Inchcape PLC
Q3 Results

Audio webcast

24th October 2024

Transcript

Duncan Tait: Good morning, everyone, and thank you for joining us. I'm here with our CFO, Adrian Lewis, and our Head of Investor Relations, Rob Gurner. I'll give an overview of our strategic progress and operational performance in the quarter and then hand over to Adrian for more detail on the performance across the regions and the outlook which remains unchanged. We'll then take your questions.

In a fast-moving global automotive environment, Inchcape delivered a resilient performance in the third quarter with revenue growth of 2% in constant currency, and we are reiterating our outlook for the year. This reflects the underlying strength, scale, and diversification of our business, as well as the consistently excellent operational execution by our teams. Our performance also highlights the ongoing strategic progress we have made with recently won distribution contracts supporting the top-line performance amid a mixed market backdrop.

This progress has continued in 2024 with nine distribution contracts won so far this year, including a further five in the second half. These included two in Australia, Deepal, a Changan brand, and Foton, as well as three contracts in the Americas, Harley-Davidson in Chile, Peugeot in the Caribbean, and Great Wall Motors in Colombia. With the disposal of our UK retail business during the period and a healthy pipeline of bolt-on acquisitions, Inchcape is well-placed to further consolidate our position as the world's leading pureplay automotive distributor, by leveraging our differentiated technology capabilities to support our OEM partners, by continuing to build market share in existing markets, by expanding into new markets and by further developing our OEM partner portfolio. With that, I'll now hand over to Adrian.

Adrian Lewis: Thank you, Duncan, and good morning everyone. During the period, the Group generated £2.2 billion of revenue, up 2% in constant currency, with organic revenue down 1% and a 3% contribution from acquisitions. With translational currency headwinds of 7%, reported revenue was down 5%.

Looking at the key trends across our regions. In the Americas, we continued to see markets like Chile and Colombia stabilising. This helped to deliver an improved organic revenue performance in the quarter compared to the first half. In APAC, there were some strong performances in certain markets, in particular Singapore, where we are seeing growth in line with the market. Hong Kong, where we achieved market share gains and a contribution from our acquisitions. However, we saw some market headwinds more recently in Australia where consumer confidence has weakened.

Europe performs strongly supported by a continuing order bank unwind in certain markets in Europe, including Greece, and we have now seen three consecutive quarters of new order growth in Europe, including Belgium, Romania, and Bulgaria, partly from the performance of new contracts won in 2022. And this will help to offset the expected normalisation of growth in the region in the future. Africa, despite currency devaluation in Ethiopia, has seen a stable market and resilient revenues.

Let remind you that our balance sheet remains in good shape following disposal of our UK retail business for an equity value of £346 million in the quarter. And in addition, we maintain good discipline on working capital, which has seen our inventory fall below levels seen at the start of the year. We maintain a disciplined approach to capital allocation and this is evidenced by the progress made with our £150 million share buyback program initiated on the 31st of July. And we have already acquired around £83 million in shares, with the program expected to complete during the first quarter of next year.

Acquisitions are a critical part of our growth strategy and we remain disciplined on valuation, and as Duncan has mentioned, we have a healthy pipeline of bolt-on acquisitions.

And finally, on to outlook. We continue to expect to deliver moderated growth for the Group for 2024 at constant currency, supported by our ongoing discipline on cost management. Reported profits for this year will be impacted by the translational foreign exchange headwinds during the second half of the year. In particular, the Ethiopian Birr has devalued by around 60% since the 28th of July, when the government unveiled its plan to transition to an exchange based currency regime.

In 2023, our Ethiopian business was an immaterial contributor to growth for the Group and a low single-digit proportion of Group PBT, which equated to approximately £23 million. And in considering the full-year impact of the currency devaluation in that market, it is worth noting that in line with hyper-inflation accounting principles, the income statement for Ethiopia is translated at the closing currency rate rather than the average rate across the period, as you would do under normal accounting principles.

Turning to the medium-term outlook for Inchcape, we remain confident about returning to higher levels of growth whilst driving returns for our shareholders. This will be driven by our highly cash generative earnings model, the continued diversification and scale of our business, further acquisitions and contract wins, supported by an anticipated recovery across a number of markets. So, now let's take your questions and if you could limit your questions to two each please, that would be greatly appreciated. Serghei, over to you.

Operator: Thank you so much. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. If you wish to cancel your request, please press star two. And please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, it is star one to ask a question. The first question comes from Akshat Mathur from JP Morgan. Please go ahead.

Akshat Mathur: Good morning, Duncan. It is Akshat from JP Morgan. I'll keep my questions to two. The first one on markets and cyclical activity. Could you just give us more details on dealer or website traffic trends and incoming orders across your key markets? Specifically interested in what you're seeing in Europe, Hong Kong, and Australia please.

The second one is on the cost saving initiative. In the release this morning, you have specifically talked about ongoing cost action that were probably needed to meet your organic PBT guidance for 2024. Could you give us more colour on that, or any specific initiatives that you would like to call out, like Derco? Would you extract more savings from Derco going into 2025? Thank you.

Duncan Tait: Good morning, Akshat. Thank you very much for the questions. Maybe if I take one, and Adrian, you could take number two.

So, you called out three markets in particular, which is Hong Kong, Singapore, and Australia. Let's step through those. So, look, we're performing well in Hong Kong. And if I look at the year so far, the market was very buoyant in Q1 and has been a little quieter in the second and, in fact, the third quarter. The team is holding share. You know we've diversified our OEM portfolio in Hong Kong. Business is holding share, team's doing a good job, and I'll be with them in January to see how the second half went.

In Singapore, look, I have to reiterate, Akshat, which is that market is definitely on the up cycle regarding the COE availability. And we have probably four years of continued growth in that Singapore market. The team's holding share very nicely. We're getting our fair share of the upswing that's going on in Singapore and the new technology we've deployed with our digital experience platform and others is helping a lot with that, along with a good portfolio of commercial vehicles also.

Then in Australia, look, I think I would say we are following the market. Adrian mentioned earlier on that the third quarter in Australia we've seen consumer demand moderate. I would say, we are following the market in Australia with order intake slightly down, as you would expect in a market that has dropped. But then, I would also remind you we have two great contract wins in the period. One with Foton, one with Deepal. We're about a 3.5% market share player in Australia, and we would hope those two contract wins over time would enable us to go beyond a 5% number as those contract ramp. With that, let me hand over to the second question to Adrian.

Adrian Lewis: Yeah. Thank you, Duncan, and thank you, Akshat. Look, I'll take you back a little bit to what we said at the first half where you were seeing overhead ratios in proportion to sales fall, particularly in the Americas where the Derco synergy program was beginning to support the earnings in that region. And I think what you should hear us say is, "Look, we've continued to do that. We're continuing to see our businesses manage their cost base appropriate to the markets that they operate in." I wouldn't call out one specific initiative. The biggest program we have across the Group at the moment is the Derco synergy program, which is on track and supporting that region and will support margins in that region.

So, I think what you should hear us talk about in the reiteration of our profit guidance is that we're continuing to manage that cost base. I'll say one other thing. Whilst we think about the cost base, the other thing to think about is our balance sheet, and from an inventory perspective the teams are doing an outstanding job, just making sure we've got the right level of inventory and we're continuing to see inventory lower at the moment versus where we saw it at the start of the year. So, I think the teams are doing a great job controlling across the various parts of the business.

Akshat Mathur: Great. Thank you.

Duncan Tait: Thank you, Akshat.

Operator: Our next question comes from David Brockton from Deutsche Numis. Please go ahead.

David Brockton: Thank you. Two from me as well. Firstly on the Americas, market data seems to suggest to me that Colombia and Chile are back to growth. Are there any regions in the Americas that concern you currently or could hold the business back into next year? That's question one.

And then, the second question, just on the healthy acquisition pipeline that you reference, just wondering if you can give any more colour around that, i.e., the number of opportunities under consideration, how things are progressing through that funnel? I think you said at H1 that we shouldn't expect anything until early 2025, but an update there would be much appreciated. Thanks.

Duncan Tait: Very good. Thanks, David. I'll cover both of those if I may. So, look, on the Americas, I think you are right, we've called out a stabilisation of the major markets in the southern part or Latin America during this year. What you saw in the third quarter is Chile and Colombia return to growth. Let's not get too excited yet, but the indications from both those markets are good. And then, Peru is still a little bit in the doldrums. Let's see where it gets to as we move into 2025. But Peru is not yet recovering and it's a different situation from what we see in Chile and in Colombia. And just one point to note across that business, I'm really pleased with that Americas' team maintaining share, and you'll have noted a number of contract wins across that Americas business right from Caribbean and Central America through our Latin American operations.

In terms of M&A, look, I think the statement says everything. We have a healthy pipeline of bolt-on acquisitions. If anything, since the last time we spoke at the interims, the pipeline has expanded, and I am visiting a number of those potential acquisitions over the next few months and stand by what we said before, you won't hear much from us this year, but as we move into 2025, we'd hope to tell you more about which acquisitions we have landed. And in terms of cash outflow, don't think about the early parts of next year. Think about that more towards the middle or the second half of the year in terms of cash outflow.

David Brockton: Thanks. That's useful.

Duncan Tait: Thanks, David.

Operator: Our next question comes from Andy Grobler from BNP Paribas. Please go ahead.

Andy Grobler: Hi, good morning. Just one from me if I may. You've talked about the nine contract wins you've had during the year and there was some commentary about the Australian ones and the quantum of those, but in aggregate, how much could that add to revenues through time? So, once those are up and more mature, what level of revenues would you expect from those nine contract wins? Thank you.

Duncan Tait: Very good, thank you. Adrian, this must be yours.

Adrian Lewis: Thank you. Thank you, Andy. So look, I think, as you say, nine contract wins so far this year. And if you look more broadly over the last two years we've signed over 20 contract wins. Each of them are going to be different in size and scale, but they all have an aspiration to achieve somewhere between 1 and 5% of their local market operations. These are the sorts of disclosures that we included in our In the Driving Seat webinar, which I think was on the 23rd of May.

How much will they contribute over time? These will all get to maturity within the three to five-year period. And we're starting to that actually, if you look at some of the Belgium stats from a market share, you're starting to see the 2022 win of BYD really contribute to our share performance in aggregate in Belgium. We don't quantify them in totality. We're a business that operates across 40 markets with over 60 different OEMs. And our job is to manage that portfolio to deliver consistent and robust earnings momentum. And that's what you're seeing us do for this year.

Andy Grobler: And can I just follow up on that, just going from Duncan's comments earlier about the two wins in Australia taking you from 3.5 to 5% market share in that market, but implicitly that's kind of £150 million revenues. Is that about right? Thank you.

Adrian Lewis: So, both of those contract wins I think are really interesting, because they're not brands that are perhaps well known to everyone. So, Deepal, which is one of Changan's EV brands will help us step into the emerging EV segment in Australia, which continues to run below 15% of the overall market. And then, Foton, which is a light commercial vehicle and as it's locally known, the UTE product, which is a big segment that we currently don't play in.

So, those two brands really talk to our strategy of broadening our portfolio to attract and participate in segments that we don't currently participate in. So, I think your numbers are not too far off. Yeah, each one of those will contribute to our aggregated market share and Australia is a material market for us, as you know. So yeah, I think you've articulated it pretty well.

Andy Grobler: Great. Thank you very much.

Duncan Tait: Thanks, Andy.

Operator: As a reminder to ask a question over the phone, please signal mobile pressing star one. You may also submit your questions on the webcast platform. Our next question comes from Sanjay Vidyarthi from Panmure Liberum. Please go ahead.

Sanjay Vidyarthi: Morning. A couple from me. First on Europe, just to clarify, it seems like that market has surprised on the upside relative to the guidance you've given earlier on in the year, but is that on an organic basis as well? I think you referenced some of the order intake has come from new contract wins. Would you say that on an organic basis it's also surprising on the upside? And given your cautious guidance on it in the past, your budgets, have you actually got enough stock if those markets are surprising to the upside? And then, second question is just on the smaller Asian markets, can you give some colour on how those are performing? Thanks.

Duncan Tait: Very good. Morning, Sanjay. Thank you very much. Adrian, do you want to take one

Adrian Lewis: Yeah. Sure.

Duncan Tait: and I'll do a little bit of two?

Adrian Lewis: Yeah, okay, sure. So, I think what we said about Europe, we have been positive. Europe has been trading positively. We've seen three consecutive quarters of order take growth. In part that is because of the contract wins that we've had, and I've mentioned Belgium and BYD, which has been performing very well for us and that features within organic.

In relation to stock, look, the fact that we have an order bank tells you we would like more stock in some of those markets, and if we had more stock we could supply more sales. And that's what we've been working through with our OEM partners over the last 12 months or so. But I think the more meaningful thing we're trying to provide is that actually the underlying trends of consumer activity, particularly in those southern European regions, together with our strategy of broadening our brand portfolio, is helping to deliver a performance that is slightly better than we perhaps originally anticipated. I think that's what I'd say on Europe. And Duncan on Asia?

Duncan Tait: Thanks very much, Adrian. So, in terms of our smaller Asian market, what we call our South Asia Pacific business, Sanjay, if I go through a few of those market, and in fact, I spent a lot of time in Asia in September. Philippines, the acquisition we made in the third quarter of last year, that continues to perform well for us and we are, as we mentioned, we've launched Changan, where we're redesigning the dealer network in-country to enable Changan to get more market share, more work to do on that.

In Indonesia, the acquisition we made of the Mercedes facility in the third quarter of '23. I'm pleased with the way the team is managing that Mercedes business in-country and we, of course, are launching Great Wall's products in the second half, and we're seeing decent traction with Great Wall. I'll be back in January to see how the team is doing in detail. In fact, take our Board with us for an overseas board visit to Indonesia.

And Guam, Saipan business in terms of passenger car vehicle is a little muted at the minute, but I'm very, very pleased with how the acquisition we made of the Morrico construction and machinery business is performing in those islands of Guam, Saipan, and Tinian Islands. It's been a great acquisition for us. And that South Asia Pacific business is getting more and more important for the APAC business under Ruslan.

Sanjay Vidyarthi: Okay. That's great. Thank you very much.

Duncan Tait: Thank you, Sanjay.

Operator: Thank you. It appears there are currently no further questions in the phone queue. With this, I'd like to hand the call back over to Rob Gurner for any webcast questions.

Rob Gurner: Thanks, Serghei. We've got three questions from Arthur Truslove at Citi. One on FX, one on Europe, and one on working capital.

The first is on FX, "My understanding is that around £25 million of the FX impact is £15 million for Ethiopia and £10 million across other markets. Can you discuss what drives that additional £10 million from that broader FX impact?" Second question on Europe, "It looks like volumes have been very strong in Greece and robust in Belgium and Romania. At the half year, your guidance was that Europe margins should normalise to 4 to 4.5% in the second half. How should we think about the likelihood this margin change will take a little bit longer to come down?" And the third question on working capital, "What is your view on the working capital related cash flows this year? Should we see positive free cash flow?"

Duncan Tait: Adrian, I think you've hit the jackpot.

Adrian Lewis: All of those are for me. Absolutely. So, let's take them one by one. So FX, you are right on the Ethiopian Birr. Your interpretation of the words I used in the presentation were correct. In terms of the £10 million of other, we have operating businesses in multiple markets, as we know, we operate in 39 or 40 markets, and each of those has obviously a different currency pair. In aggregate, the pound strengthening across US dollar, across Australian dollar, and across the basket of Latin American and South Asian currencies is the thing that has led to the additional £10 million of translational impacts. It is a long tale of smaller market movements rather than one specific one that I would want to call out, Arthur.

On Europe, from a margin perspective, look, this is only a trading update, so we're not guiding on full-year margins at a regional level at this stage, but the fact that we are reiterating our underlying performance and citing a stronger European business. As you say, Greece and Belgium are probably two of the highlights in that region. And the words we've said around that will help us in the normalisation process. We're seeing a strong Europe is performing well and we'll say more about that in our full-year results.

And from a working capital perspective and free cash flow that is associated to it, our guidance remains unchanged, around 60 to 70% operating profit to free cash flow conversion rate. The teams have done a great job in managing inventory across the Group, and in the context of the top line. So, I think we're in good shape, but the guidance remains unchanged in terms of free cash flow.

Duncan Tait: Very good. Thank you, Adrian. Thanks, Rob. And thank you to everyone for joining us this morning. So, to summarise, Inchcape continues to deliver, and we reiterate our outlook for the year. We remain well-placed to further consolidate our position as the world's leading pureplay automotive distributor. By leveraging our differentiated technology capabilities, by further building market share in existing markets, by expanding into new markets, and by continuing to develop our OEM partner portfolio. As a result, we remain confident about the medium-term outlook for the Group.

Finally, just a reminder, we will be hosting a hybrid In the Driving Seat event on Thursday the 14th of November at 2:00 PM UK time, to provide an update on our evolved strategy and an overview of our business in the APAC region. In the meantime, please feel free to get in touch with Rob if you want to follow up on anything we've discussed on today's call. Thank you for joining.