RS Group plc Half Year Results 2023/24

Tuesday, 7th November 2023

Introduction

Simon Pryce

Chief Executive Officer, RS Group plc

Welcome

Good morning. Thank you for attending this morning and thank you for your continuing interest in the RS Group. Welcome to our Interim Results presentation for the six months period ended 30th September 2023, which was my first six months as CEO. For those joining physically I would just like to point out the fire exits at the side and the back of the room. There is no scheduled fire alarm today so if the alarm does sound, please make your way to the fire exit, and follow the instructions of the fire marshals.

I have been CEO at RS for seven months now and as you can tell from our headline numbers at one level it is has been relatively challenging but what you will not be able to see in the numbers but what you will hopefully pick up throughout this presentation today is that it has been a dynamic and very exciting six months for me personally. What I had hoped I would find when I started to look under the RS hood, which was good people and a great growth opportunity to deliver excellent outcomes for all stakeholders, is exactly what I have found. Notwithstanding the challenging short term markets that we are experiencing at the moment, it is actually a great time to be at RS.

I am joined today by Jane Titchener who has been our excellent Interim CFO since the end of April and who will continue to support our new CFO until the end of this year before moving back into a permanent role in the Group. I would just like to take this opportunity Jane to thank you on behalf of all of our stakeholders for the excellent work that you have done stepping in and up to the role at short notice and for your continuing commitment and enthusiasm. I would also like to thank you personally for all the support you have given me in the last seven months, and I look forward to continuing to work with you as you transition to your new role in Strategic Performance Management at the end of the year.

I am also joined by Kate Ringrose who many of you will know from her time at Centrica where she was latterly the CFO. She joined us five weeks ago. It has been busy. She has been a great addition to the team, and she brings a wealth of experience with her. Aside from gloating about South Africa's recent cricket successes and Rugby World Cup wins, she is already having a positive impact on the Group. I am really looking forward to working closely with Kate and the rest of the team to build on the progress that we have made at RS over the last few years and to accelerate the realisation of that exciting opportunity that I see, and I think we all see at RS.

The presentation should take about 40 minutes. I will do a quick overview of the first half. I will ask Kate to say a few words. Jane will then take us through the numbers and then I will wrap up with a quick look at the underlying strategic and operational progress we have made in the half and to share a bit more colour with you about the exciting medium and long term opportunity that exists here. Then we will open it up for questions. I know everybody is busy so we will try and get you away by 10.00.

Making Progress Despite Short Term Challenges

Resilient performance in challenging markets

Now we can look at the numbers. Although financially it was a difficult first half, we are making good underlying progress. We delivered a resilient performance in markets that were all a bit more challenging than we anticipated at the beginning of the year. We have also been trading against strong comparators. Against that backdrop revenue was down 1% but 8% down on a like-for-like basis, although Digital was only down 5% and we saw continued good growth in both our RS PRO and Value Added Services. We continued to deliver double-digit operating margins and although the declines in PBT and EPS were significant, return on capital employed still remains well above 20%. The Board is recommending a 15% increase in the interim dividend reflecting our through-cycle progressive dividend policy and of course confidence in the Group's long term growth and cash generation prospects.

Positive strategic and operational momentum

Despite challenging markets and the impact on our numbers we also did a lot of good things in the first half. We have good underlying strategic and operating momentum. We are balancing continued investment in growth accelerators with more effective cost management, and we are planning actions this year that will deliver more than £30 million of annualised savings, most of which will come next year. Through the work that we are doing to reduce duplication, simplify and improve our physical process and digital infrastructure we see opportunity to further optimise our cost base whilst still delivering and executing on our growth strategy. I am pleased with the long term potential I see in Risoul and Distrelec. The Distrelec integration is pleasingly ahead of plan.

Exciting growth opportunity

Perhaps most importantly after seven months I see that we are executing broadly the right strategy and that our exciting growth opportunity is real. We are a strong global player operating in fragmented markets that have attractive through-cycle and underlying fundamentals. Through investment in growth accelerators there is a potential for continued and sustained outperformance over time here. There is an additional opportunity for through-cycle margin expansion and from improving operating leverage and driving operating effectiveness. We are cash generative with a robust balance sheet that supports accelerating realisation of our strategy and enhancing our underlying organic growth. We are beginning to see tighter focus, more alignment, better prioritisation and improved execution across the Group and we are making good underlying progress despite those short term market challenges I have referred to.

That is a quick trot through what I think has been actually on an underlying basis a pretty good six months for RS but before we move into the numbers I thought it would be helpful if Kate would just stand up and introduce herself and say a few words about what attracted her to RS. Admittedly though, after five weeks her impressions are presumably initial.

A Word from our New CFO

Kate Ringrose

Kate Ringrose (Chief Financial Officer, RS Group plc): Good morning everyone. I am really delighted to be here and thank you to Simon for the very kind introduction. I chose to join RS principally for three reasons. It is an organisation that has a very positive impact on a global scale in keeping industry moving and I like being part of enterprises that really matter. I see significant potential within both the markets in which RS serves as well as within the organisation itself. The Board and the Exec team have deep relevance, experience and Simon has got a very strong reputation as a CEO. I am really excited about the plans for the business.

I also believe I can bring a lot of value to the journey that we are on. I joined RS from Centrica, which is a large, diversified business and in which I held a variety of financial and operational roles in various parts of the group. In that I gained a lot of experience across the years. In the last five weeks I have visited a number of countries, I have visited distribution sites and I have been very encouraged by what I have seen and the people I have met. The opportunity is very much as Simon and the Board described it to me. I think one of the great things that we have in RS though is our will to get after those opportunities. Yes, the markets are tough. They are challenging. We have got a lot more to do but this is a growth business with many levers and that makes it very exciting for an incoming CFO.

That is probably more than enough for me for now at this stage. As Simon said before I introduce Jane, she has been extraordinary at stepping into the CFO role on an interim basis and a huge support to me in the coming weeks. Huge thanks to her. I very much appreciate you being with us today. I am very much looking forward to getting to know you all and to meet you all in the coming weeks. At this stage I am going to pass on to Jane.

Financial Review

Jane Titchener

Interim Chief Financial Officer, RS Group plc

Performance Reflects Challenging Environment and Strong Comparatives

Thank you Kate and good morning everybody. Let us then look at our financial performance. On slide seven we summarise the performance during the first half of the year, during what has been a challenging trading period against a strong set of comparatives. Revenue declined by 1% including contributions from our newly acquired businesses and we saw an 8% decline in like-for-like revenue, a reflection of that difficult trading backdrop. We delivered 10.8% adjusted operating profit margin, reflecting lower volumes and dilution from our acquisitions, offset by savings in our underlying cost base. We generated £26 million of adjusted free cash flow with investments in working capital, particularly inventory, in the first half. As Simon has said, our ROCE remains over 20% despite only one quarter of trading contribution from Distrelec.

Some key metrics at the bottom of the slide to highlight, Industrial Product and Service Solutions revenue, which accounts for 80% of Group revenue, was down 2% like-for-like. Our Electronics category declined by 24% like-for-like, reflecting the electronics cycle. Our Digital channel performed better than the overall Group, down 5% like-for-like. We have seen good growth in our Service Solutions revenue due to greater uptake of digital solutions and RS PRO has outperformed with the proposition of a quality alternative for the main branded ranges continuing to resonate well with our customers.

Revenue Bridge

Affected by market decline

Onto slide eight then, we outline the revenue bridge comparing revenue in the first half with the same period in the prior year. In 2022/23 we benefitted from strong product availability when global supply chains were constrained, mainly in Electronics, and we estimated the benefit impacted revenues by about 5%. The extent like-for-like decline was largely the result of reduced volumes in challenging market conditions and customers trading down in their mix of products, with inflation contributing a small single digit increase. On our acquisitions Risoul contributed a full six months of revenue and Distrelec three months following the completion of the acquisition at the end of June. There was a small impact from fewer trading days and foreign exchange movements.

Adjusted Operating Profit Margin Bridge

Supported by improving cost control

On slide nine we show our adjusted operating profit margin bridge. Again, we have estimated that the unwind of the inventory benefit from the first half impacted our operating profit by about £26 million. In the first half we saw 180 basis point decline in our gross margin, of which 140 basis points was the dilutive impact of the acquisitions. The acquisitions dropped through to a 30 basis point dilution to adjusted operating profit margin. Adjusted operating costs reduced 4% like-for-like. We flexed down our variable costs and have taken targeted actions to reduce overheads, which have more than offset cost inflation. A large proportion of our operating costs relate to our people and in June we awarded a mid-single digit pay increase which included a higher than average increase for our non-management population. In response to the current trading environment we are taking actions to reorganise our cost base which will deliver around £30 million of savings on an annualised basis with around £2 million in the first half and £8 million in the second half and most of the remainder in the next financial year. The cost of delivering these savings are estimated to be £15 million and our first half numbers includes £4 million of, the balance to be taken in the second half.

Despite the short term environment we continue to balance medium term growth opportunities with some reinvestment of savings into our growth drivers. Improving the search capability on our website, developing common customer relationship management processes and systems, becoming cloud-based, and enhancing our distribution network.

EMEA

Operationally strong

Let us move on then to our regions, starting with EMEA on slide ten. Performance in the EMEA region has been resilient given the challenging market conditions. Like-for-like revenue fell by 4% with margin discipline, improvement to operational efficiencies and tight cost control allowing us to take advantage of our scale, resulting in the like-for-like operating profit margin growing by 40 basis points. We have maintained share with our higher lifetime value customers and have seen smaller value transactional customers reduce as inventory availability normalises. We have increased the relative share of growth drivers, Digital, own brand RS PRO and Service Solutions. In the market where our offer is broader and more rounded, including the UK and France, we have had our strongest performance with Germany in particular negatively impacted by the cycle due to relatively high exposure to Electronics.

We see good gross margin discipline with some gains from price inflation. We are improving our operating efficiency and leveraging the variable cost base where appropriate, resulting in operating margin gains. Distrelec's trading reflects the trading environment, slightly below expectations particularly with its exposure to Germany and the Electronics market. However, we have got detailed plans for integration, and we remain really confident in the delivery of cost savings and synergy benefits from cross selling opportunities.

Going forward we continue to build on the solid foundations with more focus on higher value customers and growth drivers and continuing to improve our operational efficiency and leveraging our scale in the region.

Americas

Remains challenging

Let us move on then to the Americas on slide 11. Like-for-like revenue in the Americas fell by 14% including the unwind of the benefit of last year's inventory availability. In the Americas, our product range is narrower than in EMEA and we have got a great proportion of our business in Automation & Control and a higher proportion of smaller manufacturers in our customer base. Their purchasing patterns are more correlated to the Electronics cycle. As well as many in our industry, we have seen customer destocking which is also depressing volume. Our like-for-like operating profit margin reduced by five percentage points as gross margin gains from the prior year reversed and we see more competitive pricing in Electronics. We have taken action to right-size the cost base, including a reduction in headcount, with benefits delivery into the second half. Revenue performance at Risoul has been better than expected as Risoul benefits from a stronger order book and good inventory availability versus peers. The integration of Risoul is progressing well.

Going forward we are focusing on our value add areas of Digital, Service Solutions and own brands, and operating with a more flexible cost base, leveraging our value drivers to move to a more strategic relationship with our customers.

Asia Pacific

Long term opportunity

On slide 12 we detail our performance in Asia Pacific. The revenue in Asia Pacific was down 18% like-for-like against a very strong period of growth in the prior year. Trading in APAC continues to be impacted by our exposure to the electronics cycle and continued macro uncertainty, particularly China. Customer destocking is also impacting volumes. Our operating profit margin during the first half reduced to 2% affected by high operational gearing given our relatively small scale in the region. Gross margin gains from the prior year are unwinding and we are seeing more competitive pricing activity, particularly in Electronics. We have taken action to adjust our cost base including a reduction in headcount to deliver benefits in the second half of the year. We are investing in local customer fulfilment centres to improve service and reduce freight costs and focusing on developing our service proposition to capture opportunities with larger industrial customers.

Cash Flow and Balance Sheet

We will move on now to the cash flow and balance sheet which is on slide 13. Starting with adjusted free cash flow, just to orientate everybody here, free cash flow does not include the acquired balance sheet of Distrelec. We generated £26 million of adjusted free cash flow in the first half of the year, which is down £86 million from the first half of last year. 40% of the reduction related to lower EBITDA and the balance is largely due to the timing of inventory intake which is weighted to the first half of the year. This was impacted by two dynamics. The first a change in our supplier performance which is rapidly improving as supply chains unwind. Shorter lead times mean that new orders are being fulfilled more quickly than the prior year and we are also seeing the release of built up back orders meaning delayed orders from suppliers were also received. Those backlogs were highest in Electronics products when minimum order quantities required to protect availability are higher than across other parts of our Industrial range. At the same time customer demand is declining given the market backdrop, impacting the rate of throughput of inventory sold. Over half of the inventory intake in the first half was in fast-running products which has already begun to unwind into cash in the second half.

Now onto the balance sheet and working capital. Again, just to orientate you, these will include the acquired assets and liabilities of Distrelec. Working capital as a percentage of revenue increased by 3.5 percentage points with about half of this relating to acquisitions. Gross inventories increased by £139 million from year end. Again, approximately half as a result of the acquisition of Distrelec. Our inventory turn in the first half was 2.3x and that is already improving as we take action to reduce our order book and sell through our current inventory. Inventory provisions increased by £35 million and £23 million of that was from Distrelec. Just as a reminder, our inventory provision is calculated on an inventory cover basis, so it reflects the estimated number of years of sales we have of inventory in each product. The increase in the inventory in the first half is mechanistic. It reflects the effect of the slowdown of sale volumes which increases our estimate of the timeline to sell the inventory which in turn moves the inventory through our provisions category.

Capital expenditure was 1.2x depreciation as we continued to invest in optimising our distribution centres, implementing product and customer management systems, and strengthening our digital and technology platforms. Our net debt increased to £502 million with the acquisition of Distrelec increasing net debt by £333 million.

Second Half Considerations

Balancing short/long term effectively

Now let us move on to slide 14 with some themes to consider for the second half. As we move through a change in cycle market conditions continue to be challenging and uncertain. However, the factors below are relevant in considering likely outcomes for the second half of the year. Gross margin was more robust than we anticipated in the first half, and we still have some benefit from price inflation. Assumptions we made on gross margin at the prelims for the full year still hold and we continue to expect prior year inflation to unwind, and our acquisitions will have a dilutive impact. On cost, as we have already outlined, we have taken action to manage our cost base more effectively to deliver £30 million of annualised cost savings and we expect to invest around £11 million of cost investment in the second half and see realisation of about £8 million of benefit from the actions we have taken in the first half. There is also a further £9 million of operating profit benefit from the second half of the prior year.

We are anticipating that our full year interest charge will be around £30 million, reflecting the higher net debt position and our tax charge will be around 26% reflecting the increase in the UK tax rate. On cash average lead times mean that actions to reduce our inventory order commitments will lag the declining sales but over half of the inventory build in the first half was in fast-running products which is already beginning unwind in the second half, which is benefitting cash flow. As a result this cash generation will be more weighted towards the second half as we reduce our inventory intake and sell through our current inventory. Capital expenditure will be in line with previous guidance, including continued disciplined strategic investment. As a further guidance point, including trading days, foreign exchange and a summary of those operating cost actions is included at slide 28 of your pack. I will hand back to Simon now.

Positive Strategic and Operational Momentum

Simon Pryce

Chief Executive Officer, RS Group plc

Not bad for an Interim CFO so thanks Jane. Now let us have a look at some of that positive strategic and operational momentum that we are delivering in the first half. Before I get into that, the last seven months certainly have not been great for my personal carbon footprint but pleasingly as an organisation we are making great strides in improving our emission reduction. Therefore that has more than made up by this great RS organisation. However, it has been important that I visit as many of our sites across the regions as possible. I have been to all three regions, sometimes more than once, and I have been talking and listening to our people, understanding more about our business, our markets, the opportunities for us, the projects that we are working on, the progress that we are making and also the barriers to executing more effectively and more quickly. I am pleased that everything I have seen and heard supports and confirms that the Group's strategic ambitions and potential are real and that we are mostly working on the right things, if not quite as effectively as we could be. However, I have also seen significant opportunities to improve operating performance and execution.

Resilient Performance

Challenging markets

Before we get into that I also thought it would be helpful if I shared with you on slide 16 something that is an external indicator of what is really going on in our markets. Although we are one global business, at a country market level markets, products, and the verticals that we serve are nuanced. However, when you aggregate everything back together, as in this chart which plots composite weighted PMI against RS's like-for-like growth over the last 20-odd years, composite PMI is actually a very good indicator for what our revenue on a like-for-like trading performance does. When you look into the regions they do behave differently, in part due to the specific economic cycles that happen in their major markets, but also because exposure to various process industry verticals is different and our product mix does vary. The product mix is important particularly because electronic components, which make up about 20% of the Group, has its own structural cycle which is driven as much by capacity and demand as it is over production. That operates slightly differently to broader industrial PMI. As you heard from Jane, actually EMEA is performing well versus PMI. Our Industrial revenue continues to outperform, partially offset by Electronics which has been and continues to be very soft across the globe due to weakening orders, increased availability, and extensive customer destocking.

In America there is slight less correlation to local PMI because we are more exposed in that market to the automation and control industry. We are also exposed more to small OE, high complexity, low volume production manufacture. Both of those areas are more exposed to the electronics cycle than the rest of the Group. We continue to look in the US at how to better diversify our customer verticals and product range. Over time I expect the US to continue to migrate more towards the European model. In Asia Pacific, again as Jane said, it is less correlated to broader PMI, principally because it is a less mature market for us, and it has a much higher exposure to Electronics. However, the key takeaway is when you add everything back together there is a really good correlation between our organic growth and what PMI is doing. Generally, as you can see from this chart, RS outperforms through the cycle with higher peaks and lower troughs than PMI. As you can see and as you will know, the last six months PMI has been moving in a way that reflects the challenging markets in which we continue to trade. Actually when you step back and look at what our revenue has done on an underlying basis we have performed broadly as we should.

We Continue to Make Progress on Key Priorities

On slide 17 notwithstanding the difficult trading environment I am pleased to report that we have made progress on all of the key priorities that I talked about at our preliminary results presentation in May. We have been focusing hard on operational effectiveness. Following a sustained period of strong trading post-Covid it feels like there is an opportunity to optimise our cost base through reducing complexity and improving efficiency, yet still accelerating execution.

Driving Operational Effectiveness to Accelerate Execution

Focus on operational effectiveness

We are making good progress in lots of areas. We are aligning the organisation's leadership. We have made some great key hires to enhance our already strong management team. We have streamlined the senior management team and decision making by creating an aligned and empowered Executive Committee that is responsible for prioritisation, effective resource allocation and driving greater focus, agility, and operational and financial performance. We have created a broader Advisory Group to shape, challenge, test and lead our strategic priorities and cultural evolution.

We are reviewing our operating model. We are developing a simplified and clarified target operating model to improve our operating effectiveness, agility, and scalability. We are enhancing the Group's performance management metrics and processes to ensure that we can exercise effective operational oversight, provide better information, and share best practice to improve alignment and collaboration across functional, regional, and country teams.

We are improving strategic alignment and underlying processes. We have improved our strategic planning process to make it more bottoms-up, more action orientated and more aligned. We are increasing our process focus, defining those processes that are common across the Group, those that are common but with local optimisation and those that are local. Ensuring that they are effective and that we continuously improve them.

We are also clarifying what we mean by the evolution to a purpose-led culture. This is a priority for our CPO. We have already completed base culture assessment and we are in the process of defining the culture we need to have to support acceleration of our strategy. As well as the clear actions, tools, and processes that we will need to implement the change to make it effective. All of which will accelerate more effective execution.

Improving Operating Leverage

To accelerate into recovery

We are also continuing to invest in improving our operational leverage and drop-through for when our markets return to growth, as they surely will. We see significant medium term benefits from increased scale. With the recent acquisitions of Distrelec and Risoul enhancing our existing footprint in key markets such as Switzerland and Mexico, and with the effective integration of these and other acquisitions which allow us to improve and better leverage our existing physical, digital and process infrastructure.

We are also optimising our cost to serve. We are right-sizing the cost base, as you have heard from Jane. We have reorganised and reduced headcounts already in Americas and Asia Pacific. We are accelerating the integration of Distrelec into H2, and we will continue to maintain tight but balanced control over overhead.

We continue to optimise our supply chain and distribution footprint. We have already further improved the performance of our major distribution centre in Germany, materially increasing our SKU capacity there and processing efficiency. We have increased our flexible local fulfilment capacity with third party customer fulfilment centres in Asia and adding further capacity in Spain and France.

We are investing to ensure that we are both more agile and can scale more quickly. We are now a cloud-based business, having completed the migration of our operating systems with over 100 back office, middle wear and front-end applications to the cloud completed in the first half. We are reducing application and process complexity, and all of this is helping us accelerate into a recovery.

Growth Accelerators

To accelerate customer capture and loyalty

Then finally and not least despite this difficult short term environment we continue to invest in those growth accelerators that move RS from being a transactional distributor to a product and service solutions provider for our targeted customers and our strategic suppliers. In the last six months we have materially improved our digital and customer experience. We have introduced sophisticated upgrades to our websites, which is now an AI-enabled tool and contains search capabilities powered by Google technology. This enhanced website is now effective in the UK and Ireland and is already showing positive improvement particularly in conversion and basket size. We will be rolling this out across the world in the second half. We are also developing and launching specialist customer management tools, initially in Germany, which will be deployed globally over the next 18 months or so.

We have enhanced our product offer, not just by the additional 50,000 stock SKUs that we have launched in the last six months, but also an additional 5,800 RS PRO products with nearly 4,000 of those particularly targeted at our American customer base where we also continue to invest in the RS PRO brand. We have rolled out our now 20,000 Better World sustainable product range in 15 countries across the globe and we see lots of opportunity for further expansion in that range.

We are also focusing on continuing to develop and scale our value-added solutions that we are so well positioned to provide for our customers, that they value and that they are prepared to pay for. Inventory solutions have been expanded out of the UK and Ireland across the whole of Europe. We are improving the RS Integrated Supply offering to make it more scalable whilst retaining flexibility for customer optimisation. We are developing service solutions that pull through more product revenue. All of which supports acceleration of customer capture, loyalty and ultimately share of wallet.

High Quality Acquisitions

Accelerate organic growth ambitions

Our cash generation and our strong balance sheet allowed us to enhance our organic growth. I visited both Risoul and Distrelec recently and I am very pleased with what I found. Good and strategically important businesses, high quality people and much that both organisations can learn from each other, and that RS can learn from them. I am also comfortable that we were value disciplined and that over time both Risoul and Distrelec will accelerate realisation of our strategy in a very value-creative way. Integration at Risoul, which ticks a number of our strategic criteria, is progressing well. We are benefitting from strong markets in Mexico and see the opportunity to cross-pollinate technical expertise in Risoul into our Americas business. Our relationship with Rockwell has strengthened further and with their support we have already opened small operations in two additional territories.

To Distrelec, which also ticks a number of our strategic criteria, although we only completed the acquisition at the end of June, integration is proceeding well and is ahead of schedule, with more potential benefits identified than initially anticipated and with lower cost to deliver them. With Distrelec, as Jane has said, experiencing some of the slightly challenging market conditions that we ourselves are experiencing in Europe, we have taken the decision to accelerate our integration and associated cost reduction into the second half of this year. I am comfortable that these high quality acquisitions are accelerating the realisation of our growth strategy.

Exciting Growth Opportunity

Simon Pryce

Chief Executive Officer, RS Group plc

RS is Well Positioned and Making Underlying Progress

After seven months and notwithstanding a challenging first half, we are really well positioned. We have got good, hardworking, committed people. We are a strong global player operating in fragmented markets that have attractive underlying fundamentals. We are relatively unique as a multichannel, high service MRO distributor and service solutions provider and we are digitally enabled and very data rich. We have an opportunity therefore to sustain our performance through continued investment in our growth accelerators, enhancing operating leverage and driving operating effectiveness. We delivered a resilient performance in H1 in challenging markets but balancing continued investment with cost management actions. Some have been implemented and there are more to come. We have very positive strategic and operational momentum and we are already beginning to see tighter focus, more prioritisation and improved execution across the Group. This gives me great confidence that the next few years are going to be an exciting and a rewarding time to be part of the RS Group.

With that I would like to open up the meeting to questions. There are some people with mics dotted around the room. If you could raise your hand one of the mics will get to you. If you could then state your name and the institution that you represent. Then your question, we will do our best to answer it.

Q&A

Annelies Vermeulen (Morgan Stanley): Thank you for taking my questions. On the cost savings, could you talk a little bit about how much of those is related to making the cost base more flexible? Then to what extent are you confident you will be well positioned when those volumes return? If you are able to talk a little bit about how much is related to headcount, your distribution centres or technology investment, what could that look like? A sidestep but part of the same question, what do these cost savings that you are making mean for your margins going forward? Is there a new margin target we should be thinking about over the medium term? That is my very long first question.

Simon Pryce: Thank you Annelies. I will try and take most of those although I am not going to answer the target margin question. If we thought we needed to change the long term view of target margin we would have said so. I think we are very comfortable with what we have out there today. In relation to these cost savings, the vast majority of our costs are people so a good chunk of these are people. They are permanent and this is reflecting a piece of increased efficiency. It is reflecting a piece of acquisition inspiration. A chunk of it is accelerating the acquisition of Distrelec and it is generally just making us fitter for improved conversion. They are permanent. These are not interim things. They are changes in the structure and the way we work. That means that clearly there is opportunity for more accelerated margin improvement when the business returns to growth. I still think there are opportunities for further improvement in operational effectiveness over time, but we will tell you about those as and when we do them.

Annelies Vermeulen: Thank you and then secondly on the destocking piece, we have had relatively mixed messaging from other businesses with US industrial exposure. Do you have a view on whether that destocking piece is now coming to an end or is that something we could continue to see through your fiscal second half?

Simon Pryce: I would love to be able to tell you a databased and accurate view of that. Intuitively we are closer to the end of destocking than we were. However, there is something else going on, particularly with automation and control because actually book-to-bill rates in the manufacturers are still operating at below one. Not only have you got destocking going on, but you have got a slowing in some of the A&C world going on too. were out the other day, Arrow were out. I think people are all struggling with it a bit. Most people are saying first month next year, so our last quarter this year, but that feels a little bit optimistic probably to me. I would expect to see that destocking finish crudely at some stage in the first half of next year.

It is also important to recognise that that is only 20% of what we do, a bit less than that. We do not see similar dynamics in Industrials. There was not the same stock build and whilst there is a little bit of fluctuation in inputs and outputs it is only in Electronics where we see that real stock wind down because that was built in the first place.

Annelies Vermeulen: Okay and then the last one just very quickly on your comments around the gross margin and your expectations for the second half. Do you have a view on what pricing will do in the second half? Do you think the low single digit will continue or should it be flatter?

Jane Titchener: It is difficult to predict exactly but I do not think we would assume any deflation and it is low single digit inflation at the moment. It is as good an assumption as any.

Simon Pryce: We do not see any pricing pressure in Industrials. Electronics there is a bit more pricing pressure, but it has eased since we were here six months ago. However, we do not see any deflation out there.

Annelies Vermeulen: Thank you.

Simon Pryce: Thanks.

Rory McKenzie (UBS): Good morning, in the bridges on slide eight and nine you called out the trading benefit in the prior year period. Can you just clarify what that is and how you estimated it? Why are you calling it out separate to the volume and gross margin declines you are pointing to investors? Then secondly just a follow up on that pricing point. Can we get a figure on the pricing contribution to revenues in Q1 and Q2? With this gross margin dilution getting worse in H2 as you have described, can you explain the dynamics there? Last year you had the bigger price inflation contributor in H1 so why is it getting worse this year in H2? I will take those two first please.

Simon Pryce: Jane, do you want to take the trading benefit last year and why we have called it out?

Jane Titchener: Yes, I think we talked about this at the prelims where we were definitely seeing positive impact on our results last year from us having inventory availability. We were definitely seeing customers that we would not normally see come to buy that inventory from us and those customers have not stayed with us once inventory levels have returned to normal across the channels. How do we calculate that? It is an estimate of the impact of those customers who we saw on a transient basis who are now not coming to buy from us. It is an estimate but that is broadly how we have done that across the three regions. That is why we are calling it out because it is quite different business from what we would normally see in our underlying business. We are trying to give you a feel for what impact that had year-on-year.

Simon Pryce: Pricing contribution to revenue low single digit.

Jane Titchener: Low single digit.

Simon Pryce: Gross margin getting worse in H2. Jane, do you want to take that one?

Jane Titchener: Yes, I think there is a little bit of mix. Gross margin is down in the first half but quite a big chunk of that is from the acquisitions. We have not seen as much of the inflation unwinding through the margin as perhaps we were expecting to see. I think that proportion between inflation and acquisitions will change through the second half. That is certainly what we are expecting as the price inflation unwinds.

Simon Pryce: Yes, as price inflation on our inventory becomes the stock that you are selling then you see that gross margin.

Jane Titchener: A little bit of mix so which inventory is selling and which product lines. Are they the ones that are flowing through? I think we would see more of that in the second half.

Rory McKenzie: Thank you. Simon, appreciate the chart of RS Group organic growth against composite PMI explained where we are today. As you move into the CEO role do you not also find that quite sobering in terms of the past outperformance the Group has delivered? I know we are never going to move away from the customers having their own cycles but what was you view on the outperformance that the company has delivered even in the past 5-6 years? Have you changed your view of that?

Simon Pryce: No, I have not and actually perhaps I did not make it clear enough in the slide. If you look at that chart and you look at the correlation between RS and PMI you see that RS outperforms through the cycle, i.e. the peaks are higher, and the troughs are lower. All of that is real. I do think that the last 18 months because of the timing of the electronic cycle we did have this one-off trading benefit which was partly driven by stock availability and partly driven by price inflation in advance of input cost inflation. When you back that out actually that is why I am saying we absolutely outperformed the cycle. PMI is a good indicator of what is going on and that is why in our first half once you back out that one-off trading benefit actually this business did exactly what it should do. Thanks Rory.

David Brockton (Deutsche Numis): Good morning, can I ask two as well? One related to Rory's question.

Simon Pryce: You can ask at least three.

David Brockton: Two will suffice. They are quite long. I am trying to get some more detail in terms of the unwind of prior year one-off purchases. Can you give a bit more detail in terms of what you are seeing in terms of customer count, average order frequency and average order value? How those have moved, if you still monitor those. Then the second question relates to cash flow and capital allocation. I appreciate a lot of the pressures on the first half will unwind in the second half and the business still looks relatively lowly levered. Can you touch on your views in terms of deploying more capital into inorganic expansion? Also views on shareholder returns directly as well, please.

Simon Pryce: Sure, thanks David. On customer counts we do monitor it of course. I would expect as we increasingly focus on strategic customers with long lifetime values that actually our customer count may drop a little and it has been dropping a little. It goes back to what Jane has been talking about, those transient customers that pop up on the website, they buy one thing, and they disappear. They are coming less frequently and less often because there are less of them. Customer count down a bit but actually customer count in the customers that we care about, up and outperforming our broader market. That is all good. Order frequency and order values ticking up a bit but there is a bit of mix change going on and we have also got some acquisitions in there. Nothing of concern in those KPIs which we do monitor and actually all going in the right direction based on strategically what we are trying to do.

In terms of balance sheet capacity, absolutely. This is a cash generative business. We have a very strong balance sheet. We continue to look at opportunities to invest both in organic growth and inorganic growth. We have a fairly clear and stated capital allocation policy which we will continue to comply with. I think when you look at our share price, however, I always think it is important when you are looking at the alternative ways of deploying your surplus capital to bear in mind your own share price because that is an implicit investment that you could make. It does not benefit all shareholders versus investing in other things that deliver long term sustainable value. We need to keep an eye on it. Certainly, I do not think there is any immediate plans to change that capital allocation policy and to look at buybacks, but we do have of course the facility to do it if we need to. We will continue to look at the external world where we think we can create a lot of value through selective acquisitions at the right price, but we will also continue to have one eye on what investing in our own shares would be. Thanks David.

James Rose (Barclays): Hi, I will start with going back to the trading benefit you flagged as well. How confident are you that that is the extent of it and that there is also no potential one-offs and overearning within the Industrials side as well?

Jane Titchener: It is an estimate. It is very difficult to absolutely isolate everything which is completely out of the ordinary course, but we definitely saw more of this customer behaviour particularly in Electronics because that is where there was the most product shortages and most products and allocation. That was not the case within our Industrials range, so it is much less likely that there was that pattern of behaviour within our Industrials and therefore much more focused within Electronics. Some of our automation and control products behaved in a very similar way so we would categorise those as Industrials but actually we have treated them as Electronics for the purposes of doing this analysis. I think it is going to be a small amount if there was any outside that core of Electronics and Industrials.

Simon Pryce: Honestly, James we are actually quite sophisticated in the way we monitor purchases of products and who buys them within the Group. We have a bunch of people and a tool that look very hard at inventory planning against prior purchases, current market environment and what is going on in the external world. Usually and generally we are very accurate on about 85% of the products that we sell. Over the last 18 months, and it is all in Electronics, the accuracy dropped from 85% to about 75%. That is because we were actually selling things that we do not really sell that much of because they were sitting on the shelves. Often they have been provisioned. I think therefore we are pretty comfortable that whilst it might not be dead accurate anything else that is outside of the numbers that Jane has shared are just normal trading. I am pretty confident we do not have any more one-offs to burn out in H2.

James Rose: Thanks very much. One on cost savings, if I can. How has your thinking evolved over time there? Did you think you would have to do some at the full year, or have you had to think a bit more heavily about the quantum of that as we have progressed through the year?

Simon Pryce: This was not triggered by any particular financial performance or current market or anything like that James. This is about us continuing to get much more operationally effective. A number of these plans were in place at the beginning of the year and with the acquisition of Distrelec frankly a scrub of the integration plans identified that we could actually accelerate the integration of Distrelec and the merger of the two businesses much more quickly than had originally been thought. This is all about continuing to get the organisation fitter because I think we have had a couple of years of very strong trading post-Covid and things are not quite as toned as I would have hoped they would be. That is why I say there will also be a continuing focus on operational improvement because we still have very clunky processes. We still are inconsistent in how those processes are deployed. We are not fantastic at driving the headcount efficiencies that some of our operating process improvements suggest. I think it is a waffly answer to say that there is more to go at to get us fighting fit. We are a lot fitter today than we were six months ago and we will be a lot fitter at the end of the year than we are today.

James Rose: Great, thank you.

Simon Pryce: Thank you James. Any other questions? Hang on, you are Head of IR, you cannot ask questions.

Lucy Sharma (VP Investor Relations, RS Group plc): There are some online. Can you give us an update on how the new European warehouse is progressing?

Simon Pryce: I can do that personally. I have been a couple of times to Germany now. My first visit to Germany in April I stood on the picking line picking packages for shipment and I even as an idiot chief executive who has never worked as a picker in a distribution centre before, I could outpace the automated software that told me what to pick and what to put in the box. I was back there in September, and I now cannot outpace that picking software. Why do I share this story with you? There has been significant improvement in Bad Hersfeld and their operations, SKU capacity. That will continue. There is more potential there. I am learning that when you build new warehouses or when you incur significant expansion cost in warehouses, and you upgrade and develop the warehouse management system it does need to be tuned. It is a bit like an F1 racing car. You do have to tweak the spanners. You have to get all the systems operating effectively together. We are doing that and continuing to do that much more effectively in Bad Hersfeld than we did. It is not perfect yet, but it is a lot better than it was six months ago.

Lucy Sharma: I have got a few. Have you met customers and suppliers? What are the key messages they are giving?

Simon Pryce: I have met both customers and suppliers. The key messages are we very much value what you do. We value the high service availability that you give us. We like your shift to creating closer relationships with us by building value-added services that we value and are prepared to pay for. We like the fact that you are increasingly clear on what you are trying to do. Suppliers actually say the same thing. As the high service, industrial MRO process industry MRO provider they understand what we are trying to do, and we understand much better how we can develop value for our customers that are also their customers in a positive way. Occasionally RS has been a little less focused on what it is trying to do. On occasion I think we have talked about being a high service, broad range electronics distributor. That is not helpful for suppliers because it is a partnership relationship that both we as the distributor and they as the supplier need to benefit from. To do that you have got to be very clear on the customer set that you are pursuing and the product range you therefore need to carry to help them. I think some of the clarity that we have introduced over the last six months has been positively received by both customers and suppliers.

Lucy Sharma: A question about exit rates.

Simon Pryce: It is not getting any worse, but it is not feeling like it is fantastically better. How you get into the exit rates, second quarter was slightly worse than the first quarter but who knows? If I could predict what industrial production was going to be I probably would not be here. I would be on a beach somewhere. However, what I can tell you is the organisation is much fitter at the end of six months than it was and all the work we are doing, which is balancing strategic investment for accelerated growth, with being realistic about cost structure, is continuing. I think we are well placed frankly in any environment. One thing you do know about this business and this industry is it will return to growth. The cycle will turn, and we are a lot closer to that cycle turning today than we were six months ago.

Lucy Sharma: Can you give a little bit more colour on Distrelec please? Why is it performing behind plan? Have you lost any customers?

Simon Pryce: No, we have not lost any customers. In fact we are gaining customers. We are actually converting customers from Distrelec into RS and also in certain instances transferring RS customers into Distrelec systems. No, all the customer transfer is very strong. In fact if you look at the Distrelec underlying performance and you compare it to our own underlying performance in the same countries it is broadly the same. Actually Distrelec is doing slightly better than the RS companies are. I am very comfortable with Distrelec. It is a good acquisition. We are accelerating the integration. Probably we should have planned a more rapid integration at the outset and frankly when I came on board that is one of the first things that we did was to turn that integration plan into a proper full integration plan, and we are getting on with that now. The benefits that we will generate from Distrelec are materially greater than we had in our own investment case and actually the cost to deliver them is going to be cheaper too. For me Distrelec is going to be a good one.

Lucy Sharma: How has the rebranding gone in the US?

Simon Pryce: I think it has gone. We are rebranded. It is done. When I made a reference a little earlier to continued investment in the brand in RS it was actually to RS PRO. One of the important things that we need to do to push RS PRO in America is to improve the brand recognition of RS PRO amongst our traditional customer base. That is actually what we are investing in. The rebranding is all done. Thank you, Head of IR. I hope those were questions that were online. Any other questions? Okay, two minutes late, thanks very much and thanks for attending. Thanks for your continuing interest and we look forward to seeing you in six months or so. Thank you.

Jane Titchener: Thank you.

[END OF TRANSCRIPT]