A SOLID OPERATIONAL AND FINANCIAL PERFORMANCE

ADRIAN LEWIS
GROUP CHIEF FINANCIAL OFFICER

2023 was another excellent year for Inchcape, during which we delivered another strong set of financial results, coupled with excellent strategic progress, despite challenges in certain markets.

During the year, I was proud to have been formally appointed by the Board as Chief Financial Officer and it is a great honour and privilege to be part of the leadership of the Group at such an exciting time. Our business is the global market leader with a long track record of success across a diversified range of markets and I am confident that we have a very bright future, continuing to deliver value for all of our stakeholders.

Overview of 2023 performance

Supported by a normalisation of supply in many of our markets, we delivered a strong performance across each of our regions, with growth both organically and supported by acquisitions. This helped the Group to generate a record level of free cash flow, which enabled further strategic investments during the year and a continuation of value generation for shareholders.

Our businesses in APAC produced excellent momentum, with growth across the region, further accelerated by three acquisitions completed during the year.

Europe & Africa also performed well, supported by an improvement in supply, in comparison to a constrained 2022, leading to an unwinding of our order bank, against a backdrop of muted new consumer demand.

The Americas produced growth in many markets, with Derco delivering against all metrics, despite macro challenges in a number of markets. Despite these pressures, we continued to take market share across the region during the year.

Continued strategic progress

As Duncan highlighted on page 15, we made significant strategic progress during the year, with a record number of distribution deals. This helped us to build a foundation for a more diversified business, to drive on-going organic growth in the future.

The transformational acquisition of Derco, completed at the end of 2022, has seen the Group deliver record levels of financial performance and has helped to drive new revenue opportunities across the group.

During the year, Derco delivered margins in line with our expectations, despite the challenging backdrop in certain markets. In this context, I am particularly pleased with the progress we have made in normalising the excess inventory in Derco, which contributed to a positive working capital inflow during the year.

The integration programme is well on track, with cost synergies of £21m delivered during the year. We now expect to deliver at least £50m by the end of FY 2024, with one-off integration cash costs of £70m over 3 years, as we take more time to integrate physical facilities and systems.

Financial performance and balance sheet in 2023

The Group performed well against all financial metrics, including revenue, profit, and margins. In addition, we delivered a record level of free cash flow of £498m, a 74% conversion rate of adjusted operating profit, which is a testament to the fundamental qualities of our business model.

The Group's net debt position closed the year at £601m, with leverage at 0.8x, which remains below our internally-mandated limit of 1x. Over the medium term, we expect to continue to generate strong free cashflow which we will deploy in-line with our capital allocation policy.

HIGHLIGHTS

Revenue

£11.4bn

2022: £8.1bn

Free cash flow[1]

£498m

2022: £380m

Adjusted operating margin[1]

5.8%

2022: 5.1%

Return on capital employed[1]

26%

2022: 41%[2]

Profit before tax and adjusting items[1]

£502m

2022: £373m

Dividend per share

33.9p

2022: 28.8p

1. These measures are Alternative Performance Measures, see pages 200 to 202.
2. Adjusted to remove capital employed of Derco, which was acquired on the last day of 2022 and therefore did not contribute to operating profit during that year.

During the year, our capital structure was further optimised to provide stability and certainty in the medium term, with 70% of our debt fixed and over 50% has a maturity of at least three years.

During the year, we successfully issued a £350m public bond and renewed our syndicated revolving credit facility, increasing it to £900m and extending its maturity to December 2028.

Driving value for shareholders

We remain committed to delivering value to shareholders through a capital allocation policy which has four key elements:

- to invest in the business to strongly position it for the future;
- to make dividend payments;
- to conduct value-accretive M&A; and
- in the absence of inorganic opportunities, to consider share buybacks, as appropriate.

Our dividend policy targets a 40% annual payout ratio of basic adjusted EPS, and as such our full year dividend amounts to 33.9p compared to 28.8p in 2022.

Outlook

Future growth and operating margin delivery at Inchcape will be driven by our market leadership, resilient and cash generative business model, diversified geographic footprint and digital-led approach and supported by acquisitions and contract wins. The Group will also continue to invest in digital capabilities to enhance customer loyalty and drive margins.

FY 2024 is expected to be another year of growth, albeit moderated, with the Group maintaining prudent expectations for recovery in FY 2024 in certain markets, which are weaker than previous years. To that end, the Group is driving an even stronger focus on cost management to deliver a moderated short term growth profile, in the context of broader market dynamics.

Over the medium to long term, the Group is expecting to return to higher levels of growth, compared to FY 2024, with many markets, particularly in the Americas, expected to recover from what are anticipated to be towards historical lows in FY 2024. Medium to long term growth will be supported by the Group's even stronger focus on cost management.

ADRIAN LEWIS
GROUP CHIEF FINANCIAL OFFICER

PERFORMANCE REVIEW

Performance review: full year 2023
The Group delivered a strong operational and financial performance in 2023, driven by top line growth and margins well ahead of historic levels, supported by a continued shift towards our higher-margin and faster-growth Distribution business.

Group revenue of £11.4bn (2022: £8.1bn) rose 41% year-on-year reported, supported by organic growth and acquisitions. On an organic basis, excluding currency effects and net acquisitions, revenue increased by 12%. This was predominantly driven by volume growth, as supply continued to normalise, with some positive pricing impact on new and used vehicles across our Distribution businesses. We maintained positive momentum in APAC, while our performance in Europe and Africa was supported by an order bank unwind during the year. Volume growth across the Americas was flat, although we continued to increase share in many markets. Retail remained resilient.

The Group delivered an **adjusted operating profit** of £669m (2022: £411m), up 63% year-on-year reported, reflecting our continued shift towards Distribution, with organic revenue growth, the contribution of acquisitions, Derco synergies and some operating leverage. Adjusted operating margins increased by 70bps to 5.8%. Included within adjusted operating profit is a net property profit of £14m (2022: £2m), primarily related to the sale of a property in Australia, which more than offset impairment charges for certain retail sites. The Group also saw translational currency headwinds of (£4m) during the year.

Adjusted profit before tax (PBT) of £502m (2022: £373m) increased as a result of the improvement in revenue and operating profit.

This profit performance more than offset the increase in **adjusted net interest expense** to £168m (2022: £38m). This increase is primarily due to the shift in the Group's capital structure from Net Cash to a Net Debt profile over the last 12 months, following the acquisition of Derco, and a higher interest rate environment.

During the year **pre-tax adjusting items** amounted to an expense of £89m (2022: £40m). This was primarily driven by acquisition and integration costs (£50m), of which (£35m) related to Derco, the finance component of the deferred Derco dividend payment (£10m) and non-cash, non-operational losses arising from the adoption of hyperinflation accounting relating to Ethiopia (£29m).

The highly cash-generative nature of our business model drove strong **free cash flow generation** of £498m (2022: £380m), representing a conversion of adjusted operating profit of 74% (2022: 92%), above our guidance range of 60% – 70%, reflecting a stronger working capital performance. The net working capital inflow of £155m (2022: inflow £75m) was driven by a £215m reduction in excess inventory at Derco and an alignment of supplier trading terms, offset by a normalisation of working capital elsewhere across the Group. Net interest payments in the year increased to £130m (2022: £20m), excluding payment for leases, for the reasons outlined above.

As at 31 December 2023, Group **adjusted net debt** amounted to £601m (2022: £378m) (excluding lease liabilities), following ordinary dividend payments of £128m, payments relating to Derco of £267m and acquisition outflows primarily for the three acquisitions in APAC of £137m. On an IFRS 16 basis (including lease liabilities), the Group ended the period with net debt of £1,041m (December 2022: net debt of £877m). Group leverage on a proforma basis was approximately 0.8x at 31 December 2023, within the Group's internally-mandated leverage limit of 1x (pre IFRS16).

In June 2023, the Group successfully issued a £350m public bond, with 6.5% coupon and a five-year maturity. The proceeds from the bond were used to re-finance the bridge facility put in place to fund the acquisition of Derco, the initial term for which was due to expire at the end of FY 2023. Additionally, in December 2023, the Group's syndicated revolving credit facility was renewed and increased to £900m, extending the maturity to December 2028.

Return on capital employed over the period was 26%, compared to 41% for the equivalent period last year, driven by the dilutive effect of acquisitions, and in line with our guidance of approximately 25%.

Update on Derco – delivering against key metrics
We made further progress on the **integration** of Derco during the year, with all mobility company partner relationships maintained or extended, key personnel retained and the technology integration on track.

As a result of the acquisition, the Group consolidated its market leadership position in the Americas, with foundations in place for **revenue synergies**, to help grow market share and further extend our mobility company partnerships in the region. Furthermore, there were strategic benefits achieved globally, including distribution contracts with Great Wall Motors in Indonesia and with Changan in the Philippines and East Africa, both of whom were historical Derco relationships.

Derco delivered a resilient **financial performance** in FY 2023, with operating margin towards the top end of the 5% – 7% range of a typical distribution business, pre-synergies. Furthermore, as a result of proactive management action, excess inventory of c.£200m was successfully reduced during the year, resulting in a strong working capital inflow. This inflow was further supported by an alignment of trading terms.

We achieved accelerated **cost-related annualised synergies** in FY 2023 of £21m and we now expect to deliver an additional £10m of annualised cost synergies, of at least £50m, by the end of FY 2024. One-time integration cash costs of £70m will be invested in driving these synergies, of which £35m was invested in FY 2023, with these costs now expected to be incurred over three years, to help support the future delivery of cost-related synergies.

Looking ahead, we remain confident that the high quality of the combined Inchcape and Derco business, with its leading market positions in the Americas, will deliver strong revenue and profit growth in the future.

DISTRIBUTION

The Distribution segment reported revenue of £9.1bn increasing 55% year-on-year, with **all regions growing versus the prior year.**

Distribution reported revenue of £9.1bn, increasing 55% year-on-year on a reported basis, reflecting the contribution of acquisition as well as organic growth, which was up 16%. The combination of an excellent revenue performance and margin expansion of 70bps drove adjusted operating profit[1] of £629m (2022: £363m). Adjusted operating margin[1] rose 70bps to 6.9%.

APAC revenue was up 21% year-on-year, reflecting organic growth of 16% and contribution of acquisitions. Adjusted operating profit[1] rose 44%, with an elevated adjusted operating margin of 8.3%. Excluding the impact of property profits, operating margin was higher year-on-year at 7.7%. Our **Asia** markets performed well, particularly Guam and Brunei. In **Hong Kong**, where the market continued to show some signs of recovery, we delivered market share gains and gained traction in certain segments where our brands perform relatively well. This was supported by a healthy order bank and further progress in diversifying our mobility company partner portfolio, particularly in Electric Vehicles. In **Singapore**, vehicle licence availability remained well below peak levels, but there were some encouraging signs of licence availability towards the end of the year. In **Australasia**, our strong performance was driven by momentum in new vehicle volumes, with market share gains achieved. This was partly due to improved supply against a strong opening order bank. During Q3 2024, we made three bolt-on distribution acquisitions in APAC (CATS in the Philippines, Mercedes-Benz in Indonesia and Great Lake Motor Distributors in New Zealand), which added an aggregate c.£400m in annualised revenue, with these businesses starting to contribute in FY 2023.

Europe & Africa revenue was up 23% year-on-year with adjusted operating profit[1] rising 47%, with elevated levels of adjusted operating margin at 5.2%. In Europe, accelerated supply and an order bank unwind helped to drive top-line growth and margin performance. During the year, there were particularly strong performances from Belux, Greece and Romania. The region's elevated order bank reduced during the course of 2023, and new consumer demand remains muted in a number of markets. Africa continues to be an exciting long-term growth prospect for the Group and has performed well, supported by a resilient aftermarket capability.

Americas revenue grew 153% year-on-year, driven by the contribution from Derco and organic growth of 7%. Adjusted operating profit[1] grew 138%, with adjusted operating margin of 7.0%. Despite challenges across the year in certain markets, and further slowdown in a number of markets in Q4 2023, we continued to gain market share and drive growth in many markets across the region, supported by the benefit of diversification. Our businesses in Peru, Bolivia, Uruguay, Ecuador, across Central America and in the Caribbean performed well during the year, with market share gains in a number of these markets. Industry volumes in Chile and Colombia were significantly reduced from the prior year but our businesses in those markets remain resilient, with strong market share. We remain confident about our prospects in the Americas over the medium to long-term, with our highly diversified geographic footprint and product portfolio, and supported by the region's high GDP growth and low motorisation rates.

DISTRIBUTION REGIONAL BREAKDOWN

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

RETAIL

Our Retail segment includes the results of our UK and Poland franchise dealerships and our bravoauto business in these markets.

Retail delivered organic revenue growth of 3% and adjusted operating profit[1] declined (17)%, resulting in an adjusted operating margin of 1.7%. Retail remained resilient, despite weaker consumer demand, supported by new vehicle growth from a stronger fleet market and a robust aftersales business. The reduction in operating profit largely reflects a more normalised margin in used cars.

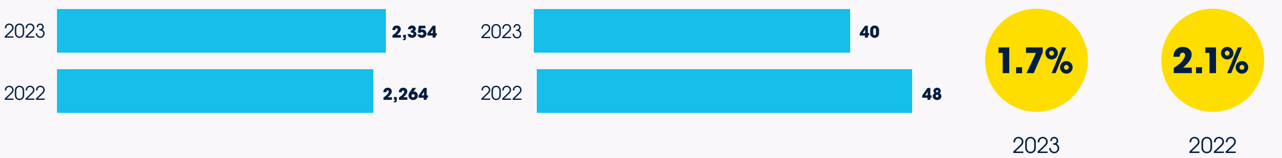
As previously announced, following approaches from a number of interested parties, the Group is reviewing strategic options for the UK Retail business, which potentially could include a sale. This review remains at an early stage and there can be no certainty that it will result in a transaction. A further update on this review will be provided as and when appropriate.

We note that the FCA has announced a review into historical finance commission arrangements. We look forward to the outcome of the FCA review and the clarity that this will bring for customers, lenders and dealers.

RETAIL PERFORMANCE

● Total Retail (UK & Poland)

Revenue | **Adjusted operating profit[1]** | **Adjusted operating margin[1]**



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

OTHER FINANCIAL ITEMS

Adjusting items: In the year, we have reported a pre-tax charge of £89m (2022: £40m) in respect of adjusting items. This was primarily driven by acquisition and integration costs (£50m), the finance component of the deferred dividend payment (£10m) and non-cash, non-operational losses arising from the adoption of hyperinflation accounting relating to Ethiopia (£29m).

Net financing costs: Adjusted net finance costs increased to £168m (2022: £38m), primarily due to the shift in the Group's capital structure from Net Cash to a Net Debt profile over the last 12 months, following the acquisition of Derco, and a higher interest rate environment. Reported net finance costs were £207m (2022: £67m), as they included the finance component of the deferred dividend payment (£10m) and non-cash, non-operational losses arising from the adoption of hyperinflation accounting relating to Ethiopia (£29m).

Tax: The effective tax rate on adjusted profit is 27.9% (2022: 26.0%), within the Group's guidance range of between 27% and 28%, and on a statutory basis is 31.5% (2022: 29.4%). The effective tax rate on adjusted profit continues to be higher than the weighted average tax rate (22.4%) due primarily to the impact of unrecognised deferred tax assets across the group, principally in the UK and Americas.

Non-controlling interests: Profits attributable to our non-controlling interests increased to £13m (2022: £5m). Non-controlling interests now include a 40% holding in the CATS Group of Companies in the Philippines and a 30% holding in the Mercedes-Benz distribution business in Indonesia following their acquisition by the Group during the year. Other significant non-controlling interests include a 30% share in NBT Brunei and a 10% share of Subaru Australia.

Dividend: The Board has proposed a final ordinary dividend of 24.3p, which is subject to the approval of shareholders at the 2024 Annual General meeting, and if approved will be paid in June 2024. This follows an interim dividend of 9.6p, and takes the total dividend in respect of FY 2023 to 33.9p. The Dividend Reinvestment Plan is available to ordinary shareholders and the final date for receipt of elections to participate is 24 May 2024.

Capital expenditure: During 2023, the Group incurred net capital expenditure of £62m (2022: £58m), consisting of £93m of capital expenditure (2022: £68m) and £31m of proceeds from the disposal of property, plant and equipment (2022: £10m).

Financing: As at 31 December 2023, the funding structure of the Group is comprised of a committed syndicated revolving credit facility of £900m (2022: £700m), sterling Private Placement Loan Notes totalling £210m (2022: £210m), a 5-year bond of £350m, at a fixed coupon of 6.5%, a term facility of £250m (2022: £250m) and debt remaining outstanding from acquisitions (including prior year acquisitions) of £80m (2022: £617m). As at 31 December 2023, £150m of the syndicated revolving credit facility was drawn (2022: undrawn). For our corporate debt, excluding our Revolving Credit Facility, around 70% is at fixed rates and over 50% has a maturity of at least 3 years. The Group remains well within its debt covenants.

Pensions: As at 31 December 2023, the IAS 19 net post-retirement surplus was £67m (2022: £93m), with the decrease driven largely by lower than expected returns on scheme assets and movements in corporate bond yields affecting the discount rate assumption used to determine the value of scheme liabilities. In line with the funding programme agreed with the Trustees, the Group made additional cash contributions to the UK pension schemes of £2m (2022: £3m). In addition, the Group acquired post-retirement liabilities of £11m as a result of the acquisitions in the year.

Acquisitions: During the year the Group continued to further expand its distribution footprint, completing three acquisitions during the year, amounting to net acquisition outflows of £146m, with £23m of additional debt acquired (excluding lease liabilities).

VALUE DRIVERS

We provide disclosure on the value drivers behind the Group's 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 28% of gross profit through Aftersales (2022: 33%). This reflects greater gross profit contribution from vehicles as volumes improved, the contribution of acquisitions and higher vehicle gross margins.

REGIONAL BUSINESS MODELS

DISTRIBUTION

Exclusive distribution, sales and marketing activities of New Vehicles and Parts. Sale of New and Used Vehicles together with logistics services where the Group may also be the exclusive distributor, alongside associated Aftersales activities of service, body shop repairs and parts sales.

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, Komatsu, Mazda, Renault, Still, Subaru, Suzuki
Chile	BMW, BMW Motorrad, DFSK, Changan, Geely, Great Wall, Hangcha, Haval, Hino, JAC Motors, Jaguar, JCB, Komatsu, Land Rover, Landini, Massey Ferguson, Mazda, MINI, Porsche, Renault, Rolls-Royce, Still, Subaru, Suzuki, Volvo
Colombia	Citroen, Develon, DFSK, Dieci, Doosan, DS Automobiles, Hangcha, Hino, Jaguar, Komatsu, Land Rover, Liebher, Linde, Mack, Mercedes-Benz, Still, Subaru, Suzuki, XCMG
Costa Rica	Changan, JAC, Suzuki
Ecuador	Freightliner, Geely, Mercedes-Benz, Subaru, Western Star
El Salvador	Freightliner, Geely, Mercedes-Benz, Western Star
Guatemala	Freightliner, Geely, Mercedes-Benz, Western Star
Honduras	Freightliner, Geely, Mercedes-Benz, Western Star
Panama	Suzuki
Peru	BMW, BMW Motorrad, Changan, Citroen, DFSK, Great Wall, Haval, Hino, JAC Motors, Komatsu, Mazda, MINI, Renault, Still, Subaru, Suzuki, XCMG
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, Lexus, Toyota, Morrico heavy equipment[3]
Hong Kong	Hino, Jaguar, Land Rover, Lexus, Maxus, ORA, Toyota
Indonesia	Great Wall, Harley-Davidson, Jaguar, Land Rover, Mercedes-Benz
Macau	Hino, Jaguar, Land Rover, Lexus, ORA, Toyota
Saipan	Toyota, Lexus
Singapore	BYD commercial vehicles, Hino, Lexus, Suzuki, Toyota
Philippines	Changan, Harley Davidson, Jaguar, Land Rover, Mazda, Mercedes-Benz, Ram
Thailand	Jaguar, Land Rover, Tata Motors
Australia	Citroen, Peugeot, Subaru
New Zealand	Maxus, Subaru

2. Distribution agreements for these brands across a range of Pacific islands, centred on Guam.
3. Morrico heavy equipment – Bomag, CNHI International SA, Cummins, Daimler, Detroit Diesel International Direct, Dieci, DTNA, EL Industries, Fuso, Haulotte, Hyundai, Kohler, Load King, New Holland, Rosenbauer, Schwarze, Sullivan Palatek, Vac Con, WanCo.

Europe & Africa

Country	Brands
Belgium	BYD, BYD commercial vehicles, Lexus, Toyota
Bulgaria	Lexus, Toyota
Estonia	BMW, BMW Motorrad, 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
Luxembourg	BYD, Lexus, Toyota
North Macedonia	Lexus, Toyota
Poland	Jaguar, Land Rover
Romania	Lexus, Toyota
Djibouti	BMW, Changan, Komatsu, Toyota
Ethiopia	Hino, Komatsu, New Holland, Suzuki, Toyota
Kenya	BMW, BMW Motorrad, Changan, Jaguar, Land Rover
Tanzania	Changan

RETAIL

Sale of New and Used Vehicles, together with associated Aftersales activities of service, body shop repairs and parts sales in the UK and Europe.

Country	Brands
Australia[4]	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

4. Following scale disposal of retail businesses in Australia, no longer disclosed within Retail.