Stellantis Q3 2024 Shipments Pre-Close Call

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Operator: Hello, and welcome to the Stellantis Quarter Three 2024 Shipments Pre-Close Call. You will have the opportunity to ask questions at the end of the call by typing star one on your telephone keypad. Please do not exceed one question per person and, if necessary, one additional.

I now give the floor to Mr Ed Ditmire, Head of Investor Relations, to begin this conference. Sir, the floor is yours.

Ed Ditmire: So welcome, everyone, and thank you for joining the call on short notice. I'm Ed Ditmire, Head of Investor Relations for Stellantis. And thank you for joining us in this pre-close call related specifically to Stellantis' 3Q 2024 global shipments release.

This call is intended as a way for the Stellantis IR team to efficiently review on a quarterly basis already public but important company disclosures and other management commentary to best ensure you have all the information you need to stay informed. We will not be using this call to introduce any new or modify any existing financial guidance.

I remind you that our 3Q shipments and revenue call has been scheduled and will take place October 31st at 13:00 Central Time, 12:00 London and 8:00 Eastern with Stellantis' CFO Doug Ostermann, and that this would be the proper forum to discuss many other topics.

I'll kick off with about 12 minutes of prepared commentary on this call, and then we'll open it up for Q&A and take as many questions as we can in the context of an approximately 30, 35 minute call. A transcript of the call will be posted on the Stellantis Investor Relations website later.

I'm going to cover three topics in my prepared remarks. First, I'm going to review the consolidated shipment data for the third quarter of 2024 which we published earlier today, and which is available on the IR website. Second, I'll review some of the secondary dynamics impacting revenues in the period. And third, I'll sum up the capital return activity in the third quarter, which is already posted on the IR website.

With that, let us get started.

During Q3, our global consolidated sales to customers were about 1.3 million units, down mid-teens year-over-year, but shipments are estimated to have decreased by 20%, or 280,000 vehicles to 1.15 million. The 5 percentage point difference chiefly rests on the temporary impacts of inventory reduction initiatives, as well as temporary gaps in our product portfolio as we transition to new generation offerings, the latter of which affected shipments even more than it did sales.

Now let me discuss shipments and total focus. In North America, shipments declined 170,000, reflecting several dynamics. First, and most importantly, we are working aggressively to aggressively lower dealer inventories in the US with significant cuts in the production schedule to do so. We are pleased to have reduced dealer inventories by approximately 50,000 units sequentially in the third quarter.

Second, we had a relatively unusual strength in 3Q shipments in the prior year period 2023, compared to the typical seasonal low in 3Qs, because we were pulling forward some build ahead of the September 2023 UAW contract expiration, which created a particularly tough comp.

Third, there are several temporary gaps in our product portfolio. For example, the Dodge two and four door muscle cars, the small and mid-sized Jeep SUVs, which together accounted for almost 50,000 shipments in the prior year, and in product areas where we had no shipments in 2024 3Q.

Moving to Europe, where the industry backdrop has softened with 3Q sales volumes down year-on-year mid-single digits. Stellantis' European shipments were down approximately 100,000 units, driven principally by delays in the launches of four new B-segment products. The smart car platform based vehicles, which include both exceptionally affordable BEV variants, as well as what will be even lower priced ICE versions.

While the first of these vehicles, the Citroen C3 and eC3 twins, was originally set to start shipping in the first half with the C3 Aircross, Opel Frontera and Fiat Grande Panda intended to follow later. Delays had the C3 ultimately begin shipping in late September, with the other set to begin later this year. These delays were particularly impactful because several predecessor models, including the C3, C3 Aircross and Opel Crossland X, were discontinued at mid-year as they didn't comply with new regulatory requirements, and thus a significant production gap opened up across multiple popular products.

This gap will reduce but not be eliminated in the fourth quarter, but importantly, these vehicles will all be in the portfolio for the full 2025 period when they are expected to contribute meaningfully to higher BEV mix in that year.

Shifting to the third engine, shipments were flattish, as increases in South America offset lower volumes in Middle East and Africa. China, India and Asia Pacific. In South America, regional industry volumes were up more than 9 points in the third quarter, with Brazil and Argentina demand driving that, but we also benefited from some production recovery after the Rio Grande do Sul flooding and from some expansion in the product portfolio.

New products over the last year include the Ram rampage, the Citroen C3 Aircross, the Fiat Titano and Peugeot 2008. Of the approximately 25,000 units of consolidated shipment decline in Middle East and Africa, the vast majority is related to lower shipments in Algeria, which is subject to temporary import and trade controls. This is a situation that we expect to improve meaningfully in the 4Q as we ramp more local production. And then a smaller secondary source of shipment decline would be related to lower Turkish market volumes and related destocking to calibrate in that country.

Maserati shipments remain meaningfully lower year-over-year, while 2024 has seen some important new products, particularly EV variants of the SUV and luxury coupes. Maserati will be working with a significantly reduced product portfolio for the near term after three models ended production at the end of 2023, and thus a main focus will be on rightsizing costs to return it to profitability.

I would like to go into the North American Performance Improvement Initiative in a little more detail now, especially because costs related to it have contributed meaningfully to the recent lowering of our full year 2024 financial guidance. This initiative has two near-term objectives. First, to return the US dealer inventories to a more normalised, sustainable level, something that will increase the profitability and effectiveness of our independent dealer distribution partners, and better clear the way for exciting 2025 model year updates and new product launches.

Secondly, we're working to stabilise and reinforce market share to gain after several years of decline. On the former, inventory reduction, I mentioned, there was a 50,000 unit decline sequentially, half of our 100,000 unit objective for a full year for the second half of 2024, and we have been using production cuts and pauses as the largest tool, something which is costly in the near term, especially the cash flow generation, but on the other hand preserves longer term price positioning and brand value compared to strategies that lean predominantly on incentives.

We noted with the recent guidance announcement that we plan cuts of at least 200,000 units to production in the second half of 2024 versus the prior year period. In the 3Q alone saw about two thirds of that 200,000 already. We remain confident that we have a plan to normalise the inventory before year end and start 2025 from a much cleaner position.

On our efforts to stabilise and reflect market share positively, we've had relatively encouraging, but very preliminary early signals since we began putting in place an enhanced go-to-market strategy beginning in August. Some elements of this include incentives, which have been enlarged in some products and which have been broadly made more customer facing. But we've also reinforced our media marketing efforts and improved the way we contribute qualified leads to our dealers and how we work with them to progress them to conversion.

Market share increased almost 0.5 point from August and September compared to where we were in July before the changes. And so we're looking forward to continuing in the right direction in the coming months.

Let me talk briefly on other drivers of revenue change outside of the shipment figures. First, as a reminder, the H1 2024 revenue bridge for the Group featured a 4% revenue headwind, largely from the combination of adverse mix and forex. Pricing was flattish versus the prior year.

When we look at Q3 2024, we expect the mix to remain a headwind, principally due to the significantly lower volume mix from North America, our highest ATP region, and higher mix from the third engine regions, our lowest ATP region.

Foreign exchange headwinds are expected to be in the 1 billion to 2 billion range in 3Q on a year-over-year basis, continuing what we saw in the first half of 2024. And we note that the US dollar, Argentine peso and Turkish lira are all weaker in 3Q 2024 versus the euro than the same period in 2023.

Pricing is likely to emerge as a revenue headwind in 3Q 2024, due largely to the North American region, where there is both an industry expectation of negative pricing seen at our closest peers, but also where our specific inventory reduction initiatives included large temporary incentives, which are likely to have our North American pricing several points below industry trends.

Lastly, on capital. As disclosed on our Stellantis Investor Relations website capital returns section, the company repurchased about 6.5 million shares in the third quarter for around €900 million. This brings the total repurchases through the end of the third quarter in 2024 to 2.9 billion of the planned 3.0 billion full year buyback program, which then completed in October.

Thank you all for your attention, and we'll now move to the Q&A portion of the call. So please keep the questions limited to today's focus areas as all others will be more appropriate for the Q3 release on 31st October.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from line George Galliers from Goldman Sachs. The line is open now. Please go ahead.

George Galliers (Goldman Sachs): Yes. Thank you for taking my questions. And thank you for hosting this call. I wanted to start just by talking about the North American revenue. You mentioned that North America was a large part of the negative evolution in pricing at Q3. And obviously, we can see the 36% reduction in shipments. I think on top of that, obviously there are ethics considerations with US dollar euro. So can you perhaps sort of frame kind of the magnitude of the decline in revenues for North America versus the minus 36% shipments, which is the sort of published number we can tie it to?

And the second question I had was just with respect to the destock. You did mention that the market share data improved for yourselves in the US in August and September. But obviously when we look at the market share in Q3 relative to Q2, according to Autodata, you still lost around 60 basis points. What gives you confidence that the market share will improve in North America or in the US in Q4? Is it really going to be that you are just going to have to reduce transaction prices and be more competitive on pricing in order to take share? Or are there clear products you could point to that will stabilise the situation? Thank you.

Ed Ditmire: Yeah. Thank you, George. George, on the first question, I don't think I will be able to give a revenue range for the 3Q. But what I can say is that in addition to the shipments decline, we do expect negative pricing. We also expect a, I would say mild FX headwind in the region.

Just to repeat again, I believe that the industry expectation for pricing in the second half, as spoken by our peers, is somewhere in the neighbourhood of 1% to 2% negative in the second half of 2024. And I do believe that Stellantis' North American pricing will be several points more adverse due to the temporarily enlarged incentives related to the inventory reduction initiative.

In terms of the market share question, what I would say is that what has us very encouraged is the increase in August and September, and I believe through the first half of October, which we feel is more representative of what our enhanced go-to-market strategy can accomplish than, say, the July figure, which was a relative low point before we did some of these new practices and policies.

To be more specific, while there are pricing adjustments and there are the incentives related to inventory reduction, I would also point to improvements in our fixed media expense. Fixed marketing expense, in particular our media approach to better compete for share of voice. And we've taken some very material steps forward in the ways that we work with our dealers on managing qualified leads. These things are having a real impact. We're also seeing what we believe to be improved health of the dealer base and increasing engagement. And so we believe that we have great momentum to continue making gains as we move forward through the remainder of the year.

George Galliers: Great. Thank you.

Operator: Thank you. We will take the next question from line Michael Jacks from Bank of America. The line is open now. Please go ahead.

Michael Jacks (Bank of America): Hi. Good afternoon. Thanks, Ed, for this call. I just have one question relating to Europe channel mix. Selling more into fleet was a fairly significant headwind in the first half of the year. Is that a headwind that we can expect continuing in Europe into the second half of this year? And so if we think about the development of revenues compared to shipments, could there again be a fairly meaningful gap between those metrics? Thank you.

Ed Ditmire: Michael, I don't have any commentary on that trend, unfortunately. I think we'll have to wait till the end of the month to get more detail on the mix impacts of the various regions. Right now, I'll bring you back to what we are clear about, which is that the regional mix is quite impactful at the Group level.

Michael Jacks: Right. Okay. If I could sneak in one more question then anything you can add on order book level?

Ed Ditmire: No major changes to disclose at this time. But to be clear, I don't – as we hold this call, we don't have the – this is really about the estimated shipments in the period, which itself is subject to kind of final updates at the end of the month. So we don't have information on all topics right now.

Michael Jacks: Okay. Thank you.

Operator: Thank you. We will take the next question from my line, Mike Tyndall from HSBC. The line is open now. Please go ahead.

Mike Tyndall (HSBC): Thanks very much. Hi, Ed. How are you doing? Just a quick one. On the inventory reduction in North America, if I'm not wrong, it was 25,000 units in July, 15,000 in August, and it looks like it was 10,000 in September. So the cadence looks like it's slowing. Is there something else that I'm missing there? Does it get easier from here? I'm just trying to understand how we accelerate from this point.

Ed Ditmire: Michael, I think the – what you're seeing and to make clear, I think there was probably a little more inventory reduction in September, to be exact. There was 52,000 units of inventory reduction through the first three months. I think the main thing that you're – that that drives that variation is really that there's a seasonality to production schedules that on top of that, we're making adjustments to production schedules.

And so it would be normally the case that Stellantis production levels would be lower in the summer, July and August month, perhaps in December. And so when applying some of the production reductions, they are kind of layering over that seasonality in a way that would generally have some months having more base level production than others.

Mike Tyndall: Got it. If I can sneak just one more in. Any update on the Hurricane engine? I know you were having some supply issues with that that was impacting Ram 1500. Where are we now with that that particular issue?

Ed Ditmire: Yeah. No real information on that that I'm giving at this time. I'm not aware of any material impacts at this time.

Mike Tyndall: Thanks, Ed.

Operator: Thank you. We will take the next question from line José Asumendi from JP Morgan. The line is open now. Please go ahead.

José Asumendi (JP Morgan): Thank you very much. Ed, when should we expect, Carlos to maybe show up and discuss a bit more his thoughts around the latest management changes and the next steps. If you have anything in the planning that that we should be thinking about.

And then, second when we think about that, that momentum in Q3, has there been any comments in the past weeks with regards to that ASP Q3 versus Q2? Maybe I guess we will be assuming more or less similar trend lines to third quarter versus the second quarter. Thank you.

Ed Ditmire: Yeah, José, nothing really to say on scheduled engagement with the management team beyond the 3Q right now. I believe, though, in the media that Carlos did indicate that he would be updating investors later in the second half very focused on driving the improvement in the operational issues that are so key to our performance right now. And I believe very much wants to be in position to talk about that progress and other items when he does.

So I think the question on ASPs, you're asking to compare the ASPs and the 3Q to the first half level. What I would say on that is I believe we will have – yeah, I think the main difference will be that in the first half we had flattish pricing trends year-over-year, while in the third quarter we expect pricing to be negative and for that to overwhelmingly be concentrated in North America.

José Asumendi: Thank you.

Operator: Thank you. We will take the next question from line Tom Narayan from RBC. The line is open now. Please go ahead.

Tom Narayan (RBC): Hi. Thanks a lot, and thanks for doing this call, Ed. So my first question has to do with the North American dealer inventories. I think you've shared this before, Ed. But could you remind us or any colour on the distribution of North American dealer inventory by model year, like ’23 models, ’24 models, ’25? I believe it is more heavily concentrated on ’24 models.

And then the other question is as we think about the dealer inventory situation and we see where inventory days has come down, right. I think it went from 104 days to 94 days. And I know your target is mid-70s, I believe, by year end. Just curious, as we look at how you have reduced production through those months that we just talked about, is it as easy as just translating inventory days goes down this much if you reduce production by that much, or is there more nuance to that? Thanks.

Ed Ditmire: I think certainly there's a lot of variation in sales for different months that impacts that. I think that ultimately what I would say is we expect the days sales metric to improve a little more slowly than the absolute targeted change in the dealer reduction. And so, I believe, for example, that if we achieve the 100,000 unit reduction in dealer inventories, that will drive a much healthier days sales across a relatively wide variety of selling scenarios.

At the same time, though, it is true that we're hedging our market share and our sales in the right direction at the same time. And then we'll be introducing new models that give us access to new portions of the market beginning in the fourth quarter. So for example, we'll be introducing our first EVs into a portion of the market that is responsible for well over 1.5 million units of sales in the United States, we'll be returning the two and four door Dodge muscle car franchise beginning in the fourth quarter. And then building it more fully through the first half of 2025.

And so, while I would say that the targeted inventory reduction is not inconsistent, with the days sales range you were talking about, I think, in any case, we're going to get down to the kind of level that we feel can be sustainable, healthy for dealers and consistent with matching our shipments to our sales again in 2025.

Tom Narayan: Got it. And then the composition of the dealer inventory by model year. Is there any colour on that?

Ed Ditmire: Yeah. What I would say is that certainly the majority of it is 2024 and older model years. And I would say there's a lot of nuance in this. For example, understand that the inventory of chargers and challengers that are at dealers today are all model year 2023 and that they ended production at the end of '23 without ever introducing a 2024 model year.

And so those vehicles kind of were lagging behind in the model year cadence a bit, while at the same time the light duty truck transitioned to the mid-cycle update in the second quarter of '24, with 2025 model year vehicles.

In general, though, 2025 vehicles are either just recently or have not yet started arriving at dealer lots. And so naturally, it makes sense that most of the vehicles are 2024 and older model years. The main source of 2023 model year vehicles would be the Chargers and Challengers, which were always meant to have been built with an extra buffer that year to keep them in the market during the transition year of 2024 until the new Charger Daytona arrives launching in the fourth quarter.

Tom Narayan: Got it. Thank you.

Operator: Thank you. We will take the next question from line Colin Langan from Wells Fargo. The line is open now. Please go ahead.

Colin Langan (Wells Fargo): Thank for taking my questions. Just to clarify on the last one, so is mid 70s the right inventory days range that you're thinking about? And is that target assuming that you gain market share into the second half of the year – into the rest of the year?

Ed Ditmire: What I would say and I'm not trying to be evasive. We have not set a numerical public target officially. We're focused first on achieving the gross inventory reduction of 100,000 units. I certainly don't think it's inconsistent with that figure that you gave us.

And in terms of are we counting on market share to achieve our objectives? I would say no. The inventory reduction initiative is calibrated extremely conservatively with, I would say, at least 50% of the cost of this initiatives coming through production discipline and certainly no more than 20% to 30% coming from temporary price incentives.

Colin Langan: Got it. And then when you talk about pricing, I think in prior calls, you mentioned most of the cuts are coming on Jeep. Is Ram holding its price or how should we be thinking about that? Or is there a risk there as well? Thanks.

Ed Ditmire: I think what you're referring to are price adjustments to 2025 model year cars. And what we have announced is that three Jeep models, the Gladiator, the Grand Cherokee and the Compass will have moderately lower MSRPs for the 2025 model year. I would also add the Wrangler includes additional content at around the same price. And so more value there for the customer there.

I think the distinction between Jeep and Ram probably rests in that. The 2025 Ram light-duty truck was already rolled out initially in the second quarter and with additional model lines or trim mixes coming online in the second half of 2024. And so those vehicles aren't on the same cadence for kind of introducing new ’25 model year pricing.

Colin Langan: Got it. All right. Thanks for taking my question.

Operator: Thank you. We will take the last question from line Gianluca Bertuzzo from Intermonte. The line is open now. Please go ahead.

Gianluca Bertuzzo (Intermonte): Hi, Ed. And thank you for taking my question. Today, in your prepared remarks, you said that in the third quarter you achieved, if I understood correctly, two thirds of this year target for under production in North America. While at the end of September, you said you were going to underproduce by more than 200,000 units. Looking at the sell-out and sell-in data, these should lead to a 270,000 under production in North America. Can you confirm that?

Ed Ditmire: Yeah. I don't have those figures. And so I can't confirm that. My understanding is that it is – that the lower production in North America is above 100,000 units lower than in the third quarter of 2023. In fact, I think by saying two thirds, I think something more along the line of 130,000, 140,000 units lower than the prior year period.

And what I was referring to is that when we gave the guidance update at the end of September, we said that North American production would be at least 200,000 units lower than the same period the second half of 2023. And I mean, to confirm that we're very much on track for that colour.

Gianluca Bertuzzo: Okay. Thank you. And if I may follow up, do you plan to reintroduce any midsize SUV in the market? Maybe you said that but in the case any comment would be helpful.

Ed Ditmire: Nothing new to say here on future product plans. But it is true that when we came to the UAW agreement, I believe that was part of our investment plans for the future.

Gianluca Bertuzzo: Okay. Thank you.

Operator: Thank you very much. There's no further questions at this time. I'll hand it back over to your host for closing remarks.

Ed Ditmire: Yeah. Thank you, everyone. I just want to thank everyone for joining the call on short notice and for following us closely during this very interesting time. Thank you very much and look forward to continuing the discussion with you at the end of the month at the 3Q revenue and shipments call with our new CFO, Doug Ostermann. Thank you.

Operator: Thank you for joining today's call. You may now disconnect.