

Prioritising safety, managing risk and continuing to serve in a challenging year

Nigel Stein
Chairman



Dear Shareholders and all of our stakeholders,

When writing last year, I referred to the impact coronavirus was having on our business in Asia. Its subsequent evolution into a global pandemic dramatically increased that impact with most of Inchcape's businesses around the world experiencing periods of compulsory shutdown and restricted operations. The prompt actions taken across the Group, prioritising the safety of employees and customers, maintaining high levels of customer service, reducing costs and maximising cash flow, proved very successful in taking us through the crisis and are a tribute to the hard work of the whole Inchcape team. I congratulate them and thank them greatly for their enormous efforts in 2020.

Performance

Against the background of sharply reduced automotive markets, the Group's financial performance for the year was very satisfactory, with profit before tax (before exceptionals)¹ of £129m and free cash flow¹ of £177m. Almost all of this came from the performance in the second half of the year, once the initial shockwave of COVID-19 had subsided. During the early, highly uncertain period, when many operations were completely closed, the Group took short-term protective actions to reduce costs and secure liquidity, including utilising to a degree various government sponsored furlough schemes in the UK, Australia and Singapore and securing a temporary borrowing facility under the UK CCFF programme. The Board of Directors and senior management all agreed to a voluntary 20% reduction in their fees or salaries.

Shareholders were also impacted by the withdrawal of the recommended dividend payable in June 2020 and cancellation of the £150m share buyback programme then underway as precautionary moves to protect the Group's liquidity.

By the end of June, as the first wave subsided, the Group quickly established a 'new normal' way of operating, with no further utilisation of government support schemes. Staff temporarily laid off due to their business being closed were from then on entirely at Inchcape's cost. And where lower levels of demand unfortunately made it necessary, a number of permanent headcount reductions were made. The precautionary £100m drawn down under the CCFF scheme was repaid; other suspended activities resumed with Executive Directors' and management salaries reverting to former levels.

Strategic progress

In spite of the pandemic, the Group took some important steps forward with its strategy. This included the acquisition of the Daimler Distribution businesses in Colombia and El Salvador which help build our relationship with that important OEM. We also added to our MINI and Jaguar Land Rover distributorships as well as selling a number of dealerships in the UK as part of building a better, stronger UK business.

As announced last May, Duncan Tait took over as CEO in July 2020, bringing considerable experience of the Technology sector, which is of increasing importance to Inchcape's future. His report, which follows this, gives more details of our strategic evolution.

The Board keeps a close eye on the major disruptive trends affecting the global automotive industry and has considered what impact the pandemic may have on them. Shared ownership, autonomous vehicles and fully connected cars still lie some way ahead, but electrification of the drivetrain has accelerated. The pace of electrification is still significantly driven by government legislation, incentives and support for investment in the necessary charging infrastructure. Many countries are now bringing forward their target dates for achieving the milestones on the path to zero emissions as a direct response to climate change and recent changes in US government policy will undoubtedly provide a further boost towards electrification globally.

1. APM (alternative performance measure), see page 176-177.

Inchcape is confident that our partnership with advanced technology OEMs puts us in a good position to both respond to and take advantage of the accelerating pace of electrification. We continue to watch developments closely and shape our strategy accordingly.

Board

As mentioned above, we were delighted to appoint Duncan Tait as our new CEO from 1 July 2020 succeeding Stefan Bomhard, who left Inchcape to take up a position elsewhere. Alex Jensen was appointed in January 2020 as stated in last year's Annual Report and Rachel Empey recently announced her intention to stand down in April 2021 due to other commitments. Rachel has made a strong contribution to our Board over the last five years for which we thank her. We have commenced a process to seek a suitable replacement.

Till Vestring has completed nine years on the Board and ordinarily would stand down at the forthcoming AGM. We highly value having a Board member based in Asia, our largest market, and are actively seeking an Asia-based replacement. With the current COVID travel restrictions, Till has kindly agreed to extend his tenure until we have successfully appointed and inducted his replacement onto the Board.

The various unexpected activities of 2020 made for a busy year for the Board. I would like to express my gratitude to all my fellow Board members for their commitment and support over the last 12 months.

Dividends and returns to shareholders

The Board decided as a precautionary measure not to pay dividends during 2020 and to cancel the share buyback programme already underway. The subsequent financial performance and in particular the excellent work on liquidity led by our CFO, Gijsbert de Zoeten, have left our already strong balance sheet in an even better position. Having carefully considered the situation from a range of stakeholder perspectives, the Board has decided on this occasion to recommend a dividend of 6.9 pence per share payable in June 2021 (2020 £Nil).

Looking ahead

At the time of writing, it seems likely that COVID-19 will be with us for some considerable time longer, with all that implies. But we remain highly confident in the Group's ability to maintain its strong operating capability through the months ahead, whilst also maintaining focus on our strategic progress.

S172 statement

The Directors have exercised their duties under the Companies Act 2006 throughout the year, including under Section 172, the duty to promote the success of the Company whilst having regard for the factors in 172(1)(a) to (f). These and other factors are taken into consideration by the Directors when making decisions in their role as the Board of Inchcape plc.

The factors listed under S172 are integral to most of the significant decisions taken during the year. The Board is satisfied that the information provided by management and others via reporting, performance updates, key performance measures, independent advice and industry and economic updates is of appropriate quality to allow the Board to have due regard for each of the factors.

Case studies demonstrating how the Directors have discharged their duties under S172 are given on page 60. Stakeholder engagement is given on pages 18 to 19. Additional information on areas which impact stakeholders can be found on:

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I would end by again thanking the whole Inchcape team across the 34 countries in which we operate for their extraordinary efforts in this extremely difficult year. You should be extremely proud of what you accomplished. Thank you!



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