LSEG STREETEVENTS

EDITED TRANSCRIPT

FULL YEAR 2024 INCHCAPE PLC EARNINGS CALL

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An LSEG Business

CORPORATE PARTICIPANTS

- **Duncan Tait** *Inchcape PLC - Group Chief Executive Officer*
- **Adrian Lewis** *Inchcape PLC - Group Chief Financial Officer*

IN PERSON ATTENDEES

- **Sanjay Vidyarthi** *Panmure Liberum Limited - Analyst*
- **Andrew Grobler** *BNP Paribas Exane - Analyst*
- **James Bayliss** *Berenberg- Analyst*
- **Andrew Nussey** *Peel Hunt LLP - Analyst*
- **Charlie Rothbarth** *HSBC - Analyst*

PRESENTATION

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Well, good morning everybody. Welcome to Inchcape full year 2024. Results. I'm Duncan Tait, Group CEO, and I'm joined by our CFO Adrian Lewis. Here's today's agenda. I'll give an overview in strategic context. Adrian will then run through the 2024 results before outlining our medium term targets published today. I'll then sum up and discuss the outlook for 2025.

Today's presentation is available on our website, and a recording of today's session will be available later today. After the presentation, we'll take your questions.

So I'll start with our key messages. First, we delivered another year of progress in 2024. Second, we updated our capital allocation policy and today announced a new £250 million share buyback program.

And third, we are today announcing new medium term targets including a target of EPS compound annual growth in excess of 10%. In 2024, we delivered 4% revenue growth and 5% PBT growth. During the year, we launched an evolved strategic approach, Accelerate plus, sold our UK retail business, and achieved a record year of 22 distribution contract wins.

Our updated capital allocation policy includes dividends at 40% of EPS, a commitment to ongoing share buybacks and value accretive acquisitions. And in the context of our new medium term targets, we expect another year of growth in 2025.

Over the next six years to the end of 2030, our target is to generate £2.5 billion in free cash flow, which will be deployed in full to drive compound annual growth in EPS in excess of 10%.

Now Inchcape is well placed to deliver on our medium term targets, supported by our clear and compelling investment case, the key dynamics of which are highlighted on this slide.

Powered by Accelerate Plus, Inchcape is the leading global provider of an essential function in the automotive industry, distribution. Our business is characterised by sticky long-term relationships with OEM's, in smaller and more complex markets, supported by Inchcape's highly differentiated technology capabilities.

Our business model drives our attractive financial profile, which is capital light, with resilient margins, highly cash generative, and delivers high returns. This financial profile enables Inchcape to deliver a disciplined capital allocation policy, ensuring we drive value for our shareholders. And this investment case will help us to deliver on our new medium term EPS target of in excess of 10% compound annual growth.

Now Accelerate Plus, our new strategy, has been designed to help scale and optimise our business, enabling Inchcape to deliver on our medium term targets. Accelerate Plus is driven by the quality and dedication of our 18,000 highly talented people around the world.

We've built a collaborative, entrepreneurial and high performing culture that provides the bedrock from which we can deliver future success at Inchcape and we're very proud of what we have achieved. This culture is driven by our dynamic leadership team where we made a number of changes last month to help deliver on our growth ambitions. These changes were the manifestation of our global talent planning process, which is regularly assessed by the Board, with a particular emphasis on developing internal talent. Scale will be achieved through winning distribution contracts, value accretive bolt-ons, and further developing our market leading technology capabilities.

Over the last five years, Inchcape has built a portfolio of 230 distribution contracts with over 60 OEM partners in approximately 40 diverse markets. Following two years of record new contract wins, we're now embedding these contracts into our business.

In 2024, we won two contracts in APAC, both in Australia, with Deepal, a Changan electric SUV brand, and Foton, a light commercial vehicle brand. In the Americas, we won 14 new contracts, including various Changan brands and a range of markets, as well as Great Wall Motors and JAC commercial vehicles in Colombia.

And in Europe and Africa we won six contracts, including two more with BYD. On M&A since 2019, the Group has executed eight acquisitions. Our pipeline remains healthy in a fragmented, independent distribution landscape. We'll continue to focus on accretive bolt on deals, and we are not currently looking to target any large scale acquisitions.

On technology, we have developed a market leading approach in the use of data to support our OEM partners. In 2024, we rolled out the latest versions of DXP and DAP, our customer experience and data analytics platform, into more markets with more OEMs. In addition, we utilise technologies like AI to drive efficiencies across our business.

Accelerate Plus is also focused on optimising key elements of our business to ensure Inchcape remains the most efficient and effective partner for our OEMs. Firstly, we are optimising our business through the divestment of non-core assets. Since 2019, we have disposed of a range of non-core retail assets, generating approximately £750 million in cash proceeds.

In 2024, we sold our UK retail business, and a retail after sales business in the Americas. This approach has ensured that Inchcape is fully focused on our distribution value chain, which is capital-light, more cash generative, higher growth and higher margin than retail only. Secondly, on optimising, as we grow, we aim to ensure that we have an optimal portfolio of brands, which is best suited to our business and our markets.

In the context of 44 new contract wins and a portfolio of 230 across the group, it is important that we continue to exercise discipline around those that work for us and for our OEM partners. Connected to this in 2024, we mutually agreed to end four immaterial distribution contracts with certain partners.

You should expect Inchcape to continue to grow and rationalise our contract portfolio, to ensure we optimise our market presence and leverage our infrastructure in the most important way. In addition, we continue to optimise our third party network in certain markets where we see the opportunity for enhanced returns.

And finally on this slide, we will also optimise through value added services. This includes the distribution of relatively high margin OEM certified parts supported by our digital parts platform in APAC, as well as developing and delivering financed insurance products by utilising our global scale and strategic partnerships.

In addition, we'll continue to support the new energy vehicle transition with early stage specialist capabilities, and we'll continue to develop our used car proposition, leveraging our strong third party independent retail network.

So driven by our diversified and scaled global market leadership position, our long standing and valuable OEM relationships and differentiated technology capabilities Inchcape delivered progress in 2024. We delivered across a range of financial metrics during the year which Adrian will now take you through. So Adrian, over to you.

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

Thank you, Duncan, and good morning everyone. During 2024 we generated revenues of £9.3 billion with operating margins of 6.3%. Adjusted PBT was £444 million. We delivered another excellent year of free cash flow generation, producing £462 million, and this was 151% free cash flow to adjusted profit after tax conversion rate, and this is a new metric for us.

Net debt reduced to £190 million, with closing leverage of 0.3 times and return on capital employed was 27%. Adjusted basic EPS was 71.3p, and today we declared a final dividend per share of 17.2p, taking the total dividend per share for the year to 28.5p.

So in summary, our performance during this year is a reflection of our continued operational delivery and strategic progress. So let's now turn to the key drivers of our top line performance. We grew 4% in constant currency terms, driven by 2% of organic growth and a 2% benefit from the acquisitions we made in APAC in 2023.

APAC organic growth was flat with mixed market momentum, particularly in the second half of the year. Europe and Africa again outperformed with 11% organic growth supported by an order bank unwind, particularly in the first half, and the America's revenue declined 4% organically, with organic growth of 1% in the second half of the year compared to (9)% in the first half.

And these growth drivers were offset by a 5% impact from the translational currency headwinds driven by the strength of the pound. And this slide highlights our operating margin bridge, which shows that we continue to deliver operating margin resilience with margins of 6.3% for the year. This was down slightly from the previous year, partly due to regional mix with a larger contribution from Europe and Africa, which is relatively lower margins compared to other regions.

Our overhead to revenue ratio was stable as our continued cost discipline and the benefits of cost synergies at Derco offset inflation.

Translational effects had a 10 basis points impact on operating margins, affecting regional mix, and this was driven by the combination of the strengthening of GBP against our major currencies and the material impact of Ethiopia, where we saw half too impacted by the devaluation of the Birr.

So now let's look at each of our regions starting with APAC. We performed in line with the market and delivered resilient margins against a mixed market backdrop, especially in the second half. Organic growth was flat and reported revenue grew 6%, 9% in constant currency, with a translational effect of (3)%.

In the second half of 2024, Australia saw a market decline, affecting overall organic momentum in the region. And in respect of the acquisitions made in 2023, these integrations of these businesses is well on track.

Operating profit grew with operating margins down slightly to 7.8%, not forgetting some non-recurring property profits that enhanced operating margins in the prior period. And for FY25, mixed market momentum is expected to continue with competitive dynamics, particularly in Singapore and Hong Kong.

Growth in the region is expected to be second half weighted, with tough half one comparators and more importantly, the timing of planned product launches of key models in core brands, as well as the ramp up of new contracts. Regional margins are expected to remain resilient through continued discipline around costs.

So now let's look at the Americas where we saw a robust performance across the region with momentum building in half two. Revenue fell by 4% in constant currency, with the region returning to growth in the second half with some positive price mix help.

Strategically, the region saw strong progress with 14 distribution contract wins, reflecting the strength of Duncan relationships, particularly with Chinese OEMs.

Operating profit in the Americas was down mostly due to FX and to a degree, the reduced scale of the region, which is reflected in operating margins, down 50 basis points to 6.3%. As momentum improved in the second half, as did our margins with an exit rate of 6.6%, with improved operating efficiencies across the region as our Derco synergy program nears completion.

And as we continue to look at our portfolio and optimise our business, at the end of 2024, we completed a transaction to dispose of a dilutive retail after sales business, which generated revenues of £80 million in 2024. And in relation to the contract exits that Duncan mentioned earlier, these were immaterial at an operating profit level.

Looking forward into 2025, we remain prudent about expectations for a strong market recovery, and we continue to expect to deliver margin resilience.

Onto Europe and Africa, where we delivered a strong outperformance in a market which grew. Organic revenue growth of 11% reflects the continued strong performance of our portfolio of brands as we outperform the market.

Organic growth in Europe started to normalise in half two, reflecting the order bank unwind that drove a strong half one. Performance in Africa was resilient in the context of fiscal turbulence. Operating profit grew with the continued elevated operating margins of 4.7%, and in the second half, operating margins started to return to historic levels as growth slowed considering the dilution from the acceleration of new contracts.

And in addition, Europe delivered strategic progress in diversifying the region's OEM partner portfolio with 6 new contracts across the region, including BYD in a number of markets.

And for 2025, lower revenues are anticipated against tough comparators, with operating margins expected to moderate towards historic levels.

And this is one of my favourite slides. We spoke in the strategy update in November about a 10.8 million unit total addressable market made up of the 38 markets where we operate and those markets where it may be appropriate for us to have a presence in the future.

And to help investors better understand the momentum in our markets, we will now be publishing this table as an appendix to our results and quarterly trading announcements. I have commented in each of the regional summaries about our relative performance, so I will not say more now, and I will allow you time to digest at your leisure.

I did want to touch on progress in relation to distribution contracts in 2024. We achieved a record year with 22 contract wins, 85% of which were one with Chinese OEM brands, all of which will help us to drive market share over time. And as Duncan mentioned earlier, we also exited four contracts in 2024, and it's important to note that these contract exits were mutually agreed with our OEM partners in specific markets where we felt it would make more sense from a commercial perspective for others to run those brands or for the brand to exit the market.

Retail space within our and our third party network has been reallocated to other brands within our portfolio. And looking ahead for the 44 distribution contracts won since 2021, the details on the right hand side of this page is the data we shared in our May 2024 in the driving seat webinar, where we set our expectations for how the average contract will perform at maturity.

We expect this to be between £20 million to £30 million in revenue. And £1 million to £2 million in adjusted operating profit for the average contract, and each contract typically aspires to achieve up to 2% of share in the relevant market. Now back to our financial performance, and this slide shows our income statement for the year.

The Group delivered adjusted operating profit for the year of £584 million. Adjusted net finance costs were lower at £142 million, driven by the impact of a reduction in average net debt. This was partly offset by an increase in inventory financing costs associated with a more stable working capital profile.

Adjusting items amounted to an expense of £30 million, primarily driven by one-off costs related to acquisition and integration costs of £42 million mainly related to Derco, which are now largely complete.

This was partly offset by gains on disposals of the after sales retail disposal in Americas and the reversal of COVID era impairments on distribution agreements in Central America. Adjusted PBT was £444 million, 5% lower than actual rates, but 5% higher on a constant currency basis. And on FX, you will see in the RNS that we have provided an additional disclosure on the future impacts of translational FX movements across key currencies.

The effective tax rate increased to 31.3% due to the impact of Pillar two tax regulations, and adjusted basic EPS was down 7% to 71.3p, mainly due to FX translation effects, offsetting the profit growth and the impact of the share buyback program. And finally, in November 2024, the trustee of Inchcape Motor pension schemes completed a buy-in transaction. This has substantially reduced the risk of pension liability volatility, four Inchcape with the insurance policy being purchased, requiring no incremental funding from the group.

Now as Duncan mentioned earlier, our focus on the Balance Sheet during the course of 2024 has delivered a substantially delevered balance sheet, with net debt reducing from £601 million at the start of the year to only £190 million at December 31st.

This deleveraging was supported by another excellent free cash flow performance, underlining the highly cash generative nature of our business model, with adjusted free cash flow of £462 million, with a free cash flow to profit after tax conversion rate of 151%.

A significant component of our strong cash flow was a working capital inflow of £195 million as we continue to focus on efficiency and inventory management, with inventory falling further on an underlying basis and as we further align our supplier terms typically within recently acquired businesses.

Now this excellent working capital performance follows changes that we made at the start of 2024 to our incentive schemes for management, incentivising an improved average working capital position throughout the year. Dividend payments and share buybacks amounted to £294 million as we executed on our capital allocation policy, and the net of these elements saw leverage fall to 0.3 times EBITDA, down from the 0.8 times at the end of 2023.

So just to sum up this section, in 2024 we delivered on a number of financial KPI's. We grew the top line, we maintained disciplined levels of capex, we delivered higher returns with resilient margins and generated a significant amounts of cash. Supported by our performance last year, we remain well placed to deliver growth in the future.

And that brings us on to the next item on today's agenda, our new medium term targets that were published for the first time today. This slide summarises these targets and sets the financial direction for the group to the end of 2030, and this encapsulates how we aim to deliver through the cycle and drive value for shareholders.

So from left to right, starting with our key value drivers. Firstly, we aim to generate organic compound volume growth of 3% to 5% through market growth and our outperformance. Secondly, we expect to continue to deliver consistent and resilient operating margins of around 6%. And thirdly, supported by the highly cash generative nature of our business, we anticipate converting profit after tax into free cash at a rate of 100%. And delivering on these drivers will enable us to generate approximately £2.5 billion in free cash flow by the end of 2030.

And the cash the business generates will consistently be deployed through our disciplined approach to capital allocation, with our dividend policy unchanged, the balance being deployed between a commitment to ongoing share buybacks and value accretive acquisitions.

By combining growth from the business and our capital allocation approach, we expect to deliver in excess of 10% compound annual growth in EPS over the 2025 to 2030 time frame. Now let me take you through each element of our key value drivers starting with organic volume growth.

We have a long term ambition to grow market share to 10% in each of our markets, and we will achieve this through organic growth and acquisitions, and this chart shows that since 2019, against a flat total addressable market, we have nearly doubled our market share from 1.6% to 3.0%.

And the majority of this growth has come from the eight acquisitions we have executed in that time, as well as outperformance organically.

Many of the markets we are in experience volatility, but through our geographic diversity we expect our markets in aggregate to grow up between 1% to 2% annually, and we expect to outperform and grow market share, driven mostly by the maturing nature of our contract wins and further new contract awards, driving volume growth of between 2% to 3%.

And as a result, we expect to deliver organic volume compound growth of between 3% to 5% before any inorganic expansion. And onto our next value driver, resilient operating margins. A similar chart to this was presented in our May 2024 In the Driving Seat webinar, and it serves to outline our margin profile. Starting on the left, around 85% of the Group's revenue comes from vehicles and about 15% from parts.

Taking into account the underlying vehicle or parts costs and considering the cost of distribution, logistics, insurance, storage, we generate gross margins of between 15% to 18% overall, with margins on vehicles of between 10% to 15% and parts of between 40% to 45%.

Looking at our operating cost base, a high proportion is variable or semi-variable and runs at approximately 11% of revenue. And this nets out to an operating margin range of between 5% to 7%, which is typical in distribution businesses, with our blended margin of approximately 6%.

Now looking ahead, we see many positive drivers in our operating margin. These include economies of scale, particularly as we grow share and leverage our infrastructure, together with optimising our retail network. Another margin tailwind is value added services as we look to monetise the customer lifetime value through higher margin products in parts and finance and insurance.

However, we also recognise that there are margin headwinds to consider. These include an increasingly competitive and dynamic environment, and as we look to invest in our new distribution contracts, they tend to be margin dilutive in the initial years.

Given this balance, we are confident that we will deliver resilient and consistent margins of around 6% through the cycle and over the medium term.

Now this slide shows our track record of free cash flow generation and is the underpinning of our medium term EPS target.

The chart on the left shows the absolute level of annual free cash flow with the dark blue blocks showing underlying annual free cash flow and the lighter blue blocks showing highlighting the working capital in and outflows. As you can see, working capital optimisation, particularly in newly acquired businesses, has been a major driver of free cash flow in recent years.

Typically when we acquire a business, we find opportunities to improve inventory management and align supplier terms as part of adopting the Inchcape operating model, excluding the working capital benefits, we have produced on average over 100% of profit after tax conversion rate.

And with our capital-light operating model and leveraging all of the third party dealer networks supported by global best practice in tax, treasury, cash management, we see the opportunity to continue to deliver a 100% free cash flow to profit after tax conversion on an annual basis.

And this combined with further work in capital optimisation, will enable us to generate a total of £2.5 billion in free cash flow up to and including 2030. And this cash flow will be deployed through our capital allocation policy outlined on this slide, which we have updated.

We will continue to pay dividends at 40% of earnings, and our policy is then to balance capital allocation between our commitment to an ongoing share buybacks and value accretive acquisitions, and our policy remains to run leverage below one times EBITDA.

We will remain disciplined and continue to look carefully at the balance of capital allocation between share buybacks and M&A and for 2025 we have announced a new buyback program of £250 million, which is expected to complete within 12 months as we skew our allocation towards buybacks, reflecting the value we see in the Inchcape shares, and this will serve to drive EPS growth and value for shareholders.

So to sum this section up. To the end of 2030, we expect to generate £2.5 billion in free cash flow. We will deploy this cash flow to drive shareholder value with a consistent dividend policy and in excess of 10% annual compound growth in EPS, and that's it from me.

I'll hand back now to Duncan.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good, thank you very much, Adrian. So let's sum up for 2024. Inchcape delivered continued progress in '24, reflecting our diversified and scaled global market leadership position, our long-standing OEM relationships, and our differentiated technology capabilities. During the year, we delivered record contract wins, launched Accelerate Plus, disposed of several non-core retail assets, and achieved industry leading customer reputation scores.

We also delivered against a range of financial metrics during the year enabled by our disciplined approach to capital allocation. Looking to the medium term, Inchcape will deliver growth and value supported by our key growth drivers, resilient margins, our highly cash generated business model, and our updated approach to capital allocation.

We expect to generate £2.5 billion in free cash flow, which we will deploy in full and drive shareholder value in excess of 10% compound annual growth in EPS, and this will continue to be underpinned by consistently high return on capital employed. Importantly, our executive teams and management teams across Inchcape are being incentivised to deliver on our medium term targets, specifically EPS.

In the context of our medium term targets, 2025 is expected to be another year of growth at Inchcape at prevailing FX rates, with product cycles and the ramp up of new contracts skewing growth towards the second half of the year. We expect to deliver higher EPS growth in 2025, driven by profit growth and our new share buyback program of £250 million.

So just to finish, we are really excited about the future growth opportunities for Inchcape as we continue to build on our leadership position. That's it for the presentation. Let’s 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.

If you could limit your questions to two, please, that would be most appreciated. And Adrian, we should go and sit over there.

QUESTIONS AND ANSWERS

Sanjay Vidyarthi *Panmure Liberum Limited - Analyst*

Okay morning, Sanjay Vidyarthi from Panmure Liberum. In terms of the volume growth target, can you just clarify if that includes contract wins in terms of the organic growth rate? And linking into that, Inchcape historically has talked about being in high-growth markets where car penetration rates are relatively low, but you're now talking about medium-term market growth of 1% to 2%. And I get that there are cycles and different markets evolve at different rates. But are we basically saying here that the higher growth that you might see in certain markets in APAC and Latam is now going to be outweighed by lower growth rates in mature markets. I mean, how should we think about that?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good. Okay. Thank you very much, Sanjay. So Adrian, if you could comment on the second point. Sorry, on the first point, and I'll comment on our view of growth over the medium term.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Sure, Simple answer is yes. Contract wins will be a big driver of the growth over and above the market tailwinds of 1% to 2%. We expect, as we said earlier, the contract wins and the maturing profile of them having signed 44 of them since 2021, they're all in the foothills of their maturity curve really.

The real acceleration was in '23 and '24, were 22 last year. There's two or three years of maturing until we get to that three- to five-year sort of maturity level. So we're anticipating those to be a material driver of our market outperformance.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good. And Sanjay, to your point then, which is a strategic point about how do we see those markets. Look, I'd say a few things. the motorisation rates of most of our markets, to your point, are way below the European and certainly below the US average. Therefore, do we think we will see structural growth in those markets over time, which would be greater than you'd see in established economies. The answer is yes.

What we're saying today is, if you look at what we were saying just a few years ago, the world has completely changed. Whether you think about the macros, tariffs and other matters and therefore, we're taking a prudent view of how fast those markets might grow over time.

But do we think they'll be supportive to us get into that 10% number, our 10% market share number into the 2030's? Yes, we do. We're just being prudent about the way we think about market growth in the near term.

Sanjay Vidyarthi *Panmure Liberum Limited - Analyst*

One more. Just if we were to look at it on a stand still basis without any more contract wins, presumably, we would see more operating leverage than you're guiding to in terms of kind of relatively steady 6% operating margin?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

It's a margin question.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Yes, sure. Look, in theory, yes, all of the tailwinds are driving scale in our existing markets from those maturing contract wins. All of the good work we're doing around our digital platforms to improve our route to market, absolutely, we will see those tailwinds. I think we also have to recognise, as Duncan has just said, the world has changed over the last few years. It's an increasingly competitive world.

And some of those competitive dynamics we have to recognise in our approach to talking about margin resilience. And those tailwinds, we think are going to help us be even more competitive in our markets and grow our market share and scale towards that 10% aspiration in each and every one of our markets.

So there's headwinds and tailwinds to contemplate. There's a bit of regional mix over time, which will move plus or minus depending on the cycle through the years ahead. But conceptually, we're not guiding to structural margin expansion because of that balance.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good, thank you, Sanjay.

Andrew Grobler *BNP Paribas Exane - Analyst*

Hi, good morning. Andy Grobler from BNP Paribas Exane. I've got lots, but I'll just stick with two. Firstly, you talked about commitment to ongoing share buybacks. Could you just clarify exactly what you mean by that? Does that mean we -- for example, that we're going to have buybacks every year and the quantum will change or you'll decide each year?

And then secondly, on incentive schemes, you talked about you guys are incentivised on those long-term targets with a weighting towards EPS. Could you just tell us what those weightings are and particularly where free cash flow sits within that scheme?

Thank you.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Sure. Look, I'll make a comment on both, and then if you could follow up, Adrian. So in terms of share buybacks, we've been super clear. We will deliver share buybacks every year. There's an ‘and’ in the new capital allocation policy, which we put forward, agreed by the Board.

So you will see share buybacks each year from Inchcape. The amount to be determined. What we're absolutely clear about is we're driving accretion and value for shareholders, and we'll put more weight on one side or the other of our capital allocation policy, depending on frankly, where our share price is.

Do you want to add points to that on your favourite topics. Very good. And then, look, on incentive schemes, our RemCo chair, wrote to shareholders in the middle of January to consult on what I would call an accelerate booster EPS scheme. So our top 300 or so executives in the company will have an accelerate plus LTIP based upon delivering greater than 10% EPS. We have a core LTIP program which is unchanged, which incentivises management on EPS growth and free cash flow and return on capital employed.

Now as you would expect, every three years, we review our remuneration structures. And during 2025, our RemCo Chair will consult with shareholders about how our ongoing incentive schemes would work from '26 onwards. But at the moment, what you should hear is you have a leadership team of our executives and our management teams around the world which are locked onto delivering greater than 10% EPS growth.

James Bayliss *Berenberg. - Analyst*

One of both. James Bayliss from Berenberg. Two for me. On working capital, you talked around working capital optimisation and businesses you've acquired. Can you give us a sense of how much more than meaningfully is to be done on that front with reference to Derco and APAC?

Or should we now be thinking about that working capital profile and use of vehicle financing, presumably being more normalised now and it being about the underlying efficiencies you're incentivising staff to kind of account. And then question two, how should we be thinking about future noncore disposals.?

Obviously, UK retail was the major news in 2024, and then you exited a small position in South America. Are there any other pockets kind of hidden within the Group that we should be thinking you could look to optimise in due course?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good. Thank you. Thanks James. Good morning. Could you answer number one, and you can be number two.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Okay, thank you. I think that's all of them. There was definitely more than 2 questions there as well. In terms of working capital, yes, great performance in 2024 off the back of good performance in 2023. So working capital closed at just short of £150 million in aggregate. So is there more to do?

I think I've been fairly transparent. I think we should aspire to run this Group at a neutral working capital position, and that's something we ask all of our markets to set them set the path towards. But we're certainly reaching that highly optimised stage.

I think the work that we've done building tools to support sales and operational planning, when we acquire businesses, we find that's one of the first things where we find opportunities to drive value from those acquired businesses. That's what you're seeing with Derco and some of the other businesses we acquired in 2023.

I mentioned incentives, and you picked up on that as well. Yes, last year, we introduced an incentive scheme to incentivise management around the group to deliver an improved average working capital profile as part of the short-term incentive program, and that's proved really effective in just aligning our management teams and their focus in addition to revenue and profit before tax towards the wider scheme.

So we're very pleased with that outcome, and you can see the benefits that's driven in our reported results. And you're absolutely right. We're very pleased with what the team did in Latin America disposed of a noncore retail aftersales network. Are there more to come, look, we're going to continue to look to optimise this group whether it be in our asset base, whether it be in our contract portfolios, and look, there's nothing significant to flag.

And I would also flag that there were no significant property profit gains on the back of those supporting this year's delivery. And we will just continue to look to optimise and tweak this asset base as we move forward.

Andrew Nussey *Peel Hunt LLP - Analyst*

Andrew Nussey from Peel Hunt. Two questions and one of clarification. But in terms of the clarification, just in terms of the capital allocation, in a year of perhaps where you have underperformed in terms of the free cash generation, are you willing to borrow to fund share buybacks noting the leverage ceiling that you've got in place?

And second, in terms of the questions. Obviously, a handful of mutual terminations this year. Do you expect more over the next couple of years, say? And do you think those might be OEMs looking to go direct rather than using a distributor?

And then secondly, in the Americas and specifically Chile, obviously, expectations some market recovery come through. To what extent is there a need to put investment in to support that growth? And could that act as a small near-term margin headwind? Thanks.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good. Could you do number one and I'll do two and three, please, Adrian.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

Not planning on underperforming, Andrew, but in the circumstances where we see cash flow short. And actually, if you look at what we're committed to in 2025, of £250 million of share buyback. That's more than profit after tax once you net off the dividend flows. So there is an expectation that we'll set to deliver consistently and through the cycle for shareholders through a commitment to ongoing buybacks.

And we'll consider the balance between buybacks and bolt-ons and how that sits within our leverage profile every year. But be very clear what we are going to continue to do is to deploy the cash that we generate in full across those two capital flows.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good. Thank you, Adrian. So in terms of termination, should you expect us to optimise our portfolio ongoing? The answer, Andrew, is yes. Adrian showed a chart before, that it's only just a few years ago, we had 140 contracts across the Group through acquisitions and through record contract wins, there's now north of 230 and the teams have won another five so far this year. I'm not saying we're going to do another 22.

So we continue to build our contract base. It would be reasonable for us to conduct housekeeping, where we either have a misalignment with OEMs on market share expectations or frankly, Inchcape isn't making the return it needs on those contracts.

So this, I think, should be part of our ongoing way we manage our business. Now do I think OEMs will go direct? Look, I think our strategy speaks to this very nicely, which is in the biggest markets in the world, China, the United States, Germany, France, UK, I would expect OEMs to manage those markets directly in the way that they do so today. You can see BYD for instance terminated Hedin in Germany, I think, entirely logical. It's one of the top five markets in the world.

We specialise in smaller, more complex markets. And therefore, we actually work with our OEMs, so they could use other distributors in markets if necessary. You should expect us to continue our housekeeping and you should expect us to continue to grow. One point, by the way, on Chile, which might be helpful is our market share in January and February is equal to or than it was in January and February of 2024.

Now just moving on to Chile on your question around, do we think near-term investment will be required gain growth? Look, the reality is we're coming to the end of our synergy program of the integration of Derco. I hope never to mention the word Derco again, because we think about this is our business in the Americas.

We've done a lot of work in that business, closing distribution centres. We've applied AI to our distribution centres and our part warehousing so we can consolidate the legacy Inchcape and the legacy Ditec distribution centres into one. We've rebuilt our financed insurance products, so I would see that the opposite way around actually.

I don't think we're going to have to invest again growth as the market inflates and gets back to historic norms over the next few years, we'll follow that. Our market share has been steady at around 25%.

Charlie Rothbarth *HSBC - Analyst*

Morning, It's Charlie from HSBC. Could you please, you kindly of gave a in the driving seat seminar earlier this year. Can you please comment on the Philippines and Indonesia? And then on the contracts from 140, 150 to north of 230. Has there been a flavour change within those contracts or how those contracts are made up? Have we moved from bigger contracts to sort of more numerous smaller contracts?

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Very good. Thank you very much, Charlie. So look, let me give you a sense about where we are in Philippines and Indonesia. So those markets were largely Mercedes acquisitions, won directly from the OEM, 1 from, in fact, who are now our joint venture partner, at the CATS group.

We've integrated those acquisitions. I think the teams have done a good job in terms of integrating. And in both markets, we've gone on to win new contracts, one with Great Wall Motors in Indonesia, and some others. And in the Philippines, we won a contract with Changan, which we have taken from a distribution company and moved it to us.

We are seeing in some markets, I think, is related to what we're seeing in tariffs. Is some wealthier customers in parts of Asia, who are just hanging off purchases to see where this may end up. But the businesses are integrating. We're adding contracts to them, and they will be a very nice part of the Inchcape Group overall.

Let's not forget, we've added TIV across those markets that we could go after of about 1.5 million units per annum. In fact, and I was in both Philippines and Indonesia just a few weeks ago to see the teams. In terms of contract, I think Adrian's guidance that we gave at the In the Diving Seat, how our business model works in July last -- I'm sorry, in May of last year is illustrative of where we think these contracts could go over time.

They start small. We have to build them up over time. But if you look at when we think they'll reach maturity somewhere between years three and five, these could be very material for us. And I think the guidance that Adrian showed before, should help you understand how you might model those.

Adrian Lewis *Inchcape PLC - Group Chief Financial Officer*

If I could just add just on -- I think over the recent years, we've seen an increased geographic spread. I mean it's largely skewed towards Chinese brands, about over 70% are Chinese brand-orientated.

But what was really placing in 2024, we started to see contract win momentum build in Europe and in Australia as well with, as we said, 14 contracts in Latin America as well. So bit more geographic spread is how I would also characterise that to use your word, the flavour of some of these contracts.

Duncan Tait *Inchcape PLC - Group Chief Executive Officer*

Flavour is nice. Any other questions in the room? Please? If not, can we see if there are questions on our phone lines.

Very good. In that case, thank you very much, everybody, for your interest in Inchcape. I'll sum up today's presentation.

So 2024 was a year of strong progress. We launched accelerate plus, delivered another record year of contract wins. We've updated our capital allocation policy and announced a new £250 million share buyback program. We expect another year of growth in 2025. And looking out to 2030, we aim to drive compound annual growth in EPS in excess of 10% with a consistent dividend policy. And we're really excited about the future of our company, Inchcape, and we'll continue to build our leadership position.

That's all from us today. Thank you very much for joining. See you next time.

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