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EDITED TRANSCRIPT

Full Year 2023 Inchcape PLC Earnings Call

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PRESENTATION

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer, Executive Director***
Good morning, everyone. Thank you for joining us for Inchcape's 2023 full year results. I'm Duncan Tait, Group CEO, and I'm joined by Adrian Lewis, our Group CFO.

Here's our agenda for today, I'll give the headlines on our results. Adrian will go into more detail, and I'll come back to discuss strategic progress. And after that, we'll take your questions. The presentation is available on our website and a recording of today's session will be available later today.

I'll start with the key headlines on our results. We delivered another strong year of financial performance with double digit organic revenue and EPS growth. We made substantial strategic progress driven by Inchcape's ability to deliver for our OEM partners, particularly through our market-leading capabilities in digital experience and data analytics. As we look ahead, while we expect moderated growth in the short term, we're confident about the medium to long-term outlook for the group.

Now this slide outlines some of our headline KPIs with a strong performance on all fronts. I'll pick out a few key highlights. Group revenue was up 41% to £11.4 billion, adjusted PBT was up 35% to £502 million and EPS was up 18% to 84.8p. It was another year of strong free cash flow generation and high returns. We've supported a total dividend per share of 33.9p in line with our dividend policy, which targets a 40% annual payout ratio of adjusted EPS.

We also delivered against our responsible business objectives during the year on our people pillar, specifically on inclusion and diversity, the percentage of women in senior leadership at Inchcape increased to 28%, up from 15% in 2020. On Planet, we have now reduced our Scope 1 and 2 emissions by 31% compared to our 2019 baseline. And finally, on this slide, our reputation score, our metric for

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customer satisfaction increased again to an all-time high of 702 and remains ahead of the industry average of 555.

We achieved substantial strategic progress during the year, signing a record 15 distribution contracts as well as 3 acquisitions. This excellent progress helped us to drive market share gains and ensure continued diversification and scale across our geographic footprint. The integration of Derco is going well and we are delivering on every front, we are delivering some initial revenue synergies with cost synergies ahead of plan, solid margins and a successful reduction of excess inventory. So as a result of our strategic progress, the excellent performance in Derco and our strong operational performance in 2023, Inchcape remains well positioned for growth, which brings me to our outlook.

We expect 2024 to be another year of growth, albeit moderated. We have prudent expectations for recovery this year in certain markets which are weaker than previous years. This moderated growth profile will be delivered by an even stronger focus on cost management. Many markets, particularly in the Americas, are expected to recover from what are anticipated to be historical lows in 2024. So beyond this year, we expect to return to higher levels of growth. We are optimistic about our medium to long term growth, fundamentally driven by the structural characteristics of our markets, supported by further benefits from our stronger focus on costs.

Our confidence for the future of Inchcape is based on our global market leadership, our highly cash-generative business model, our diversified geographic footprint, and our digital lead approach. Growth will continue to be supported by acquisitions and contract wins. I'll now hand over to Adrian to take you through the details of the financial results. Adrian, over to you.

Adrian Lewis ***Inchcape PLC – Group Chief Financial Officer***
Thank you, Duncan, and good morning, everyone. So let's start with the headline financials.

During the year, we generated revenue of £11.4 billion, which was 41% above the prior year on a total revenue basis and 12% higher on an organic basis. Organic growth in our distribution business was 16%, an outstanding performance given the headwinds in some of our markets. Operating margins was 5.8% as we benefited from operating leverage and strong revenue growth, resilient gross margins, and the benefits of synergies in the Americas and adjusted PBT was up 35% to £502 million.

We delivered another impressive year of free cash flow generation, producing £498 million with a 74% operating profit to free cash flow conversion rate ahead of our midterm guidance of 60% to 70%. Net debt increased to £601 million, resulting in a pro forma net debt to EBITDA ratio of 0.8 times within our self-imposed leverage limit of 1 times. Adjusted EPS was 84.8p, up 18% from the prior year. And today, we have announced a total dividend per share of 33.9p, also up 18%. So overall a strong set of results for the year, highlighting the quality and the resilience of our business.

This slide shows the key drivers of our top-line performance last year. 2023 saw broad-based strong organic growth of 16% in our distribution business. All distribution regions saw double digit organic

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growth. We saw resilient organic growth in our retail business of 3%, reflecting the changes in accounting recognition as we expected. The group then benefited from acquisitions, which added 28% to the groups revenue. This was mostly from Derco, which contributed over £2 billion of revenue and an excellent performance in the face of some market challenges.

This slide shows our operating margin performance. And the group delivered an impressive 70 basis points growth in adjusted operating margins, supported by an increase in our exposure towards the faster growing higher margin distribution business. Additionally, during the year we sold a property in Australia. And as usual, we treated this gain within our adjusted operating profit, and it's accounted for around 15 basis points of the margin growth. Margin performance in the retail business was down due to the fairly well-publicised used car price compression seen in the UK market.

So I'll now take you through each of the reporting segments, starting with the Americas to give you the highlights and a perspective on how we see the outlook. So this is the Americas, which represented a third of group revenue and 39% of our operating profit. Americas revenue grew to just over £3.7 billion, with growth driven by the contribution from Derco, but also from good organic growth of 7%.

I'd like to recognise that the efforts of the teams in the Americas where despite challenges in certain markets across the year, exacerbated by further slowing in a number of markets in the latter part of the year, we continued to perform well and achieved market share gains. This emphasises the benefit of our diversified business model with multiple brands in each market and a broad geographic footprint.

In the context of the market environment, we are pleased with the adjusted operating profit performance, noting the year-over-year growth, which is mostly due to the contribution of Derco. But I would like to specifically highlight the 7% operating margin, which given key territories such as Chile, were towards the historical lows, is in line with our expectation. And this sets us up very well to benefit from scale as those markets return in time.

And to that point, looking ahead, we have prudent expectations for short-term growth in the Americas and our performance will be underpinned by cost reductions and increased synergies. We are confident about the prospects in the Americas over the medium to long term, given the region's strong structural growth drivers characterised by high GDP growth and low motorisation rates. And we will continue to benefit from our highly diversified geographic footprint and brand portfolio across the region.

And onto APAC, which represents a quarter of the group's revenue and we saw organic growth of 16% and 21% growth in total. This is an outstanding performance and reflects the continued focus of our management teams in driving our business forward in a fast-moving and diverse region. Markets that don't typically grab the headlines, made a material contribution to growth, particularly Guam and Brunei.

In Hong Kong, where we saw the market shows some signs of recovery, we delivered market share gains and gained traction in certain segments where our brands tend to perform better. In Singapore, vehicle license availability improved in the second half, but remains well below peak levels. And we are well set

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in Singapore to benefit from scale as the cycle shifts positively in the coming years. In Australasia, our strong performance was driven by market momentum and in new vehicle volumes and market share gains. And this was in part due to improved supply against a strong opening order bank. And during the third quarter, we made 3 bolt-on distribution acquisitions in Asia Pacific in the Philippines and Indonesia and in New Zealand. These deals will add in aggregate, circa £400 million in annualised revenue to the region.

Adjusted operating profit rose to £235 million with adjusted operating margins of 8.3%. As I mentioned earlier, this included a property transaction which arose as a result of the reorganisation of our physical footprint in Melbourne and with the disposal of a large-scale flagship site in the centre of the city being replaced with smaller more cost-effective retail facilities across the suburbs. And if you exclude the impact of the property gain, operating margin remained strong at 7.7%, well ahead of the prior year. Looking ahead for APAC, we expect growth to continue in many markets with further contribution from acquisitions supported by medium to long-term structural growth across the region.

And on this slide, you can see Europe and Africa, which represents 22% of group revenues. In this region, we also produced an excellent performance with organic growth of 21%. This was supported by accelerated supply against a strong order bank built up from previous years. And there were particularly strong performances from the more material businesses in the region, Benelux, Greece, Romania, all of which started the year with a higher-than-normal order bank and benefited from improved supply through the year.

Africa continues to be an exciting long-term growth prospect and has performed well supported by a resilient aftermarket. Adjusted operating profit grew to £132 million, with elevated levels of adjusted margin of 5.2% as a result of operating leverage. And looking ahead, new consumer demand remains muted in Europe. With the order bank mostly normalised, we expect margins to revert to historical norms.

And on this slide, we see our retail business which accounts for 6% of group operating profit and it delivered a resilient performance. Organic revenue growth of 3% was despite weaker consumer demand and a challenging macro environment. Our performance was supported by new vehicle growth from a stronger fleet market and a robust aftersales business.

Adjusted operating profit declined to £40 million, resulting in an adjusted operating margin of 1.7%. And this largely reflects used car headwinds in the UK market, where we are both lapping tough comparators and have seen price deflation. We expect the headwinds in used cars to continue in the short term, but our retail business is of a high quality and will remain resilient over the medium term. As previously announced, the group is reviewing our strategic options for the UK retail business, and we will give a further update on this review as of when the process completes.

On this slide, you can see our income statement for the year. And the group delivered operating profit of £669 million during the year, and I will provide more detail on net finance costs on the next slide.

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Adjusting items amounted to £89 million, primarily driven by acquisition and integration costs of £50 million of which £35 million are related to Derco. In addition, adjusting items include the finance component of the deferred dividend payment to Derco of £10 million and non-cash non-operational losses arising from the impacts of hyperinflation accounting in Ethiopia of £29 million. Adjusted tax rate of 27.9% is in line with our guidance of 27% to 28%. And the group's adjusted EPS was up 18% to 84.8p.

And finally, on this slide, I wanted to touch on costs. As an organisation, we have been very focused on maintaining an optimal cost base for the business. However, given the challenging circumstances and conditions in some of our markets, we are placing an even stronger focus on cost management, taking the necessary steps to ensure we have the appropriate overhead structure as we look to a more muted growth environment, and these will serve to deliver a more moderated short term growth profile.

And moving on to our finance costs. Overall net finance costs increased versus 2022 as we transitioned from a group with net cash to a leverage group at a time when interest rates around the world also increased. So whilst interest costs are partly linked to the interest rate environment, they are also directly connected to our growth and success as a company.

And here are the elements of our net finance costs, which as I said, totalled £168 million for the year. The first element is net interest of £77 million, which is directly linked to the cost of corporate facilities in the group and in particular, our corporate debt of which 70% is at fixed rates, excluding our RCF. And during the year, we published our investment grade credit rating and issued our debut five-year bond, bringing further stability to our liquidity, facilities, and interest costs. In addition, we renewed and increased the size of our RCF to £900 million in line with the scale of the group and extended its term to 2028. Looking ahead, net interest will reduce over time as the natural cash-generating capability of the group enables us to deleverage. And we expect this to be half two weighted due to the phasing of dividend payments.

The second element of interest relates to leases, which is £22 million, and this is linked to our physical infrastructure across the group. And in line with IFRS 16, this figure will grow as we expand our business. The cost associated with inventory financing was £50 million during the year, and this is generally linked to both floating rates and the scale of our business as such, we expect this to increase as we grow the business and as we align the commercial operating model of the newly acquired businesses and will moderate if rates begin to fall. But importantly, this element is part of our operating model, and we should expect to see pass through at the gross and operating margin level as part of our cost-plus operating model. And the final element is £19 million of fees and some FX costs. And these costs are expected to remain relatively flat in the short term as we protect long-term value in our corporate structure.

And on this slide, you can see our free cash flow generation and our net debt bridge. Net debt increased from £378 million in the prior period to £601 million, equating to 0.8 times leverage. And as I said earlier, within our self-imposed limit of 1 times.

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And just moving left to right, we produced excellent free cash flow performance, highlighting the cash-generative nature of our business model with adjusted free cash flow of £498 million, which is an operating profit conversion rate of 74%. This was supported by a strong net working capital inflow of £155 million in the year in part, this was from Derco, where we saw £200 million reduction in inventory, which was achieved in the latter part of the year but was partially offset as expected by the normalisation of working capital elsewhere in the group. Using that funds flow, we invested £506 million in growing the economic value of the group, which had two components, payments relating to the pre-completion dividends to the Del Río family and other minority shareholders with £267 million and £239 million on the purchase and integration of other acquisitions, mostly in Asia Pacific.

And in line with our capital allocation policy and dividend policy, dividend payments were made during the year of £128 million. The main items in the other line, primarily relates to purchase of shares for our employee trust and currency movements to leave closing debt at around £600 million. Looking ahead on free cash flow, we reiterate our free cash flow conversion guidance of between 60% to 70%. And in respect of leverage, the near-term focus is to de-lever using the cash flows from the group to enhance the strength of an already strong balance sheet, and this will then underpin the continued application of our capital allocation policy. And I will say more on this in my final slide. But before I do that, I wanted to touch on the financial achievements within the Derco and broader Americas business.

We made excellent progress on integration with all OEM relationships maintained or expanded. Key personnel retained and our technology integration is providing us with good insights into the business. Duncan will go into more detail on the revenue synergy shortly. And during the year, we achieved accelerated cost synergies of £21 million, and we are pleased to announce that we now expect to deliver £10 million more annualised cost synergies of at least £50 million by the end of FY24.

Our cost synergy program is focused on three areas, organisation, operations, and technology. On organisation, we are driving significant efficiencies across the combined group. On operations, we are rationalising service contracts and consolidating our combined infrastructure and continue to see opportunity in this area. And on technology, we are harmonising our front office systems, our digital customer experience, and implementing best practice and processes from around the Inchcape group.

Onetime integration costs of £70 million will be invested in driving these cost synergies, of which £35 million was invested in 2023. These costs are now expected to be invested over three years as we focus on the short term on the digital customer experience for all of the brands and the operational infrastructure and take a little more time to tackle the very important back-office systems harmonisation.

Derco delivered operating margins towards the top of the 5% to 7% range for a typical distribution business pre-synergies. And as per our guidance and the context of the markets, we are very pleased with these results. And I've already mentioned the successful working capital performance at Derco, which is an excellent outcome and reflects very well on the team's proactive approach in moderating the quantity of inventory in the supply chain in collaboration with our OEM partners very early in the year.

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Derco's improved working capital position was also supported by progress in aligning Derco's supplier trading terms with how the group operates. And all of these impressive achievements were made in the context of a challenging environment in certain markets in the Americas. So overall, we are delighted with Derco's financial performance and excited about what the future holds for the combined business.

And finally, for me, our capital allocation policy, which remains unchanged. Our first priority is to invest in the business and drive organic growth. Our second priority is dividends, where our policy is to pay out 40% of basic EPS. And our third priority is value accretive M&A, which remains a key feature of our policy and our growth strategy. And finally, we consider the appropriateness of share buybacks subject to the group's leverage limits. And in the short term, our priority is to focus on deleveraging to help provide the capacity for investment in growth. And that's all from me. I'll now hand back to Duncan.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***
Right, thank you very much, Adrian. So first, I'd like to remind you why Inchcape is the independent go-to distributor for our OEM partners in our markets.

Fundamentally, this is about our consistent performance as a key partner in the automotive distribution value chain. We help our OEM partners to reduce the cost of complexity and smaller and less accessible markets, which tend to have higher growth and lower motorisation rates.

Our distribution excellence approach is based on our specialist knowledge, robust practices framework, inventory management and channel management supported by global systems and processes, and we continue to lead the industry with the lowest carbon route to market. In practical terms, this means that in our markets we build brands and create and manage the digital and physical network, decide which vehicle models and parts to order, develop pricing structures and arrange importation. And this is underpinned by our digital and data analytics capabilities, which ensure our OEM partners can grow their market position with us.

Evidence of our success as the leading global independent distributor in automotive is our long track record of achievement. Our longest OEM relationship currently standing at over 100 years. This is underpinned by a clear and comprehensive responsible business agenda, which is central to our future plans.

Now the next slide shows our success and momentum in building our distribution track record, supported by distribution contract wins and investment in acquisitions. On the left, you can see that since 2016, we have increased the number of markets in which we operate from 29 to 41, and we now work with 60 OEMs from just 20 in 2016.

The graph on the right-hand side shows the annualised distribution revenue brought into the group via our acquisitions since 2016, with Derco having a particularly significant impact in recent years. We have included the years of initiation of both our Ignite and Accelerate strategies to help you understand the

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direction of travel, since these are important strategic inflection points.

Our success and momentum in recent years has ensured that our profit exposure to distribution has increased from around 70% in 2016 to 94% in 2023. And this is important due to the relatively high return and cash generative dynamics and lower capital intensity of distribution compared to a retail-only model.

Now this slide looks at our commercial success in 2023 in more detail. We won a record 15 distribution contracts last year. And as you can see from this slide, we continue to build stronger partnerships with leading Chinese OEM partners.

With a global strategic partnership with Great Wall Motors signed during the year, Inchcape is now the leading independent distributor of Chinese vehicles with a particularly fast-growing presence in the Americas and APAC, where there is increasing demand for our Chinese OEM partners.

Contract wins with existing OEMs, included BYD commercial in Singapore and Belux, Geely in Guatemala and El Salvador, Subaru in Bolivia and Ecuador, Mercedes Benz in Honduras, Great Wall in Indonesia, and Changan in the Philippines and across a number of markets in East Africa. Contract wins with new OEMs last year include Tata in Thailand and XCMG in Colombia and Peru. And already this year, we have won the likes of Ford in the Baltics, and we continue to build a good pipeline of distribution contract opportunities to support our growth.

Now, our record of contract wins was partly a consequence of the acquisition of Derco with 12 of the agreements we signed last year, either in the Americas with Derco OEMs or with Derco OEMs in our other regions. In addition, thanks to Derco, we launched Inchcape OEMs into new markets for the group. For example, Subaru, a long-standing Inchcape partner into Bolivia, where we did not have a presence prior to the Derco acquisition. We're also focused on implementing a market-leading approach to finance and insurance products for customers across the Americas region. And to that end, we are leveraging our combined scale to achieve more beneficial rates.

We're excited about our potential to grow our market share and drive margins across the region as a combined group. And strategically, Derco is a transformational acquisition for Inchcape, which has already significantly increased our market leadership position in the Americas, broadened our geographic footprint, and developed our OEM relationships globally. In summary, Derco is an excellent business with exciting growth prospects, which is transforming Inchcape by enhancing our market leadership positions, delivering margin enhancements, creating substantial strategic benefits, and driving value for our shareholders.

Vehicle Lifecycle Services or VLS is strategically important to us, and we've been running a number of initiatives to unlock value in the subsequent phases of a vehicle's life. VLS drives enhancements to our core distribution business through capabilities, which include our growing parts business through our digital parts platform and OEM extended warranty programs, a used car channel for independent dealers

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and further finance and insurance programs.

Our Digital Parts Platform in Australia continues to gain traction and we are now scaling with 12 distributors and 410 aftersales workshops using the platform. We're in discussions with several new OEMs who are interested in joining the platform. And additionally, the platform is now live with Toyota in Hong Kong with further market launches planned in APAC this year.

Over the last few years, we have built accretive used car operations such as that in Singapore. However, we are reducing the scale of bravoauto to its profitable core, particularly given our continued strategic focus on reducing our retail-only footprint.

Our investment in bravoauto has remained disciplined. And in light of our review of strategic options for the UK retail business, we are re-evaluating our ambitions for bravoauto as part of VLS. I want to reiterate, the VLS remains a strategic opportunity for the group. But particularly in light of reducing the scale of bravoauto to its profitable core, we are re-evaluating the phasing of our financial objectives for VLS.

Now, digital and data remain a key differentiator, enabling us to drive more customers, improve efficiencies, and deliver further growth for our OEM partners.

DXP is effectively a fully functional digital showroom and enables us to capture significant customer and vehicle data. Importantly, it's highly scalable across our markets. And to that end, we've continued to rollout an enhanced version of the platform. DXP increases our efficiency and effectiveness in sales and aftersales and drives our reputation scores. In sales DXP drives a 40% increase in salesperson productivity and in aftersales it delivers a 20% increase in our online bookings.

DAP, which provides advanced analytics and machine learning, leverages our data and drives smarter, faster, and better business decisions. It uses predictive analytics to facilitate business intelligence, supported by a globally integrated data repository. By the end of 2023, we were running more than 250 machine learning algorithms and over 100 non-AI statistical forecast models across our markets.

DAP powers our sales and operational planning and pricing tools, including parts and pricing optimisation. This enables our teams to forecast demand for parts and helps to manage inventory more effectively. This ensures we're more efficient and helps us to cut costs. For example, DAP has helped to reduce expensive airfreight volumes of parts by 50% and drive a 30% to 40% reduction in aged stock. These data points highlight the enabling power of our digital and data capabilities which have been designed and developed in-house to support our OEM partners in gaining market share and driving growth.

We continue to innovate our capabilities with ongoing development of a range of technology-based applications, and we'll test and develop these applications and handpicked the ones that we can drive across our business. All of these elements continue to be supported by our specialists in our digital

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delivery centres in the Philippines and Colombia, where we now have over 1,400 people. So continued progress in digital and data to support our OEM partners with many more exciting opportunities ahead.

Moving to responsible business. We continue to develop our approach (technical difficulty) our Driving What Matters framework, which has been designed to bring Inchcape closer to our OEM partners and help us to recruit and engage and retain the best talent.

Driving What Matters has four key focus areas, planet, people, places, and practices. And we made excellent progress in each of these areas in 2023, and I'll pick out a few key highlights.

On planet, we remain on track to meet our 2030 targets for Scope 1 and 2 CO_2 emissions. On people, our inclusive leadership program have successfully engaged over 650 leaders globally since 2021. On places, we delivered over 30 programs in areas such as improving road safety and mobility for people with disabilities. In our practices, we continue to rollout an enhanced Code of Conduct across our business, including over 4,000 colleagues who have joined us via acquisitions.

Now finally, onto the Inchcape investment proposition. Inchcape is the global leader in automotive distribution with a highly compelling offering for our OEM partners based on a differentiated scaled and diversified business model, which is asset-light and digitally enabled.

With our ongoing investment in growth opportunities, in particular through organic investments and acquisitions. We'll continue to build on our long track record of delivering revenue and profit growth, high levels of returns and strong free cash flow generation. As evidence of this track record, we now have relationships with over 60 OEMs. And last year, we delivered 74% free cash flow conversion and achieved a return on capital employed of 26%. Our investment case is underpinned by consistent execution against clear strategic objectives combined with a disciplined approach to capital allocation.

So to sum up, our excellent operational and financial performance in 2023, supported by continued strategic progress further built on our strong track record. As we look ahead, we expect 2024 to be another year of growth, albeit moderated. And beyond this year, we expect to return to higher levels of growth, driven by structural characteristics of our markets, supported by further benefits from our stronger focus on costs. We are confident in the medium to long-term outlook for Inchcape based upon our global market leadership, our highly cash-generative business model, our diversified geographic footprint, and our digital lead approach.

Now before we take your questions, I wanted to flag that we will be hosting an In The Driving Seat webinar on Thursday, May 23 at 2:00 PM UK time. This will help build a deeper understanding of our commercial model in distribution.

So let's take your questions. Firstly, from people here in the room, then from the phone lines, and finally on the webcast via our Head of IR, Rob.

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QUESTIONS AND ANSWERS

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Okay, can we go to Andrew first?

Andrew Nussey ***Peel Hunt - Analyst***
Thank you. I'm Andrew Nussey from Peel Hunt. Couple of questions, if I may. First of all, if you could drill into Chile and also Colombia, can you give us some insight to your planning assumptions there in terms of FY24 and how that compares to industry forecasts both for '24 and '23 outturn.

And secondly, probably one for Adrian here. In terms of the cash dynamics, in terms of the integration spend of £70 million, how will that £35 million be spread '24 and '25? And are there any other integration costs associated with the other acquisitions in the period?

And probably if there's a third, just broader thoughts on the M&A outlook, both in terms of opportunity and multiples, please, Duncan.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer, Executive Director***
Okay, thank you very much. So look, if I answer the first question, Adrian, if you can then pick up on the second and I'll turn back on to comment on M&A.

So I think the Americas team in 2023 by the way, delivered a great performance. We grew market share in many markets, we wound that inventory down in Derco very nicely, more contract wins and that supported the group win more contract wins in APAC and in Europe and Africa. So very happy with that team. And the integration of Derco is on track, including where we thought our operating margins would be.

Now, if I move then to talk about the markets you've called out specifically, Andrew. Look, we have planned in '23 for Chile to be down about 20%. It ended up being down about 26% to 27% during the year, and Colombia was a little bit worse than that. If I look into 2024 in those markets. Look, we're in a very strong place. We've gained market share in Chile, and we have a really strong set of OEM partners in those markets.

What's happened in Chile over the last year is we've seen interest rates reduce and inflation reduce. Interest rates were over 11.25%, they've dropped 400 basis points since then. And we expect further drops. And at some point, we'll see consumer sentiments improve. And then we think TIV will lift.

Now this is where we have our diversion from the local planning authorities in those markets. We are planning very prudently in 2024. We expect the market to be flat. If I look at what ANAC says, the market would be somewhere between 320,000 and 360,000 units this year, significantly ahead of where we think. And there's even one forecast that says will be another 80,000 or so units in '24.

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We are planning prudently. And what we saw in January was in line with where we think the market will be. I think similarly for Colombia and in the meantime, we'll continue to focus on executing really well for our OEM partners, managing inventory. And we've got lots of work to do this year on the integration of Derco and the deployment of our next generation of tools, which I'll come to later on.

Adrian, can you do a follow up

Adrian Lewis ***Inchcape PLC – Group Chief Financial Officer***
Yeah, thank you for the questions. So yes, so if I remind you what we have said, we said the cash integration costs for Derco, we now expect to be about £70 million across three years, having invested £35 million, as you quite rightly pointed out in 2023 across largely the operational and organisational areas.

Our focus in '24 is going to be on that front office aspects of the integration, making sure we set that business up to perform brilliantly, both in the market here and now but also as the market starts to recover in '25 and beyond. So you should expect about two thirds of the remaining integration costs to fall into 2024.

And then we have extended the timeline a little bit. And the balance of the investment will be made on some of the more technical elements -- the sorts of projects that take a little bit longer in terms of the integration of the back office across our finance and accounting systems.

More broadly, you'll notice that we have recognised £50 million as an adjusting item this year in total in relation to acquisitions and integration costs. So it's £35 million in Derco and £15 million in the other acquisitions. As we move forward, you should think about very low single digits being remaining to be spent on those integrations in Indonesia and the Philippines and New Zealand.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***
Thank you, and Adrian, very good. So let me come back on your M&A question, Andrew. Look, this group has loads of opportunities for growth in our existing markets and markets that are very well suited to Inchcape. So I feel really good about our ability to grow. And look at what we've already achieved over the last few years in terms of contract wins and M&A and organic growth across the business.

We have also built a distribution platform, which is market leading OEMs find really attractive, think about the record 15 contract wins we had in 2023. And growth for the company will come from organic growth from contract wins and from M&A. Now, we are super disciplined about how we manage our capital allocation policy. We'll continue to invest about 1% of revenue in CapEx for the group but committed to our 40% dividend payout.

And then in terms of accretive M&A, let me make some comments about that. Look, I'm very aware of where our multiple is. And we are very disciplined in valuation for targets. We have turned down and deferred opportunities we had in the second half of 2023. And of course, when we've de-levered, it gives

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us the opportunity to consider share buybacks. So we know there's growth opportunities ahead. We'll continue to drive contract wins; we'll continue to drive organic growth.

M&A, the pipeline is full, we're very disciplined, we want to de-lever a little bit to give ourselves some options to execute priorities three and four on our capital allocation policy.

That help? Very good. Next question, please.

David Brockton ***Deutsche Numis Securities - Analyst***
Good morning, it's David Brockton from Numis. Can I continue with three, please?

Just in terms of the outlook. Can you just touch on near term prospects for Europe and Australia, given the supply dynamic is evolved as the order banks normalise, that's the first one.

And secondly, almost related to that, freight rates are trending up again. Can you just touch on what you've assumed for the year ahead and your ability and your confidence and ability to pass it on?

And then the final one just related to the FCA UK motor finance investigation. Can you just touch on where you think -- what assessment you've done within your business in respect of any potential contingent liabilities.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Sure, will do. Thank you very much. I'll take those and then you can add value where you see fit. So look on outlook, I was in Australia just a few weeks ago. In fact, I visited all of our Japanese OEM partners in January, and I visited four markets in APAC at the same time, one of which was Australia, where much to my delight I also saw our digital parts platform up and running and met some of the distributors that are using it. And the new OEMs that are going to come on board, which we'll talk more about later in the year.

Look, our view, we've had a stunning '23. Our Australia business, the last few years has done really, really well. Our market share in 2023 was very strong, around 4.3%. The view from the analysts for the Australian market this year will be relatively flat on '23, maybe a little bit of a downward trend in where you might see TIV. It's looking like consumers are beginning to build confidence again in Australia. So we feel good about this year, but I don't think the team's going to knock the ball so far out of the park like they did in 2023. But that team is a great team and executing really well for our OEM partners. And in fact, last year, we celebrated 50 years with Subaru and had the Subaru Chairman and CEO with us.

Then in terms of Europe, look, I think Adrian described this early on in his remarks, 2023 was like a hot cold year for Europe. A hot year in terms of that team really, really delivered. We put 13.5 or so months in inventory to a 12-month cost base. But what we were seeing very regular each month was a downward trend in year-over-year order intake. So my view on the Europe market for this year is that it will be a bit of a headwind for the group. We have a brilliant set of OEM partners in Europe. Some of the markets are better than others. But you should expect Europe to be a little bit moderated for us in 2024.

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Look, I'll comment briefly on freight rates and Adrian might want to add something to this. The bulk of the freight we use is to get products into the Americas. Now what we have done and one of the benefits of having Derco and Inchcape come together to be the leading and largest distribution platform in the Americas, is we're able to negotiate very healthy freight rates, and we have done that.

And freight rates for us in '24, will be a little bit less than they were in '23 and those rates are locked in. And this is all part of our S&OP process, which we have machine learning tools helping our teams understand what we need to land where and when based on market forecasts, etc. So we feel very good about where we are with freight rates. You then may go on to ask your questions about the Red Sea, and the Red Sea is extending a little bit one or two models that are coming into Europe. I don't think this is a big headwind by any means.

Finally, on FCA. Look, we're more than aware of the FCA process. The FCA is investigating the lenders and not the brokers or retailers. We are helping clearly with that. It's way too early. This investigation will go on until September. And as we go through the year, it will become more clear what the implications might be, if any, for Inchcape. Adrian, do you want to add anything?

Adrian Lewis ***Inchcape PLC – Group Chief Financial Officer***
The other thing I was going to mention on freight rates. Some of the digital investments we've made, are particularly around parts, so they enable us to be much, much better at the supply chain.

And we've substantially reduced the level of airfreight exposure we have, which is a very substantial cost in terms of our overall parts business. So I think Duncan has made all the relevant points, I think around our forward view on freights. But actually more structurally, we're shifting away from air into sea for parts, which is going to be operationally very helpful for us.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***, Sanjay.

Sanjay Vidyarthin ***Liberum - Analyst***
Good morning, Sanjay Vidyarthin from Liberum. A question on your thoughts on new car pricing by region and particularly where there might be some volume pressure, any potential impacts in terms of the gross margin? And just to understand the shapes of the P&L better, how much of that potential impact you might be able to offset at the EBIT margin level?

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***This is coming right to you.

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***
Okay, great fantastic. Thank you very much for that. Look, I think we've certainly seen the end of the very high levels of inflation that we saw in 2022 and 2023 and we've talked a little bit about used car price deflation in the UK market.

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I think the way we see the future is relatively low levels of new car price inflation still coming through, there still will be a little bit. And we've seen certainly is continuing to see a little bit of year-over-year movement in terms of aggregated prices. I think the one exception to that is in the EV category, where you're seeing the opposite and you see new models come in at lower prices and you're seeing a very, very strong degree of strong price battle between the major EV operators.

Our business model is a cost-plus model, and our job is to manage within all of those sorts of parameters. I think in markets where we're seeing a greater level of volume pressure, particularly in the Latin America, what you've seen us talk about today is a greater focus on cost management to enable us to flex down our cost base consistent with the scale of the market that we're seeing.

But more broadly speaking, our job is to manage margins through a cost plus set of approaches. And we work very closely with our OEMs to help manage that, manage the overall product range to make sure we've got the most competitive products in the market. So we don't see gross margin compression as a result of those dynamics.

Save, perhaps for the comments I made earlier about UK used cars, where there has been a market wide headwind that I think most people have been suffering from.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***
Thanks, Sanjay. Next question, please.

Arthur Trusolve ***Citi - Analyst***
Hi there, Arthur from Citi. So three, if I may. So firstly, on Europe. I think from we've spoken at Q3 we were talking about margins are coming down from just over 5% in 2023 to sort of 4% in 2024 or thereabouts. Does that sort of reflect a sort of normalised margin? And I guess taking out Africa, historically, you were nearer sort of 3%. So is 3% sort of how you think about a normalised margin in Europe and other countries within Europe that are higher or lower in that sense.

Second question, in terms of the impact of the Chilean peso? I mean, clearly, it's been falling significantly versus the pound. Can you talk about as things stand today, what impact that has on your PBT as we look into 2024.

And then third question, really, I mean, obviously, you've won 15 contracts in 2023. My sense is based on this conversation this morning, PBT's up not much more than the increment from the deal from the M&A that you've done. Can you talk about how these deals actually impact revenue when you're expecting it to happen and how we should think about that, please? Thank you.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Yeah, very good. Okay. Adrian, the majority of those are going your way.

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***

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I'll make some additional comments on three of the question. So Europe and margins. So yeah, you're absolutely right. What we've seen at 5.2% operating margin this year is a very elevated level of operating margin on the back of the very strong revenue performance and Duncan's mentioned 13 to 13.5 months' worth of stock going through a 12-month overhead base. So we do expect that region to normalise back more towards.

And if I take you all the way back to the previous guidance we've given you, second half 2022 was kind of where we saw it and mid-fours is where we would expect that region to normalise out, including the contribution from Africa.

We've mostly normalised the order bank. There is one market where we continue to see a bit of depth in the order bank, largely because of the very strong demand dynamic in Southern Europe, but by and large we are back to normal across the European region.

In terms of CLP, we have noted in the RNS in the depth of the pages as you'll get to I'm sure, a small FX headwind in the fourth quarter. As you say, as the pound strengthened. and a number of currencies, CLP was one of them, showed a bit of volatility. So we did see a bit of a headwind, but it's really early for us to call what translational effects the CLP or any other currencies will have on 2024's earnings. So you should think about the guidance we've given you today as being largely on a constant currency basis.

And then in terms of the contract wins. Look, I think, the progress we have made strategically is a testament to the distribution platform that we have built. And most of the contract wins have been, were in existing markets where we have existing operations. If you think about Great Wall Motors going into Indonesia, if you think about Changan going into the Philippines, two great examples where we've won a contract and been able to plug it into an existing operating platform.

So what that means is, whilst it will take a bit of time for us to grow scale on those contracts and grow market share and get our brand presence for those brands correctly, you shouldn't think about them as being a big headwind to profit in the near term, nor should you think about them being a big tailwind to profit in the near term because they will take a bit of time to grow.

But leveraging that distribution platform, we're leveraging our third-party networks. These over time as we reach maturity should be accretive to the markets and regions where we're plugging them in. So, we see the contract wins as building out our scale.

And if you look at the operating margins, we're able to achieve where we've got multiple brands and double-digit market shares in aggregate, we see better operating margins than we do otherwise because we've got that back office and that infrastructure platform and retail network platform that we can then go on leverage. We're going to say much more about how to think about these on 23rd May, when we do our teach-in on the overall distribution model. So, we'll give you a bit more colour and a bit more data around how to think about them and perhaps show you a few case studies of where we've got to

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Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Alright, good. Nothing to add. Next question, please.

Andy Grobler ***BNP Paribas Exane - Analyst***
Hi, it's Andy Grobler from BNP Paribas Exane. Three for me as well, if I may. The first one, just going back to the FCA, I just wanted to check that there was no provisions put onto your balance sheet. We've seen some of the lenders do that. And what can we take from you not provisioning, if that is indeed the case, that would be one. I think there's quite a quick answer to that, by the looks of it.

Number two, just around the interest guidance for 2024, can you add a bit more granularity to what you're expecting at current rates and current interest rates and exchange rates? And then lastly, just on VLS, given the comments around bravoauto. I mean are you effectively just walking away from that £50 million profit target at this stage? Thank you.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer,***
Okay. Can you do one or two?

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***
Sure, yeah. Yes, it's an easy answer, and I'll refer you back to some of the comments that Duncan has made. It is very early in that process with the FCA. You're absolutely right, some of the lenders have booked provisions, some of them have booked contingent liabilities. We have not done so because we are not the lender. We are a broker in this process, and we are working with the FCA. And as this review is conducted, but it's far too early for us to call any particular provision. So there wasn't a provision booked.

In terms of interest guidance. I think two of the lines are fairly straightforward. So I'll just go back to the two big buckets. The first one of the cost, the interest cost related to our corporate facilities of £77 million and the interest cost related to our inventory financing, which in 2023 was £50 million.

In terms of forward guidance. On the first one, what we've said is we expect during 2023, that number was driven by, in the early part of the year, lots of Chilean peso denominated corporate debt that was acquired with the Derco business. That was unwound during the the first half, and refinanced using fixed rate facilities based out of London.

So as we deleverage, you can expect to see that moderate down. And we've said that de-leveraging is likely to happen in the second half. And most of our facilities now are at fixed rates. So that first line on that stack I showed you, you should think about that moderating in the second half in line with our leverage guidance.

In terms of our inventory financing facilities, structurally, they are more floating rate linked and they are linked to the market in which the inventory is bought in. So whether it be Chile or whether it be Indonesia, whether it be Euros in some of our European markets. And so they are linked to the growth of

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the company, and we continue to expect to grow. And they are linked to the interest rates in those individual markets.

So we have seen a little bit of softening already in the likes of the Chilean peso and the Colombian peso, as Duncan has mentioned the benchmark rates are starting to soften in some of those markets, but it's a bit early for us to call exactly where those will go in, and that £50 million of inventory=related is across a very broad base of currencies consistent with our overall mix of business. If that helps. Duncan, if you like.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Very good, thank you. So for the avoidance of doubt, no, I'm not walking away from the £50 million. What I am saying is we should review the timing of when we'll deliver that £50 million based upon the fact that we're going to reduce bravoauto to its profitable core, in light of a general move in our group to reduce our reliance on retail only markets. So no, I'm not, but it's a timing issue.

And look, we're doing some really, really interesting things. Whether we talk about the digital parts platform, what we're doing with warranty programs with our OEMs, what we talk about finance insurance programs or helping our third-party network, which is growing quite substantially to help them build their own used car program.

And if we look at that digital parts platform, seeing that in operation in Australia just a few weeks ago and the feedback from the distributors that sit underneath us inside Australia. It's enabling them to sell more parts, they need fewer people in their call centres. The people who are consuming the parts and the aftersales workshops are higher levels of satisfaction, they're more productive and they are ordering 30% more parts per annum via the whole system that we have built. It's now in Hong Kong with Toyota's. So now, Toyota is on the platform there as well.

We'll announce more OEMs in Australia that will come to that platform in subsequent weeks. it's pretty exciting, I've spoken to all of our Japanese OEMs at Board level about our digital parts platform and European OEMs and Chinese OEMs in the last few weeks. So the answer is yes, I'm super excited about it, and we'll come back. We'll hold an Investor Day sometime during quarter four to give an update, but I am absolutely not walking away. It's strategically important for the group. Thank you.

Andy Grobler ***BNP Paribas Exane - Analyst***
Okay, thank you.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Very good. Any others question? We have.

Paul Rossington ***HSBC - Analyst***
Paul Rossington, HSBC. Just one quick follow-up. Are you prioritising deleveraging the balance sheet now? At what level of leverage does that no longer become the priority or remain the priority?

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Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***A good question, Paul. I knew at some point someone would ask that question.

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***
Which implies it might be coming my way. Good question. You've seen us over the course of 2023, deliver a very strong free cash flow and is a testament to the cash-generating capabilities of the group. And we've today guided on the 60% to 70%. So we're going to continue to see us generates a lot of cash at 0.8 leverage within our self-imposed limit.

We need to create a bit of capacity. I'm not going to give you a target as to when we'll reconsider it. As when we'll reconsider effectively Phase 3 and 4 of our capital allocation policy. But you should expect us to see that deleveraging happen in the second half because of the front half weighting of our dividend flow. So that's when I think you'll see us start to come back to that question off value accretive M&A or if there's surplus cash, what we do with it.

So I'm going to buy a bit of time if I can on that one because we need to create some capacity before we come to that conversation. But we're here to grow the company and and we are very fortunate to have a company that generates a significant amount of cash and will enable us to continue to do so.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer,***Thanks, Paul. So if there's no more questions in the room, do we have anything on the phone lines, please?

Operator
(Operator Instructions) Akshat Kacker, JPM.

Akshat Kacker ***JP Morgan Cazenove - Analyst***
Akshat Kacker from JPM. Three questions, please. The first one on Americas. Could you just shed some more light on the 7% organic growth in the region, maybe a split between volume price and mix would be helpful. And could we also understand the volatility in the margin profile in the region, especially when I look at the first half and second half development on a very similar top-line margins fell from 7.5% to 5% ex-synergies. How should we think about those margins as we head into 2024? So that's a question on Americas.

The second one is on distribution excellence and the fact that you are now the leading independent distributor of Chinese vehicles. Could you remind us of your current exposure to Chinese brands in total in terms of distribution volumes or distribution revenues? And more importantly, how do you size this opportunity in the medium term as of today, please?

And the last one is on working capital. Could you please talk about the buildup of inventories and higher levels of stock in the business, generally in the second half outside the improvement that we have seen at Derco. Thank you so much.

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Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Very good, good morning, Akshat. Adrian, could you do one and three, and I'll cover two.

Adrian Lewis ***Inchcape PLC - Group Chief Financial Officer***
Yeah, thank you, Akshat. So yeah, you're absolutely right. In the Americas, we delivered a very strong 7% overall operating margin. And I'll just sort of take you back to the building blocks of where we've got to on that. You've got a core Inchcape group which pre-Derco was a sub-7% business and you've got a Derco business that we guided towards the top end of the 5% to 7% range. We've delivered on that commitment plus synergies, and you've seen the aggregated region showing up at 7%.

You're right, actually, there is a bit of a half one, half two phasing. We've been very clear in our narrative that we saw some of our Americas markets weakening in the fourth quarter, particularly we saw Chile and Colombia weak all through the year, but we saw a couple of other ones, take a bit of a headwind in the fourth quarter. And that's why you've heard us today talk about a very careful and appropriate approach to cost management, moderating down our cost base, consistent with the scale of the markets that we are in to make sure we can continue to deliver for all of our stakeholders.

So I think you should read into that,at the performance we have delivered in 2023 from a margin perspective, is how you should think about that Americas business in the near term performing. But of course, that is at low levels of scale in some of those markets, and we will set ourselves up to benefit from operating leverage as those markets come back over time in '25 and beyond.

Coming back to your 7% organic growth outlook from a volume and price mix perspective. Think about it as not being largely evenly phased. But most of the volume growth coming in the Central America's belt and Caribbean in Costa Rica, and those sorts of buckets where we saw slightly better market conditions.

On the third question, on working capital. You're absolutely right. And we flagged this for a few years actually, and my predecessor flagged it. We saw in the as we went into the supply constraint era, a real contraction in the amount of inventory in the company, a real strong working capital cash inflow in '21 and '22 on the back of that very, very, very optimised level of working capital. And we flagged it that time, we expected that to normalise.

You've seen that normalisation in 2023, by and large. You've seen stock flow come back and we've been working with our OEMs as we did with Derco, as we do every day of the week, every week of the year to make sure we've got the right level of supply into our markets. But you should think about 2023 as being a year of inventory normalisation underpinned by the fact that we are re-guiding today towards a free cashflow guidance of 60% to 70%, assumes neither a big inflow nor a big outflow in working capital to support that. I hope that answers your two questions. And Duncan on distribution excellence.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Thanks, Adrian. Just on the Americas as well Akshat, some of the synergy benefits that we have derived and positioned ourselves for in 2023. One that we haven't spoken about is finance and insurance. We have built a leading finance insurance

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platform for Latin America based upon Derco and the scale the combined group has. So we see ourselves making substantially higher profitability from that F&I business, but it is dependent on volumes. So when you see volumes come back in those markets, you'll see an increased level of profitability from our finance and insurance business as those markets recover.

Now, I'm moving to your question about Chinese OEMs. The 15 contract wins we had in 2023, you could say a number of them were with winning Chinese vendors. And they're coming to our platform for the same reason the other OEMs are using our platform, which is it happens to drive performance for them. And you can see where we tend to run BMW markets, we tend to be number one market share for them. Mercedes, we tend to be number one market share for Mercedes. We just got Great Wall Motors to number one market share in Chile, for example. So they're attracted to come to the platform because it performs for them.

Now in terms of where we think those Chinese OEMs can get to. Look, if I look at where we've got the help the Chinese OEMs get to in Latin America, where you can see if you take Chile or Peru, the Chinese OEMs having something like 30% market share, it peaked at 40% market share during supply constraints for other OEMs. We think 30% is about the right number. And we think in other regions around the world, we'll see a similar number. Now, it will vary by region. Some may be as low as 20% towards the end of this decade, others around 30%. And you will see Inchcape helping those OEMs perform as we do for our Western and Japanese OEMs.

And if I give you an example about where it really works for us. We look at Indonesia as an example. So we entered Indonesia, which I'll remind you, is 270 million people, GDP growth of 5%. That business for us started a few years ago with Jaguar Land Rover. We had a contract win with Harley Davidson. We've since completed the acquisition with Mercedes. And we have a big contract win with Great Wall Motors around their new energy vehicles, which could be quite substantial for us overtime.

Now, we don't break out exactly how much revenue our units come from each of our OEM partners. But those winning Chinese OEMs are certainly part of the Inchcape OEM portfolio, I think we'll continue to grow very substantially with them over the coming years.

Akshat Kacker ***JP Morgan Cazenove - Analyst***
Very clear. Thank you.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Cheers, thank you very much.

Operator
James Zaremba, Barclays.

James Zaremba ***Barclays - Analyst***
Good morning. Three questions, please. Firstly, on inventory provisioning. In the context of your comments on challenging market, what was the P&L expense from this in FY23? And has the year-end

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position increased year-on-year?

Secondly, on the gross profit mix. This was weighted more to vehicles than aftersales in FY23 than in the past. Can you provide some context for the changes here. Then lastly, on the Australian property profit. Was this in guidance for Q3 or did something else deteriorate versus expectations in Q4, I guess such as those markets from LatAm? Thank you.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Very, good. Adrian, you okay for them?

Adrian Lewis ***Inchcape PLC - Group Chief Financial Officer***
Yeah. Yeah, absolutely fine. Inventory provisioning, particularly in relation to the market challenging circumstances, I think the driver of inventory provisioning would be aged inventory. One of the things we pride ourselves on as a distributor is being brilliant at managing the S&OP process. But of course, where we do see some levels of aged inventory, we do have to take the appropriate levels of provision consistent with our policy.

The provision did increase slightly. It was a low single digit movement, if I remember correctly from the balance sheet at the year end. But this is well within the normal range of our provisioning process. And you shouldn't think about the changes in our inventory levels as being an aged inventory problem to any level any degree, well within the normal bounds of overall provision. In fact, there's a proportion of inventory, the provisions remained relatively static.

In terms of GP weighting from aftersales to vehicles, you're absolutely right. It did increase FY22 into FY23, and that skew towards vehicles. You should think about that as being a mix effect as a result of having a larger businesses in markets where the aftersales channel isn't as well developed as it is in some of our more core markets that we had in 2022. This is a great opportunity and one of the reasons why VLS remains one of our strategic opportunities. Because many of that is about how many of our activities in that space is about providing us as a distributor with a route in to owning parts of the value chain as the vehicle goes through a second and third life cycle. So yes. And you will actually see that continue as we grow our new vehicle business across the world. And those contract wins build out, there will be a lag in terms of its aftersales proportion, somewhat for obvious reasons.

In terms of the Australia property, I'll just say a few things about the Australia property before I comment on how that features into the guidance we provided across the balance of the year. This was a really great example about where Inchcape is looking strategically where it deploys its capital, looking strategically about how we provide an infrastructure and a route to market for our OEM partners.

And in the face of a changing retail environment, we had a property that was a legacy property. It was fantastic in the 90s, where everyone used to go to a great big dealership in the centre of the city. The city is growing around it. And there was an opportunity to repurpose that capital, recycle capital into the group and provide a better retail experience in the city of Melbourne for consumers. So we feel very proud about that. It's a great example. The transaction occurred in the third quarter. So by definition in

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the guidance we provided, it was included in our thinking in that regard.

Now, of course, we have also noted that some of our markets were a little bit weaker in the fourth quarter than we had originally anticipated. As we've also noted that there was some currency headwinds in the fourth quarter that were also not in the guidance because they occurred late in the period. But what you should think about is a company that has delivered on its commitments and delivered a performance in 2023 in line with its expectations.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Thank you, Adrian.

James Zaremba ***Barclays - Analyst***
Very clear.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer, Executive Director***
Thanks, James.

Operator
There are no further questions on the conference line. I want to hand back over to the Inchcape team.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Very good. Thank you. Rob?

Rob Gurner ***Inchcape PLC - Head of Investor Relations***
Alright, hi. I have three questions and I think they're coming to you, Adrian, I'm afraid. From Matt Fry, Artemis and Peter Testa at One Investments.

First question is, can you add a little bit more colour or detail to the guidance for '24. Second question is, can you discuss how you manage transactional FX in the context of the commercial dynamics of the business? And the third question is, what do you expect acquisitions to contribute to revenue profit this year?

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***
They're all coming to me, I guess. Thank you for -- yes, Duncan?

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Even I could tell.

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***
So our guidance, so I think the way you should think about our guidance for 2024 is we are taking a prudent position in terms of the rate of growth and recovery in some of our markets, in particular, some of our Latin American markets. And that as a consequence leading to a more muted overall growth profile. The word muted is relative or moderated as it is in the press release, is in relation to our midterm profit guidance, which I'll remind you if you haven't looked it up, is mid to high single digit compound growth rates.

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So we see 2024 of us continuing to grow. It will continue to be a year of growth, but below our midterm guidance rate. If I give you some of the building blocks that help support that.

We've talked about Asia Pacific and the growth, we are seeing there and the contribution from acquisitions that will continue to be a tailwind for us. The Americas, we are prudent on, prudent in terms of market bounce back. And the measures we are taking around in expanded synergy profile and more broadly, the even greater focus on costs. We'll continue to see the Americas grow. Europe for the reasons we've articulated, we expect to be a headwind. And similarly for our retail business, where we are lapping some tough comparisons, particularly in the first half of 2023 and associated to some of those used car market dynamics. We expect that to be a bit of a headwind as well.

So that sort of four building blocks you should think about, getting to that more moderated growth profile for 2024. The cost focus will set us up very, very well because a number of our key markets are at the lower end of the historical norms, and we expect those to provide an accelerator in 2025 and beyond.

In terms of how we manage transactional FX -- was that the question? Just clarifying the question, Rob. Transactional. Transactional FX. Yeah, absolutely. This is part of our business model. We have very clear hedging policies where we take a long view on foreign exchange. What that does is that creates time for us to be able to manage volatility in the price of the respective pairings.

Whether it be Aussie dollar, Japanese yen, which I know has been talked about a lot, whether it be Euro, CLP, or whether it be the Colombian peso against the Japanese yen. They are all currency pairs that we take hedging positions on. All that does, it buys us time and protects the P&L from short-term volatility. And ultimately, foreign exchange movements have to end up in price in some form and that is part of our business model.

From an acquisitions and the impact on 2024. The number you've seen me quote today is £400 million of aggregated revenue, full year effect as a contribution from the three businesses that were acquired in 2023. And you can see most of those were completed during the course of Q3. So you should think about them having had a normal contribution to '23 and you can calculate the full year effect thereafter.

Those businesses will be at normal distribution margins and over time will be accretive to the region as we drive synergies. And I think the other thing we should know is we'll be in the first and second year of our contract wins as we continue to grow our platform and drive scale. And there also may will be a small tailwind to revenue, although neutral on a profit level.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Very good.

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***
I think I've answered those three questions, Rob, hopefully?

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Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***Rob, no more questions? Very good, thank you.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***
Well, to sum up. 2023 was a great year operationally, financially, and strategically for Inchcape. 2024 will be another year of growth, albeit moderated. And we're confident that the distribution platform we've built sets this company up for growth in the medium term.

Now before I leave, don't forget 23rd May, please come along for our In The Driving Seat webinar. Thank you very much for being here. Thank you for your engagement. Thanks for the questions. See you at the back end of April for our Q1 trading update.

Adrian Lewis ***Inchcape PLC Group Chief Financial Officer***Thanks, everyone.

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