FY 2022 Conference Call - Q&A
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Transcript

Speakers:

Michael Pistauer

Operator The first question comes from Phil Buller from Berenberg. Please go ahead.

Phil Buller Hi, good afternoon. Congratulations on the results and thanks for taking my questions. I have three, if I may, two related ones. Firstly, on the free cash flow and the debt position, obviously a huge improvement in Q4, a big change in the trade working capital. I was wondering if you could comment on whether there has been any material change in your view or approach to things like factoring?

The second and related question, I guess, you mentioned in the annual report an objective to try and address the ties on your debt with the parent company MTC. I was hoping you could take us through where we are in terms of the parent company covenants and what needs to happen practically, to enable the ties on the debt to be removed, and in what kind of timeframe we could expect an update. Thanks.

Michael Pistauer Phil, thank you very much. You're right, I'll start with the second part of the question, we also said that we are more and more cutting the ties to our majority shareholder, Montana Tech Components AG. For everybody on the call, remember that our financing is based, on the one hand, on cash, but on the other hand, we still have a net debt position on debt. This debt consists of a good portion of so-called promissory notes. And these promissory notes have a covenant criteria, and the most crucial one is the net debt to EBITDA.

As you have learnt, Montana Aerospace itself has a very solid net debt to EBITDA ratio with 2.2x, so definitely in a highly investment area. But out of the past because those promissory notes were issued long long before an IPO, the covenant criteria calculated on the MTC, so the old shareholder's group perspective. Therefore, if one of our sister companies, in this case VARTA, did not reach the numbers to be expected, this has a potential impact also for us.

Therefore, to tell you, 2022 everything is solved also by our strong development, but also by other topics, so there is no issue. But this left of course a clear focus on our side to cut the last major criteria which is linking us to the MTC, by changing the financing of the gross debt of these promissory notes in 2023. We are in the process of that and I think that we will have a good result by mid of the summer, and then we'll present the details at that point. But there's a clear goal, not only to reduce gross debt, but also to change it and also to reduce the net debt and, therefore, have no major negative impact on the interest rates, but to have a complete independent structure on financing of Montana Aerospace. Not only for now, but also for the future.

The other topic is trade working capital. As you said, linked a bit also to the financing because we had a very high trade working capital with over EUR 500 million. We reduced it dramatically over the last quarter, which was the starting point. If you can remember, I indicated in the September's call, the peak was reached and now we started to reduce it, to bring it back to normal. Back to normal means something like plus-minus 35% trade working capital ratio on 'Aerostructures', around 16 to 17% in 'E-Mobility', and around 7 to 8% in 'Energy' in comparison to sales. This is a process mostly in 'Aerostructures' to take some time, so we are in the middle of it and that will be more or less continuously reduced till the end of 2024, where we should reach those numbers then on a steady basis, also for the future.

However, trade working capital in 2022, yes, we have seen some special topics in there. We did some factoring – worth around EUR 25 million – but it is nothing which is completely out of the ordinary cost of business. We did also in the past some factoring when it comes mostly to countries like China, India and Brazil, as they faced already in the past, not only now, high interest rates. For instance, Brazil up to 17% and, therefore, factoring with much lower rates was a usual way of how to finance and a much cheaper way, the same like in China. So, nothing majorly out of the ordinary course of business. Of course we pushed a bit by the end of the year, but that's the case.

Phil Buller

Got it, thank you, that's helpful. Just finally on the potential spin of the Energy business. Obviously the financial markets are a bit volatile at the moment. I assume there's no urgency, but is there a timeframe you'd like to get this done, say is 2023 an objective or is that the wrong way to think about it? In terms of who would you consider to be the most appropriate peer group for people to look at when doing a comparable assessment of that business? Thanks.

Michael Pistauer

Thank you very much. The main positive impact throughout this contemplation was coming also from potential strategic investors, strategic partners, who said it would be interesting to maybe take a stake or part of our ASTA / Energy business. Yes, you're right, there is no need for rush. Whenever the market is then able to accept again interesting stories and interesting IPOs, then we will be ready, whenever it is. If it's maybe in the second quarter, third quarter, fourth quarter, we don't know it, nobody knows, I guess, but I've learnt in the past at least you must be prepared.

You have to be prepared, you have to give also potential strategic partners the chance to get a closer look into the company, and then we will be ready, whenever it is. In any case, we won't change our programme. Of course, it would accelerate in case of an IPO, the investments, but that's it. We still also

follow here a growth and net income increase programme in 2023 onwards.

When we come to companies which you can compare with our business, it's not that easy as we are one of the major players in this field, as we are quality and also world-wide leading concerning capacity in these high-voltage solutions. What you can say is that we have peers in the areas of leading cable producers. It's not the same product, but it's the same industry we're in. For instance, like this very well-known company, Nexans, KEI, HUBER+SUHNER or Prysmian Group.

On the other hand, we have our customers which are industrial conglomerates. We are working together very closely, like Siemens Energy, Eaton, Legrand, ABB, Schneider Electric or all our e-mobility accelerators, which are the companies we see again and again when it comes to the copper cores of the e-mobility or mobility, in general, where we're more and more in. It's Alfen, Garo, Kempower or Zaptec, when you talk about listed companies. This is the full universe we are plus-minus in, but please note, once again, Phil, that what we are doing is only done by very few companies. We are concerning capacity, quality and also footprint, the major player in this area. Therefore, we would compare with those companies just named.

Phil Buller

That's great. Thanks very much.

Operator

The next question comes from Richard Frei from ZKB. Your question, please.

Richard Frei

Good afternoon. Thank you for taking my question. First of all, just a clarification, if I got you right, on slide 16 regarding guidance, you said this is GAAP EBITDA, not adjusted EBITDA you guide for EUR 130 to 150 million?

Michael Pistauer

When the slides were made, they wanted to test me, whether I know the numbers or not (laughs). Yes, you're right. The EUR 126 million, as you see on the left-hand side, is definitely the IFRS EBITDA. Therefore, this year we guide for usually adjusted EBITDA of EUR 130 to 150 million. Of course there is a gap between IFRS and adjusted, but plus-minus in this range, it's fine.

Richard Frei

Okay, then I got it correct. Then regarding E-Mobility, you've mentioned that you'll probably reach a situation where you have capacity constraints. On the other hand, if I got you right, you mentioned that you have invested now for around sales of EUR 2.2 billion sales for the group. Is there a possibility to shift capacity from Aerostructures to E-Mobility or how should I understand this? Because for the group, there doesn't seem that there is a CapEx need and for E-Mobility it seems that there is some.

Michael Pistauer

Richard, you are correct, we are more or less close to capacity constraints with the installed capacity we built up the year 2016 to 2018, starting production then with the third plant in 2019/20 is more or less full. You can remember at the IPO, I said we are maybe able to reach something like EUR 180 million, now we've stretched this one again to EUR 220 million already. But with that one, we are more or less really full. Of course here and there, there are some optimisations possible, but it is not big jumps and not big increases.

On the other hand, we have learnt in E-Mobility, or let's say with the automotive business in general, that overcapacities can be very, very tough to handle. If we invest only on the basis of very clear contracted sales for a long period of time, which are then giving us secureness, not to fall in a situation where we have then overcapacities in this area. Therefore, the clear goal is not then necessarily to invest or not necessarily to increase sales in E-Mobility, but to strengthen again and again and again EBITDA, net income, free cash flow, to have a very high positive free cash flow business, and to really see out of the strengths whether some contracted sales spaces on E-Mobility is possible, to then start maybe a programme within the next years to come.

Is it possible to shift capacities? Partly, yes. As you know, we work together between the segments for some areas, for instance when it comes to seat structures, also some battery areas like the battery boxes, where we then jointly work together. But if Aerospace is ramping up so fast, therefore having an even better, at the end, possibility of EBITDA, too much shift doesn't make sense. So it should be seen on a standalone segment.

Richard Frei

Then in the near future, it's more about quality of sales than sales growth in E-Mobility.

Michael Pistauer

Exactly, exactly. We want to reach a certain percent EBITDA and then it's a very high cash flow business. Please remember, the assets installed, there is about EUR 60 million, so when you then look at EUR 220 million sales, a good portion of more than 10% EBITDA, I said in the region of 13 to 15% with 5% depreciation, it's a very strong net income and a very strong cash flow business.

Richard Frei

Then, last topic, also on Energy. A trade sale is also possible?

Michael Pistauer

At the end, everything is possible, but I think the major intention is to have potentially a bit more independent development of the Energy segment. We see it highly accretive and highly valuable for us. It's an asset-light business in comparison to Aerostructures. We want to keep the majority. There could be within, for instance, also a potential IPO, the one or the other strategic partner coming in as a shareholder, and that's definitely the preferred business. Also for everyone as a shareholder, what

we want to achieve with this is mostly the accelerated plan to reach EUR 1 billion of total sales with a solid EBITDA and a very high net income and, therefore, also have potential of a good return for every shareholder within Montana Aerospace, but also the Energy business.

Richard Frei Then I understand now the press release of this morning a bit better. As you say there, potential IPO proceeds of around EUR 100 to 150 million are for future growth of Energy. This now makes sense if you keep the majority, so then it's like you dedicate out of the proceeds EUR 100 to 150 million to Energy, is that the correct reading?

Michael Pistauer Exactly. If you remember, we talked a lot, Richard, about the segments and also their synergies between, as named before, there are strong synergies between E-Mobility and Aerostructures within the Montana Aerospace Group. They have common groups, they have common material, aluminium mostly, they have common and and and. On the other hand, the synergies between energy and the other segments is very low, it's quite independent. And exactly this independence also concerning the potential development enables the intention with this evaluation.

Richard Frei That helps a lot. Thank you very much.

Michael Pistauer You're welcome.

Operator Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star followed by one. The next question comes from Beltran Palazuelo from DLTV. Please go ahead.

Beltran Palazuelo Hello. Good afternoon, Michael and Marc. A pleasure speaking with you. I have a couple of questions. First of all, I'm sorry about asking again about the Energy business. I think you were quite clear, the proceeds and the growth opportunities, but maybe if you can go in more detail, why spin it off? Do you really see a multiple arbitrage about the possible valuation of this business?

Then my second question is regarding the Aerostructures with the volume you have guided, let's say EUR 200 to 300 million to reach maximum capacity in Aerostructures, could you guide us regarding the current guidance of margins of this year, how do we get to the 20% EBITDA margins in Aerostructures?

Then my third question is regarding competitors, if you could give us a little bit more detail between segments, how competition is functioning?

Fourth question regarding the outlook, it was quite weird because you said that you're going to suffer a lot in the first to the third quarter. Is that that your clients compensate you in your fourth quarter or how does that function?

My last question is regarding M&A. Clearly see your excellent balance sheet and prospect for possible net income and free cash flow generation. Are you starting to analyse possible opportunities in Aerostructures to be executed in 2024? Thank you very much.

Michael Pistauer

Four questions, so I try to answer in the best possible way. Let me go first on the Energy segment and the details of the idea behind it. It's quite simple, at the end we have a very independent segment, we have a very clear plan. Now we have a massive tailwind. As said, already quite some while in the business and that's never seen in one single industry, such a massive change within one year, where suddenly something which didn't have a price tag, like for instance, in this case electricity, got one of the most valuable goods around in the market. This is driving our business not only now, but also for the next years and this gives us this chance to really grow extensively, where we want to have the use proceeds in three areas, which is quite special for us.

Like this green copper, the recycling of copper for this copper based business, more e-mobility, mostly in Asia, and also capacity increase in Europe, which is in this case in Bosnia & Herzegovina. Details on that one will follow as soon as we have the chance, now that we have the chance to go out. We have to not only look at the company, which is doing quite well, but also on the markets, how they accept new stories.

What to expect here in general? We had last year EUR 33 million on EBITDA, out of which plus-minus 10 million were one-offs in connection with the M&A acquisition we had in South America, the Sao Marco transaction. If I deduct this, normalised EBITDA was something like EUR 22 to 23 million, based on the 480 million total sales. This is a business with only 2% depreciation, very low, with a very low trade working capital of only 7 to 8%. It's a cash flow strong business.

Exactly this business shall be grown to a level of around EUR 1 billion by the end of the decade, with a high single-digit percentage of EBITDA, rising steadily over the next years to come, based on the three areas we want to invest, around EUR 100 million over the next years to come. That's exactly the plan and that's exactly what to await in the year. That's why we evaluate the chance of a potential IPO, including also the chance to include the one or the other strategic investor.

You talked about the Aerostructures and how do we get to 20% EBITDA. You're right, if you look at the Aerostructures only, 2022 was diluted, so where we have seen an under proportional although positive development of the EBITDA in comparison to sales. But please note, we acquired ASCO.

ASCO, we calculated with a zero EBITDA with all the PMI costs and other costs, where only a fraction of it was then adjusted. At the end it came out a bit better than expected, but however, still it was dilutive. If I take this away and if I look at the other plans in Aerostructures, which are running at a decent utilisation already, then we see that they reached again more than 20 to 25% EBITDA. Therefore, we have a very easy way of seeing that with more sales, we are continuously improving our EBITDA. Sales is what we guide, so therefore, you can also derive from that one that we will increase over-proportionately in this area also EBITDA. This is something you will see this year, the overproportionate development of the EBITDA, confirming our guidance in comparison to the sales in Aerostructures. So short to mid-term, we guide for over 20% in Aerostructures, clear guidance.

Competitors in all three segments, I start with the Energy business, which was your first question. The competitors in Energy, there are only two major competitors, it's a Korean group and one which is a mixed basis, Italian/Korean/Japanese group. But they don't reach the quality and capacity areas we are in, therefore, we think that we are leading in this area. There are many smaller ones, but they are not really able to provide those applications which are needed when it comes to quality, efficiency and so on.

The more need for electricity, the more need is also for high-tech quality or high-end quality. Because here, every nanometre and micrometre counts. Just to give you an idea of how much this market is now driven, a couple of days ago the very famous newspaper, Handelsblatt, in Germany wrote that Germany needs to double its capacity for generation, transportation and also transformation for electricity until 2045. This is exactly the market for ASTA, for the Energy business. It's our market and the higher the demand, the less competitors we have.

In E-Mobility, there are a couple of other competitors. But, to be fair, we are in a special niche. The main part of our business is developing the prototypes of these battery packs, then delivering, including the surrounding material to the OEMs, mostly German based OEMs in mobility and e-mobility. Therefore, we have a very good standing in this area, but still we have to be clear, there are many, many potential, also split up in the value chain competitors. So here I would say the landscape is a bit different, but all together within the value stream, there are very few and this is exactly our competence. That's also underlining our clear strategy not to have excess capacity, but to materialise on what we have and increase our net income and cash flow in this area.

Aerostructures, we are concerning the setup special. Special in

the way that this long value chain is coming more and more into the focus of interest of OEMs. They have the need and also accept more and more that only if a company has the capacity installed concerning the full value chain, that they're really able to provide the ramp-up. More and more they have to look at ESG related topics, like recycling, so to have the material under control, the recycling under control, to help to solve with solutions to reduce the CO2 footprint, like local-to-local and less transportation, reducing lead time is getting more and more crucial. Yes, there are competitors out there, like for instance Precision Castparts in some areas, which are similar. But we have more than enough to do, we can be in the meantime very selective concerning what we want and what we want to take. Therefore, I would say the competitive landscape did not massively change. Yes, many have more problems than we have seen maybe two years ago, concerning their supply chain. This once again emphasises our own business. But competitors are companies like Meggitt, Senior, Precision Castparts and many, many others.

Q1 to Q3, our statement in today's announcement: You can remember, we talked about energy one year ago, before even the Ukraine crisis started, we said there was an energy issue. We talked about material supply chain issues in September 2021 already, long before others took this topic as a material part of the guidance. Still we see in the world that we are in that the main topic's are yet not 100% solved, so we still think, and this is part of our guidance, that it will be not easy going concerning supply chains, concerning certain OpEx, certain other parts to handle.

We have to expect the unexpected. This is what we wanted to say. We still said that the first three quarters will be tough to handle with all those impacts coming from different ways, for instance some areas of some supportive material we need in the supply chain or extensive cost increases. But we are prepared, we think. We are flexible enough to react fast to those topics. We will try to keep those topics as a chance to increase our market share, and it is part of our guidance.

M&A, last part of your question, Beltran. We're looking, again, at many interesting potential targets. However, we want to stick with our guidance, which says not before we have the chance to fund a potential M&A out of our free cash flow and not risking our financing structure with net debt to EBITDA on the below 2x ratio. Therefore, we would guide more for 2024 with another M&A transaction in Aerostructures than for 2023.

Beltran Palazuelo	Thank you so much for the detailed answers and all the support for DLTV from the team. Thank you very much.
Michael Pistauer	Thank you.
Operator	There are no further questions at this time and I hand back to Mr Pistauer for closing comments.
Michael Pistauer	Thank you very much for attending. A very interesting year, finished with the presentation of the year 2022 results. A very interesting year started with where we see the first months going right in the direction which we intended and also guide. A strong tailwind in all three areas, mainly in Aerostructures and also in Energy. With that, I'm looking forward to the next call we have together. Hopefully we will then be able to present again a growth in all areas, with a clear focus on more cash flow, more EBITDA and more net income. See you soon and thank you very much.