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PRESENTATION

Operator

Good day, and welcome to the Europcar H1 Results and Special Announcement Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Caroline Cohen, Head of Investor Relations; Caroline Parot, CEO; and Luc Péligry, CFO. Please go ahead.

Caroline Cohen - *Europcar Mobility Group S.A. - Head of IR*

Thank you, Katherine. Yes, everyone, and welcome to Europcar Mobility Group H1 2021 Results and Special Announcement today conference call. In a moment, I will give the floor to Caroline Parot, CEO of the Group; and Luc Péligry, CFO. So we'll take you through the presentation, and then we will open up the line for questions.

As today's presentation may contain some forward-looking statements, we invite you to read the important legal disclaimer of this presentation. This presentation is available on the company's website and a replay of this call will be available shortly on our website.

And with that, it's my pleasure to pass the floor to Caroline Parot. Thank you.

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

So good evening, everyone. Sorry for the delay in our call tonight for the H1 results. I am today with Luc Péligry, which will guide you through the H1 results with me, but before that, and that's the reason of the delay, we want to guide you through an important announcement that we have just posted on our website regarding to specific announcements regarding a tender offer on the company.

I'm delighted to announce to you that our company has reached an agreement with a consortium of potential buyers led by Volkswagen Group, in which are also on an expert in international mobility services and Attestor, which was a key expert in our financial restructuring. I won't go on all the details, which are on the presentation. But I want to say to you that our Board of Directors has properly welcomed an offer of EUR 0.50 on the group. And you can see the details of what is about the offer in the slide in front of you. This is following some rumors, which were coming since the beginning of June. We have finalized this negotiation, and we are going to enter in the process over the next few months regarding this tender offer.

If we consider not the financial metrics that you will appreciate and will be progressively measured by an independent expert that has been appointed and will work to the finalization of the assessment of this offer, I want to go to the strong strategic rationale behind this contemplated tender offer.

If you go on the next slide, in a nutshell, regarding the strategy of the company, we are joining forces with a member of this consortium that will put us in an even stronger position to capture growth and expand our mobility solutions offering in the context of increasing customer appetite for on-demand services such as subscription models based on usage. Besides, together with the concession members, we could have a big impact on our mobility ecosystem, transform and adapt to mobility current and future challenges. This has definitively promising and expect exciting perspectives for the consortium, for the company and for the group going forward in this fantastic economical mobility system. I will be able to answer all your questions at the end of the call regarding these specific announcements.

Now I will guide you through our H1 results in the mobility space as well. And we start with the second presentation with an agenda, which is more traditional here, our Q2 highlights, an update of the Connect rollouts, the strategic roadmap, a presentation of H1 results with Luc Péligry, will guide you through. And finally, an outlook for the second half of the year.

If you go to Slide 5. Our Q2 activity, despite some travel restrictions, which were still in place, leading to a no Easter effect for the second year in a row, was characterized by revenue growth and most importantly, by return to positive corporate EBITDA. This achievement was mainly driven by volumes and prices, both in Europe and in the U.S. that will be commented later on in this presentation.

What made these returns to corporate EBITDA possible is also, of course, our continued tight control on our fixed cost base, which, as already stated, at the occasion of our Q1 publication, is paying off. With greatly increased agility, we are confident in our capacity to keep on adapting our variable and network cost base to business level over the course of 2021.

In terms of cash management, we are still improving compared to with initial planning. This is becoming better and better and more efficient quarter-after-quarter at prioritizing and rightsizing investments while enhancing our liquidity profile.

Regarding the rollout of Connect, our strategic roadmap, we are well on track with new go-to-market approaches implemented and the successful launch of the new services solutions that I'm going to go through now.

Please turn to Slide 7. Over the course of H1 2021, the group made good progress on its Connect roadmap, in line with our global rollout planning. Let me first remind you that, on a long-term perspective, Connect (inaudible) significantly transformed the model and provide our group enabling a rebalancing of our revenue streams with less seasonality, leaner organization and operations, paving the way for enhanced cost efficiency, profitability and improved free cash flow generation. And finally, at scale digitization of the customer experience we deliver across brands and geographies.

Let's go into our H1 achievements now. With our organization by service lines, we have developed new go-to-market approaches so as to design and launch offers and services tailored around customers' needs and expectations in a context where some of them have been amplified by the COVID crisis, especially regarding contactless and fully digital solutions. This is why our Key'n Go solutions, operated by Goldcar and deployed in 35 key leisure airports in Southern Europe met such great success. It is fast as it allows customers to go directly to the key dispenser when they land and we keep their keys in 1 minute. It is hassle-free, as coverage and roadside assistants are bundled in the rental fee. And it has an extra safety dimension as it is 100% digital and contactless.

Two elements particularly illustrates the success of Key'n Go in H1. It's natural (inaudible), which is way over the look, which is way over the local segment average and close to Europe cars one. Its revenue progression doubled versus last year. For B2B customers, in order to meet their increasing need for greater flexibility in the context of the pandemic, we launched innovative offers to facilitate their (inaudible) life, thanks to flexible mid- and long-term subscription models, Flex, Superflex, DuoFlex.

In a nutshell, these brand new solutions are modern and disruptive alternatives to fixed-term leasing and to vehicle ownership, as they are based on the convenience of a monthly subscription without the need to commit on a set term duration. Here again, this launch was met with great success. Thanks to these new offers, our fleet services increased by 19% versus last year. And with these new highly flexible solutions, combined with our expertise in fleet management at scale, we are convinced that we have a developed competitive advantage over other rental players, as well as leasers, with good growth perspective ahead of us.

Building on this success, our proximity service line, as designed for B2C customer, a very innovative subscription offer that we will launch in one of our major countries for a pilot phase over the course of H2. I won't go into details here, but clearly intend to make this offer one of our flagships as it is clear alternative to vehicle ownership in a market context where (inaudible) is a new consumption model of all kind of services including, of course, mobility.

So please turn to Slide 8. On transversal programs, which are also part of Connect, we have also made good progress. And here, too, we are on track with our rollout planning. First, our One Connected Fleet program, the connectivity and tech backbone topics have been tackled and we are now in active deployment mode while developing in parallel our data management capacities. 10% of the group fleet is already connected, with the ambition of having 100% of it fully connected by end of 2023.

On the sustainability front, we made good progress as well. As part of the One sustainable fleet program and in line with our ambition to have more than 1/3 of our fleet made of electric hybrid or plug-in hybrid vehicles by end of 2023, we crossed the 5% line in H1, going from 3.9% end of 2020 to 6.5% in H1 2021. This may appear quite low, but the limiting factor is infrastructures and as their number increase, so we will the share of the green vehicles in our fleet.

And finally, the step one of the group brand new unified and strongly integrated IT system were successfully reached and resulted as planned in the June launch in Portugal, allowing for our global implementation across brands and countries in the next future. This is a key milestone in the group journey toward at scale, fully digitized customer journey and operations.

Please go to Slide 9. Let's focus a little bit on One Connected Fleet for a few minutes. As I told you, our ambition is to have 100% of the group fleet connected by the end of 2023. Today, at group level, 10% is connected and in the program despite the inherent complexity. We are really on track. Our pilot market, the U.K. has already connected over 2/3 of its vehicles and will reach 100% milestone at the end of this year. In H1 2022, in addition to those in the U.K., our Vans & Trucks will also be fully connected in France, Spain and Italy and Portugal. End of 2022, we will raise 2/3 of connectivity threshold, paving the way for the 100% target of 2023. This program is strategic and of paramount importance, both for operations and for our business.

Thanks to seamless access to vehicle telemetry data, such as geolocalization, fuel level, mileage and maintenance alerts, we will be able to continuously improve customer experience and optimize business applications as well as internal processes such as fleet inventory management, fleet delivery and collection, maintenance and so on. As a result, we should be able not only to improve customer satisfaction and loyalty, but also our efficiency and our profitability.

I now hand over to Luc Péligry, who is going to guide you through our details, Q2 and H1 results.

Luc Péligry - *Europcar Mobility Group S.A. - Group CFO*

Thank you, Caroline. Good evening, everybody. So I will go on Slide 11.

So as you see from -- the revenue profile has been contrasted between the 2 quarters of '21, with a 36% decline in Q1 and a solid rebound of 88% in Q2, despite no Easter effect on that quarter. In Q2, we see volumes and price picking up in domestic markets in the U.S., in Australia, and progressively in Europe from May onwards. Price increase is no doubt linked to the demand and cautiousness of the increasing by all car rental companies, including us, but also spurred by the shortage of supply of chip components, which affects the OEM and the production. But compared to 2019, where we have a more steady base of comparison on a like-for-like basis, we have naturally not recovered the 2019 levels, but the performance has clearly improved month-after-month from minus 47% in April, minus 37% in June '21 and breaking the 40% threshold, which is clearly positive signs as it demonstrates the will from customers, particularly from leisure to travel when travel restrictions are lifted.

Slide 12. If we look at Q2 '21 specifically, as you can see, our car segment more than doubled at 106 million to -- versus out of the EUR 380 million of rental revenue, mostly driven by our leisure service line, which benefited from the local segment in Spain with Goldcar, and in the U.S. with Fox. Volumes went up strongly as well as positive pricing in Europe since May. This year, traditionally, you know that we have Easter lapsing the season. But in fact, we suffered from a weak April, which was still affected by numerous lockdowns and a curfew measures.

On the Van & Truck side, we performed extremely well, with a plus 32%. This BU returned to its 2019 levels as they did in Q1, driven by the strong demand and the success of our supersites towards corporate customers and our new long-term solutions offers. As for previous quarters, the BU benefited highly from home delivery, increasing home delivery and e-commerce.

Switch to Slide #13. MADC, the march of the direct cost, is improving month-after-month, and we are at the end of June 21 at 28.6%, less than 5% behind our 2019 performance. As we just saw on top of the activity rebound, we are continuing our cost optimization and performance programs that I would like to highlight to you through 3 main KPIs.

First, on the fleet side. For the first time since August 2020, we are in fleeting. And you can see the rebound from the 187,000 vehicles on average in Q1 to 210 vehicles on average. That's plus 37%, with even a higher position of 251,000 vehicles at the closing of June, which is a strong performance. This shows our ability, affinity and knowledge from our fleet teams to be fleet significantly in a short period of time despite the tense market due to the chip shortage.

The second very important KPI, of course, is the utilization rate. And you see that we are just 1% behind 2019 despite a very contrasted, volatile and uncertain environment. This is a very strong performance from our revenue capacity management team and fleet team as well.

So as a result, what you see on the right-hand side of the deck, you see that the direct and variable costs have decreased by 17% in H1 '21 versus H1 2020, while revenue were up 4% or close to minus 38% versus H1 2019. One of the reason is coming from the fleet with the flexibility of our business model, able to follow the revenue trend and some benefits from a good used car market for resale in the countries where we have high rate of fleet at risk. But overall, it is the consequence of the buyback model. As a consequence, this is only 3% down versus a decrease in revenue with some costs like the airports, which bear some annuities.

Slide 14. So on the second part of the cost, we've got the fixed and semi-fixed costs. And here, we are particularly proud of the strong reduction, minus 34% versus H1 2019 we achieved in this quarter -- in this H1. It means that we adapt our HQ network to a lower level of capital activity and this is the payoff of all the implementation of the adaptation plan in 2020. We took, of course, advantage of temporary state-driven measures, but also cut costs on a permanent basis, closing some station and centering overs to agents as well as implementing restructuring plan on top of furlough measures in some cases. This is a great achievement and the results, especially when you look at Q1 and Q2 figures in the context of strong growth between these 2 quarters.

A reminder, the revenue between Q1 '21 and Q2 '21 grew by 37% from EUR 356 million to EUR 486 million, and the cost base accrued only by 5%. This confirms the permanent reduced fixed cost on HQ with very limited further measures, the reduced increase of network costs linked to the increase of rentals was very limited, thanks to the efficiency recovery and taking advantage of the network rationalization, the good control of this cost base. Again, this is a very strong lever for the group to improve mechanically our profitability for this year, but of course, with the future and the top line recovery.

Let's go to Slide 15. First, it's a very positive result from all these efforts and achievements on top line and cost control with a positive corporate EBITDA for Q2, as you see, at EUR 20 million for Q2 '21 with some improvements month-after-month. I will not go in detail already because we commented already on the fixed and the variable cost, but I will look at the pull through, which means that we look at the variance in corporate EBITDA versus the variant in revenue to illustrate the work done. If you take the comparison between Q1 -- Q2 '21 and Q2 '20, Q2 '20 was, of course, probably the peak of the crisis, but the performance is amazing, plus 88% in revenue in Q2 '21 with variable costs going down by 14% and fixed costs decreasing by 21%, leading to an improvement of EUR 230 million of revenue for EUR 160 million of corporate EBITDA.

The second comparison that we can do is between H1 '20 and H1 '21. EUR 26 million of revenue improvement for EUR 184 million of corporate EBITDA improvement. And the last one, for H1 '21 versus H1 2019, the revenue are down by EUR 600 million for a limited impact of EUR 100 million, meaning that it's a 16% of pull through. This is, I think, a self-explanatory performance of another evidence of the agility of the business model and the solid contribution of all teams to achieve these solid performances.

Switch to Slide 16. The profit before tax has strongly recovered compared to last year, with a EUR 233 million improvement from EUR 363 million to EUR 130 million, the bulk of it coming from the EBITDA. You can see that the depreciation as per the fleet has decreased mainly due to the network rationalization and reduced rents. The nonrecurring charges outside of the financial restructuring are on track with our planned reboot launched last year, and we have notably some expenses linked to the finalization of the merger of our German entities between Europcar and Buchbinder, which has been finalized in May this year to give birth to one single operational entity in Germany, operating the 2 brands, Europcar and Buchbinder. On the cost of the non-fleet financing, we enjoyed significant reduced level of corporate debt, thanks to the restructuring, which occurred at the end of February, which balanced some higher costs. We have isolated the impact of the restructuring on a specific line, as you can see on the net restructuring results, which is positive for EUR 22 million, mostly of it is noncash.

As far as tax is concerned, we kept a cautious view on tax losses carryforward, and we accelerated only tax losses with EUR 40 million compared to EUR 77 million in H1 2020. This gives an ETR of 7%, translating a good utilization of tax losses in a respective concerned country in application of the existing local rules. And the net loss is limited to EUR 122 million, improving by EUR 165 million versus last year.

If you go to Slide 17. The cash and liquidity remain at the heart of the way we manage the group and our business decisions. This is something which is already shown by our corporate operating free cash flow, which is positive at the end of Q2, even if we attach the cost of the corporate debt, at center which is a very strong and solid achievement for the company. Usually, our business profile showed the highest cash burn of the year during Q1. For H1, we managed to reach an operating free cash -- negative operating free cash flow at EUR 84 million where we were at minus EUR 100 million at the end of Q1. We are still behind 2019 performance by EUR 126 million, and the main reasons are the following.

The bulk of course, is coming from EBITDA with EUR 107 million despite the strong improvement delivered, but let me remind you that we lost EUR 600 million of revenue over the period, considering only EUR 100 million loss at corporate EBITDA level. On the non-rec item, we are aligned with the finalization of our restructuring plan started in H2020, and we limited to EUR 18 million of nonmet cost with numerous operational initiatives, ongoing schedule cost optimization, namely rationalization and network, finalization of the German merger and some layoff as well.

On the CapEx side, you see the CapEx of EUR 26 million for the H1 with a strong focus on the product and tech products -- on the product and tech projects, sorry, which are already -- so we've already some deliveries on the connected cars, as mentioned by Caroline, which is a strong lever to improve a combination of revenue improvement of the cost of the station and the customer section.

As far as the non-fleet working capital is concerned, H1 '21 is on track with our expectations, but below 2019 for 2 main reasons: first, reduced level of leisure customers, implying reduced prepayment from kiosk to operators and brokers who are the lever on these cash improvements. And the second topic is the progressive normalization of the net working capital to recover standard practices. On the tax side, there are no major changes. Overall, we confirm that our corporate operating cash flow will improve significantly compared to our original framework.

Switch to Slide 18. So as you can see, we are closing H1 with a corporate debt of EUR 266 million, which is a strong achievement to finish this financial review. The corporate debt increased by EUR 106 million in Q1. And we said at the time that it would be the peak for the year. Starting with Q2, the change in corporate debt is this time limited to EUR 67 million, reflecting positive cash generation and operating free cash flow, but somewhat offset by a strong free timing impact linked to the strong in-fleeting to sustain the peak season.

As far as liquidity is concerned, the corporate growth position remained robust at EUR 447 million. The decrease of EUR 70 million versus Q1 '21 reflects the corporate cash put in fleet to sustain in fleet. And finally, a very good news, we managed to refinance the EUR 1.7 billion securitization program, the SARF, which has been signed this week, extending the maturity until July 2024. As a consequence, between the low level of net corporate debt, the strong existing liquidity, the low level of cash burn in Q2, the Europcar Mobility Group has all financial means to sustain the recovery of the business. Thank you.

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

So thank you, Luc, for this analytical review. Now I would like to share, before the conclusion, our outlook for the rest of the year on Slide 20.

A few words regarding Q3 first. We are reasonably optimistic faced with quite contrasted picture, while our U.S. operations are still experiencing a strong recovery. The situation in Europe is a little bit more volatile, if I may say, mainly because of how fast the Delta variant is spreading, leading states to implement new restriction or on lockdown progressively. In both cases anyway, we expect the positive pricing environment to continue.

And we consider that we will have a positive -- significantly positive increase in the revenue for the rest of the year. But given this context, we are not in position to provide a full guidance for 2021.

However, assuming no further deterioration on travel restriction and shortage of semiconductors, as I said, we are confident that our revenue will significantly increase. And besides that, we expect that our corporate net debt will be contained in the range of EUR 300 million, EUR 350 million by year-end.

So with that, thank you very much for your attention. I will open the floor to the questions. Obviously, we have 2 special communications this day, the start of the recovery in our business, which is going strong, strong proof of increase in both profitability and cash generation. So we are not exiting from the COVID, but we are back on more nonregular growth profile we were having before. And second, the long-term vision for the group with the announcement of the contemplating to the offer just announced with the consortium led by Volkswagen. So with that, I'm happy to handle your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) It appears there are no questions at this time. We do now have a question from Jemma Permalloo at JPMorgan.

Jemma Permalloo - *JPMorgan Chase & Co, Research Division - Associate*

Can you hear me?

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

Yes, now, yes.

Jemma Permalloo - *JPMorgan Chase & Co, Research Division - Associate*

I just had 2 questions, and that's probably more specific to the credit. Do you have an update on the fleet notes, the one maturing in 2022? And then secondly, in line -- in light of this announcement with the consortium led by Volkswagen, what -- and I understand it might be early days, but what's the longer-term strategy in terms of maybe bond assurance, and what's the strategy there really?

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

So this is Caroline, I will leave the floor for the (inaudible) questions to look at for the long-term strategy, as you mentioned. We have a contemplated tender offer, which is ongoing and starting today. This transaction is subject to customer reclosing conditions, including regulatory approvals, and we do expect to close the transaction late Q4 or in Q1 next year. So even though you have seen that the main shareholders of the group, representing approximately 60% -- 68% of the share capital have entered into undertaking to tender their shares into the offer. So giving it the view of -- and the magnitude of how the offer is perceived by our shareholders. We are, during the next 6 months, running as a stand-alone view. So we will continue business as usual, including regular financings for the fleet. Luc has mentioned, that we have refinanced the staff yesterday, and we'll give you some views on what are the next steps for the other normal course of business, fit financing lines.

Luc Péligry - *Europcar Mobility Group S.A. - Group CFO*

Yes. So we -- as mentioned by Caroline, we financed the staff yesterday, and the staff is working with the fleet born, of course. So that's -- the fleet bond is maturing in a EUR 500 million fleet bond, which is maturing in November 22. So -- and that we will refinance probably the fleet bond in the second half of the year before -- 1 year before its maturity. And we managed as well to refinance on the normal cost of business, we are finalizing as well the financing of the U.S. activities. And we are as well in the process of refinancing the U.K. as well. So I think they're pricing well. So that's very positive.

Operator

(Operator Instructions) We'll now take the next question from Patrick Jousseaume at Societe Generale.

Patrick Jousseaume - *Societe Generale Cross Asset Research - Head of Mid and Small caps Europe Research*

Yes. Can you hear me?

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

Yes, Patrick.

Patrick Jousseaume - *Societe Generale Cross Asset Research - Head of Mid and Small caps Europe Research*

Yes, my first question is about -- so you have 68% of the shareholders -- I mean, shareholders representing 68% of the share capital that are happy to tender the (inaudible) offer. Who are those 30 other percent? Could you give us some information about them? Second question, have you talked, I mean, I think it's a complicated question. Talked with other, I mean, potential groups of -- which are interested in the company besides Volkswagen? And third question, you mentioned corporate net debt expected in the range of EUR 300 million, EUR 350 million. So it's quite precise. So I guess that in order to get this level of precision, you got also a decent level of precision on corporate EBITDA for the full year. Could you comment on that?

Caroline Parot - *Europcar Mobility Group S.A. - CEO & Director*

I will leave the floor for Luc on the last question. And on the -- on who are the other shareholders, in fact, the group of shareholders, which we have under their shares are the most important one, and we have a float for the rest. We have identified positions. So we have also nice discussions, and we will discuss with all of them, I'm sure, after this call today, but we don't provide a list because they are below the threshold for most of them.

On your second point, have we discussed with other potential bidders. The link is in the market since mid-June, the company was in play for M&A since 2019. So we are pretty familiar with the potential bidders. So we -- if they were on the radar, they have not been really around so far as the process is public. So we will see what could happen or not. But we do believe, as the discussion with Volkswagen and the consortium, we are managing a very strong way for the best of the shareholders and the company.

Luc Péligry - *Europcar Mobility Group S.A. - Group CFO*

As far as the -- Patrick, as far as the corporate net debt is concerned, we put this brand because we think that this is a key metric for the group that gives to the staff renegotiation. It's a good example of positive sign on the cash side, and we're giving confidence. I think that corporate net debt, we see that after the H1, we had EUR 266 million and with the next 2 quarters, what we see from the activity that we should be able to drive the debt on that range. So that we are not communicating any, I would say, guidance on the -- of any figures on corporate activity side.

Operator

(Operator Instructions) It appears there are no further questions at this time.

Caroline Cohen - *Europcar Mobility Group S.A. - Head of IR*

Thank you, Katherine. So I think that we can end up the call. And if there are any follow-up questions, please call us back. Thank you very much.

Thank you very much who attend on this call. Sorry for being late due to the announcements we have just made, us and the consortium. We will be happy in the next days to engage with each of you on a weekly basis. The company is back on the profitable path and reach the current agreement on the consortium. We see also a back strategically for the future, which is strengthening the company position in the mobility area. Thank you for that and talk to you very soon.

Luc Péligry - *Europcar Mobility Group S.A. - Group CFO*

Thank you. Good evening.

Operator

That concludes today's call. Thank you for your participation. You may now disconnect.