Inchcape

In the driving seat webinar: Our Distribution Model

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Transcript

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Duncan Tait: Hello everybody and thank you for joining us today for the latest edition of Inchcape's 'In the Driving Seat' webinars. Today's session will focus on explaining our distribution model.

I am Duncan Tait, Group CEO, and joined Inchcape in 2020. Since then, I've led our business throughout our strategic transformation to becoming a pure play automotive distribution business. This has been driven by our focus on deepening our partnerships with our Original Equipment Manufacture partners who we will refer today as our OEMs and providing the business with a digital capability that differentiates us.

Our journey has been accelerated by acquisitions, a reconfiguration of the Group through a series of retail disposals, and supported by the organic growth and diversification of our underlying business. We'll cover all of these elements today.

As an introduction to Inchcape, we are the leading global independent automotive distribution business with exclusive rights to distribute vehicles and parts for 60 OEMs in around 40 markets around the world.

Our business has a long track record, having originally been established over 200 years ago with a listing on the London Stock Exchange since 1958.

Today, we'll take you through the key elements of our distribution model. We hope this gives you a sense of how we operate, what differentiates us, and what this means for the financial dynamics of our business.

This is our agenda for today, with key members of our leadership team presenting who have a wealth of experience, both within Inchcape and from a range of sectors and industries. Full bios can be found within the webinar link.

After my introduction, our Chief Digital Officer, Mark Dearnley, will talk about the digital enablers of our business. You'll then hear from Liz Brown, our Chief Strategy Officer, who will discuss our partnerships with OEMs. Our final presenter today is Adrian Lewis, our Group CFO, who will discuss the financial characteristics of our model.

We'll then take your questions via the webinar platform, which are Head of IR, Rob Gurner, will facilitate.

There are three simple messages we'd like you to take away from today's session.

Firstly, we want to highlight that Inchcape is well positioned for growth as the leading global independent player in automotive distribution. As you'll hear today, automotive distribution is a strategically attractive sector. It is capital light, highly cash generative, and relative to retail only, higher margin and higher return.

Secondly, we want to illustrate that Inchcape has a compelling, differentiated and valuable proposition for our OEM partners. And thirdly, we want to highlight the attractive financial characteristics of our business. We'll focus on how we think about cash, working capital, the value that new distribution contracts bring to us, and demonstrate that with our highly cash-generative model, we are well set to continue to drive returns for shareholders and deliver value for all our stakeholders.

Let me start today with an explanation of automotive distribution.

In broad terms, as a distributor, we take responsibility for a brand in a given market, and fundamentally, we manage vehicles and parts from the OEM at the factory gate or port, and take care of every bit of the value chain on behalf of the OEM, from logistics to sale to the end users. We're also heavily involved in providing value-added services for customers throughout the life cycle of a vehicle.

This slide shows the value chain, which starts with the product planning stage. During this stage, we use our digital tools to help analyse each market, including taking a forward-looking view based on a wealth of consumer data. This approach helps us to predict which vehicle models and what volume to order, what parts to order, how much inventory to deliver into a market, and how we should be building a brand proposition in that market.

Secondly is logistics, which is another key area of expertise for Inchcape. This includes shipping and storage of vehicles and parts. As a 'Cost Plus' business, any third-party costs we incur here, or anywhere else in the value chain, are incorporated into the retail sale price of the vehicle and parts. This pass-through element is planned for upfront during the initial product planning phase I previously mentioned.

The third phase is the execution of brand building and marketing campaigns to raise awareness of the product and to enhance its brand equity ahead of its entry into a market.

This phase is delivered through either our digital channels or through more traditional brand-building media. In our role as the exclusive distributor for that brand, we are fundamentally responsible for advertising investments and for executing media campaigns utilising the OEM's global brand assets and guidelines.

The next stage is channel management, which includes how we operate the dealer or retail network. Across our distribution business, the majority of our retail or dealer network is owned and managed by third parties.

In some markets, we have exclusive agreements with these third-party dealers highlighting the sticky nature of our retail network.

The fifth stage of the value chain is the retail or dealership interface with customers. Overall, the retail only is lower margin, lower returns and more capital intensive than distribution. We have disposed of our retail only businesses over the last 10 years.

However, we continue to own and operate some retail assets with our distribution model supported by our digital infrastructure. This enables us to engage directly with consumers, providing a seamless experience for them as they evolve through their buying journey across digital and physical channels. Our independent retailers are also plugged into this technology so they can access the full suite of our digital capabilities and provide data, which brings benefits for us and our OEM partners, including driving customer conversion rates, for example.

Finally, as a distributor, our aim is to also sell value added products and services to our customers. These services include parts, used cars, and service related offerings. We also offer finance and insurance products, helping to drive customer lifetime value.

With the evolution of new energy vehicles, areas like electric vehicle, battery maintenance, and infrastructure management are still nascent in our markets and present an opportunity for Inchcape.

We are a critical partner for our OEMs in the markets in which we operate, managing and developing their route to market. To that end, we continue to build a competitive moat for our OEMs by investing in our business to support them, particularly in technology.

OEMs do not see us simply as an outsourced cost providing service they'd rather not do themselves. We offer OEMs value ensuring they can focus on investing in their high-volume markets and in next-gen production and design. Hence, we are a critical partner to OEMs, which helps to explain the longevity of our relationships with them.

We deliver for our OEMs through three clear differentiators.

Firstly, we consistently perform for our OEMs as a key partner in the value chain. They value the combination of our specialist local knowledge and global expertise backed up by our global systems and processes.

Secondly, our digital and data analytics capabilities ensure we have a data-led approach to everything we do for our OEM partners, including brand building, managing the digital and physical networks within a market, and developing competitive pricing structures. This ensures we can drive improved financial growth and returns for our OEM partners.

Our third differentiator is our long track record of achievement with the longest partnership going back over 100 years. This shows the strength of our OEM relationships and highlights the confidence our OEM partners have in Inchcape in consistently delivering for them over the long term.

Our differentiators are underpinned by a clear and comprehensive responsible business agenda, which is a central tenant of our strategy and helps us to set how we work.

Now, let's look at where OEMs partner with us and why.

OEMs focus their investments on their commercial efforts on the 20 or so higher volume markets, sometimes where they have production facilities and other operational infrastructure. In those markets, the OEMs tend to play the role of the distributor appointing non-exclusive retail operators as the final step in the route to market.

For the longer tail of smaller to medium-sized markets, many OEMs appoint an independent distributor like Inchcape to represent their brand in those markets, asking Inchcape to work out the best route to market for their brand.

Those markets are generally higher GDP growth with lower motorisation rates. That last point means there is a lower proportion of vehicle ownership, which we see as a major opportunity for potential growth. For example, in markets where we operate like Colombia and Ecuador, the motorisation rate is less than 100 compared to the US, which is over 800, so lots of room for growth in our markets.

Our markets tend to be more complex, for example, in terms of specific local legislation or regulations, which requires our people to be nimble in responding to a changing landscape.

For Inchcape, we estimate that our total addressable market now stands at 10.7 million vehicles globally. This updated TAM includes our latest market estimates, potential OEM conflicts, and excludes certain markets previously seen as potential targets.

Of our TAM, we have a market share of only 3%, so that highlights the opportunity we have for growth in new markets and in our existing markets.

The relationship with our independent dealers is crucial to the success of our distribution business. They ensure the efficient delivery of vehicles and parts through to the last mile. Also, the insights they bring from end customers provides valuable data, which we use in our discussions with our OEM partners.

Around 70% of our retail network measured by our retail estate sites is owned and operated by independent dealers. So by managing our dealer network in a flexible and agile manner, we can maximise returns for Inchcape, our retailers, and our OEMs.

It is important that dealers use the Inchcape platform for their own advantage. Here's a short video from Rodrigo Escarate of Automatura Bilbao, a leading independent dealer in Chile, giving his take on why he values his partnership with Inchcape.

Rodrigo Escarate: Being an Inchcape dealership allows us to have at our disposal many technological tools that benefit our customers. This makes our customers much more loyal and we can serve them in a better way. For example, Salesforce is a key tool for customer management, and we also have access to important information, through big data or microdata, which allows us to proactively meet and satisfy the needs that our customers may have, both in the purchase of cars as well as aftersales, including maintenance, overpainting or spare parts.

Being a dealership, we have a stronger platform, based on the greater support we now have. Inchcape is a very important importer worldwide and in Chile, and being part of their network has generated important value for us as a company. This value is also seen by our customers, given they now also have greater support, which they value when choosing a brand. They decide based on this, based on the importance of the Distributor in Chile.

The shareholders of Automotora Bilbao are very engaged and very happy that Inchcape is their new Distributor, since it will allow us to expand our coverage. We aim to open new stores, to make new decisions, and to have more capabilities to enable us to service our customers in the best possible way and, together with Inchcape, to grow our company within the automotive industry.

Duncan Tait: As I mentioned earlier, value-added services are part of our core vehicle distribution business. You can see on this slide our key capabilities here. This is all about keeping end customers within our ecosystem for as long as possible so that we can cross-sell and up-sell then more services over time.

Our strategic position is an evolution of our previous approach, which was focused on vehicle lifecycle services that emphasised used cars and parts. Our refreshed approach on value-added services reflects our broadening perspective as the new industry develops towards a new energy future.

Our first service is the exclusive distribution of OEM-certified parts in our markets. These products like brake pads and door panels are lower in absolute revenue terms than vehicles, but higher in per unit volumes and in margins.

To help scale this business, we recently launched a digital parts platform for Subaru in Australia and are rolling this out in other markets in APAC with more OEMs.

This is effectively a proprietary software platform that we developed to support the digitalisation of the parts market for ourselves and other independent distributors. The opportunity here is to scale this product into more markets with more OEMs in the future.

Increasingly, we are using our AI capabilities to deliver our parts products in the optimal and efficient manner. Mark will talk more about this in detail.

Our next value-added service is finance and insurance, or F&I, another area of high potential and high margin. Our in-market approach here includes using our scale-to-operate funding panels in finance. We also run a number of global strategic partnerships with key finance houses, which are delivered on a local basis across our third-party and owned retail network.

High-quality finance products enable us to increase vehicle sales by making vehicle pricing more attractive to consumers around the world. F&I tends to be high margin and drives customer loyalty to brands, accelerating their repurchase rates and loyalty, so it is a critical value-added service. Importantly, we are not the principle finance provider to the consumer. This is a role typically taken by the banks. This approach limits our balance sheet exposure to consumer credit.

I mentioned earlier the opportunities associated with the transition to new energy vehicles, which is still at an early stage of development in many markets. We expect to see a mixed drivetrain future including internal combustion engine vehicles, hybrid and pure battery electric vehicles, as well as potentially other drivetrains in the longer term, possibly including hydrogen.

The key drivers that accelerate the transition we see as being pricing, infrastructure investment, and government incentives.

Inchcape is drivetrain agnostic. We'll bring to market the most appropriate range from an OEM. Ultimately, we aim to continue to be the leading independent distributor of vehicles in the new energy world and to support the transition.

In terms of value added services on EV, we are doing a lot, but we are still at an early stage. An example of our initiatives in this area include our work with Singapore Power to operate EV ride-sharing in low carbon districts. Of course, certain elements of these services will be the same for new energy vehicles as they are for ICE vehicles.

These new products still need brake pads and other key components, and we will continue to sell various service packages to consumers. But they will also require new capabilities like battery services, home charging equipment support, and software updates. Currently, EVs represent just 2% of group volumes, so we see this as a major future growth opportunity for Inchcape.

Finally, on this slide is used vehicles. As we said earlier this year, we scaled back Bravoauto, our used car brand, focusing on our profitable sites. Going forward, our approach on used cars will be to leverage our distribution platform and partner with our third party independent retail network.

So I hope this gives you a sense of the value added services opportunity, and we'll give more details on the strategic development of our Accelerate strategy at our Capital Markets Day in November.

This slide shows our track record since 2016, a pivotal point in our strategic development, to transform ourselves from a retail and distribution business to a pure play distribution business.

In 2016, the proportion of our group's revenues from distribution was only 40%. Since then, we have divested £4.5 billion in retail only revenue and acquired £4 billion in distribution revenue.

The key attraction of distribution has been driven by its capital light base, attracts higher margins, is more cash generative and delivers higher returns than retail only.

To that end, our successful transformation since 2016 is clear from this slide. We have tripled the number of OEM partnerships and almost doubled the number of markets in which we operate. Our annualised distribution revenues have almost tripled, and we have more than doubled the new vehicle volumes we distribute.

As a result of this strong track record of delivery, we have scaled and diversified this business with a proven plug-and-play distribution capability. Going forward, our robust balance sheet enables further investment and growth. Our success has been guided by an experienced and diverse board, led by a dynamic management team and driven by the professionalism, expertise, and dedication of our 19,000 talented people in distribution.

That's all from me at the moment. I'll now hand over to Mark who will discuss how our technology enables our distribution model.

Mark Dearnley: Thanks, Duncan, and hello everyone. I'm very pleased to be presenting today, which is in some ways an update on our previous 'In the Driving Seat' session when I spoke in detail on our digital and data in our business back in November 2022.

To access this session, you can scan the QR code on this slide.

Our approach to digital and data is a major area of differentiation for Inchcape. The integration of our digital capabilities spans the entire distribution value chain.

Our technology helps to deliver a perfect representation of the individual OEM brand experiences in our markets, thereby delivering a seamless experience for our customers and subsequently driving better financial performance for our OEM partners.

Our differentiated approach in technology also enables us to attract the best people to help drive a shared vision and objectives for the group.

Our technology stack supports our global managed capabilities, which are unique to the industry and are delivered on a local basis and fully integrated with our OEM partners.

Our customer experience platform, which we call DXP, has helped us to drive customer engagement, improve our productivity, and fundamentally generate sales.

DXP is an end-to-end omnichannel platform for selling vehicles and managing the ownership life cycle. Customers can browse, configure and buy a vehicle online, white-labeled for our third-party dealerships. Our sales and marketing teams can then use the data from their digital footprint around specific preferences and pricing sensitivities to support the customer in their decision-making process.

The platform is developed in-house building on Salesforce's CRM capabilities, has a single global code base and is highly scalable. It is fully integrated across our own retail operations, our third-party retail network, and our financial and insurance providers in each market.

Ultimately, this is a big advantage for our OEM partners as they look to launch their brands across additional markets using the data they get from our analytics capabilities. Going forward, we continue to develop the functionality and the user experience of DXP. Importantly, we have the ability to serve multiple OEMs through the same software in a market, delivering their individual brand experience.

DAP, our Data Analytics Platform provides advanced analytics and machine learning. It leverages data and drive smarter, faster, and better business decisions. We use AI models tailored to each OEM and optimising the stages of the automotive distribution value chain, such as product planning, logistics, marketing, pricing, customer relationships, and operational performance. Importantly, our AI models are tailored for each OEM in each market.

DAP is managed through a central capability, which drives local and global decision-making with business intelligence, providing transparency and consistent execution across markets.

The capabilities within DXP and DAP continue to be developed and supported by our highly talented digital specialists in our digital delivery centres. We currently have around 1500 of these specialists in our hubs in Manila and Bogota.

The foundation of our technology stack is our robust digital architecture, which is managed through our digital delivery centres. This stack incorporates leading applications in customer experience and relationship management, including Salesforce, to ensure our retail network has a powerful integrated solution.

This was just highlighted in the video we just showed you.

Other leading applications integrated within our technology stack include SAP for logistics and financial management.

We will continue to invest in these areas to ensure our technology remains a key differentiator whilst enabling efficiencies and driving growth in our business.

For clarity, we do not capitalise our investment in software as a service technology. This investment is part of our overhead base and the total technology cost has been less than approximately 1.5% of revenue over the last three years.

This slide highlights how our proprietary digital and data analytics approach supports every element of the distribution value chain that Duncan mentioned.

On the first stage, product planning, we use our data and analytics for sales and operations planning. This has ensured we are more surgical in our inventory management practices, particularly for new contracts and acquisitions. For example, our analytics helped us to reduce around 200 million pounds worth of inventory in Derco, our recent Americas acquisition last year.

On logistics, we have developed an AI driven forecasting algorithm for parts, which is embedded in our supply chain management processes. In the Americas markets where we have rolled this out, this algorithm has resulted in profit growth, improved efficiencies and increased customer satisfaction. This includes a 60% reduction in expensive air freight orders and a 30% reduction in parts obsolescence.

On the next stage of the value chain, brand and marketing, DXP has helped to increase online customer engagement by 60% in certain markets. Brand reputation scores now average over 700 out of 1000 with around 240 of our retail sites delivering reputation scores above 800. This has been driven by DXP's highly compelling digital interface with a range of features to drive customer interaction.

On channel management, DXP and DAP have resulted in an increase of 50% of the orders coming from digital leads. We have also seen a 30% uplift in winning back high churn risk service customers across APAC as a result of our AI churn prediction model.

Onto the next stage of the value chain, retail. Again, DXP has been a game changer here, with an initial 40% increase in productivity from our sales consultants in Hong Kong, and a 50% increase in lead conversion in Singapore. This will drive higher lead to sales conversion over time.

And finally, value-added services. The rollout of DXP and DAP in Singapore has led to a 30% increase in our commission from finance and insurance as a result of increased customer penetration.

So I hope this has given you an understanding of the importance of our and data capabilities and how they empower our business across the value chain and benefit the OEM's brand.

That's all from me. I will now hand over to Liz to discuss our OEM partnerships.

Liz Brown: Thank you, Mark, and hello everyone.

Today I will cover the key dynamics of our OEM relationships with some case studies of our work for them in certain markets.

This slide shows the portfolio of some of our OEM partnerships, categorised by origin of manufacturer.

We believe our globally scaled, diversified, and prestigious portfolio is unrivaled across the automotive distribution industry.

Here you can see the stages of development of our OEM partnerships. The boxes on the left highlight the breadth, depth, and longevity of these relationships. This speaks to the stickiness of our distribution model and the quality of work for OEMs.

You can see that we have worked with a number of our market leading Japanese brands, including Toyota and Lexus for over 50 years, with the likes of Porsche and Suzuki for over 35 years, and BMW and Subaru for over 25 years.

Now with some of these long-standing OEM partners like Mercedes, we have recently expanded into both existing and new markets, which is solid evidence that we are delivering for these brands. As a result, they like to partner with us to help deliver the same results and performance in other markets.

On the right, we highlight some of our more recent partnerships, which include Chinese OEMs. We've ensured that we are working with those brands with a diversified approach across drivetrains, and we have a clear view of how and where they wish to work with independent distributors.

There are nearly 200 Chinese OEMs operating out of mainland China, and we have been very selective about working with the brands that we expect to be the winners in gaining global market share. Over the last few years, fast-tracked by the relationships with our recent Derco acquisition, we've been successful in winning contracts with more Chinese OEMs in more markets and signed global strategic agreements with leading players like Great Wall Motors.

We expect to achieve more growth with these emerging OEMs as they seek to leverage our presence in existing markets and work with us in new markets, and as we look to new categories beyond passenger vehicles. A good example here is our recent work with XCMG, one of the largest Chinese heavy machinery operators who we now partner with in a number of markets in the Americas.

I will now touch on some of the key dynamics of our distribution contracts.

We have an excellent track record of contract wins with zero contract terminations from OEMs. So what are the key drivers of this success?

You've already heard Duncan talk about the importance of our value proposition, our global scale, which drives important network effects, our digital and data capabilities, and that combination of local knowledge with a global presence.

We manage our OEM relationships across multiple levels. We work with them at the executive level to ensure that we are strategically aligned. This includes Duncan, myself and others on our executive team, where we crucially maintain strong relationships at the headquarters of our key partners with their key directors and executives.

To ensure alignment of commercial priorities, our regional leadership teams have regular and direct contact with the regional leaders of our OEM partners, and then our local teams have day-to-day contact with their OEM counterparts on the ground to ensure our operations run seamlessly and smoothly at the market level.

In the middle box here, you can see the key measures of our success for our OEM partnerships. There are five: market share gains, volume growth, customer satisfaction, after sales retention, and coverage across a market. I'll provide examples of where we have delivered on each of these metrics shortly.

And finally on this slide, the way we win distribution contracts and the way we will continue to win further contracts is through a number of channels.

Firstly, we win contracts when OEMs decide to convert their national sales companies, which is effectively their in-house distribution company, to an independent distributor. This can sometimes take the form of an acquisition. For example, in the case of our acquisition in 2023 of the Mercedes national sales company in Indonesia.

We can also win business from an OEM that decides to switch their independent distribution partner in a market.

We also have opportunities to take OEM partners into new markets. For example, we have won contracts with Changan in a number of markets.

Another route to winning distribution business is directly through acquisitions where we are acquiring an independent distributor with the support of the OEM. This was the case in the Philippines last year when we bought Mercedes independent distributor CATS.

The final way in which we win contracts is through a competitive bidding or pitch process, as was the case with BYD in BeLux.

So, you can see there are a number of opportunities to grow our distribution contracts, most of which are fundamentally based on non-competitive discussions directly with our OEM partners.

Now, I wanted to highlight our performance for some of our OEM partners in terms of market and segment leadership on this slide.

One of the key metrics of how Inchcape's performance is judged is through the lens of market share.

These examples start with Toyota on the left, one of our longest partnerships. We have delivered market leadership for this brand in half the markets in which we operate for them, including Singapore, Greece, Brunei, and Ethiopia.

We also perform well for premium European brands with BMW the segment leader in four out of our seven markets and Mercedes the segment leader in half our markets.

We've also helped other brands like Subaru and Suzuki to outperform in the majority of our markets. This includes Australia where we've worked with Subaru for 30 years and in Chile with Suzuki.

Finally, on this slide, we've made great strides in a short space of time with our more recent partnerships, including Great Wall Motors, where our global strategic agreement has enabled us to work with them in five markets from a standing start just a few years ago.

This slide highlights the value of these long-term relationships. It shows that we have outperformed for Toyota in our key European markets in terms of market share gains compared to their other markets across the continent.

Overall in our European markets, we've delivered a positive market share growth differential between 2019 and 2023 of 100 basis points in our markets compared to all of Toyota's markets in Europe. This emphasises the value we bring to our OEM relationships.

The next slide shows our recent track record with Mercedes focusing on the Americas.

We established our distribution network for Mercedes in Colombia in 2019 through an asset purchase. In the following years, we delivered on every metric for them. This included market share gains and volume growth, the implementation of our technology stack, and improvement in our after sales retention and consistent growth in customer satisfaction.

These results were partly achieved through the excellent management of our retail network in Colombia, which for Mercedes is operated solely by third parties.

As a result of our success, we are now the largest independent distributor for Mercedes in Latin America, having won contracts with them in Ecuador, El Salvador, Guatemala, Uruguay, and Honduras. In addition, we're now working for Mercedes in a number of APAC markets as well.

So, our success with Mercedes in these markets highlights how consistent performance and a strong relationship can deliver growth opportunities for Inchcape.

This slide shows our operating model, illustrating how we leverage our global, regional, and local market infrastructure to manage multiple OEMs in a single market. This helps to drive our operating leverage and having a complementary brand set helps us deliver market share gains for our OEMs.

Our experience in Chile is that scale makes a difference to operating margins. Chile is now our largest distribution market by revenue, where we have a market share of around 25% and where we work with over 20 OEM brands.

At the bottom of this chart, you can see that we are leveraging our market, regional and global backbone. This includes our technology stack, which Mark mentioned earlier, and our back and middle office functions.

In turn, this helps us to leverage our local logistics facilities and reduce costs by optimising our distribution centres, and the third-party retail network. We also use our scale to drive efficiencies by negotiating lower rates in areas such as shipping.

It's important to maintain dedicated brand management teams with product specialists, marketing and sales teams working directly on each brand and strict ethical walls between these teams. Our bespoke sector-driven and brand-focused approach has ensured that our OEM partners are comfortable that each brand is getting the appropriate level of focus and support.

This multi-brand operating model helps us to drive scale by delivering volumes and market share gains for our OEMs.

Additionally, the synergy efforts we have made in Chile have yielded some great results. For example, in value-added services and finance and insurance, where we have benefited from our scale to provide a more competitive offer to the consumer.

This model also helps us leverage a shared retail network. We own and operate around 30% of our retail network in Chile focusing on the major cities and metropolises in the country alongside third-party dealers. In some cities, we have exclusive agreements with our third-party retailers through which we run a multi-brand approach in each of the dealerships under operation.

So, you can see the value of having scale in a market both for Inchcape and for OEMs, and this is the model which we aim to roll out in other markets over time.

This slide illustrates how we build our market presence with OEMs, both through contract wins and via acquisition.

Indonesia is a highly compelling market for us. It's the world's fourth most populous country with a population of over 275 million with a passenger vehicle motorisation rate of 70 per 1000 people and GDP growth of around 5%. We originally entered the market in 2021 through contracts with Jaguar Land Rover and Harley-Davidson.

We then accelerated our presence last year following the acquisition of Mercedes national sales company.

Through leveraging that infrastructure, we won a contract with Great Wall Motors and we will use our existing facilities and teams to drive that brand in the market.

The level of volumes from each of these contracts has continued to ramp up as we add more OEMs to our portfolio of brands, both organically and through acquisition.

Whilst we are still at an early stage of development in Indonesia, we have progressed in laying the foundations for a solid foothold in that market with substantial growth opportunities in the future as we look to target significant market share growth over time.

Now, let's hear from some of our OEM partners about what they like about working with Inchcape.

Yoichi Miyazaki: The history between Inchcape and Toyota started almost half a century ago in the 1970s. Now our business expand to Europe, Asia, Africa, and it is a essential partnership in Toyota. Thanks to Mr. Duncan Tait's great leadership and personality, we believe we can enhance our partnership more toward the future. Thank you very much for all the work we did together during these 50 years.

Jinya Shoji: Since 1992, Subaru and Inchcape have been in partnership together in the Australian market. Since then, Inchcape has been a dependable business partner for Subaru and has supported the growth and development of our business.

We really enjoy working with Inchcape. We believe Inchcape is a highly regarded professional player in the automotive business and a reliable partner for Subaru.

Inchcape fully understand that Subaru is striving to realise a sustainable society by evolving our delivered value of enjoyment and peace of mind in seeking to achieve our vision of becoming a company, delivering happiness to all.

Therefore, Inchcape always provide us with insightful information on various events taking place in each of our markets. As a manufacturer, this really helps us to improve our products and services.

We hope to continue our win-win relationship to achieve business goals for both companies in the future.

Emma Chen: We see Inchcape as a global company with a very good experience as a distribution of automotive and also on the management of automotive service and spare parts. That's the reason we have a very long history of cooperation with Inchcape in South American region.

Jinya Shoji: Inchcape is able to manage local supply chains such as pre-delivery inspection operation, domestic logistics, distribution, and the dealership network as one team. Therefore, we are grateful that we were able to efficiently maximise sales volume even under the tight logistics situations during the recovery period from COVID, especially after the semiconductors shortage in 2023.

Most recently last year, we were at risk of shutting down operations due to a shortage of space in the domestic car centre caused by a shortage of shipping capacity. We were able to work with Subaru Australia and they understood our situation and helped Subaru to avoid the factory shutdown by urgently shipping approximately 3,000 vehicles to Australia using chartered vessels. This shows the strength of our relationship with Inchcape.

Inchcape has been doing very good job developing and deploying its digital sales platform that covers everything along the value chain from lead analysis to parts and service operations. Inchcape's digital experience platform has helped us gain greater visibility into customer behaviour and purchasing processes. This has enabled us to clarify tasks for Subaru distributor and dealers allowing us to do business more efficiently and effectively.

Emma Chen: From the end customer, we think that it's very good that they can find us not just in digital way, but also in physical way. And both our digital showrooms and physical showrooms are with very good experienced team and with very good aspect.

We believe that the investment and the technologies could help us to connect more data from the market to help us to improve better the product for the future, and also to help us a lot the management system in the whole market.

We see a very positive future with the cooperation with Inchcape because, firstly, you have a very good professional team to work with us. And second, you have good experience on the automotive distribution. And thirdly, we see a very good investment on digital aspects which could help us to improve better for the future, to attract more attention from customers and also get better satisfaction.

So we believe in the cooperation with Inchcape.

Yoichi Miyazaki: As you know, our industry is currently going through a once-in-a-century transformation with carbon neutrality as an urgent challenge for society.

Toyota is committed to taking on this challenge and to develop best product to the market through our multi-pathway strategy. At the same time, Inchcape is taking care of our customers through their distribution network. We believe our product with Inchcape activity is creating the competitiveness and deliver the happiness to customers.

It is our honor to have partnership with Inchcape. We'd like to work together for the society and leave no one left behind in our challenge toward carbon neutrality. We hope to realise much more in the next 50 years by strengthening our partnership as one team.

Thank you very much.

Liz Brown: Looking ahead, we will continue to nurture our relationships with existing OEMs, develop new partnerships, and investigate new potential segments and sectors. These opportunities will be in both existing markets and new geographies.

I'll go into more detail on these opportunities at our capital market stay in November. In the meantime, I will hand over to Adrian who will take you through the financial dynamics of distribution.

Adrian Lewis: Thank you, Liz, and hello everyone.

I will be covering these six areas today, highlighting the key financial dynamics of our distribution business.

This slide starts with an overview of our financial profile in distribution. All of these figures are 2023 data on a continuing operations basis, so excluding the UK retail operation.

Our distribution business generates over £9 billion in revenue with key drivers of the top line being market volumes, our market share, contract wins, and the contribution from acquisitions.

The business has seen gross margins of between 15% and 18% on an average basis over the last six years, excluding the unique year of COVID.

Within the business, there are two key product areas, vehicles and parts, each with their own drivers. In respect to vehicles, gross margins are driven by supply and demand dynamics, specific product life cycles, and our penetration of finance and insurance products, which incidentally has a very low level of associated costs.

Parts gross margins are driven by our success in driving retention rates, meaning the length of time a vehicle continues to use the authorised retail network or OEM official parts in the maintenance of its vehicle. And of course, a key driver of margins is also operating efficiency, and I will say more on this in subsequent slides.

Our adjusted operating margins have been between 5% and 7% during the time period mentioned, and the growth drivers being principally organic growth from market share gains and synergies from acquisitions, both of which help to deliver an increased operating leverage. Another influencing factor on margins is regional mix, where certain regions have structurally higher margins than others, principally due to higher levels of market share and associated scale.

Finally, Inchcape is a highly cash-generative business. We have generally delivered between 60% to 70% in operating profit to free cash flow conversion rate. This is driven by good control of working capital and after considering the impacts of interest and tax.

Now looking at the commercial and financial characteristics of our business and the table on the left of this slide, which builds on Liz's comments earlier and provides some of the themes of how each of our agreements work.

The distribution contracts give us the exclusive import rights to an OEM's new vehicles and parts, with the formal length of our OEM contracts being between one to five years. But as you have heard today, we have many OEM partnerships going back decades, highlighting the commercial longevity of these relationships.

As the appointed distributor, we have full control of the OEM's route to market, including deciding how we manage the retail network in that market and what pricing to set. And this is very different to the retail-only model where retailers have a much more limited influence on the inventory dynamics.

Our orders tend to be made around one to three months before vehicles are produced with the vehicle and specification and cost prices negotiated with the OEM.

As the distributor, it is our responsibility to establish market-appropriate retail pricing for the dealer networks to work from. And to do this, we utilise our data and analytics capabilities to forecast demand based on certain pricing levels to set how many cars and in what specification we order from the factories.

Our performance as a distributor typically measured through the lens of market share and volumes is reviewed on a periodic basis against an annual business plan, which is pre-agreed with our OEM partners.

Inventory is typically held for up to around three months in transit and another two months in the market. And we own the inventory from the factory gate or sometimes from the port up until the point of sale to a third party.

The OEMs hold the liability for product warranty and inherent in our business is transactional currency risk, which we manage through hedging that typically covers six to 12 months and aims to reduce short-term volatility of FX movement on our product costs.

Hedging costs and other costs of sales like shipping and logistics are incorporated into the retail pricing of the product and are considered as part of the business planning process.

And on the right of this slide, you can see some of the accounting characteristics of our business.

We recognise revenue when inventory is sold to third parties. It might be dealers or to end users in our own retail network. Finance and insurance, or F&I, is typically received in the form of commission with limited associated variable costs.

On the balance sheet, we recognised inventory on dispatch from the OEM, with inventory being valued at the lower of cost or net realisable value, and at hedged FX rates. Age stock provisions accrue 90 days after stock arrives in market.

Trade payables include monies owed to OEMs, either directly or through third party banks where such arrangements are put in place.

Trade receivables include monies owed to Inchcape from the independent retail network.

So let's now look at how we operate on a commercial basis in our markets, and I'll give you a few examples of how it really works on the ground.

Broadly, we have two commercial models, and how we deploy these models depends upon specific market dynamics such as size, retail infrastructure maturity, fragmentation of the population, and the geographic size of the market.

Firstly, the typical model covering 90% of our volumes and implemented in the majority of our business is where we leverage third parties to provide the retail infrastructure, and in many cases in a shared brand footprint. Within this first model, around 80% of the dealerships across our distribution businesses are owned and managed by third parties.

The second model is vertical integration, where we operate across the entire distribution value chain, owning and directly operating the dealerships in that market. This model exists in markets which cover just around 10% of our volumes, and this model tends to operate in geographically smaller markets like Singapore or Hong Kong, where a limited number of physical retail locations are necessary to reach the full spectrum of consumers.

We can see three examples on the right-hand side of this slide. Columbia Mercedes-Benz is a network that is entirely run by third parties with around 3,000 vehicles per annum being distributed across 12 sites run entirely by independent dealers.

In Australia where we work with Subaru, Peugeot and Citroen, around 80% of our retail network is managed by third parties, with around 50,000 units being retailed across a total of 120 locations.

Finally, we have an example of a vertically integrated operation in Singapore, where we have five brands including Toyota, Lexus, Suzuki, and Hino with around 10,000 units sold last year across four retail sites and several after sales facilities as well.

Owning and managing a portion of the dealership network ourselves enable us to directly drive volumes in the more populous areas, and it helps us to set retail standards for third parties.

The main difference between these two models is capital intensity. Broadly, the typical distribution approach is less capital intensive given we own less physical infrastructure than the vertically integrated model.

In addition, commercially the typical model is more flexible and enables us to slot in new OEM brands to a market quickly and efficiently, as we heard earlier with Liz's Chile example.

In recent years, our two key drivers of growth have been acquisitions and distribution contract wins.

We will provide a deep dive on acquisitions at our Capital Markets Day in November, but today I wanted to provide some colour on the quantification of distribution contract wins.

When bringing a new brand or taking over a brand from another distributor, we are seeking to leverage our scale in that geography to drive both market share and margins. And as we win more contracts in a market, we use our infrastructure and overhead base to drive operating margins.

This is particularly the case in markets where we see a market share greater than 10%, and at that level, margins are accretive to the group. Consequently, this level of market share is a key ambition for us across our markets.

You can see on this slide, which sets out the expected contribution on average for the 18 contracts we won in 2023 and 2022 across years one, three, and five. Contracts tend to reach maturity between the latter years, whilst in year one while we build brand presence leveraging existing infrastructure, we are prudent on volume expectations, but equally, we do not see material profit investments due to the way we set the brands up.

Over time we look to broaden the retail network through third party dealers and grow our presence to a share of around 2% or higher.

This means that the average contract generates revenue and profit growth over time so that by year five, once the contract is mature, we expect each contract to see revenues on average between £20 million to £30 million per annum, and operating profit of one to £2 million per annum.

Hopefully this gives you a sense of the tangible impact of the distribution contracts we have been winning, which is important given they're now a key driver to our future growth.

Now onto the group's core profit model from the two product areas of vehicles and parts.

Starting on the left, vehicles saw an average selling price or ASP, of around £21,500 based on recent pricing, and around 85% of the group's revenue came from vehicles, and around 15% came from parts.

Considering the cost of the products, which includes the underlying vehicle or parts cost and the cost seen in distribution, which include duties, logistics, insurance, storage, and others as listed on the slide, we generate gross margin of between 15% to 18% overall. Vehicles, including finance and insurance income, of between 10% to 15%, and parts between 40% to 45%.

Looking at our operating cost base, a high proportion is variable or semi-variable and runs at approximately 10% to 11% of revenue, and to emphasise the flexibility of our cost base, the distribution business has a much lower exposure to fixed property occupancy than, say, retail does.

The key drivers of our overheads are our ability to manage cost inflation and to leverage our scale where we have made acquisitions through synergies.

This nets to a delivered operating margins of between 5% to 7% over recent years, with 2023 being above 6% on a continuing operations basis.

Let me now take you through the key elements of working capital.

Firstly, we have inventory, of which we had £2.3 billion on our balance sheet at the end of last year. New vehicles made up around 80% of our inventory, where our average stock cover is around three months. This includes both in-transit and the stock holding at our distribution hub, and stock where we hold it as the retailer.

Within parts, which makes up only around 10% of our inventory, stock cover tends to vary given the just in time nature of that element. Levels of inventory will grow as the business grows.

We will continue to manage it efficiently and effectively through analytics-based sales and operational planning processes.

Inventory financing was 1.5 billion pounds last year, treated as a trade payable on our balance sheet. This type of financing is very standard practice in our industry and typically speaking, we seek to set terms with OEMs that cover the expected inventory holding period. These arrangements are a mix of OEM trade credit and payables to third party banks in three-way agreements with our OEMs.

Some of these facilities carry an interest charge, which is treated as a finance cost on the income statement, but is thought of as a pass through cost when we think about vehicle pricing.

These arrangements are agreed in the currency of the OEM origin, which tends to be denominated in or linked to the major currencies in particular, U.S. dollar, Renminbi, Japanese Yen, or Euro.

Finally, on this slide we have net trade receivables and trade payables of around £400 million in 2023. Receivables include dealer groups, finance houses from consumers, while payables include OEMs, vehicle taxes, duties, and general expense accruals.

Going into a little more detail on the working capital cycle of an automotive distribution business, as outlined on this slide, moving from left to right, we can break it down into three main phases.

The first phase is when the order is placed with the OEM, which is typically 30 to 90 days before production.

Following the production, the next phase is when we take ownership of the vehicle from the factory or the port and the vehicle can be in transit for up to three months before it lands in our distribution hub. This can include a bonded warehouse where we tend to hold the stock for up to two months.

During this phase, OEM supplier terms come into effect. These terms are in major currencies with the distributor making a finance payment directly to the OEM or via a bank paying up to 150 days after the point of dispatch.

From a balance sheet perspective, the inventory is recognised as we take ownership of the vehicle, and the inventory finance is recognised as a trade payable and covers up to 150 days of inventory holding.

The third phase in the middle of this slide is where the in-market delivery stage, where we dispatch the inventory to the dealer network, either to a third party dealer or one owned by the distributor. Local transit time is minimal, but the dealer tends to hold stock up for up to one-and-a-half months.

At the start of this phase, once the inventory is sold to the third party dealer, we will recognise the sale as revenue, but also recognise the corresponding cost of goods sold. And at that point, the inventory is no longer recognised on our balance sheet.

Money owed from the dealer is recognised as a trade receivable and payment from the dealer is made in local currency shortly after dispatch.

Payment is received by the distributor either directly from the dealer, and in some circumstances the dealer uses floor plan finance from a bank to pay on their behalf. Floor plan finance is a form of inventory financing, which is used a lot in the automotive retail industry.

The end consumer makes payment for the vehicle with cash or using a finance product and sometimes with a contribution from a part exchange used vehicle. And this transaction is conducted in local currencies.

The whole cycle post-production generally takes around six months and is subject to such elements as the physical distance between production and the point of sale, supply chain, and inventory availability.

So having taken you through the key financial dynamics of our distribution model, how does this drive our cash flows? So from left to right on this slide, starting with operating profit, which is generally generated above 6% of sales.

Working capital tends to be neutral on an annual basis, supported by inventory management, while depreciation and amortisation generally grows in line with our revenue. The drivers of our interest line are net debt, inventory financing, and our property leases.

While our tax rate has tended to be fairly stable and is subject to country mix, historically our capital expenditure has been less than 1% of sales, and with distribution being capital light and as we leverage our third party retail network infrastructure, we continue to expect this to be the case going forward, particularly as a pure play distribution business.

This culminates in a strong free cash flow profile, which has helped us to deliver a return on capital employed of around 25% and has enabled our allocation of capital.

And to that end, since 2016, we have paid out more than £700 million in dividends. We have returned £400 million to shareholders through share buybacks, and we have invested over £2 billion in value-enhancing acquisitions.

So just to sum up my section today, as a pure play distributor, Inchcape has a robust financial profile with a capital-light model, attractive margins, and consistent healthy free cash flow generation helping to generate high returns.

The financial profile will continue to enable us to deliver our balanced and disciplined capital allocation policy, ensuring we drive value for our shareholders. I'll now hand back to Duncan for his concluding comments.

Duncan Tait: Thank you, Adrian.

We hope you found this session useful and interesting. I just wanted to summarise the key takeaways from today.

Automotive distribution is capital-light, highly cash-generative, and relative to retail only, higher margin and higher return.

In distribution Inchcape is the leading global independent player, with a highly compelling and valuable proposition for our OEM partners. With our highly cash-generative model, we will continue to drive returns for shareholders and deliver value for all our stakeholders.

That concludes our presentation, would now be happy to take your questions via the webinar platform.

Over to you, Rob, to facilitate the Q&A.

Rob Gurner: Thanks Duncan. Hello everyone and welcome to the Q&A session, which will take around 30 minutes. If I could ask you to limit your questions to two each, please, that would be great. And if we don't manage to get to your questions, we'll follow up with you afterwards offline. We're not giving an update or commenting on trading today, so please can I ask you to focus your questions on our business model as we've outlined today.

So let's start. We have two questions from Andrew Nussey at Peel Hunt. The first, I think, is for you, Duncan and Mark, and the second, I think, is for you Adrian.

The first is, if you're particularly successful for an OEM, what's the risk of you being disintermediated by them and particularly from a technology perspective? And the second question is, is there an OEM perception on what is an acceptable margin or return when you're negotiating contracts?

Duncan Tait: Thank you, Rob. So look, the first thing is I'm delighted Andrew's recognised we do perform really well for OEMs. Look, this is a function of strategy.

We focus on smaller and medium-sized markets where our OEM partners are focused on the largest markets in the world. And then we deploy our differentiators which enable us to perform.

So global expertise, local knowledge, leadership in digital customer experience, leadership in data analytics with very long-term partnerships for our OEMs that work both ways on a bedrock of a really well capitalised company with great leadership, great board of directors, and UK PLC.

Rob Gurner: Thank you very much. And from a tech perspective, Mark?

Mark Dearnley: I think building on what Duncan just said, OEMs focusing on large markets, they're also focusing their technology investments on those large markets as well.

So our scale enables us to build a technology that is of the same standard that they're building for the larger markets, but across all of the smaller markets. And to be able to embed that into all of the local geographies, all of the local markets, the finance, insurance etc, and create the brand experience for each of those OEMs in each of those markets like they do in the larger ones.

Rob Gurner: Thank you. Adrian, over to you.

Adrian Lewis: Yeah, so when we work with our OEM partners, we're not negotiating an output, we're not negotiating a end return. What we're negotiating is inputs. We're negotiating about how we will represent those brands there particular brand in a market.

What is the route to market that we're going to provide those brands with through our distribution network? What market share might we attain and what cost prices are we going to pay for each of the vehicles? They're the sorts of things we are negotiating, and the returns stand to how good we are at doing that.

Rob Gurner: Thank you very much. The next question is from James Wheatcroft at Jefferies. I think this is for you, Liz. With reference to the Chile case study that we talked about, can you give a bit more detail on how we manage multiple brands in a market?

Liz Brown: Yeah, sure, Rob. That's a great question. Firstly and importantly, I would say that we have separate brand and sales teams for each brand and they have very strong ethical walls between them to maintain that confidentiality. And we often manage brands as well on a segmental basis, so mass brands, premium brands, luxury brands. And we have a really diverse portfolio which also helps to negate any conflict.

There are also certain brands that we wouldn't choose to represent together in a market as well. I would make that point as well. And then finally, there is actually an advantage to OEMs for us being able to represent multi-OEMs in a market.

It gives us greater scale. For example, in Chile we have an exclusive network of distributors that we can open up to OEMs. And those benefits of scale mean we can be a more efficient and effective route to market partner for them.

Rob Gurner: Great, thanks Liz. Next question is from Akshat Kacker at JPM. The first, I think, is for you Duncan. Can you talk about the competitive landscape and distribution? How's it changing? And I think the second one's for you, Adrian. How do you negotiate with OEMs if markets suddenly turn or volumes or price assumptions on models materially change?

Duncan Tait: Good. Well, so in terms of competitive dynamics, Rob, I'd say a few things. Now it's worth thinking first of all about OEMs and consumers. So OEMs are occupied very clearly with drivetrain changes and the technology and what that means for their P&L and their balance sheets.

Let's also think about consumers. Consumers want a digital and physical customer experience and a really rich offering in a marketplace. And then what we see in terms of the distribution landscape globally is, look, we're the only global player, number one.

We see regional competition, either multi-country or single country competition. And then what do we really see that's going on in distribution then is these distribution companies questioning, do they have the assets that means they can be successful for their OEMs and customers in the future? And the reality is you need scale to drive digital competitive advantage in terms of experience and analytics, and I would say cyber security. And this is where Inchcape plays, that we have the assets for the future, and that's one of the reasons I think this market will continue to consolidate.

Rob Gurner: Thank you. Adrian?

Adrian Lewis: Yeah, it's a good question, Akshat. Thank you. What do we do when a market suddenly turns either for the positive or if it suddenly starts to point downwards? And it does happen. And I'd go back to our relationship with the OEMs.

We are having conversations with our OEM partners on a daily, weekly, monthly basis at all levels through the organisation, understanding what's going on in the consumer landscape, using the data and the digital platforms that we've got to understand consumer activity way in advance of actually placing the order.

And we're using that to make sure we're buying the right amount of stock at the right time with the right specification and those vehicles are positioned in the right way to make sure we've got the most appropriate offer for whatever market is available to us. But of course, sometimes we do get it wrong, sometimes we under call it and sometimes we over call it. But we are working with our OEM partners to manage our position in those markets over the long term. And you can see that, and it's a testament to the fact that we have got some very long-term relationships with some of our OEM partners and the fact that we're pretty good at doing that.

Rob Gurner : Thanks very much. The next question is for you, Mark, actually on the tech side from Alan Clifford at Lazard.

First question is, can you talk a little bit about how the digital platform looks for a consumer on the ground level? And the second question is can you talk a little bit about the mix of our use of third-party software, how bespoke we've made it, and can peers match that capability and what makes it unique?

Mark Dearnley: Okay, great question. I think from a user perspective, so there's really three groups of users that we build the software for. The consumer who wants the seamless omnichannel web experience, either on a laptop, on a phone so that it's completely invisible to them where they are.

Then you have the dealer, so the sales people inside the dealership. And then the third group are our business development centers, which help enhance the leads and bring them more quickly into the dealership and in a more ready to sell and ready to close way.

Now the way we set that all up is underpinning is a single piece of technology, which is the use of Salesforce that we mentioned in the video. That lead travels seamlessly through all those three journeys and can move between different dealerships and can move all the way through backwards and forwards. The user experience is tailored then to each of those users.

So a fantastic web experience for our customer that allows them to pick the vehicle, configure the vehicle and choose their finance, set their insurance, work out their payments and simulate and model it. That is then all saved, ready for either when they walk into the dealership, or they get a call or an instant message or a chatbot from the business development center, and it's all fully integrated, every bit of the conversation linked all the way through and all available to make sure that as they then finally walk in to either close the deal in the dealership or collect the vehicle, every single bit of that's been seamlessly integrated.

So that's how we see that working completely omnichannel end-to-end journey. From a bespoke piece. So we have 1,500 amazing people working in our delivery centers. Every day they're tailoring the solution, every day they're improving it, every day they're rolling it out more. We leverage all of the core capabilities of Salesforce and also SAP from the logistics point of view and the finance point, which is equally important. And that's where we put the Inchcape magic into it.

We're configuring that in the way that creates these unique journeys that are really good for customers, and then we build the bespoke magic on top. So that user experience that you have when you are using a website, you don't even realise is DXP because it's so special and tailored to the OEM that we're representing. That's the special thing they do.

So that we have one version of that that works across many, many OEMs and also works across many markets, different languages, different currencies, different tax regimes. That's the unique bit they do, but where we really bespoke it is in the analytics.

So our analytics team and the data scientists and the data engineers, every day they're tuning these models, every day they're thinking of smarter ways of using the data we have, and that is the long term competitive advantage of what we're doing.

Yes, people can build omnichannel journeys but not tailor it with the way we're doing with the data and make it special at each point for that customer. So it's a huge credit to the amazing people we have working on that.

Rob Gurner: Very good. Thank you, Mark. Liz, I think these are for you on Chinese OEMs, Chinese brands.

This is from David Brockton at Deutsche Numis. You say you're selective on the addition of Chinese brands. How many more do you expect to sign in the coming years and do you expect to see any impact on business from tariffs on Chinese OEMs in our markets?

Liz Brown: Sure, great question. Thanks Rob. So on the first point, we're focused on building business with brands that we already have relationships with, but also obviously there are new brands that we might want to bring into the portfolio over the coming years. And we identify these new potential brands using a really rigorous framework.

We look at the attractiveness of that particular OEM, we look at the long-term sustainability and feasibility of building new business with them and building that long-term strategic relationship with them over the longer term.

In terms of the tariff point, it's a complex area in reality. If Europe impose further tariffs, this will impact the Chinese, but it will also impact Europeans who currently manufacture in China and look to export out of China. There could also be an impact if China then choose to impose further tariffs on products that they import.

The Chinese may start to decide to start manufacturing in Europe. And I think it's impossible really to say what the ultimate outcomes are going to look like here. But from our point of view, we're really focused on helping our OEM partners navigate this. Chinese or otherwise, we're focused on helping them identify the right markets for them, helping them build their brands in those markets, helping them grow market share, and ultimately deliver a fantastic customer experience.

Rob Gurner : Thank you, Liz. Adrian, over to you for these two from Arthur Truslove at Citi. You mentioned that gross margins are far higher for parts and for new vehicles.

How should we think about the operating leverage of that and the gross profit to EBIT conversion for each? And you also mentioned talking about the £1 million-£2 million of profit in year five from the average contracts that we've won over the last few years.

So on that basis it sounds like somewhere between 2026 and 2028 they should be delivering between £15 million and £30 million of PBT. Is that unreasonable?

Adrian Lewis: Yeah, two very good questions, Arthur. Thank you for that. In terms of the split between gross margins and vehicles, what I would say is, look, it's very hard to separate them because you operate a shared infrastructure across both of those revenue streams effectively.

What I would say is the part stream is a far more stable scheme, perhaps slower growth in some markets, but a far more resilient form of cashflow, principally because your target customers there are effectively the last five years or perhaps even 10 years in some markets of the vehicles that you've sold. You're selling parts into that enormous carpark, which obviously is a much slower moving number.

So you tend to see a much more stable level, a much more resilient level of gross profit stream, versus vehicles where you can see some market peaks and troughs, as we know. In terms of the contracts wins. Yeah, look, what we've shared you today is the average contract win.

Some will be bigger, like the one that Liz showed you with Great Wall Motors in Indonesia, and some won't necessarily be as big as those and some perhaps won't work. And what you're seeing there is our expectations for the average. And look, the maths that I've shared with you, Arthur, you're very sharp.

That is a fair assessment of how we would think about '26 and '28 contributions. These businesses will be accretive and additive to this group.

Rob Gurner: Thank you very much. Back to you, Mark. This is from James Zaremba at Barclays.

Regarding the impact of DXP and DAP, how important is the relative contribution here between driving market share gains, operating efficiency, value added services penetration, and where are we on the journey of both of those platforms in terms of contributing in these areas?

Mark Dearnley: I think if we look at DXP and DAP. On DXP, it's all about supporting the sales process, creating an amazing experience and allowing us to get more market share. And in there, it's not something you can break everything out and know exactly what achieves what, but it's part of the overall scheme of growing our market share. And where we've gone into markets with it, we see both good market share growth but also great improvement in our customer experience scores.

So we monitor very closely our reputation scores, because we think it's the best independent way of looking at what our customers are saying to us. And we always see an uplift in those scores when we put DXP in.

From an operating leverage perspective, the real value is in DAP. That enables us to make consistently better decisions, and those are decisions that we can measure. Whether they're pricing, whether they're stock, whether they're ordering, whether they're planning, those are the ones where we can really track the benefits we're achieving. And we see some fantastic numbers.

I mentioned some of them earlier in terms of very simple things, reduction in air freight, reduction in obsolescence, but we can also see what they're doing in our pricing and the fill rates and what we're able to do. So in both we're seeing great advantage and we really drive the money from DAP and the experience from DXP.

Rob Gurner: Great, thank you. Duncan, I think this is for you from Charles Queenan at Long Light Capital. A couple of years ago, Inchcape lost market share in Hong Kong on the back of EV competitors like BYD and Tesla. Is there a risk that you could see that happening in other markets as the likes of BYD and Tesla grow market share in some of our markets?

Duncan Tait: Look, let's be clear. The Hong Kong example for us has been a real learning experience, which is you have to be very, very close to how fast legislation and regulation moves in a market relative to a zero carbon future. That's exactly what happened in Hong Kong.

It happened almost overnight. So what we are doing in Inchcape is keeping very close to those changes, having an OEM portfolio in a country that will move at the pace that we think that regulation will move and able to gain market share. And if you look at what's happening in Hong Kong since then, we have added more service into the markets, added more OEMs into that market and worked with our longstanding OEM brands to make sure we've been the launch market for several of their EV products. And you can see market share going back upwards.

Rob Gurner: Great, thank you. And I think this is coming back to you Duncan, actually for a couple of questions from Paul Rossington at HSBC. Can you talk a little bit about your M&A strategy and which regions you're focusing on, and are there any markets where you're at a competitive disadvantage at a local level?

Duncan Tait: Okay. So very good question. If you now think about our three distribution regions of the Americas, Europe, Africa, and APAC, we want to balance those regions up over time. There is the opportunity in each one of them for more and more bolt-ons, and there are some medium and larger sized deals that are available to us in each of those marketplaces. Our priority is to scale our business in existing markets, a little bit like the team mentioned before on the video. That gives us leverage when you get to around 10% market share. So bolt-ons in existing markets is a real priority for the group.

But then of course, look, we know that there's more market share available to us in new geographies, and as they become available, we will absolutely take advantage of that.

To the point of are we disadvantaged in any markets? It depends what OEM partners are looking for. If they're looking for a purely local partner that they can completely control, Inchcape's not the partner to work with in that market. But if you want to leverage the competitive assets that this group has, frankly I think we're unbeatable. But I would say at the very least we're a brilliant answer for our OEM partners.

Rob Gurner: Great, thank you very much. Adrian, over to you for this one from Bhavin Manek at Mondrian. Can you just clarify a couple of things on the working capital cycle? When are vehicles dispatched to a dealer? When are they sold to the retailer? And when do banks actually get involved with the inventory finance? What period? Is it the 30-day period or before or after?

Adrian Lewis: Two great questions. So let me tackle the first one because it's relatively straightforward.

You should think about, as the distributor, when we're selling a vehicle into the independent retail network, we recognise the sale and effectively the transfer of inventory when the vehicle is dispatched into the third-party dealer network. It's a relatively straightforward answer. In terms of banks and how we work with our OEMs in combination with OEM trade terms, when we buy cars from the factories, we're using those and we're working with our OEM partners to put supplier terms in place. And sometimes those terms are directly with the OEM where we get an extended credit period, effectively to cover the inventory holding period. And in some cases we use third-party banks to support that, in agreement with the OEMs in a three-way agreement.

Effectively, all of those are there to effectively mirror a set of trade terms that help us to try and match inventory holding and the trade payable to help us run a largely neutral working capital cycle on new vehicles.

Rob Gurner: Very good. Thank you very much. And I think this is also for you, Adrian, from Sanjay Vidyarthi at Liberum. In those markets where you operate part of the retail network, given that it's a relatively small part of that network, how do you optimise Inchcape's retail margins given the lack of scale?

Adrian Lewis: That's a great question, Sanjay. One of the things we pride ourselves on is also being able to run a good retail operation.

Some of that retail operation, sometimes you don't necessarily need lots and lots of scale to be highly efficient in those markets, especially when you're the distributor. But we can use the best practices we've got, particularly some of the digital tools that we've been building over the last few years to run that in-dealer customer experience for the best possible outcome. And look, what you saw today was us giving some guidance on how we think about retail margins as a discrete operating model.

It's consistent with what we said before at about one to two margin. And where we run retail was part of our distribution networks, that's typically where we're seeing us trade. It's a core competency for us. And the reason we have it is so that we can set retail standards in those markets for our third-party network.

Rob Gurner: Great, thank you.

Two questions from James Bayliss from Berenberg. I think one for you, Duncan, one for you, Mark. If deep local market knowledge is part of the recipe for success in representing OEMs, does that suggest to open new markets you need to acquire existing operators, or can it be achieved organically? And for you, Mark, is there a longer term play with DXP where you can evolve and directly monetise it as a data intelligence platform or service?

Duncan Tait: So first answer is the lowest risk way to enter a completely new geography for us is generally via acquisition. And if you look at what we've done in the Philippines, we also want to make sure that we've got a joint venture partner to help us navigate our first few years in that market, for instance.

So the most risky thing we do is new OEMs into new markets. You don't find us doing that. So when we move into a new market, we'd like to know the existing OEM partners and use local market expertise from the acquisition we've made.

Rob Gurner: Okay, thank you very much.

Mark Dearnley: I think the best answer to that, fundamentally we're here for our OEM partners. So everything we're doing is in service of them and not for others outside of the people we work with.

So we're here to make our dealers brilliant, we're here to make our OEMs brilliant, we're here to create an amazing customer experience, and that's everything we do. Now that being said, some of the things we work on potentially one day could have opportunity, perhaps around used cars and the way we're making valuation engines for used cars. But our primary focus is all about making our OEMs hugely successful and creating a great customer experience.

Rob Gurner: Fantastic, thank you. Question from Georgios Pilakoutas for Lynott Partners. What is the ideal mix of third-party dealerships to owned dealerships? We talked about Chile being 60-70%, and 82% of dealers in the typical markets. What is the ideal mix?

Adrian Lewis: Is that for me, Rob?

Rob Gurner: Yes.

Adrian Lewis: Thank you. Well, look, there is no right answer for that. In some smaller physical markets, it might be more towards owned retail versus third-party in markets where there's a big geographic spread and many, many cities.

Typically, if you take, for example, our Australia model, we like to own one of the major cities. So we own most of the retail in Melbourne itself and leave most of the other cities to other and third-parties. And so there is no right model. And what we'd like to make sure we're able to do is to be able to set a good retail standard and do so in an effective way. There's no right answer. We're currently, as you say, about 20% overall.

We don't expect it to get materially bigger than that. If anything, go the other way.

Rob Gurner: Thank you very much. I think this is a question for you, Duncan from Ben Isaac at Brizo Capital. Can you just talk a little bit about the parts business? Do you distribute to dealerships? Do you work with other independent distributors to distribute parts for other OEMs? How does that work generally?

Duncan Tait: I think the answer is yes to all of those things. So look, I think for me, the opportunity of part, and we'll share more of this at our investor day in the fourth quarter of '24, about how we'll they enable people to scale that financially. But parts is a really exciting marketplace for us.

If you look at what we're doing in Australia, we mentioned this in the video. We built our digital parts platform to give us access to independent garages via distributors. We're seeing parts sales go up. We want to optimise parts sales to our own dealers in our Subaru network, for instance. And I think other OEMs can see the benefit of adding their parts catalog to our digital parts platform in Australia. But more to come in the latter part of this year.

Rob Gurner: Very good, thank you. So we've got a couple of people being a little bit cheeky asking a third question, which because we're nice people, we'll allow them to do that. One is Arthur at Truslove at Citigroup.

This is for you, Adrian. On the margin side, how does operating margin vary between the markets where you have 10 per cent or more versus those markets where you don't, and how should we think about operating leverage in that context? Which you covered a little bit, but talk about it in terms of those two types of dynamics.

Adrian Lewis: Look, I think the best way to describe this is, look, we target 10% market share as an ambition in each of our markets. Why do we do that? It's because we see the opportunity to leverage the scale that that platform gives us.

As the chart that Liz showed with that multi-retail network leveraging of shared infrastructure across multiple brands gives us real advantage in terms of being able to operate and drive operating leverage.

So of course, markets where we're greater than 10%, we typically see those as trading higher than the group average of five to seven because you're able to leverage that scale. And our job over the next few years as part of our strategy of expansion is to make sure we drive as many of our markets as we can greater than that 10% to drive our group margins up.

Rob Gurner: Great, thank you. Another question from Akshat Kacker at JPM. I think this is for you, Liz. Have you had any discussions with Tesla? Are they open to outsourcing certain markets to distributors like Inchcape?

Liz Brown: That's a good question. In terms of the model that OEMs employ when they think about distribution, there are two types broadly.

There's the OEMs that pursue a direct model like Tesla and a couple of others, and there are OEMs that see the value in third-party distributors like us. So Tesla clearly are one of the OEMs that go for the direct model. We don't really see that changing at the moment.

Obviously we keep a close eye on it, but they're choosing to pursue that route. I would say that most OEMs do try and pursue a route to third-party distribution, particularly in those smaller to medium-sized markets that are a bit more complex where players like Inchcape have a real competitive advantage.

Rob Gurner: Great. Thank you very much. And this is the final question from James Wheatcroft at Jefferies. I think this is for you, Duncan. Can you talk a little bit about the addressable market of 10.7 million? What is your focus in terms of existing versus new markets, terms of attacking that market?

Duncan Tait: Okay. So we have eventually listened very carefully to our investors and analysts to say what's our real TAM. I used to talk about 17 million. The work that Liz and the team have done, we've taken that to 10.7 million TIV per annum, or our addressable market in per annum terms of units sold.

Look, I've said earlier on today, our focus is building scale in our existing markets. Adrian just mentioned the 10% number again. So our absolute focus is get to 10% in as many markets as we can. But look, if we see a really good opportunity in a geography that is attractive to us, we'll go for that. But our number one priority, build scale in existing markets, let's get to 10%.

Rob Gurner: Very good.

Duncan Tait: I'm not saying by when, Rob.

Rob Gurner: Very good, thank you.

Thanks everybody and thank you very much for listening. I hope you enjoyed and found the session useful. Do get in touch if you have any questions offline. Thank you for listening.