

Montana Aerospace AG
Earnings Call Q&A
9th May, 2023 | 02:30 PM CEST

Transcript

Speakers:

Michael Pistauer

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

Phil Buller Hi, thanks for taking my questions. My first one is on the aerospace business, obviously the key growth driver for the group. We've heard from several suppliers to Airbus and Boeing in recent weeks that they've had their build-rate assumptions for 2023 rebased. I know that Airbus and Boeing haven't changed their mid-term production assumptions at all, but there appears to be some moderation to near-term planning assumptions for some of the suppliers. I was hoping you could comment on what has happened from a Montana standpoint, intra-quarter, and what it means to near-term numbers and what, if anything, it might offer in terms of opportunities for additional market share gains over the next 24 to 36 months. Thanks.

Michael Pistauer Thank you very much. This is where I have in the meantime a very simple statement: I don't care. Why? Because you're absolutely correct. Concerning the build rate, sorry, to be correct on that point. The reason is because, yes, we see still major issues concerning the supply chain, there, where we're dependent on third parties, which is a very small part, it's within Asco, we see it on our own, how tough it is if other suppliers don't deliver and how to perform then ourselves.

But everywhere else, where we are more or less independent from any third-party supplier, we're performing extraordinarily well. Why? Because, yes, we are asked, on a permanent level, to jump in, so therefore we can give you the following topic as an answer: We don't think that the build rate, as announced, will occur. We still stick to the simple statement that around 15%, depending on platform to platform, will be at a lower build rate throughout the years, mostly then 2024 onwards, to be seen. However, we see that, right now, the orders are coming in still strongly on the narrow-body, so I would say within our expectation. Also, on the wide-body planes, it's coming in slightly stronger than what we expected, to be fair.

But on mid-point point, we still stick to our statement, we think that the build rates announced are a bit too high, because of supply chain, and also the OEMs are struggling to really ramp up at this scale. However, we don't have an impact out of it because either they are coming higher than our expectations, then we have even a tailwind from higher sales out of that point, or, if it stays like right now, then we have an ongoing need to jump in wherever possible, because other suppliers are not able to deliver. In platforms where we are 100% certified, which is everything from Airbus and everything from Boeing, beside some exceptions with the A220 platform where there still needs to be some certifications, but everywhere else we are able to jump in. And it's something we did already in the fourth quarter

2022, which we did also in the first quarter 2023, and I guess which will also continue. So therefore, this way or that way, we don't see a negative impact for us, only potential slight tailwind if the ramp-up is even higher than what we expected. Does this answer your question?

Phil Buller It does, yes, thank you for that, that's very helpful. And then, as a follow-up, if I may...

Michael Pistauer Sorry, maybe to add, it's only that the wide-body seems to come stronger faster. This is the only point which is also for us positively surprising. But you know the numbers are still low in comparison to A320 or 737.

Phil Buller Got it, thank you. And then, as a follow-up, on the topic of inflation, you mention in slide nine, I think, that there are ongoing efforts to pass on these costs even more. Is there anything in practice that you can share that's new in regard to this quarter, or perhaps in the coming quarters, that you could talk to? I'm thinking about things like potential timings of contract negotiations that are due for renewal or anything of that nature that would provide the opportunity for those price renegotiations, or are these discussions that are taking place outside of typical timelines that are in current contracts, please? Thanks.

Michael Pistauer It's a very good question, perhaps I should have mentioned it myself, so thank you for putting your finger on this point. We have, more or less, changed many, many contracts last year, and added so-called inflationary cost increases by escalation clauses inside those contracts. But, now comes the but, most of it, they are then calculated on a one-year basis, so here to expect again, on a half-year basis and then later on, in the fourth quarter, this high impact on extra invoices for this inflationary costs which are then, more or less, calculated once for the total year, or at least a minimum of half the year. So the impact is a bit pushed to the end of the year, most of it, something which will we see, but what we also saw already in 2022.

Phil Buller That's really helpful, thank you.

Michael Pistauer For instance energy, also some labour, or of course material, where it was not based anyway on some material formula, it is pass-through.

Phil Buller That's helpful. Thanks very much, I'll pass it on.

Operator The next question comes from Richard Frei from ZKB. Please, go ahead.

Richard Frei Thank you, good afternoon. My first question is on trade working capital. May you give us some idea what a normalized level could be of trade working capital? I don't expect absolute clear numbers, but just... My belief is that free cash flow is heavily

dependent on what trade working capital is doing after this minus 100 in the first quarter.

Michael Pistauer

Richard, thank you very much. There is a clear path of reducing trade working capital since September 2022, where we more or less saw the turning point between too cautious, concerning also inventory and other topics, coming back to, I would say, a new normal, and the new normal will be reached on a permanent level by 2024, I would say by the last quarter at this level more or less going, on a quarterly basis, down to this direction. What will it be? It will be 35% on trade working capital of sales in aerostructures, around 16% at e-mobility, and between 8% to 9% in energy. Energy's already reached trade working capital, e-mobility is even lower right now, so they have already over-achieved concerning the permanent basis. At aerostructures, I would say clear development until 2024 to have this 35%.

Richard Frei

That helps, thank you. And probably another one on Asco. You've mentioned that it's still diluting, that's also my expectation, but is it lossmaking in terms of EBITDA? And I didn't get if it should be up and running as the other part of aerostructures by the end of this year, or will it take a bit longer?

Michael Pistauer

We calculated with a double-digit percentage of EBITDA this year with Asco, which would be, although still dilutive for the total for the segment, but definitely double-digit. And this, in the first quarter, was not reached at all. It is positive. It is a low-single-digit amount, but still it is, I would say, disappointing. Not because of the performance of Asco, the capabilities or the demand or the sales, it's mostly the so-called A220 platform where we still need certifications for our other entities to integrate the work from third-party suppliers to us directly. And there's a bottleneck also concerning certification agents from third parties, so it's a waiting process, to be fair. And this is a bit annoying. Therefore, we will still trigger to get this high-single-digit to double-digit percentage margin by the end of the year for the total year 2023. For the first quarter we were way beyond, lower.

Richard Frei

Okay, thank you, I'll go back to the queue.

Operator

There are no further questions at this time, and I'll hand back to Michael Pistauer for closing comments.

Michael Pistauer

Thank you, everybody, for this short earnings call 2023. There's still one question? Aymeric, from Kepler Cheuvreux.

Operator

Yes, I'm sorry, one question came in from Aymeric Poulain from Kepler Cheuvreux. Please, go ahead, sir.

Aymeric Poulain

Thank you for taking my question. I had some follow-ups and one different perhaps. Given the volatility of the free cash flow, are you incentivised to perhaps advance the timetable of the IPO of the energy division? And what would be the timetable as you

see it right now? That's the first question. Second question is on the aerospace growth. Could you give us a bit more colour in terms of the contribution of Asco, contribution of pricing, volume? That would be also quite helpful to understand the underlying dynamic. And finally, on the free cash flow, you say you want positive free cash flow for the year, but are you still targeting something more like EUR 40 million, EUR 50 million, or the volatility of the working capital makes you a bit more uncertain on that front? That would be useful to know. Thank you.

Michael Pistauer

If you allow, I would answer backwards. So I'll start with the last one, the free cash flow, no, there's no change in it. The main impact came out of the payables and also the receivables, so strong sales on the one hand made in the quarter, therefore no cash in, as we saw in the first quarter, this is impacting negatively the free cash flow and, on the other hand, as I said, late payments in last year and early payments in the first quarter, which is then mitigating over the year, therefore we still calculate with the same amount, which you addressed right now in your question on the free cash flow.

Accountability concerning Asco, to get a bit more understanding here, we have a bit more than EUR 60 million on total sales in the first quarter at Asco. As I said, low margin, still positive but definitely slightly lower than expectations, due to the impact of the supply chain which we had to somehow digest, to be fair. This is more or less something which you can also expect, plus, minus, multiplied with 4 concerning sales and a maximum of a double-digit amount EBITDA percentage this year. 2024, we calculate with the midpoint double-digit between 10 and 20, so around 15% already. As said, the main issue which is hindering us to develop 100% in this development is the certification concerning certain platforms of our own capacities to jump in instead of third party suppliers with our own supply chain. This is Asco.

Finally the energy segment and the timetable. For everybody, once again, we are elaborating on the idea of a potential IPO of the energy segment (a carve-out IPO) or other financing possibilities. We have an extremely strong tailwind / tailstorm from the market. We have even the need also from the market to be part of the energy transition worldwide, to build up some capacities. We've started already with that, let's see how the general industry is developing, but we would like to see it in any case this year. Let's see something around plus, minus... Let's take a look at the industries and the markets.

Aymeric Poulain

Thank you.

Operator

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star followed by one at this time. It seems

there are no further questions.

Michael Pistauer

Then, thank you very much for attending today's call, and happy to see you all at the roadshow meetings, conferences, air shows and whatever brings us together. Thank you very much.