

# Inchcape plc Q3 Trading Update

Audio Webcast

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Transcript



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**Duncan Tait**

Good morning, everyone, and thank you for joining us. I'm here with our CFO, Adrian Lewis and our Head of Investor Relations, Rob Gurner. I'll give an overview of trading and strategic execution during the quarter before handing over to Adrian for more detail on our regional performance and the outlook, which has remained unchanged since March. We'll then take your questions.

Our performance in Q3 was supported by market growth, distribution contract wins and ongoing product launches. However, headwinds remain in Asia. We delivered strong organic revenue growth in the third quarter of 8% and reported growth of 7% against softer comparators and in the context of a market growth of 5%. This reflects the underlying strength and diversification of our business as well as consistent operational execution by our teams.

We also continued to make progress against our Accelerate+ strategy. We further scaled the group through the acquisition of Askja in Iceland, an exciting new market for Inchcape, where we are now the market leader. This bolt on acquisition also helps to further strengthen and diversify our global portfolio of OEMs.

Our progress in optimising our business is perhaps most evidenced with the disposal of a retail only business in Australia, which generated annualised revenue of around £100 million. As we have said before, optimising our retail network is a core pillar of how we operate as a distributor in providing the most efficient route to market.

Our execution against Accelerate+ is also highlighted by our successful track record in winning distribution contracts, including the recent addition of GAC AION in Greece. We're also continuing to optimise our distribution contract portfolio and in this quarter, we have, in collaboration with our OEM partners, decided to exit four immaterial contracts in certain small Americas markets, which are unlikely to provide the opportunity for mutually viable commercial operation.

To sum up, Inchcape's performance during the third quarter was in line with our expectations and demonstrates our ability to execute against our Accelerate+ strategy. This supports our confidence for another year of growth in 2025, in line with our medium term target to deliver EPS CAGR of more than 10%. With that, I'll hand over to Adrian.

**Adrian Lewis**

Thank you, Duncan, and good morning, everyone. During the period, the group generated revenue of £2.3 billion, up in Q3 7% in constant currency and on a

reported basis. Reversing out the impact of disposed non-core retail assets and the impact of recently acquired businesses, organic revenue was up 8%, with distribution contract wins contributing around one-third of this organic revenue growth.

Before looking at the regional detail, at a headline level, the market trends were as expected. Underlying Inchcape TIV was up 5% compared to the first half of the year, where industry volumes in our markets were down 2%. This is in part due to softer comparators in Q3, but also a continuation of the improving trends we have seen in the Americas and a strengthening rate of growth in Europe.

We outperformed the market with our volumes up 13% to around 91,000 cars in the quarter. We spoke earlier in the year about the need to see a step-up in volumes in H2 versus H1, as well as improved growth rates. This is a good indicator of the step-up in absolute performance as we anticipated.

Summarising the regions, starting in the Americas, the market environment continues to improve with our performance ahead of the market. Colombia and Peru continue to see very strong growth and Chile, on an underlying basis, is showing positive trends. It is worth noting that in Chile in September, we saw a very strong market due to regulatory changes, pulling demand forward. This will normalise in Q4. Some markets like Costa Rica remained weaker. We are seeing the usual seasonality in the region this year with our performance underpinned by new product launches and contract wins.

Turning to APAC, the macro and competitive dynamics that proved to be a headwind for us in H1 continued, with the premium segment remaining weak. The Singapore market continues along the certificate of entitlement upcycle, but remains a highly competitive market as does Hong Kong. Australia returned to growth in the quarter.

Our performance in the region is supported by new product launches, such as the Subaru Forester in Australia and a number of Toyota products in key markets. Demand for these is on track, and we expect this to be supportive of an improving performance in comparison to H1.

Finally, our business in Europe and Africa continues to show positive momentum and market outperformance, especially so in Romania and Bulgaria, where we have seen strong growth. Growth was enhanced by the contribution from the contracts announced in recent years across the region as well as a first contribution from our Icelandic operation.

While only a revenue update, as expected, we have seen reducing inventory levels since the position at the end of June. As Duncan mentioned, we have maintained our disciplined approach to capital allocation. Alongside the

acquisition of Askja, we have now acquired approximately £200 million of our own shares, equating to 8% of the shares in issue as part of our £250 million share buyback programme that will be supportive of EPS growth.

In relation to acquisitions, we see these as a crucial part of our growth strategy, and we remain disciplined on valuation as we look across a healthy pipeline of bolt on acquisitions.

Finally, on to outlook. Reiterating our position through the year, we continue to expect another year of growth at prevailing currency rates, including the impact of tariffs. Our outlook for this year is based on our expectation for a stronger second half of the year compared to H1, and our performance in Q3 is supportive of this.

Our performance in the second half continues to be driven by product launches in a number of markets and so far, these are progressing in line with our expectations. Additionally, we continue to manage costs, inventory and working capital, and you have seen us take further steps in the optimisation of our retail network.

We expect to deliver a higher rate of EPS growth relative to profit growth this year, driven by our operating performance and capital allocation and in line with our medium term target of greater than 10% compound annual growth rate. Now let's take your questions.

**Operator**

Thank you. As a reminder, to ask a question over the phone, please signal by pressing star 1. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. If you wish to cancel your request, please press star 2, and please submit your questions via the webcast. Our first question is from Arthur Truslove from Citi. Please go ahead.

**Arthur Truslove**

Good morning, everyone. Thanks very much for taking my question. First question, just on capital allocation. Can you just remind us how you think about the scenario in which there would be another buyback at full year? Second question. Obviously, your price mix element is negative five or thereabouts in the quarter. Are you able to just talk about how that likely impacts margin, please? I know that's something that has been a concern to people in the run-up to this. Thank you.

**Duncan Tait**

Very good. Good morning, Arthur. Adrian, over to you for both, please.

**Adrian Lewis**

Thank you, Duncan. Thanks, Arthur, for the questions. I'll start with capital allocation. I think our policy is really clear. What we said in our medium term guidance that was issued in March is that on the back of a very highly cash generative business, turning profit after tax into cash at around 100%. We'll pay

dividends with 40% of EPS, and then we will do share buybacks and M&A. The balance between those two with the cash that we generate will be decided based on a disciplined approach to valuation, and that's in the context of our own shares and a very healthy pipeline of bolt on acquisitions. As I said in my words, we are super excited about expanding the scale of this group. We were very pleased to find value in the Askja deal and continue to look at a pipeline of bolt-ons that I think can add scale to this group. But as we have done this year, you can expect us to be disciplined about how we do that in 2026.

On price mix. Look 13% volume growth in the context of a market growth of 5% and an organic revenue growth of 8%. What you're seeing there and that delta between the 13% and the 8% is really about a faster growing Americas region, faster growing Europe and Africa region, where we play in segments that have a lower average selling price in comparison to Asia, which in proportion to the rest of the group is smaller in proportion than it was in previous years. A third of our Americas business is Chinese brands and a third of our growth rate this year has come from new contract wins, which as you know is skewed towards Chinese brands. What that's doing is bringing down the average selling price. We've been pretty consistent around our view on margin and how we think about margin at around circa 6%. I don't think you should think about that price mix and changing mix within the business as a headwind to margin. We're about driving scale through this organisation, leveraging our overhead, and that's what's going to underpin margins as we look into the medium term.

**Arthur Truslove** Thank you. Just a follow-up. Obviously, about 18 months well, 12-18 months ago, you presented some data on the profit progression in new contracts. Is it reasonable to think that these contracts that are growing very nicely are progressing in line with what you presented at the In The Driving Seat episode? I think it was in May 2024, if I remember correctly.

**Adrian Lewis** Yeah, Arthur, great question. I'll take this one Duncan, if I may. Look, you started to see us disclose the contribution that they are making to our overall growth. Is around a third of the 8% has come from contracts that have been signed over the recent few years. I think net, we're at about 50 contracts in aggregate that we've signed over the last few years. The vast majority of them are still in year 1 and year 2. That 5 year timeline that we presented back in that webinar of how the average contract evolves, I think we're still pretty consistent with that. We're seeing those 2022 and 2023 contracts starting to climb up that curve. I'd say one thing we have noticed, it sometimes takes us a little bit longer to get from the moment of signing through to products in the market. Sometimes it's getting through homologation process, getting all the right vehicle specification documents into local governments, where we're working with brands that aren't necessarily used to working in export markets and international markets. That's

taking us a little bit longer to get out of the blocks perhaps, but the trajectory of maturity continues to be on that archetype as we presented in May last year.

**Arthur Truslove** Fabulous. Thank you very much.

**Duncan Tait** Thank you very much, Arthur.

**Operator** Our next question is from Abi Bell from UBS. Please go ahead.

**Abi Bell** Hi, morning, both. Just wanted to ask two questions about the growth building blocks. Firstly, your comment that one third of growth was from contract wins. This is about 2.7% of organic revenue growth. Should we assume that is the rough contribution you'd expect in Q4 and at the start of next year? You've won a lot of contracts over the past year, as you mentioned, can you give any help on the timing of the ramp up going forward? That would be great. Then secondly, your markets were clearly strong this quarter as well. But as you've mentioned, there was some volume pull forward in markets like Chile, and it sounds like you expect Q4 to be slightly softer. Putting the two together, contract wins and end markets, do you expect Q4 to see positive growth at this stage? Thank you.

**Duncan Tait** Okay. Thanks very much, Abi. Good morning. Adrian, you again.

**Adrian Lewis** Good morning, Abi. Thanks for the questions. Yes, so a third of our growth absolutely came from contract, we're really pleased with that. Those contracts, which I referred to earlier as the 2022 and 2023 contracts are really beginning to hit their straps as we expected them to, when we look at the maturity curve that we expect to see. We expect them to provide a contribution into Q4. I think I'd point you to our medium term guidance framework, which talks about a market outperformance, market growing at around 1-2%, 2-3% outperformance to give a 3-5% volume growth. That's the sort of framework to how you should think about rolling forward the contribution from these contracts that we have been running over recent years. As I said, a lot of them are still in the foothills of their growth maturity curve, and we've got work to do to make sure that they contribute as we expect them to over the 2026, 2027 and 2028 time period.

On growth rates, looking into Q4, as we've said in the statements and in our words, Q3 had some softer comps. I would expect Q4 to be a growth quarter for us, but I wouldn't expect it necessarily to be as strong as we have seen in Q3, in part due to the comparators.

**Duncan Tait** Is that helpful, Abi?

**Abi Bell** Yes, that's great. Thank you. Just a quick follow-up. Do you think you'll be disclosing the contract contributions going forward in your remarks or materials?

**Adrian Lewis** I think we've heard investors and our analyst community loud and clear that a greater level of disclosure in this regard is helpful. You should expect to see us to start to talk about how it contributes to the group, both strategically and in the near term results.

**Abi Bell** Brilliant, thank you.

**Adrian Lewis** Thank you.

**Duncan Tait** Thanks, Abi.

**Operator** Thank you. We'll now take our next question from David Brockton from Deutsche Numis. Please go ahead.

**David Brockton** Thank you very much. I also have two questions as well. Firstly, can I just return to the price mix headwind from the first question? I guess one element there that's been contributing has been a softer premium market, particularly in Asia. As you look towards next year for the business, can you just comment on whether those pressures should ease as you lap this year or is that on a worsening trend in that segment, please? The second question relates to Australia. Just a clarification for me. Can you confirm you're now completely out of retail activity in Australia? Is this sort of strategy evolved there or am I missing something because I thought there was a benefit to the partially integrated model there? Thank you.

**Duncan Tait** Very good. Thank you, David. Look, I'll take those. Specifically about Asia, we've seen two dynamics in Asia this year. One is more pressure on the premium segment, and we've seen those declines, which we referred to at our interims of a 40% decline in the premium market in Indonesia as an example. Then generally across Asia, it's a really, really competitive environment. Do I expect 2026 to see a big step-up or an improvement in that environment in Asia? I think our teams are executing pretty well. But do I expect the premium segment to bounce upwards or for the competition and the competitive environment to reduce?

No, I don't. I think we will continue to execute well, but Asia is super competitive and the premium segment is still quiet. But what I would say, going back to the way Adrian is encouraging us to think about 2026, is we should apply our medium term growth framework to how we think about 2026.

Then just in terms of Australia and retail, so let's be clear about what we're trying to do. We have had a programme over the last half a decade or so of reducing our exposure to pure retail. Like The UK business where we don't have distribution contracts, but we had end retail. In Australia, what you see us do is take up those dealerships in Brisbane, which are supporting OEMs where we're not the distribution partner, that is the business we've sold. It's exactly like

you've seen us do in the UK, the way you saw us exit Russia and other businesses in that regard. In terms of our distribution business, retail is super important. We don't need to own and control all of it. In fact, in Australia, we own about 20% of the physical retail that supports our distribution contracts in that country. I would remind you, we've just launched Foton in Australia also.

**David Brockton** Wonderful. Very clear. Thank you very much.

**Duncan Tait** Thanks, David.

**Operator** Thank you. Our next question is from Akshat Kacker from JPMorgan. Please go ahead.

**Akshat Kacker** Good morning, Duncan, Adrian. A couple of questions, please. The first one is on the mutual exits from the small contracts in Americas that you've talked about. I see that three of them are with Geely, and obviously, this comes on the back of the exit from Chile at the end of last year as well. I do remember that you have a global cooperation agreement with Geely. Just a question on Geely, is it still an important distribution partner and how discussions actually evolving with them? If you could just share some more details, that would be helpful. The second one is on Asia, and I appreciate it's a Q3 trading call. You've talked about a very competitive environment. There are continuous headwinds. Could you talk about the margin recovery potential for that region going into the second half, please? We've obviously come down from the 8-9% margins in the last few years to 6.5% in the first half, but now we have higher volume contribution and positive momentum from product launches. Could you just talk about Asia margins, please? Thank you.

**Duncan Tait** Yes, sure. Actually, just let me clarify your second question. Are you talking about the Americas region?

**Akshat Kacker** Asia.

**Duncan Tait** Thank you very much. I just want to clarify that. I'll take the first question and Adrian on the second. Look, you're right. Let's put this in context. We've won over 50 contracts over the last few years, many of them in our Americas business with OEMs from Europe, from Japan and from China. We did sign a global relationship with Geely just a few years ago. If you look at the Geely brand itself, yes, we have now exited the contracts that we signed. We have done so in a highly collaborative basis with our OEM partner, and we genuinely wish them all the very best as those contracts move to other third parties. But actually, let's not forget, we've also signed a whole bunch of contracts with smart, which is a Geely joint venture with Mercedes. We have our Volvo business also in The Americas, and I'd hope that we would have some more Volvo businesses over time. In terms of our relationship with Geely Group, I

think that's in super shape. Those particular brands that we've exited, look they're better off with other parties running those distribution contracts in those small markets in Central America.

**Adrian Lewis** In respect of margins, actually, and you took the words right out of my mouth. This is a trading update. I won't comment very specifically. Safe to say you're absolutely right. The de-scaling effect we saw in the first half, with a second half skew of volumes weighed on margins. We've seen that scale come back in the third quarter and expect to do so with product launches in the fourth quarter. We launched Subaru Forrester into Australia. We've got some product going into Singapore and Hong Kong, EV going into Hong Kong and the BZ3X started this month. We've got the Noah products going into Singapore. They play in certain segments, which will be helpful to us, particularly in MPV fleet and taxi. We expect to see the rescaling effect in Asia, save to say that that premium segment continues to be weak, referring to Duncan's comments around it being a very competitive environment. We've seen an improved performance in Q3 in the context of a market that is now flat and in the context of our H1 performance. But I want you to sort of hear the words of caution of Asia being a difficult environment for us, but that rescaling effect will be supportive of a better margin profile in H1.

**Akshat Kacker** Thank you, both.

**Duncan Tait** Thanks very much, Akshat.

**Operator** Thank you. Our next question is from Andrew Nussey from Peel Hunt. Please go ahead.

**Andrew Nussey** Morning, everyone. Couple of questions from me as well. First of all, given the significance of the new contracts in terms of the growth profile, can you just give us some colour around the pipeline in terms of signing up new contracts, whether that's OEM or region?

Secondly, we cast our minds back to the disposal of the UK retail operations. I think from recollection, you retained some of the liabilities from any potential mis-selling of consumer products and commissions and what have you. Given the recent FCA paper, do you see any exposure for the group there in terms of that historic disposal, please?

**Duncan Tait** Very good. Good morning, Andrew. I'll take 1 and Adrian will follow up on number 2. In terms of contracts, so we've won a lot, as I keep on saying on this call and in our previous engagements, and they're starting to come through in our revenue growth in the second half, which I am pleased about. Generally, I've said this group will win somewhere around high single into double digits contracts annually. This year so far, the gross number is 9. Do I think we'll sign a

few more contracts before the end of the year? Most likely. Are we going to hit 10-ish every year? This is a bit of a lumpy business in terms of contract wins. But the teams are doing well, and we're talking to key OEM partners across our three regions. In summary, you should expect us to sign a few more before the end of the year.

- Adrian Lewis** Andrew, in relation to the UK retail disposal, your recollection is absolutely correct. We did provide an indemnity in certain circumstances where that FCA investigation was going to come back to us as was appropriate at the time. Now, the FCA is in their redress scheme is in a consultation period. It wouldn't be appropriate for me to comment on how that would conclude before that does conclude. I'll just point you back to what we said in our half year statements, we had an unquantified contingent liability sat in our disclosure schedules. We'll have to reconsider our position post the consultation period as that plays through for consumers through the third and fourth quarter, and you'll see more in our full year financial statements in the spring.
- Andrew Nussey** Okay. Great. Thank you.
- Duncan Tait** Thanks, Andrew.
- Operator** Thank you. As a reminder to ask your question, please signal by pressing star 1. We will now take our last question today from Sanjay Vidyarthi from Panmure Liberum. Please go ahead.
- Sanjay Vidyarthi** Morning. Just one for me. I'm just looking at the TIV data that you provided. Just a couple of ones that I'd like to pick out on. Hong Kong, is there anything in terms of phasing there and that being up 43% in Q3? Then just across Europe, there's been remarkable strength, double-digit growth across most of the markets. What's driving that? Thanks.
- Duncan Tait** Good morning Sanjay, over to Adrian for both.
- Adrian Lewis** Thank you. Hong Kong data. Yeah, look, you'll remember last year we talked about tough comps in the first half and weaker comps in the second half. What you see in the Hong Kong data is a little bit of that playing through. Hong Kong is 10,000-11,000 units a quarter business, we're lapping an 8,000 unit quarter in Q3. That's because there was a pull forward into Q2 last year with some regulatory changes where they changed the taxation rates applied to EVs on imports. That's what skewed the market, 12,000 cars in the quarter is a pretty decent quarter in what is a highly competitive market. There's nothing in this year's phasing that would indicate that to pull forward. But we see that market as being a broadly 40,000 unit market and pretty stable at that level through the year.

In relation to Europe, absolutely, we've seen a very strong market performance. There are some nuances in there, both a slightly weaker comp, and you can see that in the historics. Romania has a slight inflated number, I would say, because of some, again, some regulatory changes there. We'd expect that to level out a bit into the fourth quarter. You can see some very spiky quarterly data with Romania. I'd encourage you in this circumstance for Europe to look at a full year rate of growth for the market as a barometer for momentum in the region.

**Sanjay Vidyarthi** Okay, understood. Is there any distortion there from EV sales or is there anything to think about on that? Not just Romania, but across Europe?

**Adrian Lewis** No, would point to Belgium and Luxembourg as being a market that is shifting towards EV very quickly in relation to some taxation changes that came into effect at the start of this year. That's a market that is shifting quite quickly to EV and BYD where we're distributing for them, we've been a real winner in that space in that regard. When we talk about some of the momentum we're seeing in those contracts, that BYD Belgium contract is one of those early ones that where we're seeing that business gather pace. That's the only EV point I would make, and obviously you can see the market data there was fairly flat, but it is a market that's shifting to EV. I wouldn't read the other market growth rates as an indicator of an accelerated EV adoption curve.

**Sanjay Vidyarthi** Okay, understood. Thanks very much.

**Duncan Tait** Thanks very much, Sanjay.

**Operator** Thank you. It appears there are currently no further questions. With this, I'd like to hand the call back over to Duncan for closing remarks. Over to you, sir.

**Duncan Tait** Thanks very much, Serghei. Thank you for joining us this morning everyone. To summarise, our performance in Q3 was supported by market growth, distribution contract wins and ongoing product launches, while headwinds remain in Asia. We reiterate our outlook for 2025, and we remain well-placed to deliver on our target of greater than 10% EPS growth over the medium term. That's it from us. Please get in touch with Rob if you'd like a follow-up on anything we've discussed today. Bye.