ADRIAN LEWIS
ACTING CHIEF FINANCIAL OFFICER

GREAT STRATEGIC, FINANCIAL AND OPERATIONAL PROGRESS

I am pleased to present the Operating and Financial Review for 2022, a year in which the Group has continued to make substantial strategic, operational and financial progress.

2022 was a transformational year for the Group as we made great strides with our strategy, further shifting our portfolio towards distribution and developing our vehicle lifecycle services offering.

Fantastic operational execution from all our teams drove growth in revenue and profit, and another year of excellent cash flow.

The Group delivered a great set of results in 2022, with all regions contributing positively and driving growth across our key financial and non-financial metrics.

During the year, consumer demand remained robust against the backdrop of vehicle supply constraints, which supported our performance during the year. We saw a gradual improvement in supply through the year, which helped an acceleration of our revenue growth. During the period of supply-demand imbalance, we experienced elevated levels of vehicle profitability (new and used), although this normalised during the second half of the year.

Underpinning this is the quality of our people and the strength of our business model. This enabled the Group to accelerate performance together with increased geographic diversification, which will continue to drive resilience amid economic uncertainties.

The combination of the Group's distribution expertise, digital and data capabilities, and strong financial position makes us the consolidator of choice in the highly fragmented automotive distribution industry. In 2022 we continued to expand our distribution business through bolt-on acquisitions in the Americas, further contract wins and the exciting acquisition of Derco, an important milestone in the execution of our Accelerate strategy. The pipeline for future M&A remains healthy.

In addition to a strong revenue and profit outturn, the Group's resolute focus on cash resulted in a record level of free cash flow of £380m, versus the previous record of £314m in 2017. As we look ahead, the acquisition of Derco will provide opportunities for us to deploy our own practices and processes to drive working capital efficiencies and additional cash-flow generation.

Following the completion of the acquisition of Derco in December 2022, the Group's net debt position was £378m. Given the pipeline of M&A opportunities and our current leverage position, we have paused share buybacks, but will continue to review the appropriateness in line with our capital allocation policy. The Group's proposed dividend in relation to 2022 is 28.8p, up from 22.5p in 2021.

The Group launched Accelerate in 2021, and we have made fantastic progress against our ambitions to extend our leadership in automotive distribution, and to capture more of a vehicle's lifetime value. While we are excited about our progress so far, we will maintain our capital allocation discipline, and remain focused on delivering benefits to all stakeholders.

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HIGHLIGHTS

Revenue

£8.1bn

2021: £6.9bn[1]

Adjusted operating margin[2]

£5.1%

2021: 4.1%[1]

Profit before tax and adjusting items[1]

£373m

2021: £249m[1]

Free cash flow[2]

£380m

2021: £274m[1]

Return on capital employed[1]

41%

2021: 28%[1]

Dividend per share

28.8p

2021: 22.5p

KEY PERFORMANCE INDICATORS

Our results are stated at actual exchange rates. However, to enhance comparability we also present year-on-year changes in sales and adjusted operating profit in constant currency, thereby isolating the impact of translational exchange rate effects. Unless otherwise stated, changes are expressed in constant currency and figures are stated before adjusting items.

	2022	2021[1]	% change reported	**% change constant FX[2]**	**% change organic[3]**
Key financials (continuing operations)					
Revenue	**£8,133m**	£6,901m	+18%	**+16%**	**+15%**
Adjusted Operating Profit[1]	**£411m**	£281m	+46%	**+41%**	
Adjusted Operating Margin[1]	**5.1%**	4.1%	+100bps	**+90bps**	
Adjusted Profit Before Tax[1]	**£373m**	£249m	+50%		
Adjusted Basic EPS[1]	**72.0p**	46.3p	+56%		
Dividend Per Share	**28.8p**	22.5p	+28%		
Free Cash Flow[1]	**£380m**	£274m	+39%		
Statutory financials					
Operating Profit (continuing operations)	**£400m**	£181m			
Profit Before Tax (continuing operations)	**£333m**	£149m			
Total (loss)/profit for the year	**£(6)m**	£122m			
Basic EPS (continuing operations)	**61.1p**	20.3p			

1. Restated to adjust for the disposal of the remaining business in Russia which has been reported as a discontinued operation, see page 142
2. These measures are Alternative Performance Measures, see pages 206 to 207
3. Organic growth is defined as revenue growth in operations that have been open for at least a year at constant foreign exchange rates

PERFORMANCE REVIEW

Performance review: full year 2022
The Group delivered another great set of results in 2022, driven by growth across both Distribution and Retail segments. Our performance was driven by growth of new vehicles, underpinned by robust consumer demand and price-mix tailwinds against a backdrop of supply shortages, and a solid contribution from used vehicles, which benefited from unprecedented pricing-levels and our roll-out of *bravoauto*. While revenue growth was skewed towards the second-half, as we lapped the trough for supply, profit was split more evenly due to a combination of margin normalisation, with improving vehicle supply, set-up costs related to new OEM relationships and an increase in investment in VLS in the second-half.

Over the course of the year, the Group generated revenue of £8.1bn, adjusted operating profit of £411m and free cash flow of £380m.

Group revenue of £8.1bn rose 18% year-on-year reported and 16% in constant currency. The growth rate is supported by the addition of new distribution businesses in the Americas and in APAC. There was no contribution from Derco to our FY22 financial performance. It is worth noting that the comparative period includes the results of our St. Petersburg operation which was disposed towards the end of 1H21.

On an **organic basis**, excluding currency effects and net M&A, revenue increased by 15%, driven by a combination of continued volume recovery and price-mix tailwinds.

The Group delivered an **adjusted operating profit** of £411m, up 46% year-on-year reported and 41% in constant currency. The profit growth reflects the topline increase and the year-on-year operating margin improvement.

Adjusted profit before tax (PBT) of £373m (2021: £249m) reflects the improvement in revenue and operating profit. The net interest expense of £37m (2021: £33m) rose versus the prior year due to higher cost of financing.

During the reporting period **adjusting items** amounted to an expense of £40m (2021: £100m). This was primarily driven by one-off costs related to acquisitions and the disposal of Russia (£28m) and non-cash, non-operational losses arising from the adoption of hyperinflation accounting (Ethiopia; £30m), partially offset by other operating items (£18m).

The highly cash-generative nature of our business model was evident with record **free cash flow** generation of £380m (2021: £274m) – this represents a conversion of adjusted operating profit of 92% (2021: 97%), exceeding the long-term average of 60-70%. In 2022 we saw a net working capital inflow of £75m primarily as a result of a rebound in the level of inventory financing, which more than offset the rise in inventory levels (following last year's trough reached in Q4) and an expected increase in receivables. As we look ahead the Group's free cash flow conversion is expected to normalise towards its historic range of 60-70%.

Other notable elements of the cash flow bridge include: net acquisitions and disposals, which amounted to an outflow of £412m (primarily relating to the acquisition of **Derco**, as well as other acquisitions in the Americas: **Ditec** and **Simpson Motors**, and includes the first tranche of cash received in relation to our Russia disposal), dividend payments of £89m and an outflow of £70m related to our share buyback programmes.

The Group closed the reporting period in an adjusted net debt position of £378m (excluding lease liabilities), which compares to adjusted net cash of £379m at the end of December 2021, and £439m as at 30 June 2022.

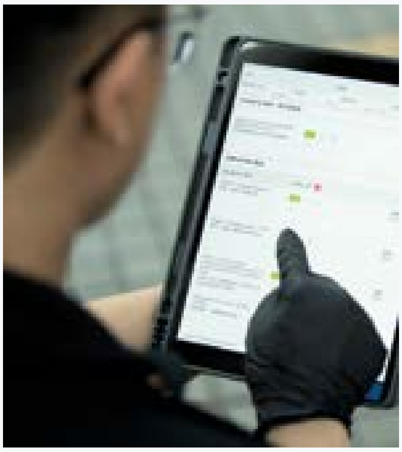
The movement primarily relates to the acquisition of Derco (cash-out and net debt acquired). On an IFRS 16 basis (including lease liabilities), we ended the period with net debt of £877m (December 2021: net funds of £55m). Adjusted **Return on capital employed** over the period was 41%, compared to 28% for the equivalent period last year. The increase was driven by the growth in Group profits on stable capital employed. Following the dilutionary effect of acquisitions we expect this will normalise to c.25%.

Fourth quarter 2022
Group revenue for the fourth quarter was £2.1bn, up 32% reported. On an **organic basis** revenue increased 22%, compared to +16% in Q3 – the step-up in growth was primarily owing to lapping the trough for supply which impacted the fourth quarter of 2021.
In **Distribution**, the fourth quarter was the strongest quarter of the year, underpinned by organic growth and some contribution from M&A (Americas and Asia). On an organic basis revenue increased 25%, following an 18% increase in Q3. The sequential step-up in organic growth was driven by the improvement in vehicle supply that was most prominent in Australasia.
In **Retail**, revenue increased 14% organically, following a 11% increase in Q3. The improvement in revenue growth was owing to a higher volume of new (due to better vehicle supply) and used vehicles (*bravoauto*), while Aftersales performance continued to be solid.

Derco acquisition
The Group completed the £1.3bn acquisition of Derco on 31 December 2022, funded by £400m cash and £600m of new debt. The transaction increased Group leverage 0.6x Net Debt/EBITDA[1] (pre IFRS 16), with deleveraging supported by the highly cash generative nature of the business. Derco did not contribute to the Groups financial performance in 2022. Revenue was £2.2bn (2021: £1.9bn) with an adjusted operating profit of £192m (2021: £237m). We expect Derco will generate an operating margin towards the top-end of the range of a typical automotive distribution business (5-7%), before recurring synergies. The transaction is expected to deliver annualised recurring synergies of at least £40m, with the significant majority delivered by the end of 2024. There are opportunities to drive significant revenue synergies, which are as yet unquantified. These will require one-off cash costs of up to £60m over two years.

DISTRIBUTION

The Distribution segment reported revenue of £5.9bn increasing 26% year-on-year, with **all regions growing versus the prior year.**



The combination of an excellent topline performance and higher margins drove adjusted **operating profit**[1] of £363m (2021: £246m). Adjusted operating margin[1] rose 90bps to 6.2%.

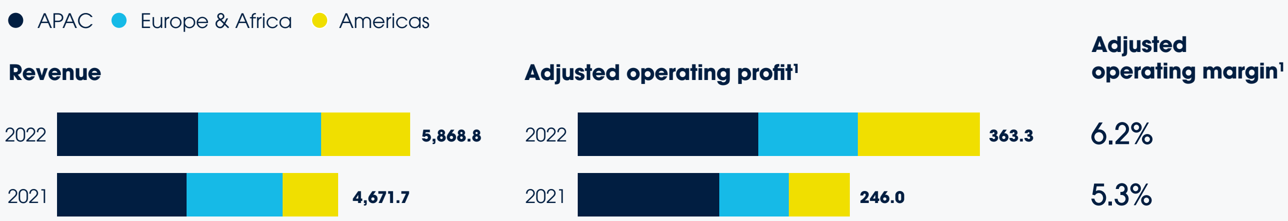
Our regional disclosure has been aligned with the Group's Management responsibilities and reporting structure. In the second half of 2022, in preparation for our acquisition of Derco, the Americas moved to be managed as a single region (under Romeo Lacerda), and Africa was combined with the Europe region (under Glafkos Persianis). APAC, which includes both Asia and Australasia, continues to be managed by Ruslan Kinebas.

APAC revenue was up 9% year-on-year with adjusted operating profit[1] rising 28%. In Asia, the improvement versus the prior year was due to the positive contribution from our smaller, newer and more developing markets (e.g. Guam, Saipan, Brunei, Indonesia). In the case of **Hong Kong**, pandemic related restrictions weighed on our first-half results, but performance in the second-half improved markedly and at the beginning of 2023 the border with China was reopened, which may signal the trough of the market. In **Singapore** our performance continues to be impacted by lower availability of vehicle licences (with volumes 70% below the peak in 2017). Our current expectation is that licence availability will begin to improve in late-2023. The trends across the **rest of Asia** continued be solid, with revenue and profit above both the prior year and the first-half of 2022. In terms of our newest distribution businesses (JLR in Indonesia, and commercial vehicles and machinery in Micronesia), the performance of both has exceeded our expectations. In **Australasia**, our performance was helped by a gradually improving supply situation (vehicle supply was at its highest in Q4) and favourable price-mix. Volumes, revenue and profit reached a three year high in the fourth quarter, supported by broad-based performance (across New, Used and Aftermarket) and the benefits of our cost-restructuring.

Europe & Africa revenue was up 28% year-on-year with adjusted operating profit[1] rising 44%. In **Europe**, growth was driven by the improvement in vehicle supply (>20% increase in new vehicle volume) coupled with robust demand. This resulted in us gaining share in each of our largest markets (i.e. Belgium, Greece, Romania). While vehicle supply continued to improve towards the end of the year, order banks remain at record levels and will provide an underpin in 2023 as we navigate a changeable economic backdrop. Performance across the halves was broadly consistent in terms of revenue, although some strategic investments (e.g. *bravoauto*) in the second-half resulted in slightly lower margins. In **Africa**, revenue and profit improved in the second-half, supported by higher vehicle volumes and Aftermarket resilience.

Americas revenue grew 60% year-on-year (with new businesses contributing more than 20% to growth), driving adjusted operating profit[1] up 98%. The Americas delivered excellent performance across all major markets, notably in Chile, Columbia and Peru. This was driven by a combination of robust consumer demand and a shortage of vehicle supply which supported pricing and margins, particularly in the first-half. In the second-half, we saw a step-up in revenue owing to higher new and used vehicle volumes. While margins returned to a more normal level (6-6.5%), in line with the improvement in vehicle volumes, overall profitability was broadly evenly split. During the first-half we acquired two distribution businesses (Simpson Motors and Ditec), which we indicated would add an aggregate c.£250m of annualised revenue, and both businesses have contributed meaningfully in 2022. At the end of the fourth quarter we purchased Derco, the largest distributor in Latam, which will provide a step-change to our presence in the region. For more information on the region please visit our website where you can watch a replay of our webinar: *'In the driving seat: Spotlight on Americas'*, outlining our growth to date, strategic priorities and our confidence in the region's growth prospects over the medium and long term.

REGIONAL BREAKDOWN



1. Operating profit and operating margin stated pre adjusting items.

RETAIL

Following a proactive disposal programme, the Retail segment only includes the results of the UK and Poland franchise dealerships and our *bravoauto* business in these markets.

Retail delivered organic revenue growth of 10% and adjusted operating profit[1] rose 34%, resulting in an operating margin of 2.1%. While vehicle supply improved gradually throughout the year (we saw sequentially higher new vehicle volumes every quarter) this lagged demand, which remained solid. We continued to invest in and expand our *bravoauto* business, which is performing as per our plan. As anticipated, our Used car business has started to see profitability normalise, consistent with the reduction in used car prices. We reported an operating margin of 1.5% in the second-half, with the reduction owing to normalising vehicle profitability and our investment in *bravoauto*.

From the start of 2023, in the UK certain manufacturers will change the way they sell new vehicles (choosing to sell directly to consumers via dealer groups), and as such Inchcape will only recognise a handling-fee (not the selling price of the vehicle). The estimated impact of this change on Inchcape's reported Retail revenue is a c.£200m reduction. The impact on operating profit is expected to be negligible.

1. Operating profit and operating margin stated pre adjusting items

REGIONAL BREAKDOWN

● Total Retail (UK & Poland)

	Revenue	Adjusted operating profit[1]	Adjusted operating margin[1]
2022	2,263.9	47.5	2.1%
2021	2,229.2	35.4	1.6%

1. Operating profit and operating margin stated pre adjusting items.

Other financial items

Adjusting items: In 2022, we have reported a pre-tax charge of £40m (2021: charge of £100m) in respect of adjusting items. This includes benefits of £20m, following the change from RPI to CPI for pension increases, and £13m in respect of disposal proceeds from Russia. This was offset by £42m relating to acquisition related costs, primarily in relation to the acquisition of the Derco group and a net monetary loss of £30m upon application of hyperinflationary accounting in Ethiopia. Further details can be found in note 2 of the financial statements.

Net financing costs: Reported net finance costs were £67m (2021: £33m). This includes the net monetary loss on adoption of hyperinflationary accounting in Ethiopia of £30m, noted above as an adjusting item. Adjusted net finance costs were £37m (2021: £33m) with the increase versus the prior year due to higher cost of financing. The interest charge is stated on an IFRS 16 basis and excluding interest relating to leases our Reported net finance costs were £57m (2021: £23m). In 2023 the Group anticipates net finance costs of c.£110m, based on prevailing interest rates, with the step-up versus 2022 reflecting higher rates and financing of Derco.

Tax: The effective tax rate for the year is 29.5% (2021: 43.4%), and the underlying effective tax rate on adjusted profit before tax is 26.1% (2021: 25.4%). The increase in the underlying effective tax rate includes the impact of a change in the Group's profit mix resulting in more profit arising in markets with higher corporate tax rates. Following the acquisition of Derco, and reflecting the greater profit contribution from markets with higher corporate tax rates, the Group's underlying effective tax rate is expected to be between 27% and 28%.

Non-controlling interests: Profits attributable to our non-controlling interests were £5m (2021: £5m). The Group's non-controlling interests comprise a 40% holding in PT JLM Auto Indonesia, a 33% share in UAB Vitvela in Lithuania, a 30% share in NBT Brunei, a 30% share in Inchcape JLR Europe, a 30% share in Ditec in Chile, a 10% share of Subaru Australia and 6% of the Motor Engineering Company of Ethiopia.

Dividend: The Board has declared a final ordinary dividend of 21.3p per ordinary share which is subject to the approval of shareholders at the 2023 Annual General Meeting, and if approved will be paid in June 2023. This follows an interim dividend of 7.5p, and takes the total dividend in respect of FY22 to 28.8p. The Dividend Reinvestment Plan is available to ordinary shareholders and the final date for receipt of elections to participate is 26 May 2023.

Capital expenditure: During 2022, the Group incurred net capital expenditure of £59m (2021: £40m), consisting of £69m of capital expenditure (2021: £65m) and £10m of proceeds from the sale of property (2021: £25m). 2022 net capital expenditure includes £2m related to Russia, incurred prior to its disposal. In 2023, we continue to expect net capital expenditure of less than 1% of Group sales.

Financing: As at 31 December 2022, the committed funding facilities of the Group comprised a syndicated revolving credit facility of £700m (2021: £700m), sterling Private Placement loan notes totalling £210m (2021: £210m), a bridge facility of £350m (2021: £nil) and a term facility of £250m (2021: £nil). As at 31 December 2022, the bridge and term facilities were fully drawn and the syndicated revolving credit facility was undrawn (2021: undrawn).

Pensions: As at 31 December 2022, the IAS 19 net post-retirement surplus was £93m (2021: £82m), with the increase driven largely by movements in corporate bond yields over the period affecting the discount rate assumption used to determine the value of scheme liabilities and the pension indexation gain treated as an adjusting item, partially offset by lower than expected returns on scheme assets. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes amounting to £2m (2021: £6m).

Acquisitions: In 2022 the Group continued to further expand its distribution footprint, completing six deals during the year. This includes the acquisitions of Ditec and Simpson Motors in the Americas region during the second quarter, and several new contract wins over the course of the year (Geely in Ecuador, ORA in Hong Kong and Macau, BYD in BeLux). The Group completed its acquisition of Derco on 31 December 2022, resulting in a cash-outflow of £407m and the assumption of Derco's closing net debt (£522m) – which reflects the closing position of the balance sheet upon completion. The purchase price included the issuance of 39 million new Inchcape shares (valued at c.£280m in July 2022 when the transaction terms were agreed). In light of the deal-timing, it was agreed that the pre-completion dividend owed to the Del Río family and the acquisition of minority shareholdings (£270m in total) would occur during 2023.

Discontinued operations: During the year, the Group agreed the sale of its remaining retail-only operations in Russia. In 2022, the operations generated revenue of £237m and operating profit of £21m. This has been classified within discontinued operations. The total loss reported was £241m, where we realised £99m of accumulated foreign exchange losses upon disposal.

VALUE DRIVERS

We provide disclosure on the value drivers behind the Groups gross profit. This includes:

- Gross profit attributable to Vehicles: New Vehicles, Used Vehicles and the associated income from finance and insurance products; and
- Gross profit attributable to Aftersales: Service and Parts

Vehicles

Aftersales

We operate across the automotive value chain, and during the year we generated 33% of gross profit through Aftersales (2021: 35%). In 2019 Aftersales accounted for 39% of Group gross profit. The reduction since 2019 reflects the greater gross profit contribution from vehicles as volumes improved and the benefit from higher vehicle gross margins.

REGIONAL BUSINESS MODELS

DISTRIBUTION

Americas

Country	Brands
Argentina	Subaru, Suzuki
Barbados[1]	Chrysler, Daimler Trucks, Dodge, Freightliner, Fuso, Isuzu, JCB, Jeep, John Deere, Mercedes-Benz, Mitsubishi, Subaru, Suzuki, Western Star
Bolivia	Changan, Chevrolet, JAC Motors, Joylong, Renault, Mazda, Suzuki
Chile	BMW, BMW Motorrad, DFSK, Changan, Geely, Great Wall, Haval, Hino, JAC Motors, Jaguar, Land Rover, Mazda, MINI, Porsche, Renault, Rolls Royce, Subaru, Suzuki, Volvo
Colombia	Citroen, DFSK, Dieci, Doosan, DS Automobiles, Hino, Jaguar, Land Rover, Mack, Mercedes-Benz, Subaru, Suzuki
Costa Rica	Changan, JAC Motors, Suzuki
Ecuador	Freightliner, Geely, Mercedes-Benz, Western Star
El Salvador	Freightliner, Mercedes-Benz, Western Star
Guatemala	Freightliner, Geely, Mercedes-Benz, Western Star
Panama	Suzuki
Peru	BMW, BMW Motorrad, BYD, Changan, Citroen, DFSK, Great Wall, Haval, Hino, Mazda, MINI, Renault, Subaru, Suzuki
Uruguay	Freightliner, Fuso, Mercedes-Benz

1. Distribution agreements for these brands across a range of Caribbean islands, centred on Barbados

APAC

Country	Brands
Brunei	Lexus, Toyota
Guam[2]	BMW, Chevrolet, Freightliner, Hyundai Construction, Kohler, Lexus, New Holland, Toyota, Western Star
Hong Kong	Daihatsu, Hino, Jaguar, Land Rover, Lexus, Maxus, ORA, Toyota
Indonesia	Jaguar, Land Rover
Macau	Daihatsu, Hino, Jaguar, Land Rover, Lexus, ORA, Toyota
Saipan	Toyota
Singapore	Hino, Lexus, Suzuki, Toyota
Thailand	Jaguar, Land Rover
Australia	Citroen, Peugeot, Subaru
New Zealand	Subaru

2. Distribution agreements for these brands across a range of Pacific islands, centred on Guam

Europe & Africa

Country	Brands
Belgium	BYD, Lexus, Toyota
Bulgaria	Lexus, Toyota
Estonia	BMW, BMW Motorrad, Ford, Jaguar, Land Rover, Mazda, MINI
Finland	Jaguar, Land Rover, Mazda
Greece	Lexus, Toyota
Latvia	BMW, BMW Motorrad, Ford, Jaguar, Land Rover, Mazda, MINI
Lithuania	BMW, BMW Motorrad, Ford, Jaguar, Land Rover, Mazda, MINI, Rolls Royce
Luxembourg	BYD, Lexus, Toyota
North Macedonia	Lexus, Toyota
Poland	Jaguar, Land Rover
Romania	Lexus, Toyota
Djibouti	BMW, Komatsu, Toyota
Ethiopia	BMW, Hino, Komatsu, New Holland, Suzuki, Toyota
Kenya	BMW, BMW Motorrad, Jaguar, Land Rover

RETAIL

Country	Brands
Australia[3]	Isuzu Ute, Jeep, Kia, Mitsubishi, Volkswagen
Poland	BMW, BMW Motorrad, MINI
UK	Audi, BMW, Jaguar, Land Rover, Lexus, Mercedes-Benz, MINI, Porsche, Smart, Toyota, Volkswagen

3. Following scale disposal of retail businesses in Australia, retail is no longer reported as a separate segment in APAC.