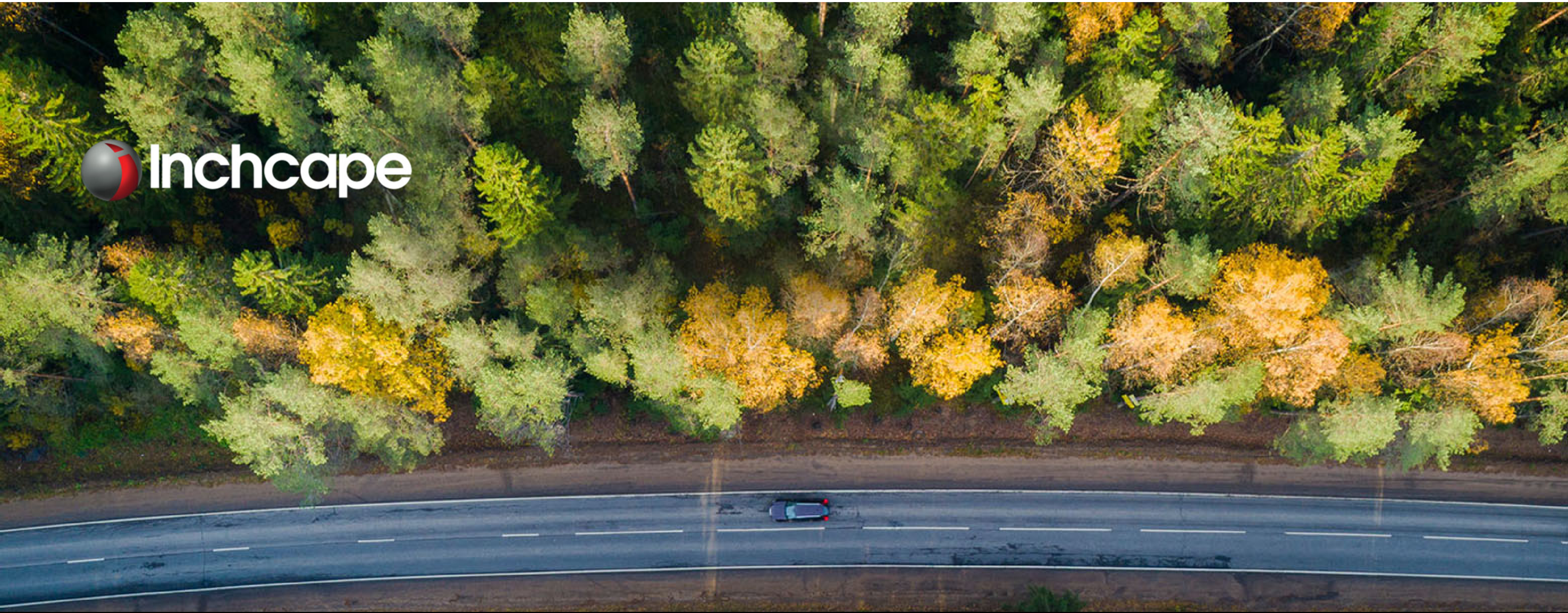

Inchcape
H1 2019 RESULTS
25 JULY 2019



STEFAN BOMHARD

GROUP CHIEF EXECUTIVE

Inchcape

H1 2019 HIGHLIGHTS

Temporary supply constraints as expected	**Improved Retail performance**	**Portfolio optimisation**	**FY19 outlook unchanged**
Group PBT (13%) y-o-y[1]	Encouraging performance compared to 2018	Sale of three Australia Retail sites and seven sites in UK	H2 supported by Ethiopia orders and Australasia supply normalisation
Decline reflects supply constraints, JPY headwind; PBT broadly flat excluding these items[1,2]	Stablised UK and Australia Retail profit; Further Russia growth	New Distribution businesses in Lithuania and Kenya	£100m buyback underway

1) PBT at constant currency; 2) Excluding £13m supply impact and £6m JPY/AUD headwind in Australasia and the y-o-y decline in Ethiopia which was also driven by supply constraints, but also excluding £4m year-on-year trading profit benefit from the Central America acquisition which was generated prior to its annualisation as part of the Group in April

H1 PERFORMANCE AS ANTICIPATED

SUPPLY CONSTRAINTS IMPACTED PROFITABILITY

IFRS 16	H1 2019	% chg	% chg (CCR)
Revenue	£4,725m	+2.4%	+2.7%
PBT	£156.3m	(11.8%)	(12.8%)
EPS	28.6p	(7.1%)	
DPS	8.9p	+0%	
ROCE	19%		

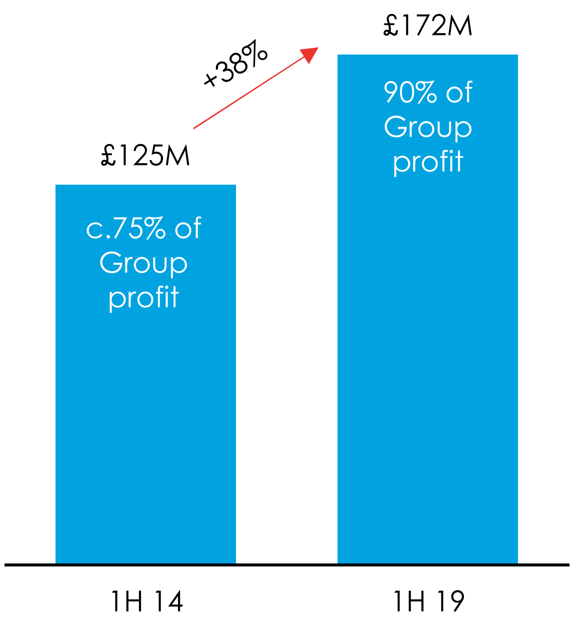
- Australasia and Ethiopia supply constraints a drag on H1
- Asia and Europe Distribution growth good; Chile market weaker
- EPS benefits from a lower tax rate
- Attractive ROCE (c.23% pre-IFRS 16)

Note: PBT and EPS pre exceptional items

CONTINUED DISTRIBUTION FOCUS

RETAIL OPTIMISATION IN-LINE WITH STRATEGIC FOCUS

DISTRIBUTION TRADING PROFIT



Distribution contract wins and acquisitions

APAC and EM c.85% of trading profit vs. c.70% in 2014

Retail portfolio optimisation

UK c.5% of trading profit

POSITIONS INCHCAPE WELL FOR:

Growth

FCF conversion

Attractive ROCE

Note: pre exceptional items; 2014 split excludes £17m of property profit in Asia (Distribution)

STRONG FOUNDATIONS FOR GROWTH

CONTINUE TO FOCUS ON THE FUTURE

UNIQUE AND SUSTAINABLE

- Distribution model core
- Greater value chain involvement drives returns
- Long-standing partnerships
- Only independent automotive Distributor and Retailer with global scale

IGNITE: GROWTH STRATEGY

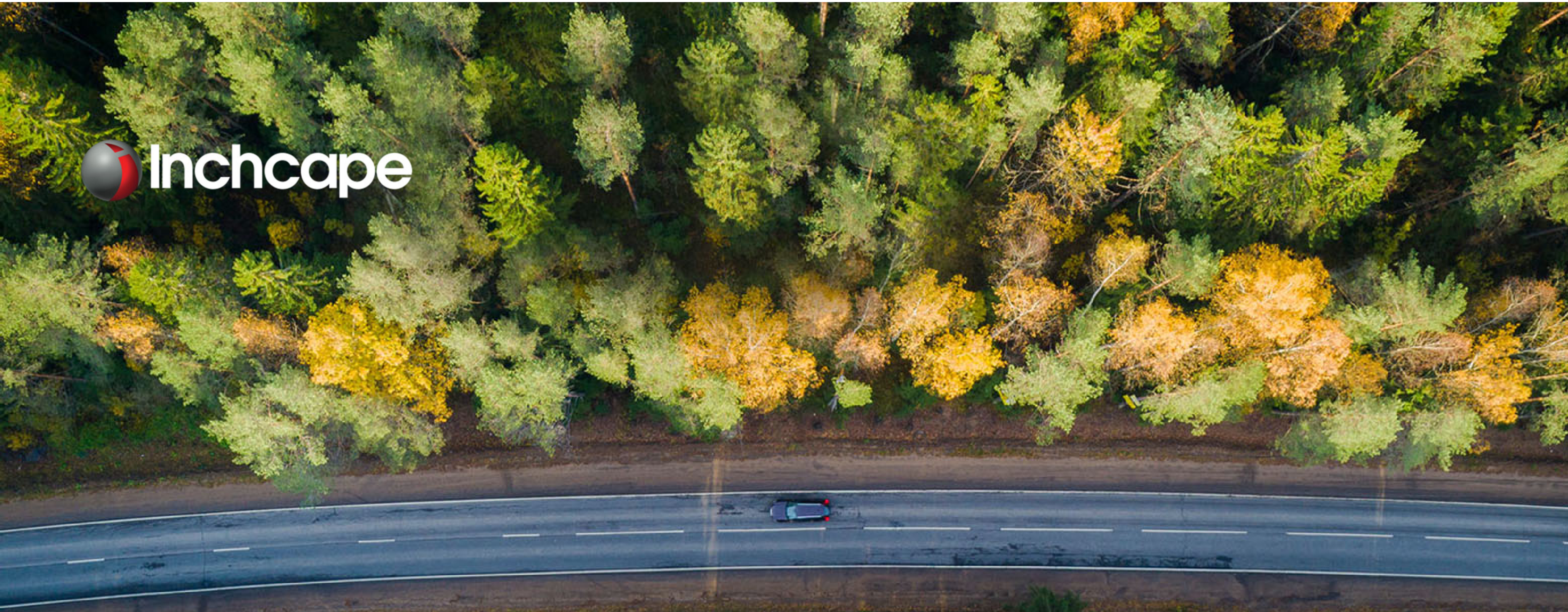
- Underpins ambitions
- Structures our opportunity
  - Operational excellence
  - Consolidation
  - Innovation
- 10 Distribution deals since 2016

BUILDING CAPABILITY

- Investment in skills for the future
- Essential to strengthen our position
- Industry trends provide opportunities

Driving a multi-layered growth opportunity

LONG-TERM VALUE CREATION



RICHARD HOWES

CHIEF FINANCIAL OFFICER

SUMMARY INCOME STATEMENT

IFRS 16	H1 2019 £M	H1 2018 £M	CHANGE ACR	CHANGE CCR
Revenue	4,725	4,614	+2.4%	+2.7%
Operating profit	179.8	200.6	(10.4%)	(11.1%)
Profit before tax	156.3	177.2	(11.8%)	(12.8%)
Effective tax rate (%)	22.5	25.7	(320bps)	
Basic adjusted EPS (p)	28.6	30.8	(7.1%)	
Dividend per share (p)	8.9	8.9	-	

IFRS 16 ACCOUNTING

Fully retrospective

FY18 PBT impact: (2%)

No cash impact

EXCEPTIONAL PBT CHARGE OF

£3m

Note: All numbers at actual exchange rates and pre exceptional items; The acquisition of the new Central American business, which was incorporated into Inchcape at the end of March 2018, contributed revenue of £41m and trading profit of £4m over the first 3 months of the year

DISTRIBUTION

GROWTH OFFSET BY WEAK AUSTRALASIA AND EM

IFRS 16	H1 2019 £M	H1 2018 £M	CHANGE ACR	CHANGE CCR
Revenue	2,486	2,426	+3%	+2%
Trading profit	172	193	(11%)	(12)%
Trading margin %	6.9%	7.9%	(100 bps)	

GROUP REVENUE

53%

GROUP TRADING PROFIT

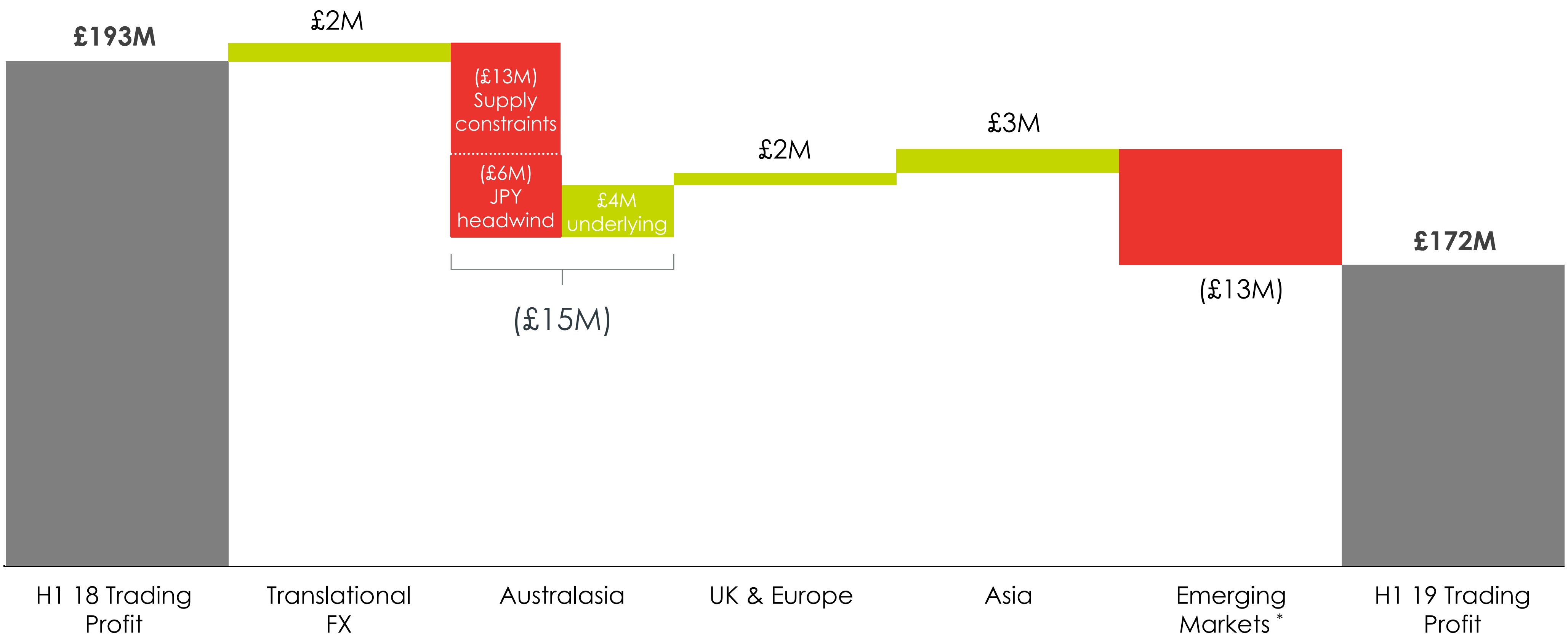
90%

- Good Asia and Europe performance, offset by Australasia and EM declines
- Singapore and HK profit growth supported by other Asian markets
- Australasia supply and FX impacted profit £19m; supply now normalised

Note: All numbers in the table at actual exchange and pre exceptional items; The acquisition of the new Central American business, which was incorporated into Inchcape at the end of March 2018, contributed revenue of £41m and trading profit of £4m over the first 3 months of the year; JPY/AUD headwind impacted H1 2019 by £6m.

DISTRIBUTION

TRADING PROFIT



Note: Regional profit growth at CCR; *Emerging Markets includes £4m year-on-year trading profit benefit from the Central America acquisition which was generated prior to its annualisation as part of the Group in April

RETAIL

IMPROVED PERFORMANCE FOLLOWING CHALLENGING 2018

IFRS 16	H1 2019 £M	H1 2018 £M	CHANGE ACR	CHANGE CCR
Revenue	2,239	2,187	+2%	+3%
Trading profit	19	17	+14%	+15%
Trading margin %	0.9%	0.8%	+10 bps	

GROUP REVENUE

47%

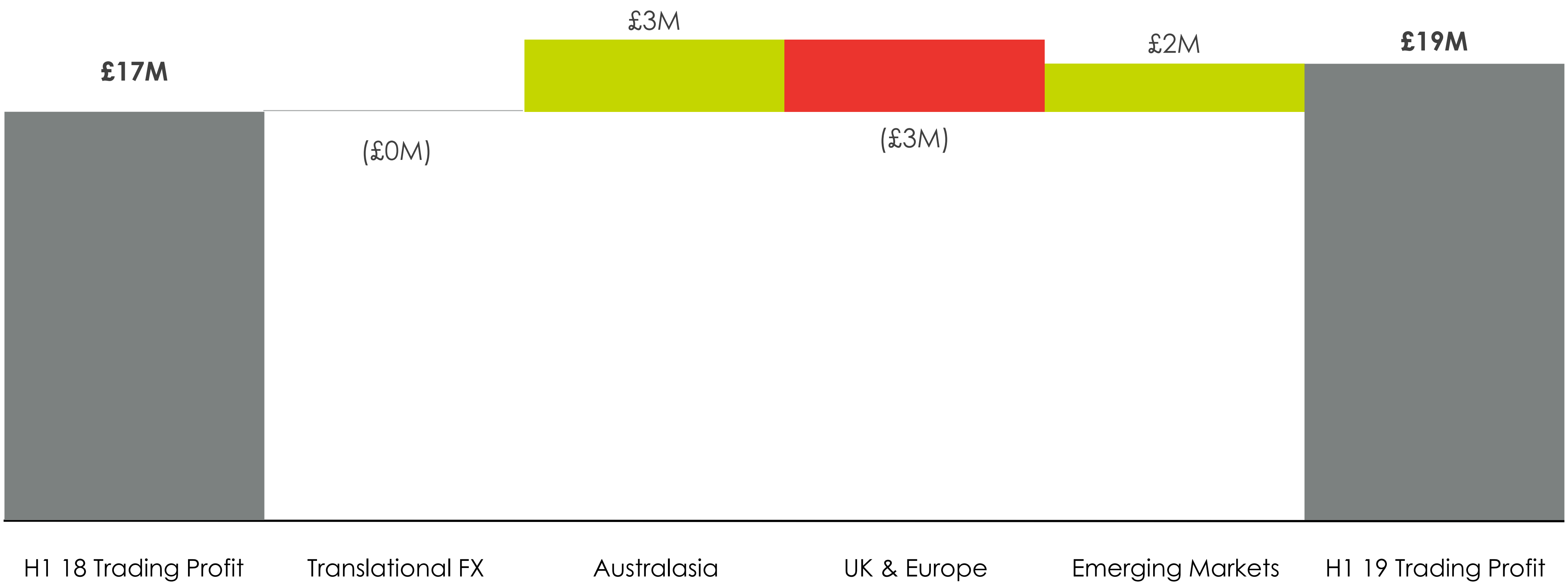
GROUP TRADING PROFIT

10%

- Stabilised performance in UK and Australia relative to 2018, despite continued market weakness
- Strong Russia momentum continued, driven by Ignite
- Retail portfolio optimisation over the period[1]

Note: All numbers in the table at actual exchange and pre exceptional items; 1) Limited H1 benefit from the sale of completed asset disposals over the period

RETAIL
TRADING PROFIT



Note: Regional profit growth at CCR

INCOME STATEMENT REVIEW
LOWER EFFECTIVE TAX RATE

IFRS 16	H1 2019 £M	H1 2018 £M
Trading profit	191.0	209.6
Central costs	(11.2)	(9.0)
Operating profit	179.8	200.6
Operating margin	3.8%	4.3%
Finance charges / JVs	(23.5)	(23.4)
Profit before tax	156.3	177.2
Tax	(35.1)	(45.5)
Effective tax rate %	22.5%	25.7%
Non-controlling interests (NCI)	(3.0)	(3.9)
Profit after NCI	118.2	127.8

2019 GUIDANCE

FY19 TAX RATE REDUCTION

22-23%

vs. previous guidance 23-24%

FY19 INTEREST COST

IAS17: c.**£28m**

Unchanged

IFRS16: c.**£48m**

IFRS16 adds lease interest

Note: All numbers at actual exchange rates and pre exceptional items

CASH FLOW

EXPECTED FY19 FCF CONVERSION OF 60-70%

OPERATING CASH FLOW	H1 19 £M	H1 18 £M
Operating profit	179.8	200.6
Depreciation / amortisation	63.4	59.2
Working capital	(83.5)	(44.7)
Pension *	(0.7)	12.7
Other	2.9	5.9
Operating cash flow	**161.9**	**233.7**
Conversion	**90%**	**117%**

FREE CASH FLOW	H1 19 £M	H1 18 £M
Operating cash flow	161.9	233.7
Net interest	(13.1)	(13.9)
Taxation	(47.0)	(50.7)
Non controlling interest	(5.2)	(5.7)
Net capex	(30.8)	(55.3)
Net lease payments	(40.8)	(40.6)
Free cash flow	**25.0**	**67.5**
Conversion **	**14%**	**34%**

WORKING CAPITAL

H1 19 Timing impact y-o-y

FY 19 Normalisation expected

CAPEX

FY 19 **Up to £65m**

vs. Previous 'Up to £75m';
Unrelated to announced disposals

FCF CONVERSION

FY 19 Conversion **60-70%**

Note: All numbers at actual exchange rates and pre exceptional items; *Pension inflow in 2018 includes £10.9m surplus release of the TKM scheme net of tax;
** excluding pension income H1 18 FCF conversion was 28%

NET DEBT

LOWER UNDERLYING DEBT YEAR-ON-YEAR

	H1 19 £M	H1 18 £M
Free cash flow	**25.0**	**67.5**
Exceptional cash	(2.5)	(6.3)
Acquisitions and disposals	(5.6)	(137.6)
Equity dividends	(74.2)	(78.3)
Share repurchases	(23.9)	(8.7)
Other cash flows	(0.0)	0.5
Lease adjustment	31.1	31.4
Net funds flow	**(50.1)**	**(131.5)**

	H1 19 £M	H1 18 £M
Opening net funds/debt	**(445.9)**	**(339.0)**
Net funds flow	(50.1)	(131.5)
Net movement in fair value	(0.1)	(14.1)
Net debt on acquisitions	(18.1)	(64.8)
New lease liabilities	(8.4)	(59.6)
Lease liabilities (reclassified as 'held for sale')	22.1	0.0
FX movements	(7.2)	(3.2)
Closing net funds/debt	**(507.7)**	**(612.2)**
Net debt ex leases	**(77)**	**(162)**

BUYBACK

£100M announced in May

(£19M completed over H1)

ACQUISITIONS AND DISPOSALS

DISPOSALS:

£10M cash inflow in H1

(£24M further inflow in H2)

ACQUISITIONS:

Lithuania BMW included

Note: All numbers at actual exchange rates

CAPITAL ALLOCATION
DISCIPLINE DEMONSTRATED

BUYBACK

£100M buyback underway (since May 2019)
- To be completed by end of December 2019
- £37M completed to date
- £500m returned through buyback over 6 years

DIVIDEND POLICY

Progressive dividend policy
- Target payout 40%
- H1 dividend policy: 1/3 of prior year (flat y-o-y)

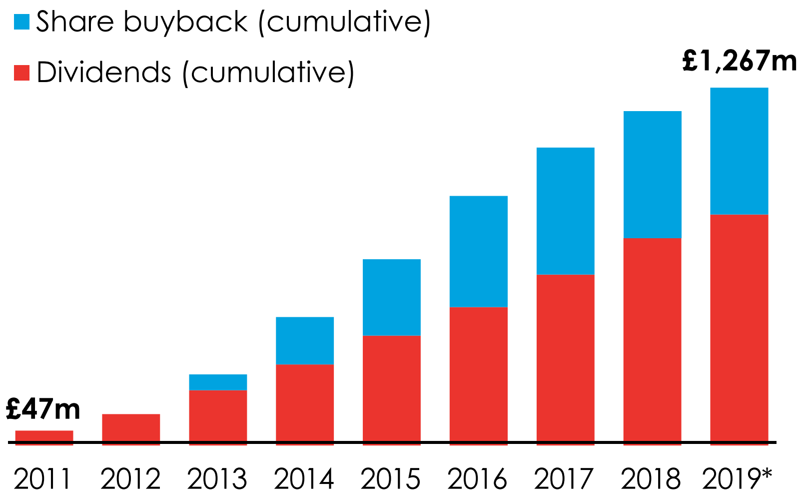
FREE CASH FLOW UTILISATION

Excess cash post capex, working capital, dividend

Value-accretive M&A opportunities

Remaining excess FCF distributed through buybacks

CUMULATIVE CASH RETURNS

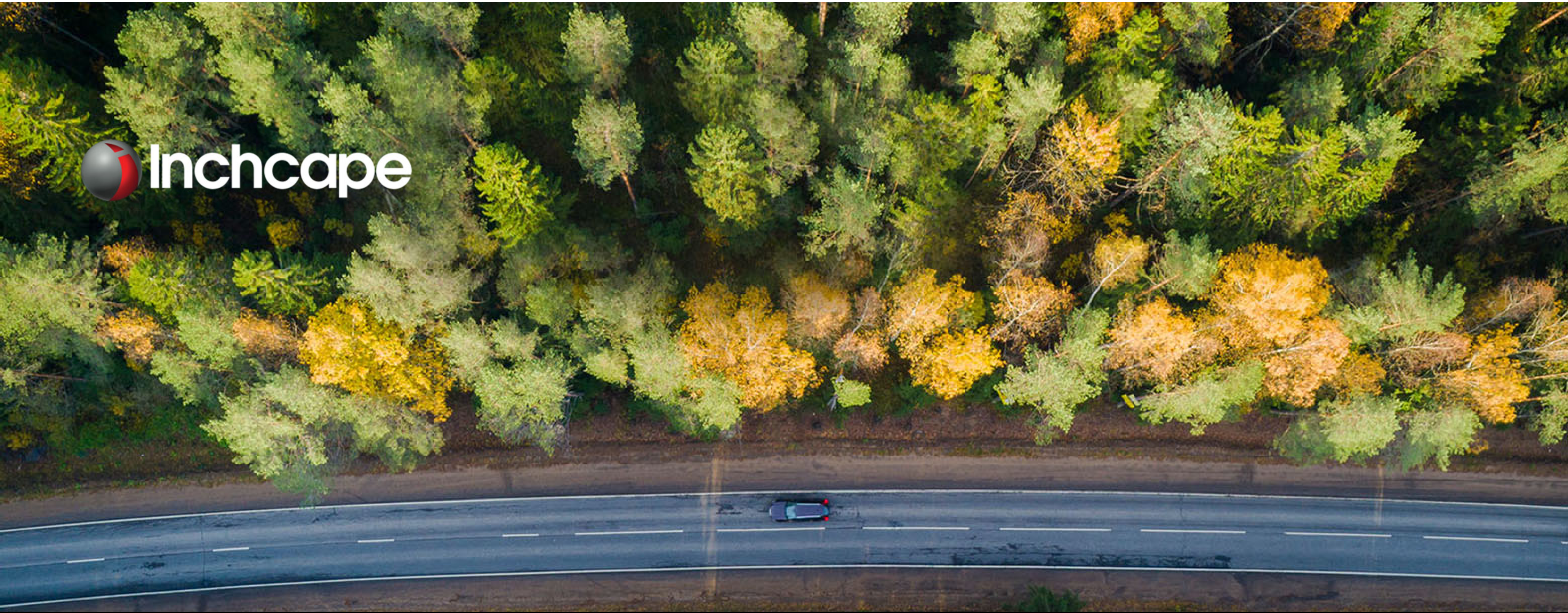


PLUS PBT GROWTH

PBT CAGR ('11 – 19)

+3%

Note: * 2019 cumulative cash returns inclusive of announced 2019 interim dividend and the announced £100m buyback



IGNITE UPDATE

IGNITE FRAMES OUR FOCUS

CONTINUE TO DEMONSTRATE PROGRESS

IGNITE FOCUS	MEDIUM-TERM AIM	H1 2019 UPDATE
Aftersales opportunity	To outperform the market	– **Aftersales H1 gross profit growth outperformance** – Strong performances in Australasia Distribution and Russia – Suzuki-awarded global Aftersales awards for Costa Rica and Panama
Used cars opportunity	Improve Used business in key territories	– **Continued momentum in focus markets** – Used gross profit +80% in Russia – Strong growth in Greece and the Baltics
F&I opportunity	Incremental profit of £30m	– **On track to deliver £30m incremental profit by end of 2019** – Growth includes continued success in rolling out vehicle care insurance products
Procurement savings	Target cost saving of £50m	– **On track for c.£45m annualised cumulative savings by end of year** – Global payment system rolled out in 4 countries with savings driving payback on capex within 1 year
Consolidation	Continue to drive consolidation in a highly fragmented industry	– **Active pipeline; Distribution focused** – Acquisition of Lithuania over period consolidating BMW Baltics – Integration of C.America and Kenya businesses – OEM partner of choice drives activity

RETAIL ACTIONS - PROGRESS

CONTINUED FOCUS FOLLOWING 2018 CHALLENGES

UK RETAIL

FY18 ACTIONS	H1 19
Improved opening stock position	More stable y-o-y performance
Greater centralisation (ordering; promotions)	Aftersales growth
Ignite driven improvements (Used; Aftersales)	Sale of seven sites, for £21m[1]
Cost rationalisation underway	H1 19 Capex down c.80% y-o-y

AUSTRALIA RETAIL

FY18 ACTIONS	H1 19
Cost rationalisation underway	£3m increase in Retail profit y-o-y[2]
Ignite driven initiatives (F&I, Used)	Sale of three retail sites (unrelated to Subaru and PSA) for £13m cash[3]

H2 19 and beyond

- Further opportunity to rationalise less productive locations
- Next phase of operational productivity improvements underway; continued cost focus
- Improvement of retail margins

Notes: 1) Currently classified as assets held for sale with cash inflow in H2; 2) Very limited benefit from sale of retail sites given only two site sales closed within the period in June; 3) £10m of the £13m cash was received in H1

FUTURE TRENDS UPDATE

DIGITAL

Melbourne, Australia pilot progression

- Data-driven Used car trade-in valuation tool implemented in all physical Melbourne stores
- Online version launching soon for Melbourne
- Good customer reaction with price transparency and a shorter sales process

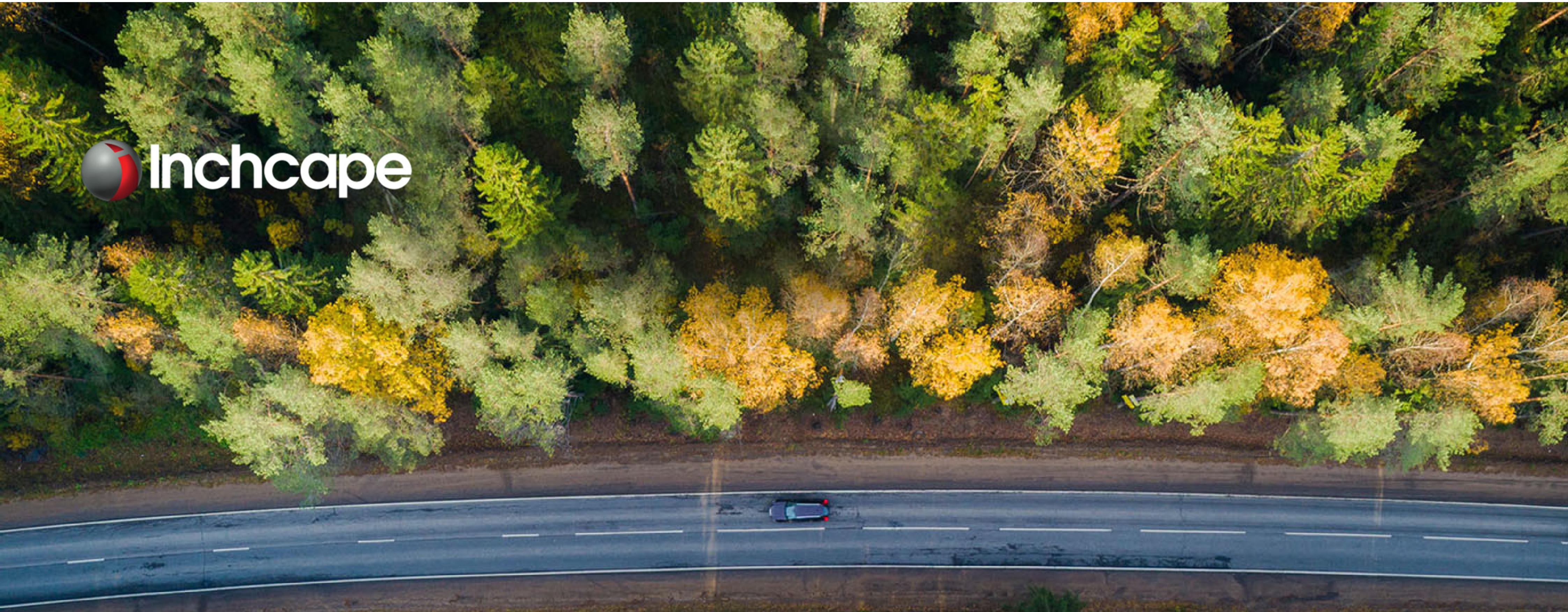
MOBILITY

Private hire

- Agreement with Grab in Singapore extended to more vehicles

Autonomous

- Partnership launched for autonomous shuttle bus in the campus of the National University of Singapore launched
- New partnership with Comfort DelGro (a taxi company) and EasyMile (OEM)



LOOKING AHEAD

2019 OUTLOOK REITERATED

GROUP PROFIT GUIDANCE

Resilient constant currency growth (excluding JPY headwind)

c.£35M transactional JPY headwind

DISTRIBUTION PROFIT

Resilient underlying growth (ex JPY)

- Australasia supply already normalised
- Strong growth in Europe; Solid growth in Asia
- H2 Ethiopia growth underpinned by orders
- Chile market drives a challenging EM outlook

RETAIL PROFIT

- Strong growth in Russia; Continued stabilisation in UK
- Australia FY losses reduced year-on-year

IFRS 16

No change to outlook pre IFRS 16 guidance on y-o-y basis

RETAIL ASSET DISPOSALS

- UK and Australia site disposals a negligible benefit to 2019
- A cumulative £1M loss over 2018

INVESTMENT PROPOSITION
GROWTH AND CASH RETURNS

Distribution at our core: A highly cash generative and sustainable business model

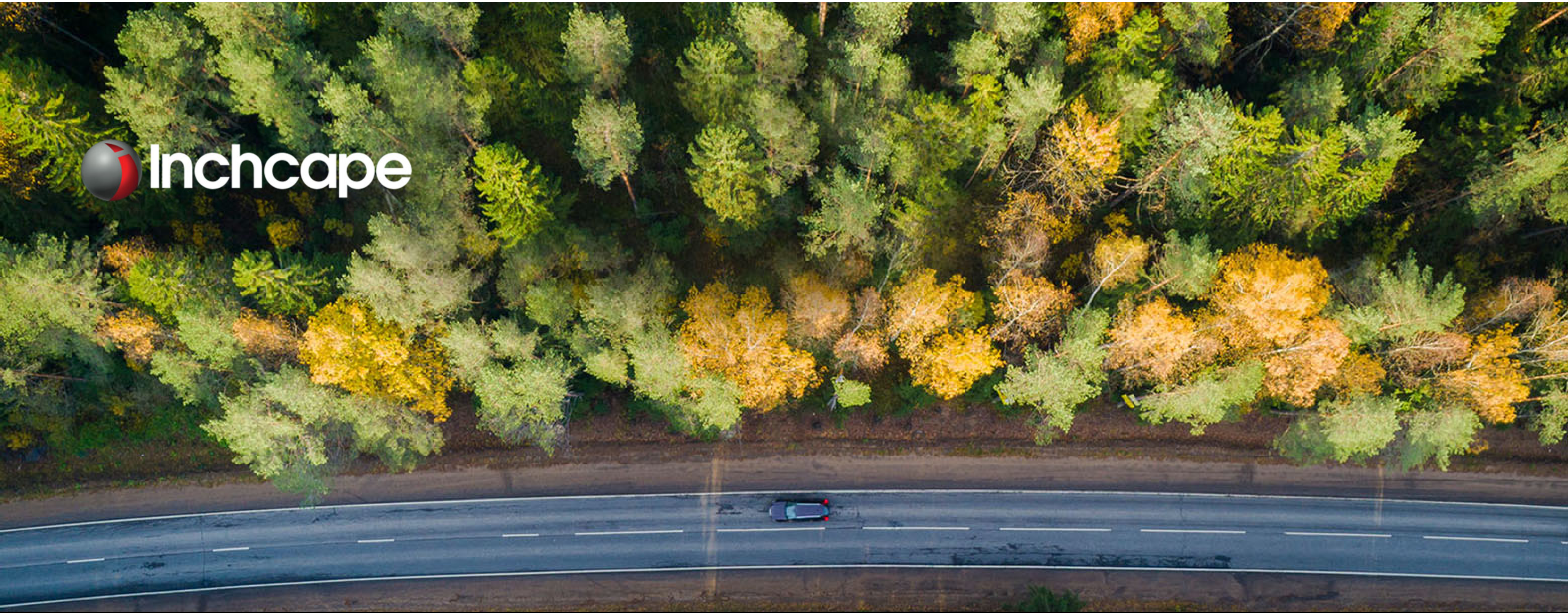
Strong and increasing weighting to **higher growth markets**

Ignite strategy driving **organic performance** ahead of market growth

Continued **consolidation** a material driver of value creation

Sustainable business model well placed to benefit from future industry trends

Well positioned to deliver shareholder value through organic growth, consolidation and cash returns



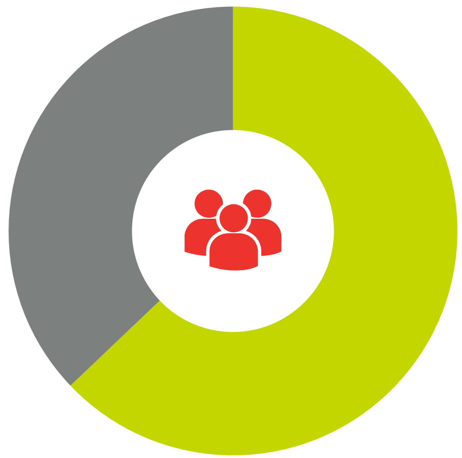
APPENDIX

VALUE DRIVER DISCLOSURE

AFTERSALES A STABILISER

	GROSS PROFIT (£M) H1 2019	YoY CHANGE CCR	YoY CHANGE Ex Acq'n before Annualisation*
Vehicles	398	(1%)	(3%)
Aftersales	243	+2%	+1%

GROSS PROFIT MIX



Vehicles	62%
Aftersales	38%

Note: *Acqn. refers to Central America acquisition until March 2019, YoY is CCR

REGIONAL TIV SUMMARY

REGION	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2019 EST
Australia	2%	1%	**(3)%**	(7%)
UK	2%	(6)%	**(7)%**	(2%)
Greece	4%	12%	**17%**	10%
Belgium	8%	1%	**1%**	(5%)
Eastern Europe	19%	14%	**11%**	4%
Singapore	41%	5%	**(18)%**	(7%)
Hong Kong	(21)%	6%	**(7)% *** **	0%
South America*	(1)%	7%	**7%**	(3%)
Russia	(11)%	12%	**13%**	(3%)
Central America **	9%	(14%)	**(13)%**	(17%)

Note: TIV = Total Industry Volume, * Chile, Colombia & Peru; **Costa Rica and Panama, ***+0% excluding EV incentivised sales in 2017 which since fell away post government incentive changes

IFRS 16 – FY18 RESTATED
FULLY RETROSPECTIVE APPROACH

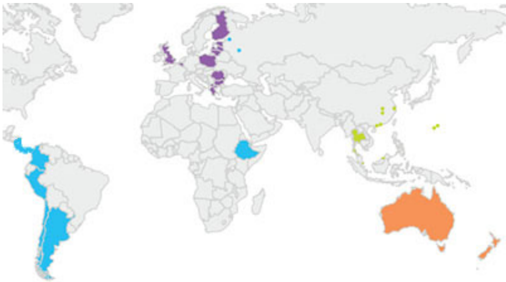
FY 2018, £M[1]	Pre-IFRS 16	Adjustment	IFRS 16
Revenue	9,277	-	9,277
Gross profit	1,301	-	1,301
Operating lease rentals	(86)	82	(4)
Depreciation	(44)	(68)	(112)
Other operating costs	(786)	-	(786)
Operating profit	**385**	**14**	**399**
Margin	**4.2%**		**4.3%**
Distribution trading profit	*375*	*9*	*384*
Retail trading profit	*26*	*5*	*31*
Central costs	*(16)*	*-*	*(16)*
Net interest	**(28)**	**(20)**	**(48)**
PBT	**357**	**(6)**	**351**
EPS (basic)	**65.0p**	**(1.2p)**	**63.8p**
DPS	26.8p	-	26.8p
Payout ratio	41%		42%
Net cash/ (debt)	**13**	**(459)**	**(446)**
EBITDA	443	82	525
Net debt/ EBITDA	NM		0.8x
Adjusted FCF	**281**	**(2)**	**279**
FCF conversion	73%		70%
ROCE	**28%**		**22%**

- **Fully retrospective**
  - Restatement of the prior year
  - Year-on-year statements are LFL accounting treatment
- **IFRS 16 on a FY18 basis reduced operating expenses by £14M and increased interest expense by £20M**
  - PBT is 2% lower than its prior presentation under IAS 17
- **Operating profit margin increases 10bps**
- **Dividend payout ratio increases to 42% from 41%**
  - No need to change dividend policy
- **FCF (consistent Inchcape definition) reduces to 70% from 73%**
  - No need to change annual guide of 60-70%
- **Net debt/EBITDA increases 0.9 turns to 0.8x**
  - No impact on financial covenants
- **ROCE restated to 22% from 28%**
  - Strong return remains evident

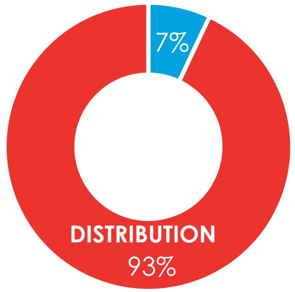
1) Pre exceptional items

THE INCHCAPE WORLD TODAY
UNIQUE GLOBAL DISTRIBUTOR AND RETAILER

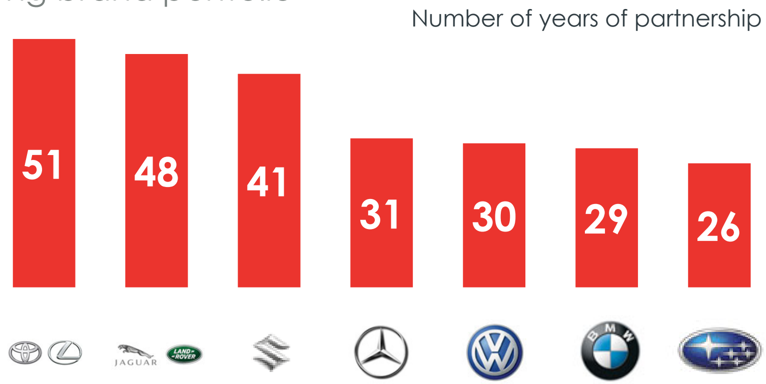
GLOBAL DISTRIBUTOR AND RETAILER
32 Markets



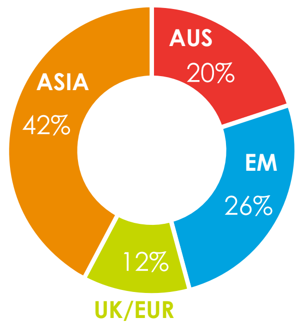
2018 PROFIT BY CHANNEL
Distribution at the core



LONG-TERM PARTNERSHIPS
Strong brand portfolio



2018 PROFIT BY REGION
Regionally diverse



DISTRIBUTION: ATTRACTIVE ECONOMICS

HIGHER GROSS MARGIN, LOWER FIXED COSTS, HIGHER ROCE VS. RETAIL

HIGH BARRIERS TO ENTRY

- **Exclusive distribution contracts:** one Distribution contract per brand awarded in each market
- Long-standing relationships with brand partners – **very low attrition**
- Partners require **track record of delivery** – difficult to enter industry
- **Strength and expertise** across areas, from logistics to brand development
- **Financial capability** to execute and invest in assets and talent

DISTRIBUTION MODEL

- **Higher margin** business driven by gross margin
- Greater **variability of overheads**
  - Greater allocation of costs to A&P
  - Fewer sites reduces exposure to property occupancy costs
- High **margin protection**

FIXED / VARIABLE BASE

- **Distribution** overheads **c. 50/ 50 (Fixed/ variable)**
- **Retail** overheads **c. 65/35 (Fixed/ variable)** on fully rented basis

CAPITAL INTENSITY

- Distribution is **capital light**

MULTI-LAYERED GROWTH PROPOSITION

ATTRACTIVE TOTAL RETURN OPPORTUNITY

ANNUAL RETURN CONSIDERATION

ORGANIC GROWTH

MARKET DRIVERS
- Inchcape market growth expectations

OPERATIONAL EXCELLENCE
- Revenue stream optimisation
- Global cost efficiencies and best practices

STRATEGIC OPTIONS

CONTRACT WINS/ M&A

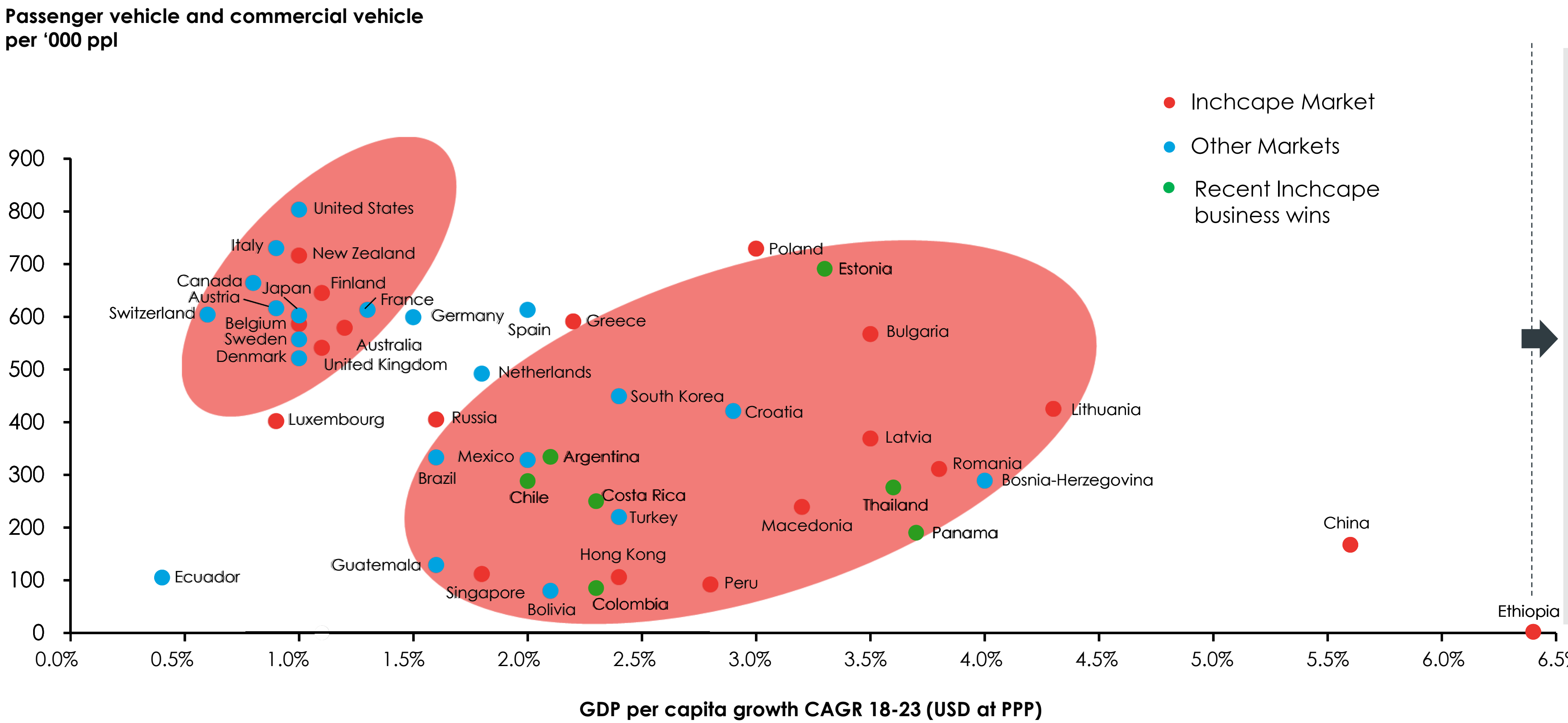
BUYBACKS
- Strong balance sheet, annual FCF
- Large consolidation opportunity
- Actively shifting to higher growth, cash generative Distribution businesses
- Excess cash returned to shareholders

DIVIDEND
- Target 40% payout ratio

ATTRACTIVE TOTAL RETURN

MARKETS WITH GROWTH OPPORTUNITY

GROWTH OF INCHCAPE MARKETS HIGHER THAN GLOBAL AUTO



Distribution c.90% of profit

Total Industry Volume (TIV) growth **through the cycle in Distribution:**

c.+3% annual growth

IGNITE STRATEGY TO DRIVE GROWTH

IGNITE FRAMES INCHCAPE'S STRATEGIC FOCUS

GROWTH OPPORTUNITIES

OPERATIONAL EXCELLENCE:
MAXIMISING PROFIT AGAINST UNDERLYING MARKET TRENDS

CONSOLIDATION:
VALUE-ACCRETIVE OPPORTUNITY IN FRAGMENTED MARKET

INNOVATION:
TAKING ADVANTAGE OF OUR SKILLS AND SIZE TO LEAD

THE DRIVERS BEHIND OUR IGNITE STRATEGY

DISTRIBUTION: HIGHLY FRAGMENTED

MOSTLY SMALL FAMILY-RUN BUSINESSES

FRAGMENTED INDUSTRY STRUCTURE

CATEGORY	# OF COMPANIES *
> 3 markets	c.25 companies *(incl. Inchcape)*
< 3 markets	850+ companies

Inchcape well placed to consolidate

Majority of industry: small players with limited resources

INCHCAPE DEAL MOMENTUM

Large-scale acquisitions

IGNITE STRATEGY LAUNCHED 2016

DISTRIBUTION

- 1993: Subaru Australia (TKM)
- 2007: Baltics multi- OEM
- 2016: Indumotora; JLR Thailand
- 2017: BMW Estonia; PSA Australia
- 2018: BMW Guam; Rudelman; JLR Colombia; JLR Kenya
- 2019: BMW Lithuania; BMW Kenya

RETAIL

- 2006-08: **UK Retail:** Meaningful bolt-ons (Lind, EMH); **Russia Retail:** Entry and expansion
- 2013: Australia Retail (Trivett)

* Cumulative number of companies

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