Inchcape PLC
Q1 2025 Trading Update

Audio webcast

24th April 2025

Transcript

Duncan Tait: Good morning everyone and thank you for joining us. I'm here with our CFO Adrian Lewis and Head of Investor Relations Rob Gurner. I'll give an overview of our Q1 results and strategic progress before giving our perspective on the current tariff situation and the actions we're taking. I'll then hand over to Adrian who will discuss our operational performance in the first quarter in more detail and our view of the outlook, will then take your questions.

Our results in the first quarter were in line with our expectations and I was pleased with the market share gains we saw across the group as well as our continued progress in expanding our portfolio of distribution contracts. Inchcape's, new vehicle volumes outperformed the underlying industry volumes in our markets during the period. Organic growth was down 5%, as I said, in line with our expectations reflecting mixed market momentum and tough comparators, particularly in APAC and Europe. We continue to deliver strategic progress with seven new contract wins in the quarter, including three contract awards with SMART across the Americas, BYD in Latvia and Lithuania, Iveco in Hong Kong and New Holland in Ethiopia, which replaced an immaterial contract exit in that market.

In respect of capital allocation, we have made progress consistent with our updated policy announced in March and our £250 million share buyback programme is progressing well and to date we have acquired approximately £55 million or around 2% of shares in issue. Onto the tariff situation, which remains dynamic and complex. I wanted to remind you that we have no presence in North America, no scaled relationships with US OEMs and minimal exposure to US production. We see three potential impacts from this situation. Firstly, supply from our OEMs. Secondly, the competitive environment and thirdly, market demand. It is too early to be definitive on the impact of these, but importantly, our latest data indicates demand is not yet being impacted in our markets beyond the usual trends. With our global leadership position in automotive distribution driven by our differentiated technology platform, Inchcape is well positioned to help our OEM partners navigate the current environment supported by our diversified and scaled footprint.

We continue to stay close to and collaborate with our OEM partners, capitalising on opportunities as they emerge. We are being proactive and conservative on inventory management based on a data-driven approach, and we remain disciplined on costs. This emphasis combines to create a financial approach in these dynamic times that is focused on cash generation, with our leverage remaining well below our one times limit. So Inchcape is well positioned to support our stakeholders in navigating this market uncertainty as our experienced leadership team has done during challenging economic situations in previous years. Looking further ahead, we remain excited about Inchcape's growth prospects driven by our strong relationships with winning OEMs and our ability to grow market share through differentiated technology capabilities and contract wins. This is supported by our robust balance sheet, strong cash generation capabilities and high returns which provide resilience to the cycle. We are fully focused on delivering against our target of greater than 10% EPS CAGR over the medium term. And with that I'll hand over to Adrian.

Adrian Lewis: Thank you Duncan, and good morning everyone. Before I get into the detail, just a reminder that we have today issued our quarterly Inchcape market tracker to support this trading update and I'll reference some of the key numbers during this presentation. During the first quarter, the Group generated £2.1 billion of revenue, down 5% in constant currency and organically, with translational currency headwinds of 3% reported revenue was down 8%. Our operational performance during the quarter was in line with our expectations supported by market share gains. Our markets were slightly lower than the prior period, prior year by 4%, and overall we are pleased to outperform our new vehicle volumes 3% below the prior year with a further 2% regional mix impact on organic revenue performance.

And so looking at the key trends in each of our regions, starting with the Americas where we have seen growth in the region with industry volumes up 4%. Our teams delivered a strong performance with market share gains leading to growth in key markets, including our largest market Chile and across the region. Our business in the Americas remains well positioned to capitalise on market recovery. In APAC there was a continuation of the trends scene in the second half of 2024. Market headwinds amounted to 7% in the first quarter as we lapped some difficult comparators with weak consumer sentiment in certain markets such as Hong Kong and Indonesia. Notably, Singapore remains on a cyclical upswing and we delivered a resilient market share performance in Australia. Our relative performance in the region to be skewed towards half two due to the product cycle of key OEMs and there is no data to suggest that the current situation has changed our view on APAC phasing. In Europe and Africa, the market shrank by 3% and we saw revenues fall as we lapped tough comparators arising from the unwind of our order bank last year. Consumer sentiment in our markets in Q1 has been resilient with fresh order take showing positive momentum across the region.

And finally, from me on to outlook, our guidance for Full Year 25 remains unchanged as we are yet quantify the potential impacts from the fast evolving tariff related situation. We continue to expect to deliver another year of growth with product cycles skewing growth to the second half of the year. There have been some movements in major currencies for our Full Year Results on the 4th of March and I would direct you to our FX sensitivity analysis provided at that time. Now before I hand back to Duncan, we will be providing a pre-close trading update in late June to keep investors updated as the tariff situation evolves. Back to you Duncan.

Duncan Tait: Thanks Adrian. Now before we head to questions, I wanted to finish by saying that we remain excited about Inchcape's growth prospects driven by our strong relationships with winning OEMs and our ability to grow market share through differentiated technology capabilities and contract wins. This is supported by our robust balance sheet, strong cash generation capabilities and high returns which provide resilience to the cycle and we remain fully focused on delivering against our target of greater than 10% EPS CAGR over the medium term. So let's now take your questions, Serghei over to you before we look at questions that we've had over the webcast. So Serghei, over to you.

Operator: Thank you, sir. As a reminder to ask a question over the phone, please signal by pressing *1 and please make sure the mute function on your phone is switch stuff to allow your signal to reach our equipment. If you wish to cancel your request, please press *2. You may also submit your questions via the webcast and the first question is from Andy Grobler from BNP Paribas. Please go ahead.

Andy Grobler: Hi, good morning. Just a couple from me if I may. I know it's kind of a dynamic situation, but in terms of tariffs, you're saying you're taking a conservative approach. What kind of economic background are you planning for in that conservative approach? And then secondly, just on Komatsu, I know you mentioned it was immaterial, but why did they decide to leave that relationship with Inchcape? Thanks very much.

Duncan Tait: Very good, thank you very much Andy and good morning. Adrian, can I ask you to answer the first question? I'll comment on Komatsu to start with as I've got hold of the mic. So Komatsu was an immaterial contract for us. I think we were selling maybe four units a year in Ethiopia. We have a relationship with CASE New Holland that I think works better for us in that market and will give us some further opportunities for growth. So an immaterial contract and I think what we said at Full Year results in terms of us doing portfolio housekeeping across the business and you should expect more of these this year. There's one that happened in the first quarter, Andy, so that's as much on Komatsu as I think we should send our hand over to Adrian.

Adrian Lewis: Yeah, hi. Thanks Andy. We are obviously working on a number of different scenarios. I would say it's going to be very nuanced by market and there's no one sweeping set of economic circumstances that we can reasonably foresee. I would emphasise that right now when we look at our lead indicator data, whether it be test drives, whether it be leads coming through our website or traffic on our websites, we haven't yet seen any material differences outside of the normal ebb and flow of our markets. The words that we're using today around conservatism and being proactive is the conversations we're having with our OEMs predominantly around supply just to make sure our inventory stays in very good health as we run into the second half or more uncertain economic times. That's why we've put in an update at the end of June to give you more information about how we're seeing activity on our end markets evolve given what the words we're using today. So hopefully that helps Andy.

Andy Grobler: Just one quick follow up. You mentioned that you had minimal exposure to the US production. How much is that? How much is coming out of the US directly?

Duncan Tait: For us? A few hundred units.

Andy Grobler: Okay.

Duncan Tait: Yeah. Yeah, a few hundred units is the number you should use. It's largely SUVs for premium European manufacturers.

Andy Grobler: Okay, thank you.

Duncan Tait: Yeah, very good. Okay, thank you very much Andy.

Operator: We'll now move to our next question from David Brockton from Deutsche Numis, please go ahead.

David Brockton: Thanks very much. Just one in terms of the guidance, which remains sort of unchanged for that second half ramp up in terms of new product cycles and contract ramp up. So I just wonder if you can touch around those. Are you seeing any change in timing for those product cycles? And also just as those new contracts start to ramp up, can you just comment on how those are going? Thanks.

Adrian Lewis: Yeah, thank you David. I'll take this one Duncan. So no change yet to product cycles. If I take us back to what we said on the 4th of March, a second half skew, particularly in Asia-PAC, whether it be the new Forester hybrid going into Australia, whether it be some of the MPV products going into parts of Asia and some of the contract wins that are going to help and support growth in the second half, there's nothing as yet from a suppliers perspective that we have heard from our OEM partners as a result of this that changes things. There are always sort of small immaterial updates to production phasing and volumes in which month, but nothing out of the ordinary that has significantly changed our view. There is potential for some additional supply as a result of this situation for products that had previously been restricted, but we're just exercising a little bit of caution about that as we see demand evolving before we make any commitments.

Duncan Tait: Does that help, David? Thank you.

Adrian Lewis: Thank you.

David Brockton: Yeah, thanks. And sorry, just on contract ramp ups as well, just how are those going in terms of the new OEM contracts that you've signed in the prior year ramping up?

Adrian Lewis: Yes. Look, we said this year was going to be an important year for some of the ones that are getting into their third year. So the European contracts that we signed I think are going particularly well, it's very early days in some of the other ones that were signed last year. First year is always relatively low as we've previously said, third year contracts I think are gathering some good momentum and you see that in some of our share performances in Europe.

Duncan Tait: Indeed and just to reiterate David, what we said on the call, there are the seven contract wins in the first quarter. I don't think we should get too excited about us doing what we did last year, but a nice start for us and I think some of those OEMs that are choosing us to have more contracts with us is a reflection of what Adrian said about good progress in the contracts we've won previously.

David Brockton: Thanks. And that seven win, that's the gross win, not the net less the one that,

Duncan Tait: Yeah, take one off for the Ethiopia. Yeah, indeed. Thank you.

Operator: Thank you. I want to now move to our next question from Arthur Trusolve from Citibank. Please go ahead.

Arthur Trusolve: Thank you very much for taking my questions. Three if I may, first question, just obviously consensus PBT is at 465. Are you expecting that to change materially today? Second question, clearly you've won a couple of contracts with BYD and if I'm not wrong, the majority of the other contracts you've won have been European or Western OEMs. Are you able to talk a little bit more about the contract pipeline with BYD and whether they're generally happy with what you are doing for them in the markets that you're serving them in? And thirdly, I guess if I understand correctly, it sounds plausible that H1 cashflow could be quite positive given that inventory perhaps likely to be lower than you might have expected when you guided at Full Year. Is that a plausible way to think about things? And I'll stop there. Thank you.

Duncan Tait: Very good. Thank you very much Arthur. So I'll ask Adrian to answer one and three and let me start with contract win pipeline and comment on your reference to BYD. So look, we are talking to our OEM partners all the time about how can we help further in the markets we specialise in which are these lower to medium volume and more complex markets. So we are certainly talking to them all the time. I have a team in China this week. I was in Japan last week and I've had teams with our European premium OEMs over the last few weeks also. So you should think about us constantly having those conversations. The pipeline I would refer to in terms of contract wins is super healthy. And in terms of BYD where we now have six markets that we run for them, they're in Africa and in Europe, are we having conversations outside of those two continents? Yes, it's a bit early to say whether we would be awarded contracts outside of Europe and Africa, but I think the relationship is pretty good and our performance is similar so therefore you might expect a few more over time, but nothing to say at the minute, but it is a conversation that we have headquarters to headquarters, region to region with all of our OEM partners. And by the way, I would say the OEMs had a lot on their plate before this tariff situation, which meant that more markets were being outsourced. Post the tariff situation and what OEMs may have to do over the next few years to reconfigure supply chains, I think it makes them even more reliant on excellent distribution partners like the one that Adrian and I work for.

Adrian Lewis: In tackling your two questions, Arthur, if I do consensus first or growth expectations. I won't comment on consensus, that's the opinions of others and I wouldn't want to specifically guide. We've reiterated guidance, we continue to see growth in this business, but of course we've also said that the tariff situation is dynamic, it's uncertain, it's complex. And bringing in an update at the end of June to give you a sense of what we're seeing in our end markets ahead of the close period, I think will be helpful in giving a bit more guidance. So the other thing we've said is we continue to see growth skewed towards the second half based on product cycles. We still stand by that. We still see that product cycle being a help for us in the second half. Irrespective of where the demand curve is we will have a stronger proposition in some of our markets, particularly in Asia PAC. On half one cash and balance sheet and inventory, I'll just remind you that some of our supply chains are quite long. So what the production calls we are making now are for second half production arrivals. So you should think about the work we are doing now and the proactive steps we are taking with OEMs around just being cautious and exercising a bit of care about the amount of inventory bringing is anticipation of a uncertain demand environment in half two. And so you should think about this having more of a positive consequence on the full year.

Arthur Trusolve: Brilliant, thank you.

Duncan Tait: Thank you very much, Arthur.

Operator: We'll now take our next question from Akshat Kacker from JP Morgan.

Akshat Kacker: Thank you. Good morning Duncan and Adrian. Two questions please. The first one on the market dynamics and the possible uncertainty on vehicle supply going forward as you mentioned. I was thinking what does this mean for pricing for the vehicle stock that is currently in the markets? Are you changing pricing or are you adjusting strategy dynamically in any of those regions? I ask this as the Americas region performed very well with the Chinese OEMs last time when we saw a major supply shortage from the western OEMs in 2021 and 2022. Another linked question to those market dynamics. Could you just remind us in periods of high volatility, have you seen any changes in your vehicle funding agreements with OEMs or do you expect to see any changes on those agreements going forward? And the second question is on the tariff situation, again, as you mentioned, the situation is dynamic and complex and we could be in a very uncertain and volatile market environment. So in that backdrop, could you again just please talk about how you plan to manage the balance sheet going forward and your capital allocation priorities. Thank you so much.

Duncan Tait: Very good. Good morning Akshat. Thank you very much for the questions. I'm sure you snuck in three then, but Adrian and I will cover those together and maybe if you concentrate on three. In terms of pricing and you referenced the Americas specifically, but I think I should comment on each of the regions that we're not seeing any changes yet in supply or demand in markets which would lead us to more dynamically changed pricing. If I give you an example, in the Americas, we tend to review pricing every month and we will adjust accordingly. If you remember the times of very high inflation levels, we were changing pricing in some cases weekly, but at the minute no changes that would lead us to or nothing in the market environment or supply that would lead us to adjust pricing beyond the normal rhythm of the business. And we're not seeing OEMs try to push a lot more supply onto Inchcape beyond the normal ebbs and flows of being a distribution company.

And look, I'd remind everybody on the call, as a distributor, we order stock from our OEMs as opposed to in pure retail where you are assigned stock, whether you've ordered it or not. So I think our business model, now we are more of a pure play distributor, is much more defensive in terms of protecting the company in times of uncertainty like this. In terms of SRC look or what we call supply related credits or inventory financing, whether it's with OEMs or third party banks, we look at this very regularly and we have a model which is built to sustain changes in the world environment. We are seeing no changes at all, whether it's from our banking partners of which we have many in each of our regions and countries, nor from our OEMs. So on the topic of pricing on SRCs or inventory financing, no changes to date, but look, our teams are paid to monitor these situations in their markets weekly, but at the minute no change.

Adrian Lewis: The only thing I would just add and connect it to that latter point in relation to the availability of consumer finance, also no changes there that's happened in previous economic situations or challenging times. No contraction in the availability of financing for consumers to actually buy cars, which is obviously going to be very helpful in sustaining demand and as interest rates potentially fall, that will also potentially be a help. Your third question Akshat, around how does this play through in terms of cash capital allocation. The words we're using today and what you see us doing is around absolutely prioritising our balance sheet, making sure we continue to hold a very healthy and careful level of inventory. And when I say healthy, I mean low levels of inventory that supports a very healthy balance sheet that supports a healthy cashflow and that enables us to continue with capital allocation. The share buyback of £250 million, which was announced on the 4th of March, we are £55 million through that buyback programme. We've bought back over 2% of the company's equity. And that's going to provide that we believe to be a very good investment and very good use of shareholder funds.

Akshat Kacker: Thank you so much.

Duncan Tait: Thanks very much, Akshat. Thank you.

Operator: And our next question is from Sanjay Vidyarthi from Panmure Liberum. Please go ahead.

Sanjay Vidyarthi: Morning, just a couple from me. First one, does the current uncertainty put on pause in any way, any kind of acquisitions that might be in the pipeline or kind of maybe change the way you think about the valuations? Second question on costs, in terms of variable costs and marketing, I guess you can flex that relatively quickly as the situation evolves, but are there any kind of more structural things that you are looking at pre-emptively for the second half in terms of headcount? Thanks.

Duncan Tait: Very good, thank you Sanjay. Let me take 1, Adrian, will do 2. So look, in terms of acquisitions, we continue to talk to companies that we think that may well be better run by Inchcape over time in this very, very fragmented market. Clearly in today's situation, valuing assets is more difficult than it might have been previously. But the way you should think about us behaving is that the work that Adrian spoke about in terms of prioritising our balance sheet gives this company optionality. If we see super value in the market, if any of our competitors become distressed, they may have assets that we could pick up for very good valuations. But so far we are, I think as Adrian said, we are prioritising our share buyback programme. But if we see assets which would be better under our ownership and represent really good value, then let's see what happens.

Adrian Lewis: In relation to costs, the work we are doing is as you would expect us to do all of the right things where we see end markets lower than previous years or otherwise moderating down our costs. That's what our variable and our semi variable costs are set to do. And also where it's appropriate and where we see structural changes over the medium term in the scale of certain markets. We also take structural cost opportunities there. Nothing specifically to call out, just think about this as good management of our cost base and right sizing the cost base for the end markets that we operate in.

Sanjay Vidyarthi: Okay. Understood. That's great. Thanks very much.

Duncan Tait: Thank you, Sanjay.

Operator: Thank you. It appears there are currently enough further questions in the phone queue so this I'd like to hand over for any webcast questions.

Duncan Tait: Very good, thank you Serghei. Rob, over to you.

Rob Gurner: Thanks Duncan. Thanks Serghei. Two questions from Charlie Rothbarth at HSBC. The first is, do you expect any potential changes in interest rates on your debt from a more challenging economic environment? And the second question is, are you seeing or do you expect to see any margin pressure from the OEMs given the pressure they're under?

Adrian Lewis: I'll take the first one certainly, and perhaps I'll comment also on the second one. Most of our debt facilities are fixed. There is a degree of variable nature to it. So from a corporate funding perspective, we don't see any particular shifts in that respect. Clearly changes to global interest rates affect the cost of how we finance our inventory. And so those will move in line with inventory levels and also in line with interest rates as they evolve over time. In terms of margins, we'll say more about this obviously at our Interims when we do a full results review, but part of the work we do around making sure we have the right level of inventory in our markets and we are well positioned in that regard, helps to support a resilient margin profile. So at this stage, no, we haven't seen any significant pressure. Part of that equation is making sure we stay very tight on inventory and that's what we're doing and that's what you hear us talking about doing today.

Rob Gurner: Great. No other questions.

Duncan Tait: Very good. So thank you very much for joining us today everybody. We remain excited about Inchcape's growth prospects driven by our strong relationships with winning OEMs and our ability to grow market share through differentiated technology capabilities and contract wins. And this is supported by our robust balance sheet, strong cash generation capabilities and high returns, which provide resilience to the cycle and we remain fully focused on delivering against our target of greater than 10% EPS CAGR over the medium term. So that's all from us today. Please get in touch with Rob if you'd like a follow up on anything we've discussed.