

UNDERLYING STRENGTH DELIVERING LONG-TERM VALUE

STEFAN BOMHARD

Chief Executive



Once more it is my pleasure to write to you at the end of a year that has delivered strategic progress in many markets, despite some external pressures. We have grown our business, adding several new contracts to our portfolio, and placing greater emphasis on Distribution as the core of our business model; we have further leveraged our scale on costs; and we have made good progress in improving our digital capability and execution of the Inchcape customer experience.

In many ways the financial results of 2018 validate our strategic intent to focus our growth on Distribution. Our influence and control of the full value chain in Distribution markets ensured we were able to mitigate market challenges, returning a very positive full year performance in the Asia region. However, we continued to face significant pressures in some of our Retail markets (in particular Australia and the UK) where performance was impacted by factors including a market slowdown and a reduced demand for diesel, leading to a resilient Group profit performance in 2018. We have progressed many strategic objectives during the year and have actions in place to improve our Retail operations in 2019.

I would like to outline why despite facing periodic challenges I believe that Inchcape has the fundamental strength to succeed, to continue to grow and to deliver returns on investment for our shareholders over the long term.

A full review of how our markets performed in 2018 can be found on pages 20-26 in the Operating Review.

A UNIQUE AND SUSTAINABLE BUSINESS MODEL

Inchcape has a unique business model; we are the only independent automotive Distributor and Retailer with global scale.

The heart of our business, and our core set of competencies, is in automotive Distribution, that is the management of the post-factory value chain for our vehicle manufacturer or 'OEM' (original equipment manufacturer) partners. The Distribution model allows us to capture a greater portion of the value chain and drive higher margins and returns. We have long-standing strategic Distribution partnerships, providing end-to-end routes-to-market for some of the world's leading and most recognisable vehicle manufacturers; our portfolio of these brands is diverse and includes premium, volume and commercial OEMs, which gives us a balanced segmental representation across our operations.

Within that value chain we also operate as a Retailer, giving us true insight into our customers and allowing us to develop world-class customer experience solutions that are globally scalable. In fact, through the full-spectrum Distribution value chain Inchcape manages business partner and customer touchpoints from vehicle product planning right through to servicing customers' cars.

Our business model and segmental split are shown in more detail on pages 8-9.

OUR STRATEGY TO DRIVE GROWTH

Inchcape's Ignite strategy is the powertrain that moves our business forward and underpins our ambition to drive growth. Ignite was created to drive operational excellence across our markets; to consolidate select parts of our fragmented industry; to continually innovate to take advantage of our scale and expertise; and to ensure a long-term future for the Company.

Through Ignite's first four objectives – our organic growth drivers – we build a stronger, more sustainable business, as well as the trust of our OEM partners and customers. These are our two key operational stakeholders and the focal points of our vision to become the world's most trusted automotive Distributor and Retailer.

Inchcape operates in markets that are subject to changing trends and conditions, and it is through Ignite that we strive to maximise the profit opportunity against that backdrop.

You can read more about the strategic objectives and our progress this year on pages 12-13.

A PLATFORM FOR CONSOLIDATION

Ignite's fifth objective focuses on entry into and consolidation of small to medium-sized markets with high growth potential where we can optimise our unique competitive advantage to establish market-leading positions for our OEM partners. The key to this strategy, and one of the successes of the past year, is in establishing regional platforms for growth, using an initial market presence in a given region as a springboard to further consolidation opportunities. In 2018 we used this approach to consolidate BMW Group's Baltic operations where we were awarded the Distribution contract for Lithuania, in addition to our existing agreements in Latvia and Estonia, which we began to operate at the start of this year. This approach benefits our partners, as well as Inchcape, as we can leverage our scale across the region, adding value through one efficient operation.

Significantly, in March we extended our Latin American platform with a scale acquisition in Costa Rica and Panama. We acquired Grupo Rudelman and with it the Distribution contract for Suzuki and a number of emergent Chinese brands. We have now significantly increased our exposure in the Americas, through both long-standing and newer partnerships, in the high-growth potential markets that we see as fundamental to our continuing consolidation of the industry.

It is important to add that while we have capitalised on a strong set of opportunities recently, we have a disciplined approach to our allocation of capital. We have the firepower to invest and a rich pipeline from which to select the very best opportunities to develop, but we do so in a way that is consistent with our strategy of long-term, sustainable growth.

BUILDING STRUCTURAL AND PEOPLE CAPABILITY

Of course, none of the progress we have made over the past year would have been possible without the expertise and dedication of our people. One of Inchcape's greatest strengths is its talent which we nurture and develop, promoting people to senior positions from within the Company, and mining the deep specialist knowledge base of our existing employees.

We have continued to invest in the skills we need as our industry evolves, managing succession and ensuring long-term viability, and we recognise that the sustainable business of the future must bring new talent in from outside to extend Inchcape's capabilities where we see a gap. In particular, we have expanded our digital teams both at Group and market level, where they are playing a leading role in the continued optimisation of our Retail footprint and customer experience.

On behalf of the Executive Team, I would like to take this opportunity to thank our talented people across the business for their dedication to making our vision a reality.

As we build and improve our people capability, so we evolve our systems and structural capabilities. The potential for technological advancement in our industry should not be underestimated and our aim

is to keep pace and anticipate wherever possible to maintain a strong competitive edge, both now and in the years ahead.

You can read more about our view of the changing automotive industry and our responses on page 11.

LONG-TERM VALUE CREATION

The combination of our business model, our strategy and our capability comprises Inchcape's core strength and provides the basis of our proposition for multi-layered growth: through operations with a weighting towards higher margin Distribution contracts; through a balanced exposure to mature and high-growth potential markets; through scale leveraged to build efficiencies across our global operations; through sensible deployment of cash generated through the operations; and through our positive response to the evolving automotive industry.

Inchcape is structured to maximise the opportunities for earnings and delivering cash returns for our shareholders and I believe wholeheartedly that the business will continue its long track record of delivering growth.

OUTLOOK

I believe Inchcape has a strong and sustainable business model which provides an excellent long-term investment proposition. This year has reaffirmed that our Ignite strategy is taking Inchcape in the right direction; it has demonstrated the growth opportunity in Distribution, has enabled us to improve our operations and has enhanced our global footprint. Our diversified and Distribution-weighted portfolio will continue to be an engine for growth over the long term.

We also remain focused on ensuring the best possible performance of our Retail businesses against the market headwinds we continue to face. We believe that we have exited 2018 with a stronger Retail strategy and are starting to see benefits from operational improvements that are being implemented.

Looking nearer term, excluding an expected AUDJPY transactional currency headwind we expect our performance in 2019 to remain resilient, in line with continued market trends already seen towards the latter part of 2018.

Overall, as the automotive industry continues to evolve and with Inchcape's foundational strengths and stability in the face of change, I am confident that we will capitalise on the opportunities ahead. I believe that the combination of our dedicated people, the Ignite strategy and a sustainable business model means that Inchcape is positioned well to respond to market dynamics.



Stefan Bomhard
Chief Executive