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HALF YEAR 2024 INCHCAPE PLC EARNINGS PRESENTATION

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PRESENTATION

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Good morning, everyone, and thank you for joining us. I'm Duncan Tait, Group CEO, and I'm joined by our Group CFO, Adrian Lewis. Here's our agenda for today. I'll give an overview of our interim results for 2024, and Adrian will then go into more detail on the financials, and I'll come back to discuss strategic progress and the outlook, and after that we'll take your questions. The presentation is available on our website and a recording of today's session will be available later today.

I'll start with the highlights of the first half of the year. The major news during the period was the divestment of our UK retail business to Group 1 for £346m. I'm very pleased the FCA approved the transaction yesterday evening, and as a result, the deal will complete on the 1st August

This is a major strategic inflection point for Inchcape as we become a pure play operator in automotive distribution. Proceeds from the disposal will provide additional balance sheet capacity for us to invest in future growth to support our capital allocation policy in the context of a healthy pipeline of bolt-on acquisitions.

During the first half, we continue to execute against our strategic objectives, delivering a resilient operational and financial performance with 8% revenue growth in constant currency, 4% organic growth, PBT of £226m, and a reduction of leverage to 0.7 times.

This performance is evidence of our diversified and scaled business, which helped us to win share in key markets across our regions. In addition, in taking into account our excellent free cash flow performance in the first half and the strength of our balance sheet, we're accelerating the timetable of our share buyback and increasing the amount from £100m to £150m. The share buyback will commence on the 1st August , 2024, and is expected to complete during Q1 2025.

Looking ahead, in the near term, we're maintaining our expectations for moderated growth in 2024 at constant currency. And over the medium to long term, we expect to return to higher levels of growth. And this will be driven by recovery across a number of markets, the increasing contribution from recently won distribution contracts, bolt-on acquisitions, the development of our technology capabilities, and our continued focus on cost management.

I joined Inchcape in 2020, and I'm even more excited today than I was four years ago about the potential for Inchcape in a fast-moving and dynamic industry. The business is in excellent shape and extremely well-positioned for the future.

Our success over the last four years owes much to the quality of our 18,000 highly talented people around the world. I'm on the road approximately one week in three, meeting our teams across the regions and I'm always impressed by the enthusiasm, commitment, and innovative mindset of our people.

We have built a collaborative, entrepreneurial, and high-performing culture that provides the bedrock from which we can deliver future success at Inchcape. This culture has also been the driver of our strategic transformation from a retail and distribution business to a pure play distribution company, as you can see from this slide.

Since 2016, we have tripled the number of OEM partnerships and doubled the number of markets in which we operate. Our annualised distribution revenues have tripled and we have more than doubled the new vehicle volumes we distribute.

Our performance in the first half is evidence of the strength of being a pure play distribution business with capex at less than 1% of revenue, return on capital employed of 28%, and free cash flow conversion of operating profit of 76%. We are already delivering in distribution, which is capital-light, attracts higher margins, is more cash generative, and delivers higher returns than retail only.

Let's now look at the macro backdrop and outlook across our regions. As you know, we are focused on small to medium sized, more complex, but attractive markets which are higher GDP growth and have low motorisation rates.

In the Americas industry volumes are at historic lows in a number of markets driven by geopolitical and macroeconomic factors. We are seeing some key markets stabilising, although it's too early to say whether this is the start of a recovery. Certain sub regions like Central America have performed well. And overall for the Americas, we remain positive about the region's structural growth prospects over the medium to long term.

In Europe, we are seeing some improvement in order intake in certain markets, although there is mixed demand outlook across the region, with Southern Europe remaining strong with some markets in Northern Europe, more challenging.

Finally, in APAC, a growth engine for Inchcape with robust volume growth and a positive growth outlook in most markets. To highlight the quality and diversity of our business and its prospects in APAC, we will be holding an In the Driving Seat seminar with a deep dive on the region in November. So overall, a positive growth outlook in our regions against a mixed set of trends. With that in context, I'll now hand over to Adrian to take you through the details of the financial results.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Thank you Duncan, and good morning everyone. With the disposal of the UK retail business expected to complete later this week, as Duncan mentioned, it has been treated as a discontinued operation, which means the 2023 comparators in the income statement have been restated to exclude the UK and we have provided in the appendix of today's presentation, our income statement on a continuing operations basis for the full and half years of 2023 and a standalone balance sheet for the UK business. And hopefully, this will help to inform your modeling of the continuing operations of the group.

So now let's start with the headline financials, and during the period we generated revenues of £4.7bn, up 8% in constant currency with organic growth of 4% and a contribution of 4% from acquisitions. And this was partly offset by currency translation headwinds.

Operating margins was 6.3%, reflecting organic revenue growth with some regional mix and price headwinds impacting gross margins, mostly offset by cost control, driving operating leverage and adjusted PBT of £226m, which on a constant currency basis was 7% above the prior year.

We delivered another excellent period of free cash flow generation, producing £226m with a 76% operating profit to free cash flow conversion rate and our return on capital employed was 28%. Net debt reduced to £524m, driven by a strong working capital performance. And this resulted in a net debt to EBITDA ratio of 0.7 times.

Adjusted EPS was 34.7p and today, we announced our interim dividend per share, 11.3p. And to remind you, this is set at one-third of the 2023 full year dividend. And so in summary, our performance during the period is evidence of our strategic progress.

The next slide shows the key drivers of our top line performance, and we grew 8% in constant currency with 4% organic growth and a 4% benefit from the acquisitions we made in Asia Pacific last year. APAC delivered strong organic growth of 9% on Europe and Africa, again outperformed the market with 18% organic growth.

In the Americas, revenue declined 9% organically with our volumes down 7% against a 9% fall in industry volumes in Inchcape markets. These growth drivers were offset by a 4% impact from translational currency headwinds driven by the strength of the pound.

This slide shows our operating margin performance and operating margin were down 10 basis points in constant currency, with overhead leverage offsetting gross margin pressure during the period. Gross margin pressure arose as a consequence of regional mix, a faster growing vehicle business, but also some pricing pressures in the Americas, which is a consequence of lower industry volumes.

On overheads, we continue to be proactive on cost management, supported by Derco cost synergies and more broadly in the Americas and across the group to drive operating leverage.

So let's now look at our regional performance in APAC. Revenue grew 24% in constant currency, including organic revenue growth of 9%. And this was supported by market share gains in key markets and a contribution from acquisitions and with new brands in early stages of development.

Operating profit was up 41% with operating margins up 90 basis points to 7.8%. And this was driven by operating leverage and the mix effect of faster-growing, higher-margin businesses.

Looking ahead, we anticipate continued growth in many markets with margin growth expected to be partially offset by recently won distribution contracts, including Great Wall Motor in Indonesia and Changan in the Philippines.

On to Europe and Africa next, where revenue grew 18% in constant currency, and this was driven by outperformance against the market in Europe, a continuation of order bank normalisation, market share growth, and new contract wins growing quickly.

Performance in Africa remained resilient. Operating profit was up 25% with continued, elevated adjusted operating margins of 5.2% despite some dilution of accelerating contract wins. Looking ahead, growth is expected to be supported by some improvement in order take, which will partly offset the effects of order bank normalisation over the last 18 months, with operating margins in Europe expected to moderate towards historic levels.

And now let's look at the Americas where revenue fell 9% in constant currencies and the story for this region is that we are proactively managing the business in the context of lower industry volumes. Our market share across the region remained resilient with key markets stabilising and Central America seeing growth. Industry volumes across the region were below last year by 9%, and while our volumes fell 7%, demonstrating our outperformance.

And we also saw a degree of pricing pressure as a number of key markets, which are at historical lows. Operating profit was down 24% with adjusted operating margins down 110 basis points from H1 '23, but broadly consistent with the H2 '23 run rate.

Derco synergies and the wider cost programs have proved to be an underpin to operating margin and has mostly mitigated the deleveraging effect of reduced volumes.

Derco continues to be transformative for our business in the region, helping us scale across the Americas and this is highlighted by three distribution contracts won in the Americas in H1 '24. Looking ahead, we have prudent expectations for short-term volume recovery, but margins are expected to improve in the second half, building on an improved margin exit rate at the end of H1 '24.

This slide shows our income statement for the period. The group delivered operating profit of £299m and PBT was £226m, including a currency headwind during the half. Adjusting items amounted to £31m and this was primarily driven by acquisition and integration costs of £23m and non-cash, non-operational losses arising from hyperinflation accounting in Ethiopia of £8m.

And we also note that on the 28th July, the Ethiopian government announced a change in the way that it manages its currency to an exchange based regime. And as at the 30th June, the net assets in our Ethiopian business was £155m, including cash of £94m.

Ethiopia was an immaterial contributor to growth in the first half, both in constant and actual currency terms and in absolute terms a low single digit proportion of group profit. And we will continue to monitor the impacts of this change, working with our local teams and banking partners.

The effective tax rate increased to 32.7%, partly due to the impact of mix and a pillar to tax cost. We expect our effective tax rate to decline over time, with structural improvements following the UK disposal. We maintain a strong focus on cost management, and we reduced overheads despite the increased scale of the business with a ratio of adjusted overheads as a percentage of revenue reducing to 10.9% from 11.4%.

And now moving on to our finance costs. Overall, net finance costs are slightly higher than the prior period, but lower sequentially. And while interest costs are partly linked to the interest rate environment, they are also directly connected to our growth and success as a company. And our net finance costs totalled £74m for the period.

The first element here is net interest of £34m, which is directly linked to the cost of corporate facilities in the group and in particular, our corporate debt. This element declined due to a reduction in average debt, which offset some short-term cash funded inventory flows during the period.

Looking ahead, net interest will reduce as the organic cash generating capability of the group and the proceeds from the UK retail disposal enables us to deleverage. And the second element of interest relates to leases, which is £9m, and this is linked to our physical infrastructure, and we'll grow as we grow and expand our business.

The costs associated with inventory finance were £26m during the period. We expect this to increase as we grow the business and as we align the commercial operating models of acquired businesses and will reduce if interest rates begin to fall.

The final element is the £5m of fees and FX costs, which have been reducing as we drive structural efficiency.

We produced another excellent free cash flow performance, highlighting the cash-generative nature of our business model with adjusted free cash flow of £226m, which is an operating profit conversion rate of 76%.

This was supported by a strong working capital inflow of £82m, driven by disciplined inventory management, particularly in the Americas. Inventory fell to £2bn from the £2.7bn at the end of 2023 due to an improvement in inventory efficiency across the group and the exclusion of UK retail inventory.

And as a consequence of our strong free cash flow performance, net debt reduced from £601m at the end of last year to £524 million, equating to a leverage of 0.7 times after dividend payments were made during the period of over £100m.

Looking ahead, we expect leverage to continue to reduce, supported by further strong underlying free cash flow performance and the cash to be received from the UK transaction. This provides us with the capacity to continue to follow our capital allocation policy, as you have seen today with the expansion and acceleration of our buyback program.

And this slide serves as a reminder to how we allocate capital in priority order focused on organic investment, dividend payments of 40% of adjusted EPS, and value accretive acquisitions with a healthy pipeline of bolt-on acquisitions at the current time.

The fourth element of our capital allocation policy is share buybacks and taking into account the excellent underlying free cash flow performance in the first half of the year and the group's strong balance sheet, we are accelerating our share buyback and increasing the amount from £100m to £150m, and the buyback will commence on the 1st August and is expected to complete during the first quarter of 2025.

So you can see that our excellent free cash flow performance continues to support capital allocation, and that's all for me. I'll now hand back to Duncan.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Thank you Adrian. We made further progress during the period and continuing to execute against our strategy. This slide shows the portfolio of some of our OEM partnerships categorised by manufacturer origin. We have a globally scaled, diversified, and prestigious portfolio, which is unrivaled across our industry.

Our portfolio of OEMs is the key foundation for our business, and we've worked with a number of OEMs like Toyota for over 50 years and have recently expanded into existing and new markets with other long-standing partners like Mercedes.

These long-term relationships highlight that we are delivering for our OEM partners on a consistent basis across a range of markets over a long period of time. We also have a number of relatively new partnerships with Chinese OEMs, and we expect to achieve more growth with these OEMs as they seek to leverage our geographic presence and as we look to categories beyond passenger vehicles.

Evidence of our success in this regard can be seen on this slide. This shows the new distribution contracts won during the first half and the related markets, including the annual industry volumes of those markets. Three of these contracts are with Chinese OEMs in the Americas, where we are further leveraging Derco relationships.

In addition, I'm delighted to say that overnight, our team in Australia has won a distribution contract with Foton, the largest Chinese commercial vehicle manufacturer. On the right, we give an update of the developments or other contracts won in recent years. And as you can see, we're making good progress.

We're driving initial volumes with Great Wall Motor in Indonesia, supported by a strong product range and brand positioning. In the Philippines, we've refreshed our third party retail network to support the Changan rollout. We've been working with BYD in Belgium for over two years, and we continue to support them in driving volume growth in a key EV market in Europe.

And finally, we ran a successful launch for Subaru in Ecuador in the period to support the brand roadmap there. We expect to win further distribution contracts to help us drive market share with more OEM partners in more markets.

We continue to enhance our distribution platform through the development of our proprietary data and digital analytics capabilities, which helped to drive superior performance for Inchcape and our OEM partners.

Our two key technologies are DXP, our customer experience platform, and DAP, our data analytics platform. DXP is a fully functional omnichannel customer facing platform, which enables us to capture significant customer and vehicle data.

DAP provides advanced analytics and machine learning leverages our data and drive smarter, faster, and better business decisions. These elements are supported by a common global technology stack and driven by specialists in our digital delivery centers in the Philippines and Colombia.

During the first half, we expanded the breadth of coverage of our core AI solutions into our recently acquired businesses, and we developed and deployed new market leading AI solutions, including an AI-based quotation capability for repair services.

So we continue to make excellent progress in digital and data, which is a key differentiator for the group, helping us to better support and develop OEM partnerships. We see many exciting opportunities for growth and innovation ahead.

To sum up today, Inchcape delivered a resilient performance in the first half with a strengthened balance sheet. We increased our share buyback to £150m with an accelerated timeline. We are reaffirming our guidance for 2024 at constant currency. And as Inchcape becomes a pureplay automotive distributor, we are well-placed for future growth, supported by a healthy pipeline of acquisitions and contract wins.

Let's now take your questions, firstly from people here in the room then from the phone lines, and finally, from the webcast via our Head of IR, Rob. And if you could limit your questions to just two per person, that would be most appreciated.

QUESTIONS AND ANSWERS

Sanjay Vidyarthi *Panmure Liberum Capital Limited - Analyst*

Sanjay Vidyarthi, Panmure Liberum. Just one for me on EVs, particularly in APAC, if you could give us an update on trends you're seeing there, I think BYD maybe taking a bit of share in Singapore, but just like to hear your thoughts on the impact of EVs across APAC.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Sure. Look, let me make a comment first of all, if we step back. So globally, EVs continue to reduce. I know there's lots of talk at the minute about EV sales reducing, they are still growing and they're growing in our markets. And our OEM portfolio, I think is well-matched to the movement in our markets towards EV.

Now what we've seen recently across APAC, if I think about Hong Kong and Singapore, we've seen further penetration of EV vehicles during the period, Inchcape taking its fair share of those. We're also seeing BYD enter some of those markets. You know, we are forming partnerships with BYD and other markets, for instance, commercial vehicles in Singapore. We expect that to continue, and I think we're well-positioned Sanjay for that. Thank you.

Andy Grobler *BNP Paribas Exane - Analyst*

Hi, good morning. Andy Grobler from BNP Paribas Exane. Two for me if I may. One, just on interest charges and debt. So two in one if I may, what was the average debt during the period because as a proportion of your quoted debt it's still quite high. And two kind of related. What are your expectations for interest charges for the full year, given all of the moving parts?

And then secondly, just in Latin America, where markets have been challenging, could you just chat through some of the bigger markets, so Colombia and Chile in particular and what you are seeing? Thank you.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

So thank you, Andy. So yeah, interest charges during the period they were consecutively lower than they were in the previous period. In relation to average debt, you're absolutely right that there is obviously a shape to our debt profile. You can see that in the interest charge in relation to the debt, that is partly driven by the working capital cycle that we see in the group. It's a very normal part of the group.

But also, in the second quarter, actually, we did see quite a bit of inventory inflow to support the very strong organic growth rates that you saw in Europe. And that's particularly in areas where we have some limited supply terms and they were cash funded, which caused some of that shape.

In terms of outlook, as we've said today, we expect interest costs to reduce, particularly in relation to the interest cost charge that relates to our debt level, principally because of the strong cash flow, the lower average debt, but also from the proceeds of the UK.

I think in relation to inventory financing charges, which form part of our interest costs, they will continue to track growth for us as a business. And as we continue to grow, we'll continue to see those costs change with our growth rates.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Thank you, Adrian. So in terms of the Americas, so if we take a step back, we got a two speed Americas at Inchcape, Caribbean and Central America is growing very nicely for us. I was in fact, Adrian and I have both been in Central America this year already. So they're growing very nicely. You know, those markets in South America have seen TIV declines.

And I was in fact, I was in Chile and Colombia in the first half, the situation that you see year-over-year TIV declines, if you look sequentially, that is a different picture and we're seeing those markets stabilise. Now, what is the Inchcape team doing there? They're behaving like all Inchcape teams around the world, they are close to their markets, managing their cost base well, all over inventory, and they're performing really well, as you can see for our market shares in the first half, and we're winning more contracts.

Adrian referenced three contracts we've won already this year, so stabilising. And then if you look at how I see H2 versus H1, you'll see we gave you a hint in the slide deck that the exit rates for margins in H1 were stronger, and we expect H2 profitability to increase sequentially. Thanks.

Arthur Truslove *Citi - Analyst*

Thank you, Duncan; thank you, Adrian. So a couple from me, please. So obviously a little bit complicated this morning with the retail disposal coming out, so just to confirm that you're sort of happy with where consensus expectations are.

So coming into this £515m of PBT and I guess £40m to £50m of Retail EBIT coming out and then maybe £10m of interest, going the other way. So that sort of gets you to £470m - £480m, which I would say is in line with the £515m? Is that what you're expecting? First question.

Second question was on organic growth. So obviously, you're quite harsh in terms of how you define organic growth, I believe that you don't put new contracts in there. Are you able to sort of split the non-organic growth between M&A and new contracts won? Thank you.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Thank you. Both of those are coming to you.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

That's fine.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

One thing just first of all Arthur, I would say is we're becoming an even simpler group with the disposal of the UK. and I'm super pleased about becoming a pure play distributor. But with that Adrian, the complicated questions are yours.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Thank you very much, Duncan. So I might take the second first because it's the easiest one. Arthur, sorry, actually our contract wins are in our organic growth number and they were a small proportion of the growth contributor to the 4% that we've quoted this morning. So hopefully, that one clarifies the technical one.

In relation to consensus, look, it is a complicated period for us as we are transitioning. And I think what you should take from us today is we are reiterating our guidance. We continue to expect to see a moderated level of profit growth on a constant currency basis. That's what we said at the end of the first quarter and during the first half of this year.

Now what we've done helpfully for you in the appendix to the deck today is to give you the 2023 comparator, so you can see that very clearly and what it is. And look, profit growth in the first half of 7% on a constant currency, slightly above that moderated level because that moderation is in relation to our mid-term guidance. So we feel like we're on track. We feel like we're delivering growth, and we're reiterating our guidance and stand by what we said earlier in the year.

James Zaremba *Barclays - Analyst*

First question, just on Ethiopia, in the Americas, what share of profit in that region, over the last few years, have you actually managed to repatriate the to the group's incentive cash and I guess what hasn't been repatriated, and what's been done with that.

And then secondly, just maybe an update on the synergies, what was the run rate at the end of the first half? And I guess what was that money spent on in terms of the exceptionals? Thank you.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Can you just clarify the first question, please?

James Zaremba *Barclays - Analyst*

Yes, I guess it was in terms of adjusted operating profit generated out of Africa. What share of that actually gets repatriated in terms of cash to the group versus stays in the region.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

I heard you mentioned Americas, just to clarify Ethiopia sits within the European and African segment, obviously. What I've said today is that there's been a recent change, which is going to create a very interesting environment.

Ethiopia was a low contributor to group profits, low single digits in terms of its proportionality. In terms of repatriation, you can see from the cash reserves in that market, it's been an environment where getting cash out of that market has been difficult. The amount of cash is fully disclosed on our balance sheet at the year-end technically as trapped.

And I think the initial reaction to what the government are doing, may create a more free-flowing currency situation in that market. So we're quite optimistic around the future in the medium term, what the change in the Ethiopian government policy, but it is very early days at this stage.

In terms of the Americas, look, I think we haven't quoted a number. What you should take from what we've said today is we are on track for the synergy program. In fact, when you look at in aggregate, our synergy program plus the sort of moderation in our cost that our businesses do when you tackle lower levels of volumes in a market, we are delivering a very good performance.

And actually, if you look in the Americas alone, which you can't see, our overhead ratios are flat year on year in a declining market. That is a testament to the efforts of the teams and the structural changes we are making and will set us up very, very well for growth and operating leverage when the business comes back.

You asked around what proportion of the adjusting items, about £18m of the £23m that we quoted in relation to acquisition and disposals was related to the Derco synergies. And what was it spent on, if you remember, we said at the start of the year, this is the year of really the physical infrastructure.

So think about, we have three vehicle processing and storage compounds, where vehicles are received into the country, processed, and then sent out to the dealer networks. We're bringing that into one in La Bolsa in Santiago, similarly with parts warehousing type facility. So this is the year of physical alignment as well as some continued operational and process alignment.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

James, I'll add one thing to that. The reduction of physical distribution centres in Chile, in particular, we have a huge distribution center that we acquired with Derco. We've applied our S&OP algorithms and our parts algorithms to reduce physical inventory space, which has enabled us to close the legacy Inchcape and the legacy Ditec centres to go into those sites. So I'm super happy about what that team is doing. Thank you.

James Bayliss *Berenberg - Analyst*

Just one from me. On inventory, you mentioned some of the performance has been driven by that focus on process and efficiency as well as working to align recent acquisitions with the group's core working capital model. On that latter part, can you give us a sense of how much work was done there on bringing those acquired businesses in line with the rest of the group or should we be thinking about that part as largely done? Thanks.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Okay. Yeah, thank you. And look, we are super pleased with the progress we've made in inventory. Just so everybody is on the same page, we started the year with around £2.8bn worth of inventory. Once you exclude the UK, which is around £300m, we've closed the year just over £2bn, so great progress in terms of reducing inventory across the group.

In part that is, as you say, James, generally, our S&OP processes and the investments we've made in the way we work, the data we use to make our decisions showing up in terms of our operating model and indeed doing that in some of the businesses we acquired in the third quarter of last year in Asia-Pacific, do I think there's more to go?

Look, I think we're getting to a point where there may well be more opportunity to bring inventory cover down, but we just need to make sure we continue to manage that really carefully. But we're super pleased with the progress we've made in the first half. And this is part of being a brilliant distributor, making great decisions about what stock we bring into the countries, understanding demand profiles, and moderating that down and up as we see consumer activity change. It's part of our core competencies.

James Wheatcroft *Jefferies - Analyst*

Morning. James Wheatcroft from Jefferies. Just a follow up on your comment, Duncan around diversifying beyond passenger vehicle categories and maybe just sort of thinking about where it stands today and what we should be thinking about just in the future?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Sure. So James, we generally speak and most of our conversation this morning has been around our core mission to grow our passenger vehicle distribution business. And that's most of the conversations we have. What you'll see later in the year when we are In the Driving Seat session in November is we also have a significant opportunity beyond passenger vehicles in light commercial vehicles and other commercial vehicle categories.

I think the announcement we made overnight in Australia about taking Foton into Australia is a nice example of that. The Ford contract wins that we had in Estonia with Ford's strong commercial vehicles portfolio is another example of that.

But today, light commercial vehicles are a relatively small part of our business. We also have an increased opportunity, I think also with OEMs like Toyota, to also increase commercial vehicles penetration into our markets. So more to say on that later in the year, but I'm quite excited about where we might end up with light commercial vehicles.

Charles Rothbarth HSBC– *Analyst*

Hi, thank you very much for taking my questions. Two from me. The first is around your inventory financing costs. Could you please remind us how much of these are centralised and how much of these are country specific? And then second one is, could you give a little bit of context around the run rate out of H1 in the Americas versus going into H1?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Sure.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Very good. So let's take the inventory financing costs. If I remind you, if I take you back if I can, to what we said in the In the Driving Seat webinar, where we set out the articulation of how our working capital cycle works and where those inventory financing costs are. At a very, very simple level, they're all locally entered into, but the currencies of them typically link to the major currencies of the world.

So the inventory financing facilities are typically linked to the country of purchase. So whether that be Japanese Yen, US dollar, Euro, or Renminbi, they are typically the current currencies of our purchase. And then we take hedging mechanisms between that and the functional currencies of the operations.

And so when we think about the drivers of interest cost, which may be the question behind your question, actually, it's linked to the major currency interest rates as opposed to the Chilean Peso, for example. In relation to the run rate comments, we've made yeah look, as you quite rightly point, we've made comments around a stronger exit rate in terms of margins.

And really what we saw was some of the work that we were talking about earlier come to fruition in terms of overhead rates and absolute levels of costs falling in the second quarter in the Americas, helping to support a higher level of operating margins.

And when we look into the second half, we expect to see a higher level of operating margin without a significant uplift in volumes. And so when we think about what's going to be a tailwind for us next year, all of the good work the teams are doing locally about making sure we got the right cost base for the markets we face into, we'll pay dividends in the second half as we see margins uplift.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

So I think we finished with questions in the room. Let's move to the phone lines, if we could do please.

Operator

(Operator Instructions) Akshat Kacker, JPM.

Akshat Kacker *J.P. Morgan Securities plc - Analyst*

Thank you, good morning. Two questions, please. The first one on Europe and Africa, so when I think about the distribution volumes and market share wins in the region, they have been clearly above expectations as well as the operating profit result in recent times.

In the release, you have again mentioned that you expect margins to moderate, but you are still seeing a very strong order intake going into the second half. So could you just help us with how we should think about performance going into the second half, but also in 2025 for that region, please? That's the first question.

And the second one is on APAC. Could you just comment on order intake and the volume momentum that you're seeing in terms of new vehicle sales going into second half in the APAC region, please? Thank you.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Akshat, so first response in terms of your question on Europe and Africa, look I think that team has done an exceptional job in the first half, and you can see that with market share gains, particularly in our Toyota markets in Europe, where we have been delivering in great partnership with Toyota against a strong order bank.

Now I stand by what we've said for some time, which is as we eat through that order bank, we will see a reduction in performance in our Europe business to more like normal levels. We are seeing the signs of better order intake in our markets. You used the word very strong, I would not say very strong, I'd say we are seeing good signs of better order intake, particularly in those Southern European markets. But we will see sequentially a reduction in PBT in our Europe and Africa business in the second half. Mr. Lewis, do you want to add to that, please?

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

I have nothing to add to your Europe and Africa comments. In terms of APAC, so a good momentum actually, I mean, if you think about what we've reported this morning we have 9% organic growth and 24% constant currency growth in APAC.

We have seen Singapore continue on its upcycle. We've seen Hong Kong performed very strongly in the first half of the year. And we've seen a resilient Australasia business and there is a little bit of noise because of supply volumes in the Australasia business. But overall, consumer demand has remained resilient.

And in the first half, you're also seeing the benefit of those acquisitions that we made in the third quarter of last year. Now we annualise those obviously. So I don't expect total growth to be the same, but we certainly expect organic growth to continue to support operating leverage and margin growth in the region.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

And then if I may, just two things to add to that, actually, which is in Singapore for the avoidance of doubt, we are on the upcycle in Singapore and we are taking our fair share of TIV as that market continues to grow on the upcycle in Singapore.

Akshat Kacker *J.P. Morgan Securities plc - Analyst*

Understood. Thank you.

Operator

There are no further questions from the conference line, I want to hand back to the Inchcape team.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good. To Rob.

Rob Gurner *Inchcape PLC - Head of Investor Relations*

Just also reiterating about APAC, we do have an In the Driving Seat in November where we giving a deep dive on the region. One question from David Brockton at Numis, in fact, two, I'd say 2.5 questions. First question is do you expect to see pricing pressure in Americas moderating as key markets stabilise? Or could this worsen in H2 and beyond?

The second-and-a-half question is, what does the bolt-on acquisition pipeline look like? And what drove the consideration to increase the buyback from £100m to £150m?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

That is definitely three questions.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Shall I do one and three?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Yeah, great.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Well, let me do one and three. Pricing pressure, so if I refer you back to the comments I made earlier, so Americas in aggregate, the markets were about 9% lower. And our volume growth or our volume performance was around 7%. So there was about a 2% delta in terms of our overperformance. And we also reported minus 9% organic growth. So there's also about 2% pricing pressure.

Do I expect to see that continue? Look, I think there's a bit of vehicle mix. So when markets are at low points, it is very natural to see consumers switching into smaller, lower value vehicles.

And so I don't expect to see it continue to accelerate and for that gap to widen, but nor do I expect to see it to go the other way and to see pricing uplifts over time. And some part of our job as a distributor is to just make sure we're bringing the right stock into the markets and with our inventory that has reduced in the Americas during the first half, I think the teams have done a great job in that regard.

You asked about the £150m and why increase the buyback, well, look, one of the messages we've led with this morning is we have had a very strong balance sheet performance in the first half. Our operating profit to cash flow conversion rate was 76%, and that's above our guidance on the back of some of that working capital improvements that we've made, and it is that additional free cash flow that we have generated.

Put through the lens of our capital allocation policy, which has led us to increase the buyback, and I'm sure, Duncan, I'll comment on acquisition in a second in the context of a materially delevered balance sheet, and acquisition flows, which are likely to be 2025, we thought it was appropriate to increase the share buyback to £150m and indeed accelerate the timeline and we're going to commence that buyback immediately. Duncan, over to you.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***

Very good. Look, in terms of our expansion, in terms of contract wins and M&A, I'd say take two things. First, on contract wins, you've seen us deliver four in the first half, another one overnight. We will continue to win contracts for distribution in our three distribution regions.

Going to the point, the specific point you made around M&A, look, we have a healthy pipeline and I reiterate healthy pipeline of bolt-on acquisitions across our three distribution regions. We are in active conversations with those companies now, but I do not expect cash outflows for those until 2025, but we continue to look for accretive acquisitions for the group.

And we remain disciplined in terms of valuation market and OEM portfolio with an emphasis on building scale, as we said, In the Driving Seat webinar in May in existing markets. But at the same time, we continue to look for attractive new markets for Inchcape.

Rob Gurner ***Inchcape PLC - Head of Investor Relations***

We have another question from Patrick Vermeulen at Ascot House. To what extent would you be able to hold on to overhead improvements as and when volumes recover presumably in the Americas?

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***

That can only be you.

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

Yeah, absolutely. Patrick, thank you very much for the question. I think that if you think about what we've been doing over the last 18 months since the Derco acquisition, particularly in relation to the synergies program, these are structural changes that will stick in the Americas and then more latterly, as those markets have seen lower levels of volume, we have been moderating down our cost base, so that we have the right operating model for that region.

And for us to have been able to hold overall overhead ratios flat in a market that is 9% lower than it was this time last year, I think as I said earlier, is a testament to the team. The structural savings will stick and it will support operating margins as we see those markets rescale.

Rob Gurner ***Inchcape PLC - Head of Investor Relations***

This is the final question from Jamie Powell at Lansdowne. Can you give a bit more of a sense of where you think leverage will be going into 2025 particularly if rates begin to normalise?

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

Yeah, there's slightly two questions. So leverage, I think you can see we reported net debt of £524m, at 0.7 times. We've also announced today that with the proceeds from the UK will be received on Thursday. And so that will substantially delever the balance sheet.

You can expect -- I think you can fairly straightforward do the math in terms of that. And the free cash flow of the business will continue to support both the buyback, both the dividend outflows that we have. And as Duncan said, with 2025 acquisition flows expected, we expect to close the year with a substantially de-levered balance sheet.

Duncan Tait ***Inchcape PLC - Group Chief Executive Officer***

Very good. Thanks very much, Rob. Thanks, Adrian. Well, look, that's the last of our questions. So let me sum up. With the approval of the FCA for the UK transaction, we become a pure play distributor. We have delivered a resilient performance in the first half. We've closed more distribution contracts. We've increased and accelerated our share buyback.

And with a pipeline of more contract wins and a healthy pipeline of bolt-on acquisitions, we remain positive about the future of Inchcape. Thank you very much for being with us today. Have a super Tuesday. Thank you.

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