

# **Bayerische Motoren Werke Aktiengesellschaft (BMWYY) Q2 2024 Earnings Call Transcript**

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**Body**

Bayerische Motoren Werke Aktiengesellschaft (BMWYY)

Q2 2024 Earnings Conference Call

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Company Participants

Maximilian Schoberl - Director of Corporate Affairs

Oliver Zipse - Chairman of the Board of Management

Walter Mertl - Chief Financial Officer

Conference Call Participants

George Galliers - Goldman Sachs

Jose Asumendi - JPMorgan

Tim Rokossa - Deutsche Bank

Justin Bazalgette - Federated Hermes

Henning Cosman - Barclays Capital

Patrick Hummel - UBS

Stephen Reitman - Bernstein-Societe Generale

Presentation

Maximilian Schoberl

So ladies and gentlemen, welcome back again. Oliver Zipse, myself and Walter Mertl are also in the room, but we can start with our Q&A sessions. The operator will first give you some technical instructions.

Question-and-Answer Session

Operator

Ladies and gentlemen, we will now begin our Q&A session. [Operator Instructions]. The first question is from George Galliers at Goldman Sachs. Please unmute yourself and begin with your question.

George Galliers

Yes, good morning and thank you for taking my question. The question I had was with respect to pricing developments as we go into the second half. Please, could you give us an update in terms of what you are seeing in the market geographically with respect to pricing? And how do these compare to your assessment of the market at the end of the first quarter? Thank you.

Maximilian Schoberl

Thank you very much, George. Your question will be answered by Walter.

Walter Mertl

Good morning, George. Many thanks for the pricing question. I would like to differentiate pricing questions between transaction prices at the dealership and the impact on our P&L, meaning my revenue. Our guidance in principle and our outlook talked about that our prices across our portfolio this year in '24 expect to be on last year's level, on last year total average rather than just Q1.

Based on the stats, in Q1, we rather ended up with €53,000 in average. The full-year last year ended up with close to €51,000. And on this moment, year-to-date, half year, we are also still running on €51,000. So we are still stable on that element. But remember that the peak of pricings have been in Q1 '23. Since Q2 '23, the average level came down step by step. Even we increased prices here and there, but the last big momentum was in Q1 '23. We shouldn't forget.

And not less relevant is the normalization on our used car side with our off-lease portfolio. Also that one came down step by step, having a peak in Q1 '23. And that one was also guided also for this year. And we see that quarter-by-quarter, it's coming down. Now with respect to some markets. We see still good pricings on my revenue side across the world. We see in some statistics on transaction prices with respect to markets, especially in China in Q2, a downwards trend, but I have to stress that especially in China, which usually everyone is asking me about, we see stabilization.

We see that on the transaction price level for the last four weeks, meaning July, some stabilization of the dealers' prices by 1% and 2% points compared to the end of June across the product range. And of course, this is eventually too early to call it a trend, but at least, we see on the dealer side with us stabilization. With respect to my revenue, I would like to stress, if I start on the Chinese side, that our operations in the market and the price band is more than RMB 500,000 or €65,000 approximately. The total market share is 5% in the market. And the total market year-on-year in the first half year came down by minus 5% and the price range from RMB 500,000 onwards, but BMW increased volume there with X57 and X7s by 3% in the same period and with stable pricing on my revenue side.

So I think that is relevant to understand. And I think based on that, we are still confident that we keep this momentum and especially with respect to all this -- as we speak about Q2, with all these extra provisions, dealers are also getting from other banks, not speaking about BMW Financial Services. I'm speaking about external banks.

You do know that they raise, especially in Q2, their provisions to dealers by up to 5% on top on the high level of Q1 already. And this is not in my books, of course. And it's the independent dealers' decision what they operate with this extra commissions with. And we saw, first of all, a handover in transaction prices, especially in May and June, but not in my books, but in the dealers' books. And luckily, that trend is turning, as I mentioned, for the first four weeks. And this is really giving me an appetite for more that the dealer side is stabilizing, even turning it into the positive side.

And with respect to the U.S., for example, pricing momentum is also good because if you have a look for our days of supply, we're still operating on the dealerships with 31 days whilst the industry level or even European OEMs' level is on 55 days. So that means the price pressure is rather on them than on my side. I think that is really relevant to know. And in Europe, we are also still on a stable side. And not to forget, also Middle East increased strongly. Volumes and GKL is also positive there. So I think from that momentum, that will be my answer to your pricing question, always differentiating transaction price of dealers and my revenue stream. Thank you.

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Maximilian Schoberl

Thank you very much, Walter. This was the question from George. And now we come to the next question, please.

Operator

The next question is from Jose Asumendi at JPMorgan. Please unmute yourself and begin with your question.

Jose Asumendi

Thank you so much. Hopefully, yes, I think you can hear me now. Sorry, [indiscernible] mute my line. Good morning. A few questions, please. Walter, you mentioned, I think, for the full-year '24, you're expecting volume, mix, price to be neutral. So if you could just give a bit more clarity there, how does the second half look like with regards to those pockets? And if you could comment on -- also with regards to China a little bit, we discussed in the CMD as well. But if you could comment a bit on your flexibility measures you have in terms of production on your Chinese plants.

And then Oliver, I would love to hear a bit more around the CO2 topic. What's a little bit the plan or map that you have for the upcoming six to nine months to be on the safe side that BMW is doing the homework and meeting those CO2 emission targets? Thank you.

Maximilian Schoberl

Thank you very much, José. We start with Oliver.

Oliver Zipse

Yes, Jose. Good morning. Looking at 2024, which is more or less based on the result of 2023, where we were below the official CO2 target in Europe by more than 20%. So the year 2024, we will lower our CO2 emission but will be far below the official targets. And that we achieved by an additional mix of electric cars. As we mentioned before, alone in Europe, the growth of purely electric vehicles was more than 50%. So our volume mix really helps us especially in Europe to bring down CO2.

2025, the average fleet emissions will go down by 15%. So it will be tougher for everybody to achieve the targets. But we've just been executing our preliminary plans for 2025, and that shows that we will also reach that target. So the product mix we have here in Europe will lead that we achieve these targets.

And then, of course, we already have in our sight 2030, where we will go by minus 55%. And that, of course, that's the reason or one of the main reasons we introduce the Neue Klasse in 2025. So in terms of European CO2, which I'm very confident that we are on the right track. Thank you.

Maximilian Schoberl

Thank you, Oliver. Now Walter?

Walter Mertl

Hello Jose, starting with the volume, mix, price neutral estimation. Well, I based my estimate, first of all, in the EU on a strong order intake. This is widely stable, and it's lasting into Q4 already. And with respect to the mix, this is also quite positive as we have 5 Series fully available, not just in Europe. This is across the world, also in China, not to forget. And the MINI is ramping up. But the positive is that even the GKL growth with the 7 -- with the X7 is also positive and strong.

So that is rather the point we see, still volume and mix positive and pricing stabilization. As I mentioned, the €51,000 average revenue, this is what I see. And mix is still compensating the BEV increase with the GKL and the 5 Series, which is positive. On your question with respect to flexibility measures in China, we have all these ones. You're usually aware of we use flexible workers.

We can in-source logistics. We are adjusting our production shifts as you know. And with respect to the ordinary fixed costs, we always have to differentiate the Chinese operations with the rest of the world operations because of course, we are also benefiting from subsidies from the past, meaning ultimately, my depreciation is not as high as on around the world, non-China. So that means automatically the burden on my depreciation side is limited in China. And with that, we can operate even with 10% to 15% lower production site. Thank you.

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Maximilian Schoberl

Thank you very much, Jose, for your question. The next question, please.

Operator

The question is from Tim Rokossa at Deutsche Bank. Please unmute yourself and begin with your question.

Tim Rokossa

Yes, thank you very much, Oliver, Walter and Max. I'm afraid I will also have to stick with the pricing side, Walter, given that, that is the key deal. Everyone was afraid in the market that pricing would eventually quack [ph] and Q2 is now the first quarter where we see this in the EBIT bridges. So a couple of follow-up questions to what you just said. I think it's very helpful that you quantify the difference and make that very clear between transaction and your own revenue prices because I think there was clearly -- there's some confusion here that people, including a lot of us, expected this bridge item to be positive after your commentary with Q1 results.

So if we think about this going forward, the bridge item in the second half of the year and in the full-year, pricing-wise, will that be neutral? Or will that be really negative? And then as a follow-up to that, when you think about your revenue pricing, since we differentiate that now, do you see any pockets where it's the most pronounced other than BEVs? Is compact more challenged than GKL for example? Is Europe still really good? Anything that is worthwhile mentioning there? And as a follow-up question, if we are now entering this phase of normalization on the pricing side, which leeway do you see on the cost side to compensate for that? Do we have to rely on the mix and volume? Or is there also a leeway for you to do something on costs? Thank you.

Maximilian Schoberl

Thank you very much, Tim. Walter, please.

Walter Mertl

Tim, well, on the bridge side, that is an absolute term rather than average per unit, right? And as I mentioned to George's question already, we shouldn't forget the off-lease volumes with respect to used car. And we talked about this normalization, and that is incorporated, bringing the revenue down, and then it's also the absolute terms. We have also less profit on my off-lease residual value side, as we always mentioned and stressed. So this is one big element. And this is lasting also in Q3 and Q4. We shouldn't forget that. And we stressed that in our prognosis report that the off-lease position is coming down step by step with impacts in cars as well as Financial Services segment. That is crystal clear and incorporated in our prognosis.

But with respect to the overall thing, GKL and my M models, operating already, positively growing in the first half year, and they will do so also in the second half year, which is helping us on the average revenue and in the total performance and profit side. So I think that is still quite stable around the world, not just in a dedicated region. And don't underestimate the 5 Series full effect of the second half year because in the first half year, in China, we still had a ramp-up time. That's the reason why you saw also 19% minus on the 5 Series in our report. That will come back step by step in the course of the next six months for now five months going up.

Yes. And cost measures, that question. On the cost measures side, of course, we are running on all relevant topics, especially on the manufacturing costs across all segments, whether we speak about MINI or whether we speak about the 7 Series. That is ordinary business for us. And that is also, of course, accounting for fixed cost and CapEx. But in a total nutshell, as I mentioned, the pricing is stable in my eyes with the aspect of off-lease cars coming, step by step, down, right? Good.

Maximilian Schoberl

Thank you very much, Walter and Tim. Next question, please.

Operator

The next question is from Patrick Hummel at UBS. Please unmute yourself and begin with your question. Please begin with your question.

Maximilian Schoberl

Patrick? You have to change for the next question, please.

Operator

The next question is Stephen Reitman at Bernstein Societe Generale. Please unmute yourself and begin with your question. Please begin with your question. Next question, which is Justin Bazalgette at Federated Hermes. Please unmute yourself and begin with your question.

Justin Bazalgette

Hi, thank you. And I have three questions. Mr. Zipse, many thanks for your overview on the progress of BMW this year so far and the expectations the company has for the year-end. It was good to hear the continued growth in plug-in hybrids and BEVs despite the challenging market conditions. Could you say a little bit more about the biggest challenges you're facing at the moment with regards to the energy transition?

And in addition, my second question is you made a strong statement about the EU potentially relaxing the ban on combustion engines in 2035 and allowing e-fuels without doing something to accelerate the adoption of e-fuels. Can you confirm this pushback on the 2035 regulations is not about lowering carbon emission targets? And can you explain why maintaining combustion engine vehicles with e-fuels for new vehicles is the right strategy for BMW's net-zero targets?

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And finally, a question for Mr. Mertl. BMW is working on its Corporate Sustainability Reporting Directive. Are you expecting any financial impacts as a result of this work? And can you confirm that there will be a link between the CSRD and the financial statements in the annual report to reassure investors that issues identified in the CSRD are clearly covered in the accounts? Thank you.

Maximilian Schoberl

Thank you for your question, Justin. We start with Oliver and then Walter. Oliver, please?

Oliver Zipse

Justin, good morning. The biggest challenge, and I wouldn't call it a challenge. It's a management task. You have to bring together three things. Your product offering, your markets/your customers and the boundary conditions like infrastructure. And that is our task to connect these dots.

Now if you have a product offering, which is one sided, it does not fit to the current market demand, and we talk about European market demand here in 27 countries, which act quite differently. And you also have to look what the infrastructure, especially the charging infrastructure. And that is our task to do so. And the best approach here is to have whilst individual mobility is a growing industry. Europe's industry in individual mobility/cars is a growing industry. It's not a shrinking industry.

And to connect these dots is our task. And as we said, we increased our BEVs by more than 50% in Europe in the first six months. And a double-digit growth in the overall volume. So it seems that we are able to connect these dots over all segments from MINI, over 1 and 2 Series, over 3 and 5 Series, all the way up to GKL with 7 and 8 Series and also Rolls-Royce.

So I think the challenge is that you -- many years ago, you bet on the right strategy to be as flexible as possible. And I don't see that there is a crisis out there. If you read articles out there, it's like the car industry is coming down. That is not true. It's a growing industry. And you're better prepared if you have ultimate flexible portfolio and an ultimate process competence to react to these things.

What comes on top and that happened about -- started about three years ago with COVID that supply chains became a fundamental competence you have to build up yourself. And as you see, and we said that before, we don't have currently supply chain interruptions. And of course, there are difficulties in making that supply chain. But if you have that competence -- early warning systems that you have people who look far beyond the first-tier suppliers that go all the way back down to raw materials, if you have that competence, that gives you a competitive edge.

Your second question. We are not pushing back on CO2 reduction. That's not what we do. We only say there is a much more efficient way to reduce CO2 if you have a technology-neutral approach, because if you think or you make the assumption that there is one technology and the market size stays the same, that's a wrong assumption. As you see already in the market that you cannot assume that especially at one point in time, maybe in 2035, there are all the infrastructure and all the raw materials, and the pricing and the customers are there. And if that is not the case -- if you don't keep the industry at the same size, you will stall by simply old technology on the road.

So we think there are three elements we need to improve. We have to go from a hard landing to a soft landing, first of all. Second of all, you need e-fuels, by the way not only for the new car fleet. You need that for the existing fleet of more than 250 million cars. And third, I think you need a strong alignment between the infrastructure and the market development.

And if I add one other thing, the current requirement for the fuels itself to bring down CO2 is only 14.4%, 14.4% in 11 years. That's almost nothing. And the combustion engine ban is minus 100%. And I think we must add a requirement for the fuel itself to bring that down. And you can do that by hydrogen. You can do that by e-fuels. And that is one of the main reasons why we are about to introduce a hydrogen vehicle to bring that down as well, because the only way to bring down CO2 on the fuel side is a mix of e-fuels and hydrogen. And that will happen at the end of the day.

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Maximilian Schoberl

Thank you, Oliver. Walter?

Walter Mertl

Justin, this is a fantastic topic. So with respect to the accounting policies and what we stated already, I can just reiterate that we stated already that all these things are reflected in our accounts. We achieved a useful life of assets.

With respect to other financial impacts, of course, it is all a lot of administrative costs also included. And big groups like the BMW Group can rather afford that. Unfortunately, other companies from 500 employees onwards, they really have a big burden, and I feel sorry for them.

Nevertheless, from an awareness point of view, all these new rules a day is all fine because we have more awareness for certain topics. But it is unfortunate that we are not having a good agreement between the ISSB and the EFRAG. So we would appreciate the clear base is a fundament of rules based on ISSB so we can utilize that across the globe and having on top dedicated relevant questions from the European side from EFRAG on top of a fundamental base. Unfortunately, they have to -- or they discussed already and couldn't even agree on some definitions to get the same topic and content even if they utilize the same word. This is really unfortunate.

Even if you start to think about segment specific reportings, I would rather appreciate to utilize already the existing SASB format than implementing again something new. So -- and I think companies running their business around the globe are rather happy to have one fundament like ISSB and then on top of it, because even legal entity operated in some dedicated markets, they have to apply local rules on top. And then again, this one sometimes, on the reporting side, has different rules than the international one.

So as I mentioned, in order to have the total easier way to administrate the whole story, local legal entities as well as the group, and standard ISSB would be appreciated. And then on top of these legal requirements, whatever, but the fundamental financial impact there is not.

Maximilian Schoberl

Thank you very much. Next question please.

Operator

The next question is from Henning Cosman at Barclays Capital. Please unmute your line by pressing \*6 and ask your question.

Henning Cosman

Yes, good morning. Thank you very much for taking my question. Perhaps a comment if you allow me. First, Oliver, I agree with you there that the execution has been very strong, including control of the supply chain. So that's really benchmark, and that's great. Thank you for confirming that.

Perhaps a question for Walter. Thank you for the continued guidance about the slight contraction in profit before tax. I think that's really useful. My observation is that consensus is going for something more like a 10% contraction. So I was hoping you could share a little bit more color about your confidence there to contain the contraction to 5%. Maybe you would be willing to give an indication for Automotive margin in the second half year. Do you see a chance there that, that could be in the upper end of the target range, 9% to 10%? Or should we rather be looking at 8% to 9% again for the second half as well?

And again, with respect to the profit before tax in that context, would you then expect the support or the ability to contain that to that slight contraction only? Would you expect the main support to come from the other segments? Thank you very much.

Maximilian Schoberl

Thank you, Henning. Walter, please.

Walter Mertl

Hello, Henning. Yes, many thanks for the credits you gave to us on the supply chain management. We are really proud about it. With respect to the second half year, well, we all do know that we are running on an exciting and challenging time. So I guess you are rather better off to run on the lower end of our corridor than on the higher. And I rather mean the lower end of our big corridor. I think that is really relevant.

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And with respect to the slight contraction only, yes, we have on the consolidation side, some impacts. That is all depending on the Financial Services business, of course. And with respect to the other entities, this, of course, also depends on some premises you said on the fair value impacts, right, because currently, you see in our statements that the fair value impacts are quite positive. And based on that, we see also positive results in other entities, which is supporting our total group profits. If you -- I think there's no more to say. Many thanks, Henning.

Henning Cosman

Thank you.

Maximilian Schoberl

That's fine. Thank you very much. Next question, please.

Operator

The next question is from Patrick Hummel at UBS. Please unmute yourself and begin with your question.

Patrick Hummel

Yes. Hopefully, it works this time. Thanks for taking my questions. Firstly, looking at production versus retail sales in the second quarter, you again, significantly overproduced. It's kind of the same pattern as we saw last year. But then you had a very strong second half, retail sales wise, and we started last year with a very low dealer inventory level. So in that sense, I guess this year is going to be different. So I'm just wondering how you feel about the production versus retail sales ratio going into the second half this year, also bearing in mind that you have to be somewhat disciplined on the volume side to avoid more pricing pressure to emerge in the second half.

And the second point, just on China, you mentioned the dealer price stabilizing over the last few weeks. We've also seen a slight positive volume trends, judging by these weekly numbers. I'm just wondering, is that a fundamental improvement in the Chinese market happening even if it's early days, because pricing slightly up and volume up, but maybe not what people had expected? And what are your thoughts on the volume side in China for the second half now that you basically took away the pressure from dealers to sell more cars? Nonetheless, is there any chance to have a better second half volume-wise in China despite pricing stabilizing? Or does it mean volumes, we should take a more cautious stance for China in H2? Thank you.

Maximilian Schoberl

Thank you, Patrick. We start with Oliver and then Walter. Oliver?

Oliver Zipse

Yes, Patrick, I think you observed that right, but we are right on target with our system fill. What are the reasons for the increasing system fill? It's, first of all, MINI is ramping up. And MINI is a global product. And if you produce the electric MINIs in China, they have to be on a ship to other markets. And that, of course, increases our stock holdings. So that's one reason.

And the vehicle is very well received. And that is why we did not reduce our production demand. The same thing this year, the X3 will ramp up, and we are in the first full-year of the 5 Series. So actually, if you look closely to our product portfolio, we are right in line. And as you've seen last year, we had exactly the same effect. And at the end of the year, we reduced it. And you will see that at the end of this year, we will have a lower inventory again. So we are right on track. But of course, when market demand changes, we will also adjust our production schedule. So we are currently not worried about this.

Maximilian Schoberl

Thank you, Oliver. Walter?

Walter Mertl

Hello, Patrick, while the fundamental improvement is the question what you understand is fundamental, what we recognize in China is that we will have, in the second half year, the full availability of the 5 Series and the ramp-up is done. Plus, the MINI is also coming in China -- for China as we are all aware of.

But with respect to the pricing side, so volume side should be there. But with respect to lowering targets, well, we are aware that pricing pressure is all around in China, of course. And of course, a lot of dealer groups had certain pressures. And I mentioned also some commissions from the banks, which they utilize in their transaction price behavior. And luckily, they are starting to change that after a lot of discussions with us.

What we certainly had a discussion about on that was that we said, okay, we've reduced this extra volume targets from you in order to stabilize transaction prices. That's exactly what we did in Q2. Now we recognize, as I mentioned to George already, the increase on the transaction price. I always speak about transaction price, not by revenues. And that turnaround hopefully is a trend rather than just a small thing. But I think the signs we saw from the Chinese government is that that should hopefully be a turnaround.

And also a lot of dealer groups recognize they have to care about their own profitability rather than just asking OEMs for. We are supporting, but we haven't supported them in Q1 or Q2 with dedicated dealer support measures, if this question was raised, right? So I think that is good. And geographically, is diversification. It's not just about China, ultimately.

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Maximilian Schoberl

Thank you. So we come to our last question, please.

Operator

Final question is from Stephen Reitman at Bernstein-Societe Generale. Please unmute yourself and begin with your question.

Stephen Reitman

Yes. Hopefully, you can hear me now. Just a technical question, please. In your half-year report, you are showing within the -- on Page 38 in the statement of changes in group equity, the non-controlling interest, the dividend payment of just over €1 billion, €1.013 billion to non-controlling interests. Is that to BBA? Is that to Brilliance Automotive? And is this different from what happened in 2023? Thank you.

Maximilian Schoberl

Walter?

Walter Mertl

Hello, Stephen, yes, that is BBA. We got already the first payment of dividend in the quarter two. And that is -- the majority of this number is to BBA. That is correct.

Maximilian Schoberl

Thank you very much. Ladies and gentlemen, thank you for your questions. We have reached the end of the telephone conference. Thank you for joining us. All the best to you, bye-bye and [indiscernible] from Munich.

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